Prospectus dated July 11, 2019

Addiko Bank

Prospectus

for the admission to trading

on the Official Market (*Amtlicher Handel*) of the Vienna Stock Exchange (*Wiener Börse*)

of

19,500,000 shares

- each share with a notional value of EUR 10.00 -

of

Addiko Bank AG
(incorporated as a stock corporation under the laws of Austria, registration number FN 350921 k)
(the ***Company***)

International Securities Identification Number (ISIN): AT000ADDIKO0

Common Code: 201998778

Trading Symbol: ADKO

This prospectus (the ***Prospectus***) constitutes a prospectus for purposes of Article 3 of the Prospectus Directive 2003/71/EC (and any amendments thereto, including Directive 2010/73/EU, the ***Prospectus Directive***), as implemented in member states of the European Economic Area (the ***EEA***). This Prospectus has been prepared in accordance with Annexes I, III, XXII and XXX of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended, the Austrian Capital Markets Act (*Kapitalmarktgesetz*; the ***Capital Markets Act***), and the Austrian Stock Exchange Act 2018 (*Börsegesetz 2018*; the ***Stock Exchange Act***) and has been approved by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*; the ***FMA***) in its capacity as competent authority under the Capital Markets Act.

RESPONSIBILITY STATEMENT

This Prospectus dated July 11, 2019 serves the purposes of admission of all existing shares in the Company (the ***Existing Shares***) to trading on the official market of the Vienna Stock Exchange (the ***Official Market***). This Prospectus has been approved by the FMA. This Prospectus will be filed as a listing prospectus (*Börseprospekt*) with the Vienna Stock Exchange in accordance with the Stock Exchange Act in connection with the application for listing of all Existing Shares on the Official Market, and will be deposited with the notification office (*Meldestelle*) at Oesterreichische Kontrollbank Aktiengesellschaft in accordance with the Capital Markets Act.

The Company accepts responsibility for the completeness and accuracy of the information contained in this Prospectus. To the best knowledge and belief of the members of the management board (*Vorstand*) of the Company (the ***Management Board***), who have taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is accurate and complete in all material respects and no material facts, the omission of which would make any statements of fact or opinion herein misleading, have been omitted. No person is or has been authorized to give any information or to make any representation in connection with listing of the Existing Shares other than as contained in this Prospectus. Any other information or representation given or made in connection with the Private Placement must not be relied upon as having been authorized by the Company, the Management Board, any of Citigroup Global Markets Limited and Goldman Sachs International (together the ***Joint Global Coordinators and Joint Bookrunners*** and together with Erste Group Bank AG, Keefe, Bruyette & Woods and Raiffeisen Centrobank AG as additional joint bookrunners (together with the Joint Global Coordinators and Joint Bookrunners, the ***Joint Bookrunners***), the ***Underwriters***). The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the affairs of the Company and its consolidated subsidiaries (together the ***Addiko Group*** or the ***Group***) since the date hereof or that the information set out in this Prospectus is correct as of any time since its date. AI Lake (Luxembourg) S.à r.l. (the ***Existing Shareholder*** and the Underwriters make no representation or warranty, express or implied, as to the accuracy or completeness or verification of the information in this Prospectus. Nothing in this Prospectus is, or may be relied upon as, a promise or representation by the Existing Shareholder or the Underwriters. The Underwriters assume no responsibility for the accuracy, completeness or verification of this Prospectus and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Prospectus or any such statement.

Any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Existing Shares and which arises or is noted between the approval of this Prospectus by the FMA and commencement of trading in the Existing Shares on the Vienna Stock Exchange will be published in a supplement to this Prospectus in accordance with Section 6 of the Capital Markets Act. Such supplement must be approved by the FMA and be published in the same manner as this Prospectus. Such requirement to publish a supplement will cease following the commencement of trading of the Existing Shares on the Vienna Stock Exchange.

This Prospectus has been prepared to comply with the listing requirements of the Vienna Stock Exchange. In making an investment decision, investors must rely on their own examination of the Company, the Addiko Group and the terms of the Private Placement, including, without limitation, the merits and risks involved.

None of the Company, the Existing Shareholder or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchasers of the Existing Shares regarding the legality of an investment in the Existing Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. The contents of this Prospectus are not to be construed as investment, legal, financial or tax advice. Potential investors should consult their own legal, financial, tax or other advisors for legal, financial, tax or related advice regarding an investment in the Existing Shares.

In connection with the listing of the Existing Shares, Citigroup Global Markets Limited will act as stabilization manager (***Stabilization Manager***) in its own name, but for the account of the Underwriters, and may over-allot or effect transactions with a view to stabilizing the market price of the Existing Shares at levels above those which might otherwise prevail in the open market for a period of 30 days after the date of commencement of trading of the Existing Shares on the Vienna Stock Exchange. Such transactions may be effected on the Vienna Stock Exchange, in the OTC market or otherwise. However, there is no obligation for the Stabilization Manager to do so. There is no assurance that any stabilization measure will be undertaken. If any stabilization measures are undertaken, such measures may be discontinued at any time and must be brought to an end 30 days after the date of commencement of trading of the Existing Shares on the Vienna Stock Exchange. Before, during and after the Stabilization Period (as defined below), the Stabilization Manager will ensure adequate public disclosure of the stabilization measures.

Stabilization measures may be effected on the Vienna Stock Exchange, in the OTC market or otherwise. However, the Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date of the commencement of trading of the Existing Shares on the Official Market – expected to be July 12, 2019 – up to 30 calendar days after such date (the ***Stabilization Period***).

These measures may result in a market price for the Existing Shares that is higher than it would otherwise have been. Moreover, the market price may, temporarily, be at an unsustainable level. Stabilization measures must not be executed above the Placement Price.

Under the possible stabilization measures, investors may, in addition to the 9,750,001 shares (the ***Firm Shares***) from the holdings of the Existing Shareholder, be allotted up to 975,000 shares (the ***Over-Allotment Shares***, together with the Firm Shares, the ***Placement Shares***) from the holdings of the Existing Shareholder to cover a potential Over-Allotment (***Over-Allotment***). In connection with such potential Over-Allotment, the Stabilization Manager, for the account of the Underwriters will be provided with 975,000 Over-Allotment Shares from the holdings of the Existing Shareholder in the form of a securities loan; this number of shares will not exceed 10.0% of the Firm Shares. In connection with the potential Over-Allotment, the Existing Shareholder have granted the Underwriters an option to acquire a number of shares equal to the number of Over-Allotment Shares at the Placement Price, less agreed commissions (the ***Greenshoe Option***). The Greenshoe Option may be exercisable only during the Stabilization Period by the Stabilization Manager and will terminate 30 calendar days after the date of the commencement of trading of the Existing Shares on the Official Market.

The Stabilization Manager, acting for the account of the Underwriters, is entitled to exercise the Greenshoe Option to the extent Over-Allotment Shares were allocated to investors in the Private Placement.

Public announcements regarding stabilization measures will be made by the Stabilization Manager (i) prior to the start of the Private Placement, (ii) by the end of the seventh daily market session following the date any stabilization measures were taken, and (iii) within one week after the end of the Stabilization Period.

Within one week of the end of the Stabilization Period, the Stabilization Manager will ensure public disclosure in a manner which enables fast access and complete, correct and timely assessment of the information by the public, as to (i) whether stabilization measures were taken, (ii) the date on which stabilization started and last occurred, (iii) the price range within which stabilization measures were carried out, for each of the dates during which stabilization measures were carried out and (iv) the trading venue(s) on which the stabilization measures were carried out, where applicable.

Exercise of the Greenshoe Option will be disclosed to the public, together with all appropriate details, including, in particular, the date of exercise of the Greenshoe Option and the number and nature of Over-Allotment Shares involved, in accordance with Article 8 of the Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016.

In connection with the Private Placement of the Placement Shares, each of the Underwriters and any of their respective affiliates, may take up a portion of the Placement Shares in the Private Placement as principal position and in that capacity may retain, purchase or sell for its own account such securities and any Placement Shares or other investments otherwise than in connection with the Private Placement. In addition, certain of the Underwriters or their affiliates may enter into financing agreements (including swaps or contracts of difference) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, old or dispose of Placement Shares. Accordingly, references in this Prospectus to Placement Shares being offered or placed should be read as including any offering or placement of Placement Shares to any of the Underwriters or any of their respective affiliates acting in such capacity. None of the Underwriters intends to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

Investors should be aware that they may be required to bear financial risks of this investment for an indefinite period of time.

NOTICE TO INVESTORS IN THE U.S.

The Existing Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the ***Securities Act***) or with any securities regulatory authority of any state or other jurisdiction in the United States of America (the ***United States*** or ***U.S.***.) for offer or sale as part of their distribution and may not be offered or sold, pledged or otherwise transferred in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with applicable state securities laws. The Existing Shares are being offered and sold in the United States only to qualified institutional buyers (***QIBs***) in reliance on Rule 144A (***Rule 144A***) and outside the United States in offshore transactions as defined in, and in reliance on, Regulation S under the Securities Act (***Regulation S***). Prospective investors are hereby notified that any seller of the Existing Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act. The Existing Shares are not transferable except in accordance with the restrictions described herein.

The Existing Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission (***SEC***), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Private Placement or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Prospectus has been prepared on the basis that all offers of the Existing Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the Existing Shares. Accordingly, any person making or intending to make any offer of the Existing Shares

within the EEA should only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus for such offer. Neither the Company nor the Underwriters have authorized, nor do they authorize, the making of any offer of the Existing Shares through any financial intermediary other than offers made by the Underwriters, which constitute the final placement of the Existing Shares contemplated in this Prospectus.

In relation to each member state of the EEA that has implemented the Prospectus Directive (each, a ***Relevant Member State***), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, the offer of any Existing Shares which are the subject of the Private Placement contemplated by this Prospectus is not being made and will not be made to the public in that Relevant Member State, other than:

(i) to any legal entity which is a 'qualified investor' as defined in Article 2(1)(e) of the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than 'qualified investors' as defined in the Prospectus Directive) in any Relevant Member State; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer or sale of the Existing Shares will require the Company to publish a prospectus pursuant to the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this notice to investors in the EEA, the expression an ***offer of the Existing Shares*** in relation to the Existing Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Existing Shares to be offered so as to enable an investor to decide to purchase the Existing Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each purchaser of Existing Shares in a Relevant Member State who acquires any Existing Shares under the offers contemplated in this Prospectus will be deemed to have represented, agreed and acknowledged that:

(i) it is a qualified investor within the meaning of the law implementing Article 2(1)(e) of the Prospectus Directive; and

(ii) in the case of such person being a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the Existing Shares acquired by it in the Private Placement have not been acquired other than on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor, nor have they been acquired with a view to their offer or resale to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is for distribution only to, and is directed only at, qualified investors who: (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ***FSMA Order***); (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FSMA Order; or (iii) are other persons to whom they may otherwise lawfully be communicated (all such persons, including qualified investors, together the ***Relevant Persons***).

In the United Kingdom of Great Britain and Northern Ireland (the ***U.K.***), this Prospectus is directed only at Relevant Persons and must not be acted on or relied on by anyone who is not a Relevant Person. In the United Kingdom, any investment or investment activity to which this Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

NOTICE TO INVESTORS IN SERBIA

This Prospectus or information contained herein are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Republic of Serbia to or for the benefit of any Serbian person or entity, and do not constitute an advertisement or offering of any securities in the Republic of Serbia within the meaning of Serbian securities laws. Information contained in this Prospectus is not intended for any persons in the Republic of Serbia, unless and to the extent they are otherwise permitted to access such information under Serbian laws.

NOTICE TO INVESTORS IN BOSNIA & HERZEGOVINA

This Prospectus or information contained herein are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Bosnia & Herzegovina to or for the benefit of any person or entity in Bosnia & Herzegovina, and do not constitute an advertisement or offering of any securities in Bosnia & Herzegovina within the meaning of Bosnian securities laws. Information contained in this Prospectus is not intended for any persons in Bosnia & Herzegovina, unless and to the extent they are otherwise permitted to access such information under Bosnian laws.

NOTICE TO INVESTORS IN MONTENEGRO

This Prospectus or information contained herein are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Montenegro to or for the benefit of any person or entity in Montenegro, and do not constitute an advertisement or offering of any securities in Montenegro within the meaning of the securities laws of Montenegro. Information contained in this Prospectus is not intended for any persons in Montenegro, unless and to the extent they are otherwise permitted to access such information under the laws of Montenegro.

TRANSFER AND SELLING RESTRICTIONS

The distribution of this Prospectus and the offer and sale of the Existing Shares are restricted by law in certain jurisdictions. Persons who come into possession of this Prospectus are required to inform themselves about, and to observe, any such restrictions. This Prospectus may not be used for, or in connection with, and does not constitute, an offer to sell, or an invitation to purchase, any of the Existing Shares in any jurisdiction in which such offer or invitation would be unlawful.

No action has been taken by the Company that would permit an offer of the Existing Shares or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Any failure to comply with these restrictions may constitute a violation of applicable securities laws

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements, estimates, targets and predictions.

A forward-looking statement, estimate, target or prediction is any statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on future earnings capacity, plans and expectations regarding the Addiko Group's business, its growth and profitability, as well as the general economic and legal and regulatory conditions and other factors relevant to the Addiko Group. Statements made using one of the following words are forward-looking statements, estimates, targets or predictions: "may", "will", "is likely", "expects", "assumes", "estimates", "plans", "intends", "targets", "anticipates", "projects" and similar terms. They can be found in several sections in this Prospectus, for instance in "*3 Risk Factors*", "*11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", "*13 Market and Competitive Environment*", "*14 Bank Restructuring and Transformation*", "*15 Business*" and "*27 Outlook*", which include more detailed descriptions of factors that might influence the Addiko Group's business performance and the markets in which it operates.

By their very nature, forward-looking statements involve risks and uncertainties, both general and specific, and factors beyond Addiko Group's control. The forward-looking statements, estimates, targets and predictions contained in this Prospectus are based on the Company's current estimates and assessments and made to the best of the Company's knowledge. These forward-looking statements, estimates, targets and predictions are based on assumptions and are subject to risks, uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances – including with regard to the assets, business, financial position and results of operations as well as profitability of the Addiko Group – to differ materially from, fail to meet the expectations or be more negative than expressed or implied in the forward-looking statements, estimates, targets or predictions. Even if future results of the Addiko Group meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

The Addiko Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate, targets or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to consider this Prospectus as a whole and particularly ensure that they have read the following sections of this Prospectus: "*3 Risk Factors", "11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations", "13 Market and Competitive Environment", "15 Business" and "27 Outlook"*, which include more detailed descriptions of factors that might influence the Addiko Group's business performance and the markets in which it operates.

In light of the assumptions as well as risks, uncertainties and other factors, it is also possible that the future events mentioned in this Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party sources could prove to be inaccurate (for more information on third-party sources see "*Information from Third Parties*"). These factors are not necessarily all of the important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements, estimates, targets and predictions. Other unknown or unpredictable factors could also have material adverse effects on future results. The foregoing may prevent the Company from achieving its financial and strategic objectives.

Factors that could, among others, cause actual results to differ include:

- the potential development and impact on the Addiko Group of macroeconomic, political and business conditions and the legal and regulatory environment to which the Addiko Group is subject;
- the developments of the economic and financial markets, including an exit by any current member of the Eurozone;

- insolvencies in the financial sector or defaults by sovereign debtors and confidence in the banking system in general;
- the valuation of financial instruments and changes in foreign exchange rates;
- intense competition, rapid technological changes, the further development of the Addiko Group's existing proprietary banking platform, cost-effective development of its brands and its cooperation with its distribution partners;
- the implementation of the Addiko Group's strategic initiatives and other responses thereto;
- its ability to identify and execute acquisitions;
- increased capital and liquidity requirements and other regulatory requirements and reviews;
- the development of aspects of the Addiko Group's results of operations;
- the Addiko Group's expectations of the impact of risks that affect its business, including the risks of losses on the Addiko Group's trading processes and credit exposures;
- exposure to liquidity, maturity, foreign exchange, and market funding risks, and various other typical financial institution market risks relating to interest rates, equity pricing and inflation;
- existing customer loan portfolio exposure to problem and impaired loans;
- failure or breach of the Addiko Group's information technology systems;
- potential inability to recruit or retain experienced personnel or key members of management;
- various operational risks, including risk of systems failures, human error, regulatory breaches, and employee misconduct; and
- the risks and uncertainties detailed in *"3 Risk Factors"*.

The forward-looking statements, estimates, targets and predictions contained in this Prospectus speak only as of the date of this Prospectus. Investors are advised that the Company, the Existing Shareholder and the Underwriters do not assume any obligation and do not intend to, except as required by law, publicly release any updates or revisions to these forward-looking statements, estimates, targets and predictions to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

INFORMATION FROM THIRD PARTIES

Unless otherwise indicated, statements in this Prospectus regarding the market environment, market developments, growth rates, market trends and the competitive situation in the markets and segments in which the Addiko Group operates are based on data, statistical information, sector reports and third-party studies, as well as the Addiko Group's own estimates. Management estimates – unless otherwise indicated – are based on internal market observations and/or studies by third parties.

To the extent that information has been sourced from third parties, this information has been accurately reproduced by the Company in this Prospectus, and, as far as the Company is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, market studies and analyses are frequently based on information and assumptions that may not be accurate or technically correct, and their methodology is, by nature, forward-looking and speculative. The source of such third-party information is cited whenever such information is used in this Prospectus. Such third-party sources include:

- Wiener Institute für Internationale Wirtschaftsvergleiche (***wiiw***)
- Report of the "*Wiener Institute für Internationale Wirtschaftsvergleiche*" (the ***wiiw Report***)
- Lafferty Group (the ***Lafferty Report***)
- The corruption perception index (CPI) of Transparency International
- The 2018 Finalta CEE Sales Effectiveness Benchmark Study
- European Central Bank
- Vienna Stock Exchange

- Bloomberg

Irrespective of the assumption of responsibility for the contents of this Prospectus by the Company, none of the Company, the Existing Shareholder or the Underwriters have verified the figures, market data and other information used by third parties in their studies, publications and financial information, or the external sources on which the Company's estimates are based. The Company, the Existing Shareholder and the Underwriters therefore assume no liability for and offer no guarantee of the accuracy of the data from studies and third-party sources contained in this Prospectus and/or for the accuracy of data on which the Company's estimates are based.

This Prospectus also contains estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutions or from other independent sources. Such information is partly based on own market observations, the evaluation of industry information (from conferences, sector events, etc.) or internal assessments. The Company's management believes that its estimates of market and other data and the information it has derived from such data assists investors in gaining a better understanding of the industry in which the Addiko Group operates and the Addiko Group's position therein. The Company's own estimates have not been checked or verified externally. The Company nevertheless assumes that its own market observations are reliable. The Company, the Existing Shareholder and the Underwriters give no warranty for the accuracy of the Company's own estimates and the information derived therefrom. They may differ from estimates made by competitors of the Addiko Group or from future studies conducted by market research institutions or other independent sources. Other than as required in accordance with Section 6 of the Capital Markets Act, neither the Company, the Existing Shareholder nor the Underwriters intend, and do not assume any obligations, to update industry or market data set forth in this Prospectus. Finally, behavior, preferences and trends in the marketplace tend to change. As a result, investors should be aware that market data in this Prospectus and estimates based on that data may not be reliable indicators for future results.

Information contained on any website mentioned in this Prospectus, including the website of the Addiko Group, is not incorporated by reference in this Prospectus and is not part of this Prospectus, except as set forth below under the heading "*PRESENTATION OF FINANCIAL INFORMATION*".

PRESENTATION OF FINANCIAL INFORMATION

The financial statements and auditor's opinions presented in this Prospectus in "30 *Financial Information"* are English language translations of the German language originals of:

(i) the unaudited interim condensed consolidated financial statements of the Company as of and for the three-month period ended March 31, 2019 comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the interim condensed consolidated financial statements (the ***Unaudited Interim Condensed Consolidated Financial Statements***).

(ii) audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2018, December 31, 2017 and December 31, 2016 comprising, in each case, the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements (the ***Audited Consolidated Financial Statements*** and together with the Unaudited Interim Condensed Consolidated Financial Statements, the ***Consolidated Financial Statements***) and translations of the auditor's opinion for each respective financial year. The English translation of the Audited Consolidated Financial Statements represents a true and correct translation of the Audited Consolidated Financial Statements, for which the Company accepts responsibility and are included herein for the reader's convenience.

The German language originals of the Consolidated Financial Statements and the respective auditor's opinions are publicly available on the Company's website under http://www.addiko.com under "*investor relations*" and are incorporated by reference into this Prospectus. This Prospectus must be read together with the following pages of the German language originals of the Consolidated Financial Statements, which are deemed to be included in, and to form part of, this Prospectus:

English language translations contained in this Prospectus:	German language originals (page)
Unaudited Interim Condensed Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU for interim financial reporting (IAS 34) as of and for the three-month period ended March 31, 2019	
Interim Condensed Consolidated Profit or Loss Statement	18
Interim Condensed Consolidated Statement of Comprehensive Income	19
Interim Condensed Consolidated Statement of Financial Position	20
Interim Condensed Consolidated Statements of Changes in Equity	21
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English language translations contained in this Prospectus:	German language originals (page)
Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2018	
Consolidated Profit or Loss Statement	20
Consolidated Statement of Comprehensive Income	22-23
Consolidated Statement of Financial Position	24
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Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2017	
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Audited Consolidated Financial Statements of the Company Prepared in Accordance with IFRS as adopted by the EU as of and for the financial year ended December 31, 2016	
Consolidated Profit or Loss Statement	14
Consolidated Statement of Comprehensive Income	14
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The German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2018, the German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2017 and the German language Audited Consolidated Financial Statements as of and for the financial year ended December 31, 2016 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, Renngasse 1, 1010 Vienna, Austria (***Deloitte***). In each case, the audits were performed in accordance with the laws and regulations applicable in the Republic of Austria (***Austria***) and International Standards on Auditing, issued by the International Auditing and Assurance Board of the International Federation of Accountants, as stated in the reports attached to the respective Audited Consolidated Financial Statements.

The Company prepares its Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (the ***EU***, the reporting standards being referred to as ***IFRS***) and its Unaudited Interim Condensed Consolidated Financial Statements were prepared in accordance with IAS 34 Interim Financial Reporting. The Unaudited Interim Condensed Consolidated Financial Statements have been reviewed by Deloitte in accordance with International Standard on Review Engagements 2410. As required by Austrian law, the Company also prepares unconsolidated financial statements in accordance with the generally accepted accounting principles in Austria.

ROUNDING ADJUSTMENTS

Some figures (including percentages) in this Prospectus have been rounded in accordance with standard commercial rounding. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in tables or stated elsewhere in this Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures stated elsewhere in this Prospectus due to rounding. In the Consolidated Financial Statements included in the section bearing the heading "*30 Financial Information"* and in the main body of this Prospectus, a dash ("–") is used where no data was reported for a specific line item in the relevant period, while a zero ("0") is used where the pertinent figure, after rounding, amounts to nil. Negative figures are presented either marked with a minus ("–") or in brackets.

CURRENCY PRESENTATION AND PRESENTATION OF OTHER FIGURES

The amounts set forth in this Prospectus in "EUR" or "euro" refer to the single currency of the participating member states in the third state of the EU pursuant to the Treaty Establishing the European Community.

The following table explains the denotation of currencies used in this Prospectus:

Amounts in	refer to the legal currency of
"$", "U.S. $", "USD" or "U.S. dollar"	the United States
"£" and "GBP"	the U.K.
"CHF" or "Swiss Franc"	Switzerland

The functional currency of the Addiko Group is the euro and financial statements are prepared in euro.

Where financial information in this Prospectus is labeled "audited", it means that this information was taken from the Audited Consolidated Financial Statements. The label "unaudited" is used in this Prospectus to indicate financial information that was not taken from the Audited Consolidated Financial Statements, but was taken either from the Unaudited Interim Condensed

Consolidated Financial Statements or taken or derived from the Addiko Group's accounting records or internal management reporting systems.

EXCHANGE RATE INFORMATION

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of the shares on conversion of dividends, if any, paid in euro on the shares. The table below shows the foreign exchange reference rates expressed in U.S. dollars per euro, as published by the European Central Bank (ECB) for the Company's financial years ended December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017 and December 31, 2018 as well as for the three-months period ended March 31, 2019. The averages set forth in the tables below were computed using the exchange rate published by the ECB on the last day of each month for the annual periods indicated and for each business day for the monthly periods indicated. The exchange rates stated below are provided solely for the convenience of the reader and are not necessarily the exchange rates used by the Company in the preparation of its Audited Consolidated Financial Statements. No representation is made that U.S. dollars could have been, or could be, converted into euro at these rates or at any other specific rates.

	For the three-month period ended March 31,	For the Financial Year ended December 31,				
	2019	2018	2017	2016	2015	2014
				(unaudited)		
Period end	1.1235	1.1450	1.1993	1.0541	1.0887	1.2141
Average	1.1358	1.1793	1.1370	1.1032	1.1046	1.3211
High	1.1535	1.2493	1.2060	1.1569	1.1804	1.3953
Low	1.1218	1.1261	1.0385	1.0364	1.0552	1.2141

(Source: European Central Bank)

DOCUMENTS AVAILABLE FOR INSPECTION

For as long as this Prospectus is valid, copies of the following documents will be available for inspection during regular business hours at the Company's registered office at Wipplingerstraße 34/4, 1010 Vienna, Austria:

- the articles of association of the Company (*Satzung*; the ***Articles of Association***);
- the Audited Consolidated Financial Statements;
- the Unaudited Interim Condensed Consolidated Financial Statements; and
- this Prospectus.

Copies of this Prospectus, which will be published in Austria in accordance with Section 10 para. 3 no. 3 of the Capital Markets Act on the Company's website, are available at https://www.addiko.com under the section "investor relations".

The Company's future consolidated annual and interim financial statements will be available from the Company on its website.

The information displayed on the Company's website or any other website to which a reference is made in this Prospectus does not form part of this Prospectus nor is it incorporated by reference into this Prospectus, unless explicitly stated otherwise.

AVAILABLE INFORMATION

For so long as any Existing Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the ***Exchange Act***), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Existing Shares, or to any prospective purchaser of such restricted Existing Shares designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a stock corporation organized under the laws of Austria and its assets are located primarily outside the United States. In addition, all of the members of the supervisory board (*Aufsichtsrat*) of the Company (the ***Supervisory Board***) and Management Board are non-residents of the United States whose assets are located primarily outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce against them or the Company judgments of courts of the United States, whether predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States or any state thereof. The United States and Austria currently do not have a treaty providing for reciprocal recognition and enforcement of judgments in

civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Austria. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in Austria, such party may submit to the Austrian court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against the Company or such persons will be regarded by an Austrian court only as evidence of the outcome of the dispute to which such judgment relates, and an Austrian court will re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria.

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1 Summary

*Summaries are made up of disclosure requirements known as **Elements**. These Elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention "not applicable".*

A. Introduction and Warnings

A.1	**Warnings.**	This summary should be read as an introduction to this Prospectus. Any decision to invest in the Existing Shares (as defined under Element B.6 below) should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches to Addiko Bank AG, a stock corporation organized under Austrian law (the ***Company*** and, together with its consolidated subsidiaries, the ***Addiko Group***), but only if this summary is misleading, inaccurate or inconsistent when read together with the other sections of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Existing Shares (as defined under Element B.6 below).
A.2	**Consent regarding subsequent use of the Prospectus.**	Not applicable. Consent by the Company regarding the use of this Prospectus for a subsequent resale or placement of shares has not been granted.

B. The Issuer

B.1	**Legal and commercial name.**	The Company's legal name is Addiko Bank AG. The Company as well as Addiko Group's commercial name is "Addiko Bank".
B.2	**Domicile, legal form, legislation, country of incorporation.**	The Company's registered seat is Vienna, Austria, and its business address is Wipplingerstraße 34/4, 1010 Vienna, Austria. The Company has a branch office (*Zweigniederlassung*) under the legal name "Addiko Bank AG – Zweigniederlassung Klagenfurt am Wörthersee" in Klagenfurt am Wörthersee, Sterneckstraße 19, 9020 Klagenfurt am Wörthersee. The Company was incorporated on September 7, 2010, as a limited liability company (*Gesellschaft mit beschränkter Haftung*) and transformed into a stock corporation with effect as of July 4, 2013.
B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.**	**Business Overview** Addiko Group is a consumer and small and medium-sized enterprises (***SME***) specialist banking group in Central and South Eastern Europe (***CSEE***). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of March 31, 2019 approximately 828 thousand customers in CSEE, using a well-dispersed network of 197 branches and modern digital banking channels. Addiko Group generated result after tax of EUR 104.2 million in the 2018 financial year (EUR 41.6 million in the 2017 financial year), a Return on Average Tangible Equity (***RoTE***) of 12.6% in the 2018 financial year with 17.7% transitional Common Equity Tier 1 (***CET1***) (RoTE of 4.6% in the 2017 financial year with 14.9% transitional CET1). Addiko Group's total assets amounted to EUR 6,152.1 million as of December 31, 2018

(EUR 6,485.5 million as of December 31, 2017), of which EUR 3,787.3 million relate to loans and advances to customers as of December 31, 2018 (EUR 3,691.9 million as of December 31, 2017). Addiko Group refinances its activities mainly by deposits from customers, which amounted to EUR 4,836.7 million as of December 31, 2018 (EUR 4,933.8 million as of December 31, 2017). Addiko Group's financial strength is demonstrated by its fully loaded CET1 ratio of 16.9% and a fully loaded total capital ratio of 16.9% as of December 31, 2018 and fully loaded CET1 ratio of 14.9% and a fully loaded total capital ratio of 17.1% as of December 31, 2017.

Addiko Group manages and reports its business through five segments:

- Retail Segment, which accounted for 70.4% of Addiko Group's net banking income in the financial year 2018, consisting of its
  - Consumer Business, which accounted for 59.6% of Addiko Group's net banking income in the financial year 2018 (incl. all net fee and commission income allocated to the Retail segment)
  - Mortgage Business, which accounted for 10.8% of Addiko Group's net banking income in the financial year 2018
- SME Business Segment, which accounted for 16.8% of Addiko Group's net banking income in the financial year 2018
- Large Corporates Segment, which accounted for 7.8% of Addiko Group's net banking income in the financial year 2018
- Public Finance Segment, which accounted for 4.3% of Addiko Group's net banking income in the financial year 2018
- Corporate Center Segment, which accounted for 0.7% of Addiko Group's net banking income in the financial year 2018.

Addiko Group focuses new lending business activities predominately on the Retail Segment's non-mortgage business, which Addiko refers to as its Consumer Business, and the SME Business Segment (its "focus areas"), while the legacy business of the Large Corporates Segment, the Public Finance Segment and the Retail Segment's mortgage business (its "non-focus areas") continues to be steered and managed to maturity.

The net banking income for Addiko Group's focus areas was EUR 135.2 million in the Consumer Business and EUR 38.1 million in the SME Business Segment for the financial year ended December 31, 2018, while for the financial year ended December 31, 2017, it was EUR 111.2 million in the Consumer Business and EUR 38.5 million in the SME Business Segment. The net banking income of the non-focus areas was EUR 24.5 million in the Mortgage Business, EUR 17.8 million in the Large Corporates Segment and EUR 9.7 million in the Public Finance Segment for the financial year ended December 31, 2018, and EUR 30.0 million in the Mortgage Business, EUR 21.0 million in the Large Corporates Segment and EUR 16.6 million in the Public Finance Segment for the financial year ended December 31, 2017.

As of March 31, 2019, Addiko Group serves approximately 828 thousand (approximately 853 thousand as of December 31, 2018) customers, of which approximately 813 thousand (approximately 838 thousand as of December 31, 2018) customers in the Retail Segment and approximately 13 thousand (approximately 13 thousand as of December 31, 2018) customers in SME Business Segment, with these two segments of Addiko Group comprising EUR 3.1 billion (EUR 3.0 billion as of December 31, 2018) loans and receivables (of which EUR 2.2 billion (EUR 2.1 billion as of December 31, 2018) relate to the focus areas Consumer Business and SME Business Segment, and EUR 0.9 billion (EUR 0.9 billion as of December 31, 2018) relates to the non-focus Mortgage Business), representing 79% (79% as of December 31, 2018) of Addiko Group's total loans and receivables 57% (55% as of December 31, 2018) of Addiko Group's total loans and receivables without the non-focus Mortgage Business. Addiko Group serves approximately one thousand customers in each of the Large Corporates Segment and the Public Finance Segment, with these two non-focus segments of Addiko Group comprising EUR 0.8 billion (EUR 0.8 billion as of December 31, 2018) loans and receivables, representing 21% (21% as of December 31, 2018) of Addiko Group's total loans and receivables. The Corporate Center Segment is an internal segment without

product offerings to external customers.

Retail. As of March 31, 2019, Addiko Group's Retail Segment serves approximately 780 thousand (805 thousand as of December 31, 2018) Private Individuals customers not representing a group, company, or organization (***Private Individuals***) and approximately 32 thousand (33 thousand as of December 31, 2018) private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million (***Micro Customers***). Addiko Group offers daily banking services (e.g. current accounts, payment services, debit cards, bancassurance), consumer lending (e.g. consumer loans, credit cards, overdrafts) and deposit taking services (e.g. savings accounts, term deposits) to its Private Individual customers, forming part of its Consumer Business, while it offers primarily transactional and unsecured lending services to its Micro Customers. The Retail Segment also offers mortgages, which is a non-focus business of Addiko Group.

As of March 31, 2019, Retail customers are serviced through a network of 197 (198 as of December 31, 2018) branches and digital channels, such as online banking, mobile banking or chat banking. Account packages, including a small, focused product set designed to deliver the essential banking needs, are a cornerstone of Addiko Group's strategy of straightforward banking. Through the digitalization of its service offering and standardization of its products, Addiko Group seeks to not only enhance the customer experience through faster decision-making times (e.g. it takes customers on average 3 minutes to open a deposit account and 14 hours to receive a lending decision) but also to improve the efficiency of Addiko Group's operations (e.g. more than 65% of Addiko Group's consumer lending decisions are fully automated).

SME Business. The SME Business Segment services corporate customers with an annual turnover ranging from EUR 0.5 million to EUR 40 million. Through its SME customer base, Addiko Group targets the "real" economy, i.e., manufacturing, production, trade finance, agriculture and tourism businesses with pre-existing cash flows, by offering working capital and investment loans and maintaining a strong focus on trade finance products. Addiko Group offers a full suite of products, focusing on deposit products (current accounts, savings accounts, term deposits and transactional accounts), banking products and packages including payment services and debit cards, lending products (consumer loans, credit cards, overdrafts), trade finance, frames and guarantees as well as other complementary products such as bancassurance and sales of investment funds. Addiko Group's strategy for its SME Business Segment is to achieve primary bank status among its clients by providing services with a focus on convenience, developing flexible solutions and efficiently offering products through enhanced digitalization. All SME clients are served through relationship managers, who not only sell banking products but also act as a trusted advisor to their clients, facilitating and communicating Addiko Group's fast decision making processes. Relationship managers are located in 38 SME business centers across the countries where Addiko Group is active. As part of its digital transformation Addiko Group will introduce a group wide e-banking system for the SME Business segment which will allow implementing simple loan products for the SME Business segment. Through its digital automation, Addiko Group is able to offer simple loan products which are approved directly on the digital platform for the SME Business Segment, freeing up sales force capacity for further customer acquisitions.

Large Corporates. The Large Corporates Segment comprises Addiko Group's business activities relating to the offering of a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large legal entity customers, i.e. companies with annual turnover of over EUR 40 million. The largest local and international companies are serviced by Addiko Group's centralized and specialized local teams, supported by an experienced group of experts at the headquarters of Addiko Group. Through this structure, Addiko Group aims to provide its customers with a seamless financing service across the entire Addiko Group. The Large Corporates Segment's aim is to deliver its services in a straightforward and efficient manner and provide its customers convenient access to those services. No significant growth in the Large Corporates Segment is anticipated, but Addiko Group will continue to serve selected customers where the risk and reward ratio is favourable.

Public Finance. The Public Finance Segment conducts Addiko Group's business with key public institutions in CSEE countries, such as ministries of finance, state enterprises and local governments. Addiko Group offers those public institutions a full suite of

products, comprising deposit products (current accounts, savings accounts and term deposits), lending products (term loans, operating financing loans and leasing products) and other complementary products such as domestic and foreign payments, insurance, treasury and trade finance products. Public Finance lending is not an area that Addiko Group is focused on growing. It rather focusses on maintaining the existing deposits and provides account keeping services while lending on a selected basis only.

Corporate Center. The Corporate Center Segment is primarily an internal segment without direct product offerings to external customers containing the results from Addiko Group's liquidity and capital management. The Corporate Center Segment's prime responsibilities comprise the group wide asset and liability management (ALM) steering, management of liquidity portfolios within the regulatory requirements (e.g., liquidity coverage ratio (***LCR***) and net stable funding ratio (***NSFR***)) and the optimisation of subsidiaries' funding mix. In addition, this segment includes direct deposit activities in Austria and Germany, which are steered by treasury for liquidity purposes.

Competitive Strengths

Addiko Group believes the following primary strengths will be the main drivers that allow it to successfully pursue its strategy:

- Well positioned region for convergence of underpenetrated banking sector.
- Well-established, pan-regional platform with strong synergies, significant operational leverage for future competitiveness.
- Transforming into focused retail and SME specialist.
- Unlocking opportunities in traditional market with innovative digital solutions.
- Solid balance sheet foundation for continued profit increases.
- Experience and proven management team.

Strategy

The strategy of Addiko Group is centered around the following core strategic pillars:

- Focus on retail and SME lending in CSEE.
- Provide improved customer experience.
- Ensure efficiency and operational excellence.
- Leveraging Addiko Group's established branch network to attract new customers.
- Expanding digital capabilities and automation.

History

On August 12, 2010, the Company was founded as a limited liability company under Austrian law (*Gesellschaft mit beschränkter Haftung*). After acquiring 100% of the shares in the Company, HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (***HAA***) resolved to change the Company's name to "Hypo Phoenix Absicherungs GmbH", effective as of January 27, 2011. With effect as of June 29, 2013, the Company's share capital was increased to EUR 5,000,000. The Company was then transformed from a limited liability company into an Austrian stock corporation, and was renamed "Hypo SEE Holding AG", both changes became effective on July 4, 2013. In September 2014, the objects of the Company as set out in the articles of association were modified by adding the operation of banking business, due to the Company having obtained a license according to the Austrian banking act (*Bankwesengesetz*). Subsequently, the Company was renamed "HYPO GROUP ALPE ADRIA AG". On October 30, 2014, FIMBAG Finanzmarktbeteiligung Aktiengesellschaft des Bundes (***FIMBAG***) acquired 100% of the share capital of the Company. On July 17, 2015, HETA, on the basis of a power to dispose (*Verfügungsermächtigung*) Advent International Corporation transferred 100% of the FIMBAG shareholding in the Company to AI Lake (Luxembourg) S.à r.l. (the ***Existing Shareholder***)., a company ultimately controlled by Advent International Corporation. With effect as of June 30, 2016, the Company's name was changed to "Addiko Bank AG". As of the date hereof, all Existing Shares are held by the Existing Shareholder, a limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, registered in the Luxembourg companies register

(*Registre de Commerce et des Sociétés*) under registration number B191802. Currently, 78.4% of the shares in the Existing Shareholder are ultimately controlled by Advent International Corporation (***AIC***), a U.S. Securities Exchange Commission (SEC) registered corporation established under the laws of the U.S. state Delaware and 18.5% of the shares are held by the European Bank for Reconstruction and Development (***EBRD***), with the remaining 3.1% held by the Managers (as defined in E.4) (with the members of the Management Board (as defined in C.7) holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board (as defined in C.7) holding 1.1%).

B.4a	**Description of the most significant recent trends affecting the issuer and the industries in which it operates.**	Addiko Group's results of operation and financial position are affected by a number of factors, some of which also impact the results of the banking sector in general. The Company believes that the following key factors have affected Addiko Group's results of operating and financial position since 1 January 2016:

- Addiko Group's operating and financial results are highly dependent on the general economic conditions in the CSEE region.
- The level of competition in the CSEE banking sector has a significant impact on Addiko Group's net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits.
- Addiko Group's results depend on its ability to grow its unsecured consumer and SME banking business whilst gradually reducing the relative contribution of public finance, mortgage and large corporate lending business.
- Addiko Groups' operating and financial results are highly dependent on its cost of deposit funding and funding mix.
- Addiko Group's interest income and interest expense is influenced by fluctuations in market interest rates.
- As Addiko Group reports its financial results in Euro, Addiko Group's operational business activities are exposed to foreign currency translation risk, except for the subsidiaries operating in Slovenia and Montenegro as well as Addiko Bank AG, where the operating currency is identical to the reporting currency Euro. Results of operations in Bosnia & Herzegovina, Croatia, and Serbia are translated from the local currency into the reporting currency Euro and therefore changes in the respective exchange rates can affect Addiko Group's financial performance as well as Addiko Group's balance sheet.
- Addiko Group expects that its focus on unsecured consumer and SME lending will ultimately result in risk costs higher than a portfolio comprised of a homogenous product mix, because of the decreased risk resulting from a more diversified portfolio as well as the increased risk associated with consumer lending products.
- Addiko Group was affected by the implementation of retroactive laws in Croatia and Montenegro in 2015 requiring its subsidiaries in Croatia and Montenegro to offer the retroactive conversion of past lending indexed in Swiss Franc into Euro / local currency.
- Addiko Group's results depend on its ability to resolve passive legal cases.
- Addiko Group operates in a highly regulated environment. The current number and ongoing development of financial services laws and regulations, corporate governance and administrative requirements and policies have had and will continue to have an impact on Addiko Group's results of operations.
- Addiko Group has to adapt to emerging technologies and changes in customer behavior driving by increasing digitization of the banking business.
- Addiko Group's results depend on its income taxes, deferred taxes and tax losses carried forward.
- The waiver of Tier 2 capital leads to a reduction in annual interest expenses of approx. EUR 21.4 million going forward.
- The adoption of the new accounting standard for financial instruments (IFRS 9) results in an adjustment to equity of EUR -32.4 million; the effect on the CET1

ratio (fully loaded) amounts to around 70bp. Impairment losses increased by EUR 40.7 million (net of related deferred tax assets (***DTA***) EUR 40.0 million). The effect on classification and valuation amounts to a positive effect of EUR 9.3 million (net of related deferred tax liability (***DTL***) EUR 7.6 million).

- Addiko Group expects that the Single Resolution Board (***SRB***) will decide on the minimum requirements for own funds and eligible liabilities (***MREL***) target for Addiko Group during the second half of 2019, to be met after a transitional period of up to 4 years. Addiko Group expects that the SRB will apply a "single-point-of-entry" (SPE) approach as resolution strategy to Addiko Group, as a result of which Addiko Group forms a resolution group with the Company as resolution entity when setting the (consolidated) MREL target for the first time. Under the SPE approach currently applied for Addiko Group by the SRB, the MREL target of Addiko Group would require additional own funds and eligible liabilities in the amount of up to EUR 467 million (based on Addiko Group's capital structure and balance sheet composition as of March 31, 2019). However, the management board of the Company made it clear in the course of its regular exchange with the SRB that it would consider a resolution approach whereby solely Addiko Bank Croatia would be a resolution entity and an MREL target would be set solely for Addiko Bank Croatia as more appropriate given that Addiko Bank Croatia is the only entity considered to provide critical functions.

B.5	**Description of the group and the issuer's position within the group.**	The Company is the holding company of Addiko Group. Addiko Group's business is conducted both by the Company and by its subsidiaries. The Addiko Group comprises the Company and its six banking subsidiaries Addiko Bank d.d. Ljubljana, Addiko Bank d.d. Zagreb, Addiko Bank a.d. Beograd, Addiko Bank d.d. Sarajevo, Addiko Bank a.d. Banja Luka, Addiko Bank a.d. Podgorica, which form a regulatory banking group (*Kreditinstitutsgruppe*) referred to as "Addiko Group" in this Prospectus. The Company's core business is located in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. Each entity of Addiko Group is regulated and supervised by relevant authorities in each jurisdiction in which it operates. The Austrian supervisor, Financial Market Authority, is in charge of the consolidated supervision of Addiko Group.
B.6	**Persons who, directly or indirectly, have an interest in the issuer's capital or voting rights or have control over the issuer.**	Immediately prior to the date of this Prospectus, all Existing Shares (as defined under Element B.6 below) are held by the Existing Shareholder AI Lake (Luxembourg) S.à r.l., a limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, registered in the Luxembourg companies register (*Registre de Commerce et des Sociétés*) under registration number B191802. As of such date, 78.4% of the shares in the Existing Shareholder are controlled by funds ultimately advised and managed by AIC, a SEC registered corporation established under the U.S. laws of Delaware, and 18.5% of the shares are held by the EBRD, with the remaining 3.1% held by the Managers (as defined in E.4) (with the members of the Management Board (as defined in C.7) holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board (as defined in C.7) holding 1.1%). Upon completion and closing of the private placement (the ***Private Placement***) expected to occur on July 15, 2019, the Existing Shareholder will hold 45% of the existing shares of the Company (the ***Existing Shares***) (assuming the full placement of the Firm Shares (as defined under element E.1 below) and a full exercise of the Greenshoe Option (as defined under element E.1 below)).
	Different voting rights.	Not applicable. All Existing Shares of the Company have identical voting rights.
	Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control.	As of the date of this Prospectus, the Company is ultimately controlled by (i) several funds under the management of AIC (approximately 78.4% of the voting capital) and (ii) EBRD (approximately 18.5% of the voting capital) , with the remaining 3.1% held by the Managers (as defined in E.4) (with the members of the Management Board (as defined in C.7) holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board (as defined in C.7) holding 1.1%). Together, AIC and EBRD ultimately control more than 90% of the shares in the Existing Shareholder, the sole direct shareholder of the Company as of the date of this Prospectus. Upon completion and closing of the Private Placement expected to occur on July 15, 2019, the Existing Shareholder will hold 45% of the Existing Shares (assuming the full

placement of the Firm Shares (as defined under element E.1 below) and a full exercise of the Greenshoe Option (as defined under element E.1 below)) and, therefore, will no longer control the Company. In addition, the shareholders of the Existing Shareholder agreed to refrain, to the extent necessary, from exercising their voting rights to avoid deemed control of the Company.

B.7 Selected historical key financial information.

The following selected historical financial and business information of Addiko Group should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the financial years ended December 31, 2018, 2017, and 2016 (the ***Audited Consolidated Financial Statements***), as well as the Unaudited Interim Condensed Consolidated Financial Statements of the Company as of and for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018) (the ***Unaudited Interim Condensed Consolidated Financial Statements*** and, together with the Audited Consolidated Financial Statements, (the ***Consolidated Financial Statements***) and the respective related notes included therein.

The Audited Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the ***EU***, the reporting standards being referred to as ***IFRS***). They were audited in accordance with Section 59a of the Austrian Banking Act (*Bundesgesetz über das Bankwesen* – ***Banking Act***) and Austrian generally accepted standards for the audit of financial statements by Deloitte Audit Wirtschaftsprüfungs GmbH who issued unqualified audit opinions thereon. The Unaudited Interim Condensed Consolidated Financial Statements as of and for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018) were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the EU and have been reviewed by Deloitte Audit Wirtschaftsprüfungs GmbH in accordance with International Standard on Review Engagements 2410.

In this Prospectus, where financial information for Addiko Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the Company. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Consolidated Financial Statement, Addiko Group's accounting records or its internal management reporting systems.

Some tables in this section also present non-GAAP measures (neither defined under IFRS nor under the Commercial Code). These non-GAAP measures are key figures used by Addiko Group's management to monitor the performance of Addiko Group. Non-GAAP measures not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. Unless indicated otherwise, all financial data in the text and tables in this section of this Prospectus is presented in millions and billions of euros (EUR), and, if applicable, rounded to one decimal point or whole numbers. Unless expressly noted otherwise, percentage amounts in the text and tables have also been rounded to one decimal point. Because of this rounding, the figures shown in the tables may sometimes not add up exactly to the respective totals given.

Selected Financial Information and Performance Indicators

The following tables show certain selected financial information and performance indicators of Addiko Group:

Profit and loss statement*	For the three-month period ended March 31,		For the financial year ended December 31,		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)		**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Interest income calculated using the effective interest method	51.5	51.0	209.6	226.0[1]	232.2[1]
Other interest income	0.9	1.6	4.2	8.3[2]	6.0[2]

Interest expense	-7.5	-14.0	-40.7	-68.9[3]	-79.4[3]
Net interest income	**44.9**	**38.6**	**173.2**	**165.3**	**158.8**
Fee and commission income	18.7	16.8	76.5	71.3[4]	62.0[5]
Fee and commission expense	-3.1	-3.3	-14.1	-12.8[4]	-12.0[5]
Net fee and commission income	**15.6**	**13.5**	**62.4**	**58.5**	**50.0**
Net result on financial instruments	3.3	70.5	70.0	9.7	20.3[6]
Other operating income	2.6	1.8	19.1	27.4[7]	29.6[3]
Other operating expenses	-8.0	-8.2	-35.7	-34.0[7]	-71.7[3]
Operating income	**58.3**	**116.2**	**289.0**	**226.9**	**187.0**
Personnel expenses	-24.8	-24.4	-99.4	-97.4	-99.8
Other administrative expenses	-19.0	-19.3	-78.0	-80.9	-93.1
Depreciation and amortization	-4.5	-2.7	-10.7	-11.7	-19.5
Operating expenses	**-48.3**	**-46.3**	**-188.1**	**-190.1**	**-212.4**
Operating result before change in credit loss expense	**10.0**	**69.9**	**100.9**	**36.9**	**-25.4**
Credit loss expenses on financial assets	3.7	10.9	2.8	-15.1	4.4
Operating result before tax	**13.7**	**80.8**	**103.7**	**21.8**	**-21.0**
Taxes on income	-3.6	-4.6	0.5	19.9	-2.9
Result after tax	**10.1**	**76.2**	**104.2**	**41.6**	**-23.9**

* The line item structure of the table presented follows that of the consolidated statement of comprehensive income in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Interest income calculated using the effective interest method comprises interest income from available-for-sale financial assets, loans and receivables, held-to-maturity investments and derivatives – hedge accounting interest rate risk as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

2 Other interest income comprises interest income from financial assets held for trading, other assets and dividend income as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

4 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.

5 Fee and commission income and fee and commission expense were not presented as separate line items in the Audited Consolidated Financial Statements as of and for the financial year 2016. Numbers taken from the accounting records as of and for the financial year 2016 (unaudited).

6 Net result on financial instruments was not presented as a separate line item in the Audited Consolidated Financial Statements as of and for the financial year 2016. As of and for the financial year 2016, the position is calculated on the basis of the Audited Consolidated Financial Statements positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L".

7 Numbers follow the presentation in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018. As of and for the financial year 2018 the presentation of other operating result was changed to gross presentation of other operating income and other operating expenses, including the comparative figures. The new presentation improves the understanding of Addiko Group's financial performance.

(Source: Audited Consolidated Financial Statements and Company information)

Balance Sheet*	**For the three-month period ended March, 31**	**For the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)	**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Total assets	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Total liabilities	**5,280.3**	**5,292.7**	**5,641.5**	**6,221.5**
Equity	828.0	859.5	844.0	994.7
Total shareholders' equity	**828.0**	**859.5**	**844.0**	**994.7**
Total liabilities and shareholders' equity	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Key Ratios				
Customer loan to deposit ratio[1]	79.6%	78.3%[7]	74.8%[7]	84.1%[7]
NPE ratio[3]	5.5%	5.6%	8.1%	9.2%
NPE ratio (CRB based)[4]	7.4%	7.7%	11.6%[2]	14.8%[2,7]
NPE coverage ratio[5]	75.8%	75.4%	67.0%	67.5%
NPE ratio under the new risk framework[6]	1.5%	1.4%[7]	1.3%[7]	1.6%[7]
NPE coverage ratio under the new risk framework[6]	72.0%	69.2%[7]	56.7%[7]	42.8%[7]

* The line item structure of the table presented follows that of the consolidated statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 The customer loan to deposit ratio is calculated as loans and receivables to customers (i.e. excluding central banks and other credit institutions) divided by deposits from customers as of and for the specified financial year.
2 Not presented in the Audited Consolidated Financial Statements as of and for the specified financial year, but calculated based on the same methodology as in the Audited Consolidated Financial Statements as of and for the financial year 2018 and the accounting records for the specified financial year.
3 Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.
4 Calculated based on non-performing exposure (NPE) divided by the credit bearing risk exposure as of and for the specified financial year. The credit risk bearing exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures), excluding credit risk exposure towards national bank as well as securities and derivatives, without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant credit risk exposure for securities, whereas amortised cost is used for loans.
5 Calculated based on the IFRS 9 stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.
6 New risk framework refers to clients where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss (e.g. large Croatian retailer) are excluded from the new risk framework. Ratios taken from the risk records as of and for the financial years 2016, 2017 and 2018.
7 Unaudited Company information.
(Source: Audited Consolidated Financial Statements and Company Information)

The following table shows selected data from the consolidated statement of cash flows of Addiko Group for the three-month period ended March 31, 2019 and 2018 and the financial years ended December 31, 2018, 2017 and 2016:

Cash Flow	For the three-month period ended March 31,		For the financial years ended December 31,		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)		**(in EUR million) (audited)**		
Cash and cash equivalents at end of previous period	**1,002.9**	**1,285.9**	**1,285.9**	**1,878.2**	**1,319.0**
Cash flows from operating activities	-171.0	43.6	-93.6	-206.5	454.1
Cash flows from investing activities	-3.7	-3.9	-21.1	31.9	104.6
Cash flows from financing activities	-50.0	-170.0	-170.0	-430.0	0.0
Effect of exchange rate changes	-0.7	0.5	1.6	12.2	0.5
Cash and cash equivalents at end of period.......................	**777.5**	**1,156.1**	**1,002.9**	**1,285.9**	**1,878.2**

(Source: Audited Consolidated Financial Statements and Company information)

Selected Performance Indicators	For the three-month period ended March 31,		For the financial year ended December 31,		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)		**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Net interest income/total average assets[1]..	3.0%	2.5%	2.7%	2.4%	2.2% [2,7]
Cost/income ratio[3]	80.0%	88.9%	79.9%	84.9% [3]	101.8% [3,7]
Cost of risk ratio[4].....................................	0.1%	0.2%	0.1%	-0.3%	0.1%[7]
Return on average equity[5]	4.8%	36.8%	12.2%[7]	4.5%[7]	n.a.[7]
Return on Average Tangible Equity (RoTE)[6]..	5.0%	37.8%	12.6%[7]	4.6%[7]	n.a.[7]

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.
2 Net interest income/total average assets for the financial year 2016 was taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
3 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee

and commission income and other operating income.

4 Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year. The credit risk bearing exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures), excluding credit risk exposure towards national bank as well as securities and derivatives, without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant credit risk exposure for securities, whereas amortised cost is used for loans.

5 Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

6 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

7 Unaudited Company information.

(Source: Audited Consolidated Financial Statements and Company information)

Key developments of financial results and position

Interest income

Net interest income increased from EUR 38.6 million in the three-month period ended March 31, 2018, by EUR 6.3 million, or 16.2%, to EUR 44.9 million in the three-month period ended March 31, 2019. This was primarily due to a decrease in interest expense from EUR -14.0 million in the three-month period ended March 31, 2018, by EUR 6.5 million, to EUR -7.5 million in the three-month period ended March 31, 2019, resulting from lower interest expenses for customer deposits of EUR 3.0 million – mainly due to a shift from higher yield term deposits to lower yield current deposits – and interest expense of EUR 3.6 million for the waived Tier 2 capital (please refer to "*11.3.14 Tier 2 waiver*") for the three-month period ended March 31, 2018, which cease to exist in the three-month period ended March 31, 2019.

Net interest income increased from EUR 165.3 million in the financial year 2017 by EUR 7.9 million, or 4.8%, to EUR 173.2 million in the financial year 2018. This was due to a decrease in interest expense from EUR -68.9 million in the financial year 2017 by EUR 28.2 million to EUR -40.7 million in the financial year 2018, which outweighed the decrease in overall interest income calculated based on the effective interest method as well as other interest income from, together, EUR 234.2 million in the financial year 2017 by EUR 20.4 million to EUR 213.8 million in the financial year 2018. Most significant driver for the interest income decrease in the financial year 2018 compared to 2017 was the transition from IAS 39 to IFRS 9, where the recording of suspended income from non-performing exposure has moved from the interest income to the credit loss expenses on financial assets. This suspended income was EUR 10.3 million for the financial year 2017. Interest expense decreased from EUR -68.9 million in the financial year 2017 by EUR 28.2 million to EUR -40.7 million in the financial year 2018. This was primarily due to the decrease in interest expenses for the Tier 2 waiver, which decreased from EUR -19.3 million in the financial year 2017 by EUR 15.7 million to EUR -3.6 million in the financial year 2018. Both Tier 2 capital tranches were waived by the creditor in the first quarter of 2018.

Net interest income increased from EUR 158.8 million in the financial year 2016 by EUR 6.5 million, or 4.1%, to EUR 165.3 million in the financial year 2017. This was primarily due to lower interest rates for customer deposits. Interest income decreased from EUR 238.2 million in the financial year 2016 by EUR 4.0 million to EUR 234.2 million in the financial year 2017, mainly driven by lower interest income on loans and receivables of EUR 3.7 million. The lower interest income was mainly due to strategic reduction of the non-focus portfolio. Interest expenses decreased from EUR 79.4 million in the financial year 2016 by EUR 10.5 million to EUR 68.9 million in the financial year 2017. The lower interest expenses were mainly driven by reduced expenses on deposits, which decreased from EUR 54.2 million in the financial year 2016 by EUR 9.2 million to EUR 45.0 million in the financial year 2017. This was possible due to the shift from term to overnight deposits.

Net fee and commission income

Net fee and commission income increased from EUR 13.5 million in the three-month period ended March 31, 2018, by EUR 2.0 million, or 15.1%, to EUR 15.6 million in the three-month period ended March 31, 2019.

This was primarily due to the increase of fee and commission income from EUR 16.8 million in the three-month period ended March 31, 2018, by EUR 1.9 million, to EUR 18.7 million in the three-month period ended March 31, 2019, which was mainly driven by income from bancassurance, FX & dynamic currency conversion and transactions.

Net fee and commission income increased from EUR 58.5 million in the financial year 2017 by EUR 3.9 million, or 6.7%, to EUR 62.4 million in the financial year 2018. Fee and commission income increased from EUR 71.2 million in the financial year 2017 by EUR 5.3 million, or 7.4% to EUR 76.5 million in the financial year 2018. This was primarily due to increased fee and commission income in customer foreign exchange transactions from EUR 8.9 million in the financial year 2017 by EUR 2.1 million to EUR 11.0 million in the financial year 2018, in bancassurance sales from EUR 1.3 million in the financial year 2017 by EUR 1.9 million to EUR 3.2 million in the financial year 2018, and in accounts & packages from EUR 15.8 million in the financial year 2017 by EUR 1.2 million to EUR 17.0 million in the financial year 2018. Fee and commission expense increased from EUR -12.8 million in the financial year 2017 by EUR -1.3 million, or 10.7% to EUR -14.1 million in the financial year 2018. The primary drivers for this were an increase in expenses for cards services, which grew from EUR -4.6 million in the financial year 2017 by EUR -1.7 million to EUR -6.3 million in the financial year 2018, and customer promotions from EUR 0.0 million in the financial year 2017 by EUR -0.6 million to EUR -0.6 million in the financial year 2018.

Net fee and commission income increased from EUR 50.0 million in the financial year 2016 by EUR 8.5 million, or 17.0%, to EUR 58.5 million in the financial year 2017. This was primarily due to higher product and customer focus increasing the transaction income and fee income from current account maintenance fees and due to increased sales performance supported by new functionalities (e.g., dynamic currency conversion implemented across the whole ATM network as a successful conclusion of the outsourcing of all ATMs to a strategic partner).

Net result on financial instruments

Net result on financial instruments decreased from EUR 70.5 million in the three-month period ended March 31, 2018, by EUR 67.3 million, to EUR 3.3 million in the three-month period ended March 31, 2019. The significant decrease compared to the three-month period ended March 31, 2018, was primarily due to the waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018 (for further information please refer to section *11.3.14 "Tier 2 waiver"*).

Net result on financial instruments increased from EUR 9.7 million in the financial year 2017 by EUR 60.3 million to EUR 70.0 million in the financial year 2018. This was primarily due to the waiver of both Tier 2 capital tranches by the shareholder in the first quarter of 2018 (for further information please refer to *"11.3.14 Tier 2 waiver").* The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the financial year 2018.

Gains and losses on financial assets and liabilities decreased from EUR 20.3 million in the financial year 2016 by EUR 10.6 million, or 52.2%, to EUR 9.7 million in the financial year 2017. The result for 2017 was primarily due to gains on the sale of bonds (EUR 8.5 million), gains on FX trading/ FX derivatives (EUR 17.1 million), gains on interest rate derivatives and instruments (EUR 9.0 million) and losses from exchange differences on trading activities (EUR -24.1 million). In the corresponding period 2016, the overall positive result was mainly driven by FX trading/ FX derivatives (EUR 13.6 million), losses on interest rate derivatives and instruments (EUR -4.4 million) and income from the sale of VISA shares held as equity investments for trading (EUR 8.5 million).

Other operating result

Other operating result increased from EUR -6.4 million in the three-month period ended March 31, 2018, by EUR 1.0 million, to EUR -5.4 million in the three-month period ended March 31, 2019. This was primarily due to an increase in release of provisions for

legal cases and a decrease of expenses for the recovery and resolution fund.

Other operating result decreased from EUR -6.5 million in the financial year 2017 by EUR 10.0 million to EUR -16.5 million in the financial year 2018. This was due to the decrease in other operating income from EUR 27.4 million in the financial year 2017 by EUR 8.3 million to EUR 19.1 million in the financial year 2018 and the increase in other operating expenses from EUR -34.0 million in the financial year 2017 by EUR -1.7 million to EUR -35.7 million in the financial year 2018. The decrease in other operating income was primarily driven by decreases in releases of provisions for legal cases (from EUR 16.2 million in the financial year 2017 by EUR 5.0 million to EUR 11.2 million in the financial year 2018), in income from operating lease assets (from EUR 3.1 million in the financial year 2017 by EUR 3.1 million to EUR 0.0 million in the financial year 2018) and in income from assets classified as held for sale and disposal groups (from EUR 2.7 million in the financial year 2017 by EUR 2.5 million to EUR 0.2 million in the financial year 2018).

Other operating result increased from EUR -42.1 million in the financial year 2016 by EUR 35.5 million, or 84.5%, to EUR -6.5 million in the financial year 2017. The variation in the result between 2016 and 2017 was mainly influenced by additions and releases to provisions and expenses for threatened and actual legal disputes in which Addiko Group is the defendant (passive legal cases), by income in connection with the CHF conversion losses in Croatia and by reduced income and expenditures.

Operating expenses

Personnel expenses increased from EUR -24.4 million in the three-month period ended March 31, 2018, by EUR 0.5 million, or 2.0%, to EUR -24.8 million in the three-month period ended March 31, 2019. This was primarily due to a release in provision for variable payments in the three-month period ended March 31, 2018, which was then omitted in the three-month period ended March 31, 2019. Other administrative expenses decreased from EUR -19.3 million in the three-month period ended March 31, 2018, by EUR 0.2 million, or 1.2%, to EUR -19.0 million in the three-month period ended March 31, 2019. This was primarily driven by IT expenses and premises expenses.

Personnel expenses increased from EUR -97.4 million in the financial year 2017 by EUR -2.0 million, or 2.0%, to EUR -99.4 million in the financial year 2018. This was primarily due to income from release of other employee provisions, which decreased from EUR 2.5 million in the financial year 2017 by EUR 2.1 million to EUR 0.4 million in the financial year 2018. Wages and salaries, social security and variable payments remained fairly stable at approx. EUR 94 million while the number of FTEs decreased slightly from 2,953 as of December 31, 2017 to 2,933 as of December 31, 2018. Other administrative expenses decreased from EUR -80.9 million in the financial year 2017 by EUR 2.9 million, or -3.6%, to EUR -78.0 million in the financial year 2018. This was primarily a result of the ongoing cost improvement initiatives, despite additional investments that were made to grow the business and to enhance Addiko Group's digital capabilities. In this context, IT expenses decreased from EUR -32.5 million in the financial year 2017 by EUR 2.6 million to EUR -29.9 million in the financial year 2018 and premises expenses (rent and other building expenses) from EUR -18.8 million in the financial year 2017 by EUR 1.0 million to EUR -17.8 million in the financial year 2018. By contrast legal and advisory costs, mainly for capital market readiness, increased from EUR -7.9 million in the financial year 2017 by EUR -2.8 million to EUR -10.7 million in the financial year 2018. Depreciation and amortization decreased from EUR -11.7 million in the financial year 2017 by EUR 1.0 million, or -8.9%, to EUR -10.7 million in the financial year 2018. This was primarily due to decrease in depreciation on internally used equipment, which decreased from EUR -3.8 million in the financial year 2017 by EUR 0.7 million to EUR -3.1 million in the financial year 2018.

Personnel expenses slightly decreased from EUR -99.8 million in the financial year 2016 by EUR 2.4 million, or 2.4%, to EUR -97.4 million in the financial year 2017 mainly as a result of the decrease of average FTEs from 3,318 in the financial year 2016 to 3,052 in the financial year 2017 due to several efficiency and right-sizing programs, which were completed in the financial year 2017. Other administrative expenses decreased from EUR -93.1 million in the financial year 2016 by EUR 12.2 million, or 13.1%, to EUR -80.9 million in the financial year 2017. This was primarily due to legal and advisory costs, which decreased by EUR 5.3 million, or 36.3%. Advisory costs in the financial year 2016

include costs in the amount of EUR 3.1 million for lawyers and related court costs in the context of CHF conversion laws approved in 2015 by Croatia and Montenegro (consumer protection acts). In addition, other administrative expenses decreased by EUR 5.2 million, or 31.9%, compared to the financial year 2016. Premises expenses (rent and other building expenses) decreased from EUR -21.0 million in the financial year 2016 by EUR 4.8 million, or 22.9%, to EUR -16.2 million in the financial year 2017. This decrease was partially offset by an increase in advertising costs of EUR 2.9 million compared to the financial year 2016, reflecting marketing inactivity during the first half of financial year 2016 due to preparation of re-branding campaign initiated in July 2016. Depreciation and amortization decreased from EUR -19.5 million in the financial year 2016 by EUR 7.8 million, or 39.9%, to EUR -11.7 million in the financial year 2017. This was primarily due to Addiko Group's strategy to focus on its core business and therefore reduce its leasing business, leading to lower depreciation and amortization expenses for tangible assets, which decreased from EUR -14.7 million in the financial year 2016 by EUR 8.7 million, or 59.2%, to EUR -6.0 million in the financial year 2017.

Credit loss expenses on financial assets

Change in credit loss expenses on financial assets decreased from EUR 10.9 million (i.e. net release) in the three-month period ended March 31, 2018, by EUR 7.2 million, to EUR 3.7 million (i.e. net release) in the three-month period ended March 31, 2019. The positive result in the three-month period ended March 31, 2019 is influenced by repayments and re-migrations to a lower risk portfolio in the non-focus area Mortgage Business and Large Corporates Segment. This effect is offset by allocations within the Consumer Business.

Change in credit loss expenses on financial assets decreased from EUR -15.1 million in the financial year 2017 by EUR 17.9 million to EUR 2.8 million (i.e. net release) in the financial year 2018. This was primarily due to successfully executed restructuring measures of larger individual customers in the Large Corporates Segment, where the change in credit loss expenses on financial assets decreased from EUR -37.0 million in the financial year 2017 by EUR 40.6 million to EUR 3.6 million in the financial year 2018. This was partially offset by an increase in credit loss expenses on financial assets in the Retail Segment, which increased from EUR 21.5 million in the financial year 2017 by EUR -21.5 million to EUR 0.0 million in the financial year 2018.

Impairment or reversal on loans and receivables changed from EUR 4.4 million (i.e. net release) in the financial year 2016 down to EUR -15.1 million in the financial year 2017. This was primarily the result of an increase in risk provisions of EUR 75.2 million, or 76.0%, from EUR -99.0 million in the financial year 2016 due to the financial difficulties of a large Croatian corporate debtor of Addiko Group. A borrower of this size does not exist anymore in the Large Corporates Segment. This negative impact was partially offset by the release of risk provisions due to strong collection and recovery activities as well as the sale of non-performing portfolios of the Retail Segment. Additionally, individually material provision amounts were allocated for fraud cases in the retail underwriting process in Montenegro and Slovenia during the first half of 2017. The increase in risk provision was offset primarily by releases in the Retail Segment relating to CHF-converted loans in Croatia as well as by settlement agreements and debt sales (especially by Addiko Group's Croatian, Serbian and Bosnian entities). As a result, reversals increased from EUR 125.8 million in the financial year 2016 by EUR 26.8 million, or 21.3%, to EUR 152.6 million in the financial year 2017.

Tax on income

Tax on income decreased from EUR -4.6 million in the three-month period ended March 31, 2018, by EUR 1.0 million, or 21.2%, to EUR -3.6 million in the three-month period ended March 31, 2019. This was primarily due to less current tax income recognised in the three-month period ended March 31, 2019 (EUR -0.7 million) compared to the three-month period ended March 31, 2018 (EUR -4.3 million).

Tax on income decreased from EUR 19.9 million (i.e. tax refund) in the financial year 2017 by EUR -19.3 million to EUR 0.5 million (i.e. tax refund) in the financial year 2018. This was primarily due to less deferred tax income recognised in the financial year 2017 (EUR 22.0 million) compared to the financial year 2018 (EUR 4.7 million).

Tax on income changed from EUR -2.9 million in the financial year 2016 by EUR 22.8

million, resulting in a benefit of EUR 19.9 million in the financial year 2017. This change was mainly due to a deferred tax, which amounted to EUR 22.0 million in the financial year 2017 (2016: EUR -1.3 million). Tax effects from the change in recognition of DTA on tax loss carry-forwards and temporary differences in accordance with IAS 12 increased from EUR 1.4 million in the financial year 2016 by EUR 20.4 million to EUR 21.8 million in the financial year 2017. The recoverability of a DTA due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. At the end of the financial year 2017, Addiko Group recognized DTA on existing tax loss carry-forwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences. The recognition was based on the successful turnaround process initiated by the new ownership, which led Addiko Group back to a stronger market presence and better financial results by implementing a new business strategy, raising the efficiency of operations and the quality of its service.

For more detail on tax on income and tax assets please refer to *"11.3.12 Income taxes, deferred taxes and tax losses carried forward"*.

Total assets

Total assets decreased from EUR 6,152.1 million as of December 31, 2018 by EUR 43.8 million, or 0.7%, to EUR 6,108.4 million as of March 31, 2019. This was primarily due to the decrease in cash balances at central banks, which was partly offset by an increase of loans and advances to customers as well as investment securities. Tangible assets increased due to the implementation of IFRS 16 - Leases, leading to the recognition of a right of use asset in the amount of EUR 29.8 million.

Total assets decreased from EUR 6,485.5 million as of December 31, 2017 by EUR -333.4 million, or -5.1%, to EUR 6,152.1 million as of December 31, 2018. This was primarily due to the decrease in excess liquidity in the form of cash reserves and investment securities, which was partly offset by increased loans and advances to customers.

Total assets decreased from EUR 7,216.1 million as of December 31, 2016 by EUR 730.6 million, or 10.1%, to EUR 6,485.5 million as of December 31, 2017. This was primarily due to the repayment of refinancing lines to the former owner in the amount of EUR 973.9 million as well as the reduction in the available-for-sale portfolio in the amount of EUR 75.0 million and the leasing portfolio in a total amount of EUR 37.4 million.

Total liabilities and equity

Total equity and liabilities decreased from EUR 6,152.1 million as of December 31, 2018 by EUR 43.8 million, or 0.7%, to EUR 6,108.4 million as of March 31, 2019. This was primarily due to the dividend distribution to the shareholder amounting to EUR 50.0 million, which reduced the equity.

Total equity and liabilities decreased from EUR 6,485.5 million as of December 31, 2017 by EUR -333.4 million, or -5.1%, to EUR 6,152.1 million as of December 31, 2018. This was primarily due to decrease in financial liabilities measured at amortized cost, which decreased from EUR 5,521.2 million as of December 31, 2017, by EUR -318.7 million, to EUR 5,202.5 million as of December 31, 2018.

Total equity and liabilities decreased from EUR 7,216.1 million as of December 31, 2016 by EUR -730.6 million, or -10.1%, to EUR 6,485.5 million as of December 31, 2017, mainly driven by a decrease in financial liabilities measured at amortized cost of EUR -519.2 million, or -8.6%, and in equity of EUR -150.7 million, or -15.2%, compared to the financial year 2016.

Selected adjusted Financial Information and adjusted Performance Indicators

Addiko Group has chosen to focus new lending business activities predominately on the Retail Segment's non-mortgage business and the SME Business Segment (its "focus areas"), while the legacy business of the Large Corporates Segment, the Public Finance Segment and the Retail Segment's Mortgage Business (its "non-focus areas") entered into previously continues to be steered and managed to maturity. Consequently, Addiko Group believes that a more insightful assessment of its performance can be obtained by making certain adjustments to its reported results in order to show historical earnings generated by Addiko Group's current business model and organizational structure. The

adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

The adjusted consolidated income statement data presented below constitutes an alternative performance measure and should not be considered in isolation of, as a substitute for, or superior to, the financial information prepared in accordance with IFRS, and should be read in conjunction with Addiko Group's Consolidated Financial Statements included in this Prospectus. Use of alternative performance measures, such as the adjusted consolidated income statement data presented below, is subject to inherent limitations because they do not include all the expenses that must be included under IFRS and because they involve the exercise of judgment of which revenue and expense items should properly be excluded from the alternative performance measure. Investors are cautioned therefore not to place undue reliance on such alternative performance measures. For a detailed description of the individual adjustments made in respect of the normalized consolidated income statement data presented below, see *"11.6 Adjusted Results"*.

The following table shows the adjusted consolidated income statement data of Addiko Group for the three-month periods ended March 31, 2019 and 2018 along with the adjustments made to the reported consolidated income statement data of Addiko Group for each such period, which reported data is shown as well, for reference:

	Adjusted for the three-month period ended March 31,		**Aggregate adjustments**		**Reported for the three-month period ended March 31,**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	(in EUR million unless otherwise indicated) (unaudited)		**(in EUR million, unless otherwise indicated) (unaudited)**		**(in EUR million unless otherwise indicated) (unaudited)**	
Income Statement						
Interest income	52.3	52.6	-	-	52.3	52.6
Interest expense	-7.5	-10.4	-	3.6	-7.5	-14.0
Net interest income	**44.9**	**42.2**	-	**3.6**	**44.9**	**38.6**
Net fee and commission income	15.6	13.5	-	-	15.6	13.5
Net result on financial instruments	3.3	9.5	-	-61.0	3.3	70.5
Other operating result	-6.7	-6.4	-1.3	-	-5.4	-6.4
Operating income	**57.0**	**58.8**	**-1.3**	**-57.4**	**58.3**	**116.2**
Operating expenses	-47.4	-46.5	0.9	-0.2	-48.3	-46.3
Operating result	**9.6**	**12.3**	**-0.4**	**-57.6**	**10.0**	**69.9**
Credit loss expenses on financial assets	3.4	9.0	-0.3	-1.9	3.7	10.9
Result before tax	**12.9**	**21.3**	**-0.7**	**-59.5**	**13.7**	**80.8**
Tax on income	-4.5*	-7.9*	-0.9	-3.4	-3.6	-4.6
Result after tax	**8.5**	**13.3**	**-1.6**	**-62.9**	**10.1**	**76.2**
Key ratios						
Net interest income/total average assets[1]	3.0%	2.7%	0.0%	0.2%	3.0%	2.5%
Cost of risk ratio[2]	0.1%	0.2%	-0.0%	-0.0%	0.1%	0.2%
Cost/income ratio[3]	78.5%	83.6%	-1.5%	-5.3%	80.0%	88.9%
Return on average equity[4]	4.1%	6.4%	-0.8%	-30.3%	4.8%	36.8%
Return on Average Tangible Equity (RoTE)[5]	4.2%	6.6%	-0.8%	-31.2%	5.0%	37.8%

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The specified (adjusted/reported) net interest income for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

2 Calculated based on total (adjusted) credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial period. The credit risk bearing exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures), excluding credit risk exposure towards national bank as well as securities and derivatives, without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant credit risk exposure for securities, whereas amortised cost is used for loans.

3 Calculated as the sum of (adjusted) personnel expenses, (adjusted) other administrative expenses and (adjusted) depreciation and amortization divided by the sum of (adjusted) net interest income and (adjusted)

net fee and commission income.

4 Based on the (adjusted) result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified period. The specified (adjusted/reported) result after tax for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified period. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The specified (adjusted/reported) result after tax for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

The following table shows the adjusted consolidated income statement data of Addiko Group for the financial years ended December 31, 2018, 2017 and 2016 along with the adjustments made to the reported consolidated income statement data of Addiko Group for each such period, which reported data is shown as well, for reference:

	Adjusted for the financial year ended December 31,			**Aggregate adjustments**			**Reported for the financial year ended December 31,**		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)			**(in EUR million, unless otherwise indicated) (unaudited)**			**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Income Statement									
Interest income	213.8	221.8	226.7	-	-12.4	-11.4	213.8	234.2	238.2
Interest expense	-37.1	-49.2	-72.5	3.6	19.7	6.9	-40.7	-68.9	-79.4
Net interest income	**176.7**	**172.6**	**154.2**	**3.6**	**7.3**	**-4.6**	**173.2**	**165.3**	**158.8**
Net fee and commission income	62.4	58.5	54.7	-	0.0	4.8	62.4	58.5	50.0
Net result on financial instruments	9.0	5.1	6.5	-61.0	-4.6	-13.9	70.0	9.7	20.3
Other operating result	-18.2	-19.2	-29.0	-1.7	-12.7	13.1	-16.5	-6.5	-42.1
Operating income	**229.9**	**217.0**	**186.4**	**-59.1**	**-10.0**	**-0.6**	**289.0**	**226.9**	**187.0**
Operating expenses	-186.9	-193.0	-200.8	1.2	-2.9	11.7	-188.1	-190.1	-212.4
Operating result	**43.0**	**24.0**	**-14.4**	**-57.9**	**-13.0**	**11.1**	**100.9**	**36.9**	**-25.4**
Credit loss expenses on financial assets	2.3	11.3	2.6	-0.5	26.4	-1.8	2.8	-15.1	4.4
Result before tax	**45.4**	**35.3**	**-11.7**	**-58.3**	**13.5**	**9.3**	**103.7**	**21.8**	**-21.0**
Tax on income*	-14.5	-9.3	-2.8	-15.0	-29.2	0.1	0.5	19.9	-2.9
Result after tax	**30.9**	**25.9**	**-14.6**	**-73.3**	**-15.7**	**9.4**	**104.2**	**41.6**	**-23.9**
Key ratios									
Net interest income/total average assets[1]	2.8%	2.5%	2.1%	0.1%	0.1%	-0.1%	2.7%	2.4%[7]	2.2%[7]
Cost of risk ratio[2]	0.0%	0.2%	0.1%	-0.1%	0.5%	0.0%	0.1%	-0.3%[7]	0.1%[7]
Cost/income ratio[3]	78.1%	83.5%	96.1%	-1.8%	-1.4%	-5.7%	79.9%	84.9%[6]	101.8%[6,7]
Return on average equity[4]	3.6%	2.8%	n.a.	-8.6%	-1.7%	n.a.	12.2%[7]	4.5%[7]	n.a.[7]
Return on Average Tangible Equity (RoTE)[5]	3.7%	2.9%	n.a.	-8.9%	-1.7%	n.a.	12.6%[7]	4.6%[7]	n.a.[7]

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets.

2 Calculated based on total (adjusted) credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year. The credit risk bearing exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures), excluding credit risk exposure towards national bank as well as securities and derivatives, without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant credit risk exposure for securities, whereas amortised cost is used for loans.

3 Calculated as the sum of (adjusted) personnel expenses, (adjusted) other administrative expenses and (adjusted) depreciation and amortization divided by the sum of (adjusted) net interest income and (adjusted) net fee and commission income.

4 Based on the (adjusted) result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts.

6 This cost income ratio in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income. This deviates from the above methodology.
7 Unaudited Company information.
(Source: Audited Consolidated Financial Statements and Company information)

Return on tangible equity @ 14.1% CET1 ratio

The return on tangible equity @ 14.1% CET1 ratio amounts to 5.5% for the three-month period ended March 31, 2019. This is based on the adjusted result before tax of EUR 12.9 million multiplied by the factor 365/90 days for simple annualisation, the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 828.0 million as of March 31, 2019) less any intangibles (EUR 31.2 million as of March 31, 2019), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 156.7 million as of March 31, 2019; the amount as of March 31, 2018 is calculated as the difference between EUR 805.3 million CET1 capital and the total RWAs in the amount of EUR 4,599.8 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

The return on tangible equity @ 14.1% CET1 ratio amounts to 4.2% (2.6%) for the financial year 2018 (for the financial year 2017). This is based on the adjusted result before tax of EUR 45.4 million (EUR 35.3 million) for the financial year 2018 (for the financial year 2017), the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 859.5 million and EUR 844.0 million as of December 31, 2018 and 2017, respectively) less any intangibles (EUR 30.3 million and EUR 21.8 million as of December 31, 2018 and 2017, respectively), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 162.0 million and EUR 39.2 million as of December 31, 2018 and 2017, respectively; the amount as of December 31, 2018 is calculated as the difference between EUR 802.8 million CET1 capital and the total RWAs in the amount of EUR 4,545.0 million multiplied with the target CET1 ratio of 14.1%; the amount as of December 31, 2017 is calculated as the difference between EUR 695.3 million CET1 capital and the total RWAs in the amount of EUR 4,653.1 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

	Significant changes to the issuer's financial condition and operating results.	Between March 31, 2019 and the date of this Prospectus, there have been no significant changes in Addiko Group's business, financial position or results of operation.
B.8	**Selected key pro forma financial information.**	Not applicable. No pro forma financial information has been prepared by the Company.
B.9	**Profit forecast or estimate.**	Not applicable. No profit forecast or estimate has been prepared by the Company.
B.10	**Qualifications in the audit report on the historical financial information.**	Not applicable. The audit reports on the historical financial information included in this Prospectus have been issued without qualifications.
B.11	**Insufficiency of the issuer's working capital**	Not applicable. The Company's working capital is sufficient for its present requirements.

	for its present requirements.	
C.	**Securities**	
C.1	**A description of the type and the class of the securities being admitted to trading, including any security identification number.**	Ordinary bearer shares with no par value (*Stückaktien*) and a calculated notional value of each Existing Share in the amount of EUR 10.00 and with full dividend rights as of January 1, 2019. International Securities Identification Number (ISIN) of the Existing Shares: AT000ADDIKO0.
C.2	**Currency of the securities issue.**	EUR
C.3	**The number of shares issued and fully paid and issued but not fully paid.** **The par value per share, or that the shares have no par value.**	The share capital of the Company amounts to EUR 195,000,000.00 and is divided into 19,500,000 ordinary bearer shares with no par value (*Stückaktien*). The entire share capital is fully paid up. Each of the Existing Shares represents a notional value of EUR 10.00 in the share capital.
C.4	**A description of the rights attached to the securities.**	Each of the Existing Shares entitles the shareholder to one vote at the shareholders' meetings of the Company and carries dividend rights as from January 1, 2019. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders. In the event of the Company's liquidation, the Company's assets that remain after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.
C.5	**A description of any restrictions on the free transferability of the securities.**	Not applicable. The Existing Shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the free transferability of the Existing Shares other than the lock-up agreements described below under E.5.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.**	The Company will apply for admission of the Existing Shares to trading on the Official Market of the Vienna Stock Exchange (the ***Official Market***) in the Prime Market segment on or about July 11, 2019 and will publish this Prospectus in connection with such application. Trading of the Existing Shares on the Official Market is expected to commence on or about July 12, 2019.
C.7	**A description of dividend policy.**	The shareholders' share of the Company's profits is determined based on their respective interests in the Company's share capital. For an Austrian stock corporation (*Aktiengesellschaft*), the distribution of dividends for a given fiscal year and the amount and payment date thereof are resolved upon in the following year at the Company's annual ordinary shareholders' meeting (***Shareholders' Meeting***) on the basis of a proposal made by the management board of the Company (***Management Board***) and the supervisory board of the Company (***Supervisory Board***) without the Company's annual ordinary shareholders' meeting being bound by such proposal. If a dividend is declared, distributions are made to the shareholders on a *pro rata* basis, based on the contributed capital. Capital contributed during a business year will receive a *pro rata* dividend distribution since the day of the capital contribution. Upon the issuance of new shares other rules for dividend rights may be determined. The Existing Shares will be entitled to profit participation as from January 1, 2019, i.e.,

for the full financial year 2019 and for all subsequent financial years.

The Company's ability to pay dividends is determined based on the Company's separate unconsolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*, ***Commercial Code***) and generally accepted accounting principles under Austrian law (***Austrian GAAP***). Dividends may only be declared and paid from the accumulated profit (*Bilanzgewinn*) recorded in the Company's separate unconsolidated annual financial statements as approved by the Supervisory Board or the Company's annual ordinary Shareholders' Meeting. In determining the amount available for distribution, the annual surplus (*Jahresüberschuss*) or annual loss (*Jahresfehlbetrag*), as the case may be, must be adjusted to account for any accumulated undistributed profit or loss from previous financial years as well as for withdrawals from or allocations to reserves. Certain reserves must be established by law, and such reserves must therefore be deducted from the annual surplus.

The Company distributed dividends in the amount of EUR 50 million, EUR 170 million and EUR 430 million for the financial years ended December 31, 2018, 2017 and 2016, respectively. This does not provide an indication on future dividend payments.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid.

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and the Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to approval at the annual ordinary shareholders' meeting. However, as a stock corporation under Austrian law, the Company's ability to pay dividends will depend on the amount of accumulated profit pursuant to Austrian GAAP in a given year.

D. Risks

D.1 Key information on the key risks that are specific to the issuer or its industry.

An investment in the Existing Shares is subject to a number of risks. The following risks, alone or together with additional risks and uncertainties not currently known to the Company or that the Company might currently deem immaterial, could materially adversely affect the Company's business, financial position, results of operations and prospects. If any of these risks were to materialize, investors could lose all or part of their investments.

Risks relating to the macroeconomic environment and financial stability:

- Addiko Group's business is subject to risks arising from the global macroeconomic environment.
- Addiko Group is subject to risks arising from the macroeconomic and political environment in CSEE.
- Addiko Group is subject to risks arising from the still-developing legal regime in CSEE.
- Addiko Group's business success is exposed to global political conditions.
- Serbia, Montenegro and Bosnia & Herzegovina may never join the European Union or their accession could be substantially delayed, which could adversely affect the political and economic environment in those countries.
- The abandonment of the euro or dissolution of the European Monetary Union could materially adversely affect Addiko Group's business, financial condition and results of operations.

Risks related to Addiko's business and the industry in which it operates:

- Addiko Group focuses its business on unsecured customers and SMEs and is therefore exposed to the risk of decreased demand and/or profitability of such products as well as greater credit risks of such clients.
- Addiko Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim

results may not be an indicator of its full year results.

- Delays or incomplete implementation of digitalization processes could have a significant effect on the business results in coming years and could adversely affect the development of Addiko Group's business strategy.
- Addiko Group is exposed to intense competition, which could have a material adverse effect on its business, financial condition, results of operations and prospects.
- Addiko Group is exposed to credit risk and increases in non-performing loans may materially adversely affect Addiko Group’s business, financial condition and results of operation.
- Addiko Group is exposed to the risk of loss due to changes in foreign exchange rates, which could have a material adverse effect on Addiko Group’s business, financial condition, results of operations and prospects.
- Addiko Group may not be able to maintain its current margins on loans and deposits.
- Addiko Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on Addiko Group’s business, financial condition, results of operations and prospects.
- Addiko Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate.
- Addiko Group’s operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of customer information, damage Addiko Group’s reputation and lead to regulatory penalties and financial losses.
- Addiko Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.
- Addiko Group is dependent on the confidence of its customers in the banking system and the business of Addiko Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on Addiko Group’s business, financial condition, results of operations and prospects.
- Addiko Group’s unsecured lending products may be challenged by consumers, consumer protection organizations, courts or regulatory agencies in connection with compliance with applicable requirements.
- If Addiko Group fails to adapt to rapid technological changes its competitiveness could decline.
- Due to any inadequacy or failure of internal procedures, employees and systems or due to external events unexpected losses could occur.
- Addiko Group's insurance policies and own risk assessment premiums may not cover particular future losses.
- Failure of Addiko Group’s IT systems could lead to a significant impairment of the business operations of Addiko Group.
- Addiko Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions, as well as in connection with the operating model.
- Resignation or loss of key personnel, including members of the Management Board, and possible difficulties in recruiting or retaining qualified employees could adversely affect Addiko Group’s ability to execute its strategy.
- Risks related to models across many of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.

- A downgrading of Addiko Group's credit rating could increase its financing costs and could have a material adverse effect on Addiko Group's liquidity, profitability, business, financial condition, results of operations and prospects.
- Addiko Group may have difficulty in identifying and executing opportunistic acquisitions, and both making acquisitions and avoiding them could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.
- Addiko Group is exposed to risks relating to the assumptions with respect to pension liabilities.
- Addiko Group has no experience navigating a recession with its current strategic orientation.

Risks related to regulatory, legal and tax matters:

- Past, ongoing and uncertain future reforms and initiatives in legislation or supervision, including additional and more stringent regulation and public sector influence on the financial sector, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.
- Legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate in a situation of crisis, could, if such steps were taken to ensure that Addiko Group or critical functions thereof continue(s) as a going concern, significantly affect Addiko's business operations, and lead to the loss by Addiko Group shareholders of their entire investment in the Company.
- Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of Addiko Group.
- Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken*) and the Single Resolution Mechanism Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends.
- Addiko Group is subject to risks attributable to findings based on audits, inspections and similar investigations conducted by regulators.
- Addiko Group is subject to risks attributable to deposit guarantee schemes.
- Addiko Group's business could be significantly burdened due to the central clearing, reporting, risk mitigation and other compliance requirements imposed by European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories or ***EMIR***) and the revised Markets in Financial Instruments Directive (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU or ***MiFID II***) and the new Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (the Markets in Financial Instruments Regulation or ***MiFIR***).
- Addiko Group is subject to a wide variety of laws and regulations and is exposed to many forms of risks arising from compliance with such laws and regulations.
- Addiko Group's business could be significantly burdened due to regulatory changes affecting transaction fees.
- The access of Addiko Group to liquidity and funding may be adversely affected by a change of the collateral standards of the European Central Bank (***ECB***).
- The cost incurred by Addiko Group for compliance with anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and regulations and sanctions is significant and may further increase. Failure to comply with these

and similar rules may have severe legal and reputational consequences.

- Addiko Group uses standardized agreements and standardized terms and conditions, in particular in its important retail-focused business segments, which increases the potential that, if any clause is held to be void, this clause is invalid or unenforceable in a large number of contracts.
- Addiko Group may fail to comply with laws and regulations with respect to private data protection.
- Tightening of consumer protection laws and/or their interpretation as well as compliance with the national implementation of MiFID II may have a negative influence on the profitability of consumer banking transactions.
- Changes in Addiko Group's financial reporting, such as changes to IFRS, could materially affect Addiko Group's financial results and regulatory capital ratios.
- Despite Addiko Group's risk management policies, procedures and methods, it may be exposed to unidentified or unanticipated risks, which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.
- Addiko Group is, and may in the future be, subject to a number of legal and regulatory proceedings, the outcome of which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.
- Addiko Group operates in an increasingly regulated environment and failure to comply with such rules may result in regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution. Moreover, Addiko Group is exposed to the risk of political influence and ad hoc legislation.
- Compliance or non-compliance with legal provisions applicable to it could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.
- Developing legal and taxation systems in some of the countries in which Addiko Group operates may have a material adverse effect on the Company.
- Addiko Group is exposed to risks related to tax loss carry forwards.

D.3 Key information on the key risks that are specific to the securities.

Risks related to the shareholder structure and the Existing Shares:

- After completion of the Private Placement, Addiko Group will no longer be majority-owned by the Existing Shareholder which may lead to the loss of business opportunities.
- The Existing Shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop.
- Future capital increases could be dilutive and lead to substantial reductions in the value of the Existing Shares, thereby diluting the shareholders` interest in the Company.
- The price and trading volume of the Existing Shares could fluctuate significantly, and investors could lose all or parts of their investments.
- The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons.
- Addiko Group will face additional administrative requirements and incur higher ongoing costs as a result of the Company's listing.
- Investors with a reference currency other than euro will become subject to foreign exchange rate risk when investing in the Existing Shares.

- Rights of shareholders in an Austrian stock corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction.
- The Existing Shareholder will continue to have a significant shareholding in Addiko Group following the Private Placement (as defined under Element E.1 below).
- A suspension of trading in the Existing Shares could adversely affect the share price.

E. Offer

E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.**	Not applicable. There will be no public offering. On June 25, 2019, in anticipation of the expected admission to trading of the Company's shares on the Official Market of the Vienna Stock Exchange, the Company, the Existing Shareholder, together with Citigroup Global Markets Limited and Goldman Sachs International (together the ***Joint Global Coordinators and Joint Bookrunners),*** Erste Group Bank AG, Keefe, Bruyette & Woods and Raiffeisen Centrobank AG as additional joint bookrunners (together with the Joint Global Coordinators and Joint Bookrunners, the ***Joint Bookrunners*** or the ***Underwriters***) initiated a private placement (the ***Private Placement***) of Placement Shares (as defined below) from the holdings of the Existing Shareholder. The Private Placement relates to a total of 10,725,001 ordinary bearer shares with no par value (*Stückaktien*), each such share with a notional value of EUR 10.00 in the share capital and dividend rights as from January 1, 2019, comprising: ▪ 9,750,001 existing ordinary bearer shares with no par value (*Stückaktien*) (the ***Firm Shares***) from the holdings of the Existing Shareholder; and ▪ 975,000 existing ordinary bearer shares with no par value (*Stückaktien*) (the ***Over-Allotment Shares***, together with the Firm Shares, the ***Placement Shares***) from the holdings of the Existing Shareholder to cover a potential Over-Allotment (as defined under Element E.3 below). For purposes of admission to trading on the Official Market, this Prospectus relates to all Existing Shares. In connection with the potential Over-Allotment, the Existing Shareholder has granted the Underwriters an option to acquire a number of shares equal to the number of Over-Allotment Shares at the placement price of EUR 16.00 per Placement Share, less agreed commissions (the ***Greenshoe Option***). The Greenshoe Option may be exercisable only during the Stabilization Period by the Stabilization Manager and will terminate 30 calendar days after the date of the commencement of trading of the Existing Shares on the Official Market. The Company will not receive any proceeds from the Private Placement. The total costs and expenses from the Private Placement and listing are expected to be approximately EUR 14,666,941, which will be borne by the Existing Shareholder. The Existing Shareholder will receive the net proceeds resulting from the sale of the Firm Shares, and the Existing Shareholder will receive the net proceeds resulting from a potential sale of Over-Allotment Shares to the extent the Greenshoe is exercised in the aggregate amount of EUR 14,666,941. The Company estimates that the gross proceeds to the Existing Shareholder (assuming full exercise of the Greenshoe Option) would amount to approximately EUR 171,600,016. Assuming the Greenshoe Option has been fully exercised, and assuming further payment in full of the discretionary fee of up to EUR 3,222,508,the aggregate commission payable to the Underwriters for placing the Placement Shares will amount to EUR 14,666,941.
E.2a	**Reasons for the offer, use of proceeds,**	Not applicable. There will not be a public offer. The Company also intends to achieve better access to the capital markets due to the planned listing of the Existing Shares on

	estimated net amount of the proceeds.	the Official Market in the Prime Market segment (the highest ranking market segment of the Vienna Stock Exchange which is comprised of shares in companies that agree to fulfill more stringent reporting, quality and disclosure requirements set out in the prime market regulation, a private law contract between the relevant issuer and Wiener Börse AG, apart from meeting the legal criteria for the admission to listing on the Official Market), following the completion of the Private Placement. The Existing Shareholder will receive the net proceeds from the Private Placement. The Company will not receive any proceeds from the Private Placement.
E.3	**A description of the terms and conditions of the offer.**	Not applicable. There will not be a public offering.
E.4	**A description of any interest that is material to the issue/offer including conflicting interests.**	Subject to completion of the placement of the Firm Shares, and the exercise of the Greenshoe Option, the Existing Shareholder will receive the proceeds from the sale of the Firm Shares and the Over-Allotment Shares (after deduction of fees and commissions). Accordingly, the Existing Shareholder has an interest in the success of the Private Placement at the best possible terms. In connection with the Private Placement of the Placement Shares and the admission to trading of the Existing Shares, the Underwriters have formed a contractual relationship with the Company and the Existing Shareholder. The Underwriters act for the Company and the Existing Shareholder on the Private Placement. Upon successful completion of the Private Placement, the Underwriters will receive a commission and the size of this commission depends on the results of the Private Placement. As a result of these contractual relationships, the Underwriters have a financial interest in the success of the Private Placement at the best possible terms. Pursuant to the terms of an investment agreement dated December 2, 2015, as amended (the ***Investment Agreement***), between AI Lake (Luxembourg) Holding S.à r.l., the Seller Shareholder, AI Lake & Cy SCA, AI Lake (Luxembourg) Management S.à r.l., AI Lake S.à r.l. and certain individuals, such individuals have purchased shares in the Existing Shareholder, the sole shareholder of the Company, via AI Lake & Cy SCA. Some of the investing individuals are or were members of the Supervisory Board or the Management Board (the ***Managers***). Under the Investment Agreement, AI Lake (Luxembourg) Holding S.à r.l. is entitled, in the case of a listing of the shares of the Company, to determine the manner in which the shares of the Existing Shareholder, including those held by AI Lake & Cy SCA, will be converted into shares of the Company or cashed out, with such decision applied equally and pro rata to each shareholder. The proceeds realized by AI Lake & Cy SCA in such event would then, in accordance with the provisions of the Investment Agreement and in such manner as is provided therein, be allocated or, in accordance with applicable law, distributed to the shareholders of AI Lake & Cy SCA, in proportion to their respective shareholding. As a result, with proceeds from the Private Placement of EUR 156,933,075, those Managers who are currently members of the Supervisory Board would receive an aggregate amount of EUR 17,898,013. Furthermore, those Managers who are currently members of the Management Board receive an aggregate amount of EUR 8,072,543 and have committed to reinvest 50% of such amount (post-tax) in the shares of the Company in connection with the Private Placement, subject to customary 365 day lock-up arrangements. In addition, should the Existing Shareholder reduce its stake in the Company to below 25%, such Managers would receive a one-time distribution of already accumulated proceeds in the aggregate amount of EUR 19,462,834 on account of their initial investment in their shares. Furthermore, in connection with the Private Placement, each of the Underwriters and any of their respective affiliates, may take up Placement Shares in the Private Placement as a principal position and in that capacity may retain, purchase or sell such Placement Shares or related investments for its own account and may offer or sell such Placement Shares or other investments otherwise than in connection with the Private Placement. In addition, certain of the Underwriters or their respective affiliates may enter into financing arrangements, including swaps or contracts for difference with investors, due to which such Underwriters (or their affiliates) may, from time to time, acquire, hold or dispose of Placement Shares. None of the Underwriters intend to disclose the extent of

		any such investments or transaction other than in accordance with any legal or regulatory obligation to do so. The Underwriters or their respective affiliates have, and may from time to time in the future continue to have, business relations with the Company, Addiko Group and the Existing Shareholder, including lending activities, or may perform services for the Company, Addiko Group or the Existing Shareholder in the ordinary course of business.
E.5	**Name of the person or entity offering to sell the security.**	Not applicable. There will be no public offering. The Placement Shares are being offered for sale in Private Placements by the Joint Bookrunners.
	Lock-up agreements: the parties involved; and indication of the period of the lock up.	In the Underwriting Agreement, the Company has committed to an obligation *vis-à-vis* the Underwriters that it will refrain from certain measures regarding capital increases and measures with similar effect during the period commencing on the date of the Underwriting Agreement and ending 180 days after the first day of trading of the Existing Shares on the Vienna Stock Exchange without the prior written consent of the Joint Global Coordinators, subject to certain exceptions from such restriction, including to comply with minimum regulatory standards. In the Underwriting Agreement, the Existing Shareholder has committed, *inter alia*, to an obligation *vis-à-vis* the Underwriters that it will not enter into certain transactions regarding its shares or take part in certain measures regarding the Company's share capital during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the Existing Shares on the Vienna Stock Exchange without the prior written consent of the Joint Global Coordinators, which may not be unreasonably withheld or delayed, and subject to certain exceptions from such restriction, such as in connection with the acceptance by the Existing Shareholder of a public takeover bid for the Company. Furthermore, the members of the Management Board have committed to an obligation *vis-à-vis* the Underwriters that they will not sell any of their shares in the Company or conduct similar transactions during the period commencing on the date of the Underwriting Agreement and ending 365 days after the date of the first day of trading of the Existing Shares on the Vienna Stock Exchange, subject to certain exceptions from such restriction, such as sales to raise funds required to satisfy personal tax and/ or loan obligations.
E.6	**The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.**	Not applicable. There will be no public offer. The Private Placement comprises only Existing Shares and will not lead to any dilution. The net asset value of the Addiko Group determined pursuant to IFRS amounted to EUR 828.0 million as of March 31, 2019. The net asset value is the difference between total assets, which amounted to EUR 6,108.4 million, and total current and non-current liabilities, which amounted to EUR 5,280.3 million, in each case as of March 31, 2019. This corresponds to EUR 4.25 per Existing Share.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror.**	Not applicable. Investors will not be charged expenses by the Company, the Existing Shareholder or the Underwriters. Investors will have to bear customary transaction and handling fees charged by their brokers or other financial institutions through which they hold their securities.

2 Zusammenfassung

Die nachfolgende Übersetzung der Originalzusammenfassung ist ein separates Dokument, welches diesem Prospekt angeschlossen wurde. Sie ist selbst nicht Bestandteil dieses Prospekts und wurde nicht von der Finanzmarktaufsichtsbehörde gebilligt. Des Weiteren hat die Finanzmarktaufsichtsbehörde die Konsistenz der nachfolgenden Übersetzung mit der Originalzusammenfassung nicht geprüft.

Zusammenfassungen bestehen aus geforderten Angaben, die als ***Punkte*** *bezeichnet sind. Die Punkte sind in den Abschnitten A – E (A.1 – E.7) fortlaufend nummeriert. Diese Zusammenfassung enthält alle Punkte, die für die vorliegende Art der Wertpapiere und des Emittenten in eine Zusammenfassung aufzunehmen sind. Da einige Punkte nicht behandelt werden müssen, können in der Nummerierungsreihenfolge Lücken auftreten. Selbst wenn ein Punkt wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass in Bezug auf diesen Punkt keine relevanten Informationen gegeben werden können. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung des Punkts mit dem Hinweis „Entfällt".*

A. Einleitung und Warnhinweise

A.1	**Warnhinweise.**	Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt (der ***Prospekt***) verstanden werden. Bei jeder Entscheidung zur Anlage in die Bestehenden Aktien (wie in B.6 definiert) sollte sich der Anleger auf die Prüfung des gesamten Prospekts stützen. Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Staaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Die Addiko Bank AG, eine Aktiengesellschaft nach österreichischem Recht (die ***Gesellschaft*** und zusammen mit ihren konsolidierten Tochtergesellschaften die ***Addiko Gruppe***), kann haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt, um den Anlegern bei der Prüfung der Frage, ob sie in die Bestehende Aktien (wie in B.6 definiert) investieren sollten, behilflich zu sein.
A.2	**Zustimmung zur späteren Verwendung des Prospekts.**	Entfällt. Die Zustimmung zur Verwendung dieses Prospekts für eine spätere Weiterveräußerung oder Platzierung von Aktien wird nicht erteilt.

B. Emittent

B.1	**Juristische und kommerzielle Bezeichnung.**	Der Firmenname der Gesellschaft lautet Addiko Bank AG. Die kommerzielle Bezeichnung der Gesellschaft und der Addiko Gruppe lautet „Addiko Bank".
B.2	**Sitz, Rechtsform, geltendes Recht, Land der Gründung.**	Die Gesellschaft hat ihren eingetragenen Sitz in Wien, Österreich, und ihre Geschäftsanschrift lautet Wipplingerstraße 34/4, 1010 Wien, Österreich. Die Gesellschaft hat eine Zweigniederlassung mit dem Firmennamen „Addiko Bank AG – Zweigniederlassung Klagenfurt am Wörthersee" in Klagenfurt am Wörthersee, Sterneckstraße 19, 9020 Klagenfurt am Wörthersee. Die Gesellschaft wurde am 7. September 2010 als Gesellschaft mit beschränkter Haftung gegründet und mit Wirkung zum 4. Juli 2013 in eine Aktiengesellschaft umgewandelt.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren unter Angabe der Hauptprodukt- und/oder –**	**Überblick über die Geschäftstätigkeit** Die Addiko Gruppe ist eine auf das Geschäft mit Konsumenten und kleinen und mittleren Unternehmen (***SME***) spezialisierte Bankengruppe, die in zentral- und südosteuropäischen Raum (***CSEE-Raum***) tätig ist. Die Addiko Gruppe besteht aus der Addiko Bank AG, der österreichischen Mutterbank mit einer Bankkonzession, die in Wien, Österreich, eingetragen ist und von der Österreichischen Finanzmarktaufsichtsbehörde (***FMA***) beaufsichtigt wird, sowie sechs Tochterbanken, die

dienstleistungs-kategorien sowie Hauptmärkte, auf denen der Emittent vertreten ist.	in den folgenden fünf Ländern im CSEE-Raum eingetragen, zugelassen und tätig sind: Kroatien, Slowenien, Bosnien und Herzegowina (wo die Addiko Gruppe zwei Banken betreibt), Serbien und Montenegro. Die Addiko Gruppe betreut zum 31. März 2019 über ihre sechs Tochterbanken ca. 828.000 Kunden im CSEE-Raum über ein weitverzweigtes Filialnetz von 197 Filialen und modernen digitalen Bankgeschäftskanälen.

Die Addiko Gruppe erzielte im Geschäftsjahr 2018 ein Ergebnis nach Steuern in Höhe von EUR 104,2 Mio. (EUR 41,6 Mio. im Geschäftsjahr 2017), eine Rendite auf das durchschnittliche angenommene Eigenkapital (Return on Average Tangible Equity (***RoTE***)) bei einem übergangsweisen Zielwert auf die harte Kernkapitalquote (übergansweise ***CET1-Quote***) von 12,6% im Geschäftsjahr 2018 mit einer übergangsweisen CET1-Quote von 17,7% (RoTE von 4,6% im Geschäftsjahr 2017 mit einer CET1-Quote von 14,9%). Die Bilanzsumme der Addiko Gruppe zum 31. Dezember 2018 betrug EUR 6.152,1 Mio. (EUR 6.485,5 Mio. zum 31. Dezember 2017), von denen zum 31. Dezember 2018 EUR 3.787,3 Mio. auf Kredite und Forderungen an Kunden entfielen (EUR 3.691,9 Mio. zum 31. Dezember 2017). Die Addiko Gruppe refinanziert ihre Tätigkeiten hauptsächlich durch Einlagen von Kunden, die sich zum 31. Dezember 2018 auf EUR 4.836,7 Mio. beliefen (EUR 4.933,8 Mio. zum 31. Dezember 2017). Die finanzielle Stärke der Addiko Gruppe zeigt sich auch an ihrer vollständig erfüllten CET1-Quote von 16,9% und einer vollständig umgesetzten Gesamtkapitalquote von 16,9% zum 31. Dezember 2018 und einer vollständig umgesetzten CET1-Quote von 14,9% und einer vollständig umgesetzten Gesamtkapitalquote von 17,1% zum 31. Dezember 2017.

Die Addiko Gruppe führt und berichtet über ihre Geschäfte in fünf Segmenten:

- Das Segment Retail, auf das 70,4% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen, bestehend aus ihrem
  - Consumer-Geschäft, auf das 59,6% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen (einschließlich des auf das Segment Retail entfallenden Provisionsergebnisses)
  - Mortgage-Geschäft, auf das 10,8% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen
- das Segment SME Business, auf das 16,8% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen
- das Segment Large Corporates, auf das 7,8% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen
- das Segment Public Finance, auf das 4,3% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen
- das Segment Corporate Center, auf das 0,7% des Nettobankergebnisses der Addiko Gruppe im Geschäftsjahr 2018 entfielen.

Die Addiko Gruppe legt im Kreditneugeschäft den Schwerpunkt vor allem auf die Nicht-Mortgage-Aktivitäten des Segments Retail und SME Business (ihre „Schwerpunktbereiche"), während in der Vergangenheit abgeschlossene Bestandsgeschäfte der Segmente Large Corporates und Public Finance und das Mortgage-Geschäft des Segments Retail (ihre „Nicht-Schwerpunktbereiche") bis zur Fälligkeit weitergeführt werden.

Das Nettobankergebnis der Schwerpunktbereiche der Addiko Gruppe in dem am 31. Dezember 2018 endenden Geschäftsjahr betrug EUR 135,2 Mio. im Consumer-Geschäft und EUR 38,1 Mio. im Segment SME Business gegenüber einem Nettobankergebnis von EUR 111,2 Mio. im Consumer-Geschäft und EUR 38,5 Mio. im Segment SME Business in dem am 31. Dezember 2017 endenden Geschäftsjahr. Das Nettobankergebnis der Nicht-Schwerpunktbereiche in dem am 31. Dezember 2018 endenden Geschäftsjahr betrug EUR 24,5 Mio. im Mortgage-Geschäft, EUR 17,8 Mio. im Segment Large Corporates und EUR 9,7 Mio. im Segment Public Finance gegenüber einem Nettobankergebnis von EUR 30,0 Mio. im Mortgage-Geschäft, EUR 21,0 Mio. im Segment Large Corporates und EUR 16,6 Mio. im Segment Public Finance in dem am 31. Dezember 2017 endenden Geschäftsjahr.

Zum 31. März 2019 betreut, die Addiko Gruppe ca. 828.000 (ca. 853.000 zum 31.

Dezember 2018) Kunden, davon ca. 813.000 (ca. 838.000 zum 31. Dezember 2018) Kunden im Segment Retail und ca. 13.000 (ca. 13.000 zum 31. Dezember 2018) Kunden im Segment SME Business. Auf diese beiden Segmente der Addiko Gruppe entfielen zum 31. Dezember 2018 Kredite und Forderungen in Höhe von EUR 3,1 Mrd. (EUR 3,0 Mrd. zum 31. Dezember 2018) (von denen sich EUR 2,2 Mrd. (EUR 2,1 Mrd. zum 31. Dezember 2018) auf die Schwerpunktbereiche Consumer-Geschäft und Segment SME Business und EUR 0,9 Mrd. (EUR 0,9 Mrd. zum 31. Dezember 2018) auf den Nicht-Schwerpunktbereich Mortgage-Geschäft bezogen). Dies entspricht 79% (79% zum 31. Dezember 2018) der gesamten Kredite und Forderungen der Addiko Gruppe (57% (55% zum 31. Dezember 2018) der gesamten Kredite und Forderungen der Addiko Gruppe ohne den Nicht-Schwerpunktbereich Mortgage). In den Segmenten Large Corporates und Public Finance betreut die Addiko Gruppe jeweils ca. 1.000 Kunden. Auf diese beiden Nicht-Schwerpunktsegmente der Addiko Gruppe entfielen Kredite und Forderungen in Höhe von EUR 0,8 Mrd. (EUR 0,8 Mrd. zum 31. Dezember 2018). Dies entspricht zum 31. März 2019 21% (zum 31. Dezember 2018 21%) der gesamten Kredite und Forderungen der Addiko Gruppe. Das Segment Corporate Center ist ein konzerninternes Segment ohne Produktangebot an externe Kunden.

Retail. Zum 31. März 2019 betreut das Segment Retail der Addiko Gruppe ca. 780.000 (ca. 805.000 zum 31. Dezember 2018) Privatpersonen, das sind Kunden, die keine Gruppen, Unternehmen oder sonstige Organisationen vertreten (Private Individuals) und ca. 32.000 (ca. 33.000 zum 31. Dezember 2018) Privatunternehmer und gewinnorientierte Unternehmen mit einem Bruttojahresumsatz von unter EUR 0,5 Mio. (Kleinstkunden). Die Addiko Gruppe bietet ihren Privatkunden im Rahmen des Consumer-Geschäfts tägliche Bankendienstleistungen (wie z. B. Girokonten, Zahlungsdienste, Debit-Karten, Bancassurance), Konsumentenfinanzierung (wie z. B. Konsumentenkredite, Kreditkarten, Überziehungskredite) und Dienstleistungen im Einlagengeschäft (wie z. B. Sparkonten, Termineinlagen) an, während sie ihren Kleinstkunden hauptsächlich Transaktionsdienstleistungen und unbesicherte Kredite anbietet. Das Segment Retail bietet außerdem Hypothekardarlehen (Mortgage) an, die einen Nicht-Schwerpunktbereich der Addiko Gruppe darstellen.

Zum 31. März 2019 werden Retail-Kunden über ein Netz aus 197 (198 zum 31. Dezember 2018) Filialen und digitalen Kanälen wie Online-Banking, mobiles Banking oder Chat-Banking betreut. Kontopakete, einschließlich eines kleinen, fokussierten Produktportfolios, welches darauf ausgerichtet ist, die wesentlichen Bankgeschäfte abzudecken, sind ein Eckpfeiler der Strategie der Addiko Gruppe, die in der Bereitstellung unkomplizierter Banklösungen besteht. Die Addiko Gruppe strebt an, durch schnellere Entscheidungsprozesse nicht nur die Kundenzufriedenheit zu verbessern (z.B. brauchen Kunden im Durchschnitt nur 3 Minuten, um ein Einlagenkonto zu eröffnen und 14 Stunden, um eine Kreditentscheidung zu erhalten), sondern auch die Effizienz der Aktivitäten der Addiko Gruppe zu erhöhen (z. B. sind über 65% der Konsumentenkreditentscheidungen der Addiko Gruppe voll automatisiert).

SME Business. Das Segment SME Business betreut Firmenkunden mit einem Jahresumsatz zwischen EUR 0,5 Mio. und EUR 40 Mio. Über ihre SME-Kundenbasis zielt die Addiko Gruppe auf die „Realwirtschaft" ab, d.h. Unternehmen aus den Bereichen Fertigung, Produktion, Handel, Landwirtschaft und Tourismus mit bestehenden Cashflows, denen sie Working Capital und Investitionskredite anbietet, mit einem starken Schwerpunkt auf Trade Finance-Produkte. Die Addiko Gruppe bietet eine umfassende Produktpalette an, deren Schwerpunkte Einlagenprodukte (Girokonten, Sparkonten, Termineinlagen und Transaktionskonten), Bankprodukte und –pakete einschließlich Zahlungsdiensten und Debit-Karten, Kreditprodukte (Konsumentenkredite, Kreditkarten, Überziehungskredite), Trade Finance, Garantierahmen und Garantien sowie andere ergänzende Produkte wie Bancassurance und Vertrieb von Investmentfonds sind. Die Strategie der Addiko Gruppe für ihr Segment SME Business besteht darin, durch Dienstleistungen, deren Schwerpunkt auf Komfort, der Entwicklung flexibler Lösungen und einem effizienten Produktangebot durch verbesserte Digitalisierung liegt, eine Primärbank für ihre Kunden zu werden. Alle SME-Kunden werden durch Relationship Manager betreut, die nicht nur Bankprodukte anbieten, sondern auch als Berater des Vertrauens für ihre Kunden fungieren und die schnellen Entscheidungsprozesse der Addiko Gruppe erleichtern und kommunizieren. Die Relationship Manager sind in 38 SME Business Center in den Ländern, in denen die Addiko Gruppe tätig ist, ansässig. Im Rahmen ihrer digitalen Transformation

beabsichtigt die Addiko Gruppe, ein konzernweites E-Banking-System für das Segment SME Business einzuführen, das die Umsetzung einfacher Darlehensprodukte für das Segment SME Business ermöglichen wird. Durch ihre digitale Automatisierung kann die Addiko Gruppe einfache Darlehensprodukte anbieten, die direkt auf der digitalen Plattform für das Segment SME Business genehmigt werden, wodurch Vertriebskapazitäten für die Kundenakquise frei werden.

Large Corporates. Das Segment Large Corporates umfasst die Geschäftsaktivitäten der Addiko Gruppe in Bezug auf das Angebot einer umfassenden Produktpalette, deren Schwerpunkte Kredit- und Einlagenprodukte sowie andere ergänzende Produkte sind, an ihre großen Firmenkunden, d. h. Unternehmen mit einem Jahresumsatz von über EUR 40 Mio. Die größten lokalen und internationalen Unternehmen werden von zentralisierten und spezialisierten lokalen Teams der Addiko Gruppe betreut, die von einer erfahrenen Gruppe von Experten am Hauptsitz der Addiko Gruppe unterstützt werden. Mit dieser Struktur zielt die Addiko Gruppe darauf ab, für ihre Kunden konzernweit durchgängige Finanzierungsdienstleistungen zu erbringen. Das Segment Large Corporates hat zum Ziel, seine Dienstleistungen unkompliziert und effizient zu erbringen und seinen Kunden einen komfortablen Zugang zu diesen Dienstleistungen zu bieten. Im Segment Large Corporates wird kein signifikantes Wachstum erwartet. Vielmehr wird die Addiko Gruppe weiterhin Dienstleistungen für ausgewählte Kunden mit vorteilhafter Risiko-Ertrags-Matrix erbringen.

Public Finance. Im Segment Public Finance Segment betreibt die Addiko Gruppe ihr Geschäft mit öffentlichen Schlüsselinstitutionen in Ländern im CSEE-Raum wie Finanzministerien, staatlichen Unternehmen und lokalen Regierungen. Die Addiko Gruppe bietet diesen öffentlichen Institutionen ein umfassendes Produktangebot an, das Einlagenprodukte (Girokonten, Sparkonten und Termineinlagen), Kreditprodukte (Laufzeitkredite, Betriebsmittelkredite und Leasingprodukte) und andere ergänzende Produkte wie die Abwicklung in- und ausländischer Zahlungen, Versicherungen, Treasury- und Trade Finance-Produkte umfasst. Das Public Finance-Kreditgeschäft ist kein Bereich, in dem die Addiko Gruppe schwerpunktmäßig Wachstum anstrebt. Ihr Hauptaugenmerk liegt vielmehr auf der Aufrechterhaltung der bestehenden Einlagen und der Erbringung von Kontoführungsdienstleistungen, während Kredite nur an ausgewählte Institutionen vergeben werden.

Corporate Center. Das Segment Corporate Center ist vorwiegend ein konzerninternes Segment ohne direktes Produktangebot an externe Kunden. Das Segment enthält die Ergebnisse des Liquiditäts- und Kapitalmanagements der Addiko Gruppe. Der Hauptverantwortungsbereich des Segments Corporate Center umfasst die Steuerung des Asset Liability Managements (ALM), das Liquiditätsmanagement unter Einhaltung der regulatorischen Vorschriften (z. B. Mindestliquiditätsquote (Liquidity Coverage Ratio, ***LCR***) und strukturelle Liquiditätsquote (Net Stable Funding Ratio, ***NSFR***)) und die Optimierung des Refinanzierungsmix der Tochtergesellschaften. Darüber hinaus beinhaltet das Segment Aktivitäten im Bereich direkter Spareinlagen in Österreich und Deutschland, die zu Liquiditätszwecken von der Treasury-Abteilung gesteuert werden.

Wettbewerbsstärken

Nach Einschätzung der Addiko Gruppe zeichnet sie sich durch die folgenden wichtigsten Stärken aus, die wesentlichen Einfluss auf die erfolgreiche Verfolgung ihrer Strategie haben:

- Gut positionierte Region für Konvergenz des noch nicht ausreichend durchdrungenen Bankensektors.
- Etablierte überregionale Plattform mit starken Synergien und signifikanten operativen Einflussnahmemöglichkeiten („leverage“) für künftiges Wachstum.
- Transformation zu einer Spezialbank mit Schwerpunkt auf Retail und SME.
- Erschließung von Wachstumspotenzialen auf traditionellen Märkten mit innovativen digitalen Lösungen.
- Solide bilanzielle Grundlage für weiteres Gewinnwachstum.
- Erfahrenes und bewährtes Managementteam.

Strategie

Die Strategie der Addiko Gruppe stützt sich auf folgende zentrale strategische Pfeiler:

- Fokus auf Retail- und SME-Kreditgeschäft im CSEE-Raum.
- Verbesserung der Kundenzufriedenheit.
- Sicherstellung von Effizienz und operativer Exzellenz.
- Nutzung des etablierten Filialnetzes der Addiko Gruppe zur Gewinnung von Neukunden.
- Expansion digitaler Kapazitäten und Automatisierung.

Geschichte

Die Gesellschaft wurde am 12. August 2010 als Gesellschaft mit beschränkter Haftung nach österreichischem Recht gegründet. Nach dem Erwerb sämtlicher Anteile an der Gesellschaft beschloss die HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (***HAA***) die Umfirmierung der Gesellschaft in „Hypo Phoenix Absicherungs GmbH" mit Wirkung zum 27. Januar 2011. Mit Wirkung zum 29. Juni 2013 wurde das Stammkapital der Gesellschaft auf EUR 5.000.000 erhöht. Die Gesellschaft wurde anschließend von einer Gesellschaft mit beschränkter Haftung in eine Aktiengesellschaft umgewandelt und in „Hypo SEE Holding AG" umfirmiert, jeweils mit Wirkung zum 4. Juli 2013. Im September 2014 wurde der Gegenstand der Gesellschaft gemäß ihrer Satzung um den Betrieb von Bankgeschäften ergänzt, da der Gesellschaft eine Konzession gemäß dem Bankwesengesetz erteilt worden war. Anschließend wurde die Gesellschaft in „HYPO GROUP ALPE ADRIA AG" umfirmiert. Am 30. Oktober 2014 erwarb die FIMBAG (eine Gesellschaft, die 2008 von der (ehemaligen) Österreichische Industrieholding Aktiengesellschaft im Auftrag des österreichischen Finanzministeriums gegründet worden war, um die negativen Folgen der Finanzkrise für österreichische Banken u.a. durch Rekapitalisierung der Banken mittels Zeichnung von Beteiligungskapital und Erwerb von Aktien zu begrenzen) sämtliche Aktien der Gesellschaft. Am 17. Juli 2015 übertrug die HETA auf der Grundlage einer Verfügungsermächtigung die gesamte Beteiligung der FIMBAG an der Gesellschaft auf die AI Lake (Luxembourg) S.à r.l. (die ***Bestehende Aktionärin***), eine letztlich von der Advent International Corporation beherrschte Gesellschaft. Mit Wirkung zum 30. Juni 2016 wurde die Gesellschaft in „Addiko Bank AG" umfirmiert.

Unmittelbar vor dem Datum dieses Prospekts werden sämtliche Bestehenden Aktien von der Bestehenden Aktionärin, einer Gesellschaft mit beschränkter Haftung (*société à responsabilité limitée*) nach luxemburgischem Recht, eingetragen im Luxemburger Handels- und Gesellschaftsregister (*Registre de Commerce et des Sociétés*) unter der Registernummer B191802, gehalten. Derzeit befinden sich 78,4% der Anteile an der Bestehenden Aktionärin unter der letztlichen Kontrolle der Advent International Corporation ***AIC***), einer bei der SEC registrierten Gesellschaft nach dem Recht des U.S. Bundesstaates Delaware und 18,5% der Anteile bei der Europäischen Bank für Wiederaufbau und Entwicklung (***EBRD***), die verbleibenden 3,1% werden von den Managern (wie in E.4 definiert) (Mitglieder des Vorstands halten 1,6%, andere top Managementmitglieder halten 0,4% und Mitglieder des Aufsichtsrats halten 1,1%) gehalten.

B.4a **Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken.**

Die Ertrags- und Finanzlage der Addiko Gruppe wird durch eine Reihe von Faktoren beeinflusst, von denen sich einige auf die Ergebnisse des Bankensektors insgesamt auswirken. Nach Einschätzung der Gesellschaft haben die folgenden wesentlichen Faktoren seit 1. Januar 2016 die Ertrags- und Finanzlage der Addiko Gruppe beeinflusst:

- Das Betriebs- und Finanzergebnis der Addiko Gruppe hängt in hohem Maße von der allgemeinen Wirtschaftslage im CSEE-Raum ab.
- Der Umfang des Wettbewerbs im CSEE-Bankensektor wirkt sich erheblich auf das Nettozinsergebnis, die Nettozinsmarge, das Provisionsergebnis und das Volumen an Krediten und Kundeneinlagen der Addiko Gruppe aus.
- Die Ergebnisse der Addiko Gruppe hängen von ihrer Fähigkeit ab, ihr Geschäft mit unbesicherten Konsumentenkrediten und SME-Krediten auszubauen und gleichzeitig den relativen Beitrag der Bereiche Public Finance, Mortgage und

Large Corporates zu ihrem Kreditgeschäft schrittweise zu reduzieren.

- Das Betriebs- und Finanzergebnis der Addiko Gruppe hängt in hohem Maße von den Kosten ihrer Refinanzierung durch Einlagen und dem Refinanzierungsmix ab.
- Die Zinserträge und –aufwendungen der Addiko Gruppe werden durch Marktzinsschwankungen beeinflusst.
- Da die Addiko Gruppe ihre Geschäftsergebnisse in Euro ausweist, sind die operativen Geschäftsaktivitäten der Addiko Gruppe einem Währungsrisiko ausgesetzt, außer im Fall ihrer in Slowenien und Montenegro tätigen Tochtergesellschaften sowie der Addiko Bank AG, bei denen die funktionale Währung der Berichtswährung Euro entspricht. Die Geschäftsergebnisse in Bosnien und Herzegowina, Kroatien und Serbien werden von der lokalen Währung in die Berichtswährung Euro umgerechnet. Daher können sich Veränderungen der jeweiligen Wechselkurse auf die Ertragslage und Bilanz der Addiko Gruppe auswirken.
- Die Addiko Gruppe rechnet damit, dass ihr Schwerpunkt auf ungesicherten Konsumenten- und SME-Krediten letztlich zu höheren Risikokosten als bei einem Portfolio mit einem homogenen Produktmix führen wird, aufgrund des niedrigeren Risikos eines diversifizierten Portfolios aber auch zu einem höheren Risiko in Zusammenhang mit Konsumentenkrediten.
- Die Addiko Gruppe war 2015 von der Umsetzung rückwirkender gesetzlicher Vorschriften in Kroatien und Montenegro betroffen, durch die ihre Tochtergesellschaften in Kroatien und Montenegro gezwungen waren, die rückwirkende Konvertierung von in der Vergangenheit in Schweizer Franken gewährten indexgebundenen Krediten in Euro / lokale Währung anzubieten.
- Die Ergebnisse der Addiko Gruppe hängen von ihrer Fähigkeit ab, passive Gerichtsverfahren beizulegen.
- Die Addiko Gruppe ist in einem stark regulierten Umfeld tätig. Der derzeitige Umfang und die laufende Weiterentwicklung der Gesetze und Vorschriften, Corporate-Governance-Richtlinien, Verwaltungsbestimmungen und -praxis in Bezug auf Finanzdienstleistungen werden sich wie bereits in der Vergangenheit auch künftig auf die Ertragslage der Addiko Gruppe auswirken.
- Die Addiko Gruppe muss sich auf neue Technologien und Veränderungen im Kundenverhalten aufgrund der zunehmenden Digitalisierung des Bankgeschäfts einstellen.
- Die Ergebnisse der Addiko Gruppe hängen von ihren Ertragsteuern, latenten Steuern und steuerlichen Verlustvorträgen ab.
- Durch den Verzicht auf das Tier 2-Ergänzungskapital verringern sich die zukünftigen Zinsaufwendungen um ca. EUR 21,4 Mio. pro Jahr.
- Die Umsetzung des neuen Rechnungslegungsstandards für Finanzinstrumente (IFRS 9) führt zu einer Anpassung des Eigenkapitals in Höhe von EUR -32,4 Mio.; der Effekt auf die (vollständig umgesetzte) harte Kernkapitalquote (CET1) beläuft sich auf ca. 70 Basispunkte. Die Wertminderungen stiegen um EUR 40,7 Mio. (abzüglich der damit verbundenen latenten Steuerguthaben: EUR 40,0 Mio.). Der Effekt auf Klassifizierung und Bewertung ist mit EUR 9,3 Mio. (abzüglich der damit verbundenen latenten Steuerschulden: EUR 7,6 Mio.) positiv.
- Die Addiko Gruppe geht davon aus, dass der einheitliche Abwicklungsausschuss (Single Resolution Board, SRB) nach einer Übergangszeit von bis zu 4 Jahren über die Mindestanforderungen für das Ziel für Eigenmittel und anrechenbare Verbindlichkeiten (MREL) für die Addiko Gruppe im zweiten Halbjahr 2019 entscheiden wird. Die Addiko Gruppe geht davon aus, dass der SRB einen Single-Point-of-Entry-Ansatz (SPE) als Abwicklungsstrategie für die Addiko Gruppe anwenden wird. Infolgedessen bildet die Addiko Gruppe eine

		Abwicklungsgruppe mit der Gesellschaft als Abwicklungseinheit, wenn die (konsolidierte) MREL-Quote zum ersten Mal bestimmt wird. Nach dem derzeit vom SRB für die Addiko Gruppe angewendeten SPE-Ansatz würde die MREL-Quote der Addiko Gruppe zusätzliche Eigenmittel und anrechenbare Verbindlichkeiten in Höhe von bis zu 467 Mio. EUR erfordern (basierend auf der Kapitalstruktur und der Bilanz der Addiko Gruppe zum 31. März, 2019). Der Vorstand der Gesellschaft hat jedoch im Rahmen des regelmäßigen Austauschs mit dem SRB klargestellt, dass ein Abwicklungsansatz, bei dem ausschließlich die Addiko Bank Croatia als Abwicklungseinheit und eine MREL-Quote ausschließlich für die Addiko Bank Croatia, angemessener sei, da die Addiko Bank Croatia die einzige Einheit ist, die als Anbieter kritischer Funktionen angesehen ist.
B.5	**Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe.**	Die Gesellschaft ist die Holdinggesellschaft der Addiko Gruppe. Das Geschäft der Addiko Gruppe wird von der Gesellschaft und ihren Tochtergesellschaften geführt. Die Addiko Gruppe umfasst die Gesellschaft und ihre sechs Tochterbanken Addiko Bank d.d. Ljubljana, Addiko Bank d.d. Zagreb, Addiko Bank a.d. Beograd, Addiko Bank d.d. Sarajevo, Addiko Bank a.d. Banja Luka und Addiko Bank a.d. Podgorica, die eine Kreditinstitutsgruppe bilden, die in diesem Prospekt zusammen als „Addiko Gruppe" bezeichnet wird. Das Kerngeschäft der Gesellschaft wird in Kroatien, Slowenien, Bosnien und Herzegowina, Serbien und Montenegro betrieben. Jede zur Addiko Gruppe gehörende Gesellschaft wird von den zuständigen Behörden des jeweiligen Landes, in dem sie tätig ist, reguliert und beaufsichtigt. Für die konsolidierte Aufsicht über die Addiko Gruppe ist die Österreichische Finanzmarktaufsichtsbehörde (FMA) zuständig.
B.6	**Personen, die eine direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten sowie Beherrschungs-verhältnisse.**	Zum Datum des Prospekts werden alle Bestehenden Aktien (wie in B.6 definiert) von der Bestehenden Aktionärin AI Lake (Luxembourg) S.à r.l., einer Gesellschaft mit beschränkter Haftung (*société à responsabilité limitée*) nach dem Recht von Luxemburg, eingetragen im Luxemburger Handels- und Gesellschaftsregister (*Registre de Commerce et des Sociétés*) unter der Registernummer B191802, gehalten. Derzeit befinden sich über 78,4% der Anteile an der Bestehenden Aktionärin unter der Kontrolle von Fonds, die letztlich von der AIC beraten und verwaltet werden, einer bei der SEC registrierten Gesellschaft nach dem U.S. Recht des Bundesstaates Delaware und 18,5% der Anteile bei der EBRD. Die verbleibenden 3,1% werden von den Managern (wie in E.4 definiert) (Mitglieder des Vorstands halten 1,6%, andere top Managementmitglieder halten 0,4% und Mitglieder des Aufsichtsrats halten 1,1%) gehalten. Nach Beendigung und Vollzug der Privatplatzierung (die ***Privatplatzierung***), was am 15. Juli 2019 erwartet wird, wird die Bestehende Aktionärin 45% der bestehenden Aktien der Gesellschaft halten (die ***Bestehenden Aktien***) (in Annahme einer vollen Privatplatzierung der Verbindlichen Aktien (wie in E.1 definiert) und uneingeschränkter Ausübung der Greenshoe Option (wie in E.1 definiert)).
	Unterschiedliche Stimmrechte	Entfällt. Alle Bestehenden Aktien der Gesellschaft haben identische Stimmrechte.
	Ob an dem Emittenten unmittelbare oder mittelbare Beteiligungen oder Beherrschungs-verhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist.	Unmittelbar vor Abschluss der Privatplatzierung befindet sich die Gesellschaft letztlich unter der Kontrolle von (i) mehreren Fonds, die unter der Leitung von AIC stehen (Stimmrechtsanteil von ca. 78,4%) und (ii) der EBRD (Stimmrechtsanteil von ca. 18,5%). Die verbleibenden 3,1% werden von den Managern (wie in E.4 definiert) (Mitglieder des Vorstands halten 1,6%, andere top Managementmitglieder halten 0,4% und Mitglieder des Aufsichtsrats halten 1,1%) gehalten. Zusammen kontrollieren AIC und EBRD letztlich über 90% der Anteile an der Bestehenden Aktionärin, des alleinigen direkten Anteilseigners der Gesellschaft unmittelbar vor Abschluss der Privatplatzierung. Nach Beendigung und Vollzug der Privatplatzierung, was am 15. Juli 2019 erwartet wird, wird die Bestehende Aktionärin 45% der Bestehenden Aktien halten (in Annahme einer vollen Privatplatzierung der Verbindlichen Aktien (wie in E.1 definiert) und uneingeschränkter Ausübung der Greenshoe Option (wie in E.1 definiert)) und daher die Gesellschaft nicht mehr kontrollieren. Zusätzlich haben sich die Gesellschafter der Bestehenden Aktionärin verpflichtet, die Stimmrechte, soweit erforderlich, so auszuüben, dass dadurch keine Kontrolle angenommen werden könnte.

B.7	**Ausgewählte wesentliche historische Finanzinformationen.**	Die folgenden ausgewählten wesentlichen historischen Finanz- und Geschäftsinformationen der Addiko Gruppe sollten zusammen mit den geprüften konsolidierten Konzernabschlüssen der Gesellschaft für die zum 31. Dezember 2018, 2017 und 2016 endenden Geschäftsjahre (die ***Geprüften Konsolidierten KonzernabschlüsseK***) und dem ungeprüften verkürzten Zwischenabschluss der Gesellschaft für den am 31. März 2019 endenden Dreimonatszeitraum (der Vergleichszahlen für den am 31. März 2018 endenden Dreimonatszeitraum enthält) (der ***Ungeprüfte Verkürzte Konsolidierte Zwischenabschluss*** und zusammen mit den Geprüften Konsolidierten Konzernabschlüssen die ***Konsolidierten Abschlüsse***) und den jeweils darin enthaltenen Anhangangaben gelesen werden.

Die Geprüften Konsolidierten Konzernabschlüsse wurden gemäß den International Financial Reporting Standards, wie sie in der Europäischen Union (die ***EU***) anzuwenden sind, (die ***IFRS***) erstellt. Sie wurden gemäß § 59a des österreichischen Bundesgesetzes über das Bankwesen (***Bankwesengesetz***) und den in Österreich allgemein anerkannten Grundsätzen ordnungsgemäßer Abschlussprüfung von der Deloitte Audit Wirtschaftsprüfungs GmbH geprüft, die dafür uneingeschränkte Bestätigungsvermerke erteilt hat. Der Ungeprüfte Verkürzte Konsolidierte Zwischenabschluss für den am 31. März 2019 endenden Dreimonatszeitraum (der Vergleichszahlen für den am 31. März 2018 endenden Dreimonatszeitraum enthält) wurde nach den auf die Zwischenberichterstattung anwendbaren IFRS (IAS 34), wie sie in der EU anzuwenden sind, erstellt und von der Deloitte Audit Wirtschaftsprüfungs GmbH einer prüferischen Durchsicht gemäß dem International Standard on Review Engagements 2410 unterzogen.

Soweit in diesem Prospekt enthaltene Finanzinformationen für die Addiko Gruppe als „geprüft" („*audited*") bezeichnet sind, wurden sie den Geprüften Konsolidierten Konzernabschlüssen der Gesellschaft entnommen. Die Bezeichnung „ungeprüft" („*unaudited*") wird in diesem Prospekt für Finanzinformationen verwendet, die dem Ungeprüften Verkürzten Konsolidierten Zwischenabschluss oder den Buchführungsunterlagen oder den internen Managementberichtssystemen der Addiko Gruppe entnommen oder daraus abgeleitet wurden.

In einigen Tabellen in diesem Abschnitt sind auch Kennzahlen dargestellt, die nicht auf anerkannten Rechnungslegungsgrundsätzen (***GAAP***) basieren (d.h. die weder in den IFRS noch im österreichischen Unternehmensgesetzbuch definiert sind). Diese Nicht-GAAP-Kennzahlen sind Kennzahlen, die vom Management der Addiko Gruppe verwendet werden, um die Ergebnisentwicklung der Addiko Gruppe zu überwachen. Nicht-GAAP-Kennzahlen, die nicht in den Geprüften Jahresabschlüssen enthalten sind, sind in den betreffenden Tabellen als „ungeprüft" („*unaudited*") bezeichnet, während Nicht-GAAP-Kennzahlen, die in den Geprüften Jahresabschlüssen enthalten sind, in den betreffenden Tabellen als „geprüft" („*audited*") bezeichnet sind. Alle in den folgenden Ausführungen und Tabellen dargestellten Finanzinformationen sind, soweit nicht anders angegeben, in Millionen und Milliarden Euro (EUR) angegeben und, soweit anwendbar, auf eine Dezimalstelle oder ganze Zahlen gerundet. In den folgenden Ausführungen und Tabellen dargestellte Prozentzahlen sind, soweit nicht ausdrücklich anders angegeben, auf eine Dezimalstelle gerundet. Es kann daher zu Rundungsdifferenzen zwischen den in den Tabellen angegebenen Einzelangaben und den jeweiligen Gesamtsummen kommen.

Ausgewählte Finanzinformationen und Erfolgskennzahlen

Die folgenden Tabellen zeigen bestimmte ausgewählte Finanzinformationen und Erfolgskennzahlen der Addiko Gruppe:

Erfolgsrechnung*	Für den Dreimonatszeitraum zum 31. März		Für das Geschäftsjahr zum 31. Dezember		
	2019	**2018**	**2018**	**2017**	**2016**
	(in Mio. EUR, soweit nicht anders angegeben)		**(in Mio. EUR, soweit nicht anders angegeben)**		
	(ungeprüft)		**(geprüft, soweit nicht anders angegeben)**		

Zinserträge unter Anwendung der Effektivzinsmethode	51,5	51,0	209,6	226,0[1]	232,2[1]
Sonstige Zinserträge	0,9	1,6	4,2	8,3[2]	6,0[2]
Zinsaufwendungen	-7,5	-14,0	-40,7	-68,9[3]	-79,4[3]
Nettozinsergebnis	**44,9**	**38,6**	**173,2**	**165,3**	**158,8**
Gebühren- und Provisionserträge	18,7	16,8	76,5	71,3[4]	62,0[5]
Aufwendungen für Gebühren und Provisionen	-3,1	-3,3	-14,1	-12,8[4]	-12,0[5]
Provisionsergebnis	15,6	13,5	62,4	58,5	50,0
Gewinne und Verluste aus finanziellen Vermögenswerten	3,3	70,5	70,0	9,7	20,3[6]
Sonstige betriebliche Erträge	2,6	1,8	19,1	27,4[7]	29,6[3]
Sonstige betriebliche Aufwendungen	-8,0	–8,2	-35,7	-34,0[7]	-71,7[3]
Betriebserträge	**58,3**	**116,2**	**289,0**	**226,9**	**187,0**
Personalaufwand	-24,8	-24,4	-99,4	-97,4	-99,8
Sonstige Verwaltungsaufwendungen	-19,0	-19,3	-78,0	-80,9	-93,1
Abschreibungen	-4,5	-2,7	-10,7	-11,7	-19,5
Betriebsaufwendungen	**-48,3**	**-46,3**	**-188,1**	**-190,1**	**-212,4**
Operatives Ergebnis vor Veränderung der Kreditrisikokosten	**10,0**	**69,9**	**100,9**	**36,9**	**-25,4**
Kreditrisikokosten auf finanzielle Vermögenswerte	3,7	10,9	2,8	-15,1	4,4
Operatives Ergebnis vor Steuern	13,7	80,8	103,7	21,8	-21,0
Steuern auf Einkommen	-3,6	-4,6	0,5	19,9	-2,9
Ergebnis nach Steuern	**10,1**	**76,2**	**104,2**	**41,6**	**-23,9**

* Die Gliederung der Posten in der Tabelle folgt derjenigen in der Konzern-Gesamtergebnisrechnung in dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2018.

1 Unter Anwendung der Effektivzinsmethode berechnete Zinserträge umfassen Zinserträge aus zur Veräußerung verfügbaren finanziellen Vermögenswerten, Krediten und Forderungen, bis zur Endfälligkeit gehaltenen Finanzinvestitionen und Derivaten – Hedge Accounting, Zinsrisiken, wie im Anhang zu dem Geprüften Konsolidierten Konzernabschluss für das jeweils angegebene Geschäftsjahr ausgewiesen.

2 Sonstige Zinserträge umfassen Zinserträge aus zu Handelszwecken gehaltenen finanziellen Vermögenswerten, sonstigen Vermögensgegenständen und Dividendenerträgen, wie im Anhang zu dem Geprüften Konsolidierten Konzernabschluss für das jeweils angegebene Geschäftsjahr ausgewiesen.

3 Die Zahlen wurden dem Anhang zu dem Geprüften Konsolidierten Konzernabschluss für das jeweils angegebene Geschäftsjahr entnommen.

4 Die Zahlen wurden dem Anhang zu dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2018 entnommen.

5 Gebühren- und Provisionserträge und Aufwendungen für Gebühren und Provisionen sind in dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2016 nicht als separate Posten dargestellt. Die Zahlen wurden den Buchführungsunterlagen für das Geschäftsjahr 2016 entnommen (ungeprüft).

6 Gewinne und Verluste aus finanziellen Vermögenswerten sind in dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2016 nicht als separate Posten dargestellt. Der Posten wurde für das Geschäftsjahr 2016 aus den im Geprüften Konsolidierten Konzernabschluss enthaltenen Posten „Handelsergebnis“, „Ergebnis aus Hedge Accounting“ und „Ergebnis aus finanziellen Vermögenswerten und Verbindlichkeiten, nicht erfolgswirksam zum Fair Value bilanziert“ errechnet.

7 Die Zahlen folgen der Darstellung im Anhang zum Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2018. Die Darstellung des sonstigen betrieblichen Ergebnisses wurde für das Geschäftsjahr 2018 auf einen Bruttoausweis der sonstigen betrieblichen Erträge und der sonstigen betrieblichen Aufwendungen geändert, einschließlich der Vergleichszahlen. Die neue Darstellung verbessert das Verständnis der Ertragslage der Addiko Gruppe.

(Quelle: Geprüfte Konsolidierte Konzernabschlüsse der Addiko Gruppe und Informationen der Gesellschaft)

Bilanz*	**Für den Dreimonatszeitraum zum 31. März**	**Für das Geschäftsjahr zum 31. Dezember**		
	2019	**2018**	**2017**	**2016**
	(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)	**(in Mio. EUR, soweit nicht anders angegeben) (geprüft, soweit nicht anders angegeben)**		
Vermögenswerte gesamt	**6.108,4**	**6.152,1**	**6.485,5**	**7.216,1**
Schulden gesamt	**5.280,3**	**5.292,7**	**5.641,5**	**6.221,5**
Eigenkapital	828,0	859,5	844,0	994,7
Davon Eigentümern des Mutterunternehmens zuzurechnen	**828,0**	**859,5**	**844,0**	**994,7**
Eigenkapital und Schulden gesamt	**6.108,4**	**6.152,1**	**6.485,5**	**7.216,1**
Kennzahlen				
Kundenkredit-Kundeneinlagen-Quote[1]	79,6%	78,3%[7]	74,8%[7]	84,1%[7]
NPE-Quote[3]	5,5%	5,6%	8,1%	9,2%
NPE-Quote (CRB-basiert)[4]	7,4%	7,7%	11,6%[7]	14,8%[2,7]

NPE-Deckung[5]	75,8%	75,4%	67,0%	67,5%
NPE-Quote unter dem neuen Risikorahmen[6]	1,5%	1,4%[7]	1,3%[7]	1,6%[7]
NPE-Deckung unter dem neuen Risikorahmen[6]	72,0%	69,2%[7]	56,7%[7]	42,8%[7]

Die Gliederung der Posten in der Tabelle folgt derjenigen in der Konzernbilanz in dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2018.

1 Die Kundenkredit-Kundeneinlagen-Quote wird als Kredite und Forderungen an Kunden im Verhältnis zu Einlagen von Kunden für das jeweils angegebene Geschäftsjahr berechnet.

2 Nicht in dem Geprüften Konsolidierten Konzernabschluss für das jeweils angegebene Geschäftsjahr dargestellt, aber anhand derselben Methode wie in dem Geprüften Konsolidierten Konzernabschluss für das Geschäftsjahr 2018 und den Buchführungsunterlagen für das jeweils angegebene Geschäftsjahr berechnet.

3 Berechnet als notleidende Kredite (Non-Performing Exposure, NPE) dividiert durch die gesamte Kreditrisikoposition für das jeweils angegebene Geschäftsjahr.

4 Berechnet als notleidende Kredite (NPE) dividiert durch die kreditrisikotragende Kreditrisikoposition (Credit Risk Bearing Exposure, CRB) für das jeweils angegebene Geschäftsjahr. Die kreditrisikotragende Kreditrisikoposition (CRB) besteht aus dem Bruttobuchwert (oder bei außerbilanziellen Positionen aus dem Nennwert), ohne die Kreditrisikoposition zu Nationalbanken sowie Wertpapiere und Derivate und ohne Berücksichtigung von erwarteten Kreditverlusten (einschließlich Garantierückstellungen), gehaltenen Sicherheiten, Saldierungseffekten, anderen Bonitätsverbesserungen oder Transaktionen, die das Kreditrisiko mindern. Für die Berechnung der relevanten Kreditrisikoposition für Wertpapiere werden Marktwerte und für Kredite fortgeführte Anschaffungskosten herangezogen.

5 Berechnet auf der Basis der erwarteten Kreditverluste nach IFRS 9 Stufe 3, dividiert durch die ausgefallenen notleidenden Kredite (NPE) für das Geschäftsjahr 2018 sowie auf der Basis der Einzelrisikovorsorge dividiert durch die notleidenden Kredite (NPE) für die Geschäftsjahre 2016 und 2017.

6 Der neue Risikorahmen bezieht sich auf Kunden, bei denen eine neue risikorelevante Entscheidung bzw. Genehmigung nach dem 1. Januar 2016 erfolgt ist. Dies beinhaltet auch die vorherigen Kreditrisikopositionen dieser Kunden, da die risikorelevante Entscheidung nicht nur für neue Geschäfte gilt. Bestimmte große Firmenkunden, mit denen Geschäfte nur zur Verhinderung von Verlusten getätigt wurden (z.B. ein großes kroatisches Einzelhandelsunternehmen) sind aus dem neuen Buch ausgeschlossen. Die Verhältniszahlen wurden den Risikounterlagen für die Geschäftsjahre 2016, 2017 und 2018 entnommen.

7 Ungeprüfte Informationen der Gesellschaft.

(Quelle: Geprüfte Konsolidierte Konzernabschlüsse der Addiko Gruppe und Informationen der Gesellschaft)

Die folgende Tabelle zeigt ausgewählte Informationen aus der Konzern-Geldflussrechnung der Addiko Gruppe für die am 31. März 2019 und 2018 endenden Dreimonatszeiträume und die am 31. Dezember 2018, 2017 und 2016 endenden Geschäftsjahre:

Geldflussrechnung	Für den Dreimonatszeitraum zum 31. März		Für das Geschäftsjahr zum 31. Dezember		
	2019	**2018**	**2018**	**2017**	**2016**
	(in Mio. EUR) (ungeprüft)		**(in Mio. EUR) (geprüft)**		
Zahlungsmittelbestand zum Ende der Vorperiode	**1.002,9**	**1.285,9**	**1.285,9**	**1.878,2**	**1.319,0**
Cashflow aus operativer Geschäftstätigkeit	-171,0	43,6	-93,6	-206,5	454,1
Cashflow aus Investitionstätigkeit	-3,7	-3,9	-21,1	31,9	104,6
Cashflow aus Finanzierungstätigkeit	-50,0	-170,0	-170,0	-430,0	0,0
Effekte aus Wechselkursänderungen	-0,7	0,5	1,6	12,2	0,5
Zahlungsmittelbestand zum Ende der Periode	**777,5**	**1.156,1**	**1.002,9**	**1.285,9**	**1.878,2**

(Quelle: Geprüfte Konsolidierte Konzernabschlüsse der Addiko Gruppe und Informationen der Gesellschaft)

Ausgewählte Erfolgskennzahlen	Für den Dreimonatszeitraum zum 31. März		Für das Geschäftsjahr zum 31. Dezember		
	2019	**2018**	**2018**	**2017**	**2016**
	(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)		**(in Mio. EUR, soweit nicht anders angegeben) (geprüft, wenn nicht anders angegeben)**		
Netto Zinsergebnis/durchschnittliche gesamte Vermögenswerte[1]	**3,0%**	**2,5%**	**2,7%**	**2,4%**	**2,2%[2,7]**
Verhältnis Kosten zu Einkommen[3]	80,0,%	88,9%	79,9%	84,9%[3]	101,8%[3,7]
Risikokosten-Quote[4]	0,1%	0,2%	0,1%	-0,3%	0,1%
Rendite gemessen am durchschnittlichen Eigenkapital (Return on	4,8%	36,8%	12,2%	4,5%[7]	n.a.[7]

average equity)[5]					
Rendite gemessen am durchschnittlichen materiellen Eigenkapital (Return on Average Tangible Equity (RoTE))[6]	5,0%	37,8%	12,6%[7]	4,6%[7]	n.a.[7]

1 Der Durchschnitt der gesamten Vermögenswerte wurde berechnet im dem ein Durchschnitt zwischen den zu Beginn und am Ende der jeweiligen Rechnungsperiode vorhandenen Mitteln errechnet wurde. Das Nettozinseinkommen von EUR 38,6 Millionen und EUR 44,9 Millionen für den dreimonatigen Zeitraum bis 31. März, 2018 beziehungsweise 2019, wurde mit dem Faktor 365/90 multipliziert um ihn auf das gesamte Jahr hochzurechnen. Dies geschah unabhängig von den Bedingungen der im Einzelnen zugrundeliegenden Verträge.

2 Der Nettozinsgewinn sowie die Summe der Vermögenswerte für das Geschäftsjahr 2016 wurden dem Geprüften Konsolidierten Konzernabschluss für das Jahr 2017 entnommen.

3 Berechnet aus der Summe des Personalaufwands, der sonstigen Verwaltungsaufwendungen, und Abschreibungen, dividiert durch die Summe aus dem Nettozinseinkommen und dem Provisionsergebnis. Dies weicht von der Methode ab, die in den Geprüften Konsolidierten Konzernabschlüssen für die Geschäftsjahre 2016 und 2017 angewandt wurde. Dort wurde die Summe des Personalaufwands, der sonstigen Verwaltungsaufwendungen und Abschreibungen durch die Summe des Nettozinsergebnisses, dem Provisionsergebnis und der sonstigen Betriebserträge dividiert.

4 Berechnet auf der Grundlage der Kreditrisikokosten und der kreditrisikotragenden Kreditrisikoposition (CRB) für das jeweils angegebene Geschäftsjahr. Die kreditrisikotragende Kreditrisikoposition (CRB) besteht aus dem Bruttobuchwert (oder bei außerbilanziellen Positionen aus dem Nennwert) ohne die Kreditrisikoposition zu Nationalbanken sowie Wertpapiere und Derivate und ohne Berücksichtigung von erwarteten Kreditverlusten (einschließlich Garantierückstellungen), gehaltenen Sicherheiten, Saldierungseffekten, anderen Bonitätsverbesserungen oder Transaktionen, die das Kreditrisiko mindern. Für die Berechnung der relevanten Kreditrisikoposition für Wertpapiere werden Marktwerte und für Kredite fortgeführte Anschaffungskosten herangezogen.

5 Auf der Basis des Ergebnisses nach Steuern dividiert durch den Durchschnitt des den Aktionären zurechenbaren Eigenkapitals (der Durchschnitt wurde als einfacher Durchschnitt aus dem den Aktionären zurechenbaren Eigenkapital zu Beginn und am Ende der Periode berechnet) für das jeweils angegebene Geschäftsjahr errechnet. Das Ergebnis nach Steuern von EUR 76,2 Millionen und EUR 10,1 Millionen für den dreimonatigen Zeitraum bis 31. März, 2018 beziehungsweise 2019, wurde mit dem Faktor 365/90 multipliziert um ihn auf das gesamte Jahr hochzurechnen. Dies geschah unabhängig von den Bedingungen der im Einzelnen zugrundeliegenden Verträge.

6 Auf der Basis des Ergebnisses nach Steuern dividiert durch den Durchschnitt des den Aktionären zurechenbaren Eigenkapitals, ausschließlich immaterieller Vermögensgegenstände. Der Durchschnitt wurde als einfacher Durchschnitt aus dem den Aktionären zurechenbaren Eigenkapital zu Beginn und am Ende der Periode berechnet. Für das jeweils angegebene Geschäftsjahr. errechnet. Das Ergebnis nach Steuern von EUR 76,2 Millionen und EUR 10,1 Millionen für den dreimonatigen Zeitraum bis 31. März, 2018 beziehungsweise 2019, wurde mit dem Faktor 365/90 multipliziert um ihn auf das gesamte Jahr hochzurechnen. Dies geschah unabhängig von den Bedingungen der im Einzelnen zugrundeliegenden Verträge.

7 Ungeprüfte Informationen der Gesellschaft.

(Quelle: Geprüfte Konsolidierte Konzernabschlüsse der Addiko Gruppe und Informationen der Gesellschaft)

Wesentliche Entwicklungen der Finanzergebnisse und Finanzlage

Zinserträge

Die Zinserträge stiegen von 38,6 Mio. EUR im Dreimonatszeitraum zum 31. März 2018 um EUR 6,3 Mio. oder 16,2% auf EUR 44,9 Mio. im Dreimonatszeitraum zum 31. März 2019. Dies ist im Wesentlichen auf Folgendes zurückzuführen: Ein Rückgang des Zinsaufwands von EUR -14,0 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 6,5 Mio. auf EUR -7,5 Mio. im Dreimonatszeitraum zum 31. März 2019 ist auf geringere Zinsaufwendungen für zurückzuführen Einlagen von Kunden in Höhe von EUR 3,0 Mio. zurückzuführen– hauptsächlich aufgrund einer Umstellung Verschiebung von Festgeldern Einlagen mit vereinbarter Laufzeit mit höherer Rendite auf kurzfristige Einlagen-Girokonten/Tagesgeldkonten mit niedrigerer Rendite – und Zinsaufwendungen in Höhe von EUR 3,6 Mio. für das aufgegebene Kernkapital (siehe „*11.3.14 Tier 2 waiver*“) für der den Dreimonatszeitraum endete am zum 31. März 2018, die in dem am 31. März 2019 endenden Dreimonatszeitraum nicht mehr bestehen.

Das Nettozinsergebnis stieg von EUR 165,3 Mio. im Geschäftsjahr 2017 um EUR 7,9 Mio. bzw. 4,8% auf EUR 173,2 Mio. im Geschäftsjahr 2018. Der Grund hierfür war ein Rückgang des Zinsaufwands von EUR -68,9 Mio. im Geschäftsjahr 2017 um EUR -28,2 Mio. auf EUR -40,7 Mio. im Geschäftsjahr 2018, der den Rückgang der Zinserträge unter Anwendung der Effektivzinsmethode sowie der sonstigen Zinserträge von zusammen EUR 234,2 Mio. im Geschäftsjahr 2017 um EUR 20,4 Mio. auf EUR 213,8 Mio. im Geschäftsjahr 2018 mehr als aufwog. Der wichtigste Grund für den Rückgang der Zinserträge im Geschäftsjahr 2018 gegenüber 2017 war die Umstellung von IAS 39 auf IFRS 9, wodurch Beträge, die vorher als Zinsausfälle aus notleidenden Krediten verbucht wurden, von Zinserträgen zu Kreditrisikokosten auf finanzielle

Vermögenswerte verschoben wurden. Diese Zinsausfälle betrugen im Geschäftsjahr 2017 EUR 10,3 Mio. Der Zinsaufwand reduzierte sich von EUR -68,9 Mio. im Geschäftsjahr 2017 um EUR 28,2 Mio. auf EUR -40,7 Mio. im Geschäftsjahr 2018. Dies war hauptsächlich aufgrund der Verringerung der Zinsaufwendungen durch den Verzicht auf das Tier 2-Ergänzungskapital von EUR -19,3 Mio. im Geschäftsjahr 2017 um EUR 15,7 Mio. auf EUR -3,6 Mio. im Geschäftsjahr 2018 zurück. Der Gläubiger verzichtete im ersten Quartal 2018 auf beide von ihm bereitgestellten Ergänzungskapitaltranchen.

Das Nettozinsergebnis stieg von EUR 158,8 Mio. im Geschäftsjahr 2016 um EUR 6,5 Mio. bzw. 4,1% auf EUR 165,3 Mio. im Geschäftsjahr 2017. Die Hauptgründe hierfür waren niedrigere Zinssätze für Kundeneinlagen. Die Zinserträge gingen von EUR 238,2 Mio. im Geschäftsjahr 2016 um EUR 4,0 Mio. auf EUR 234,2 Mio. im Geschäftsjahr 2017 zurück. Der Hauptgrund hierfür waren um EUR 3,7 Mio. niedrigere Zinserträge auf Kredite und Forderungen. Die niedrigeren Zinserträge waren hauptsächlich auf die strategische Reduzierung des Nicht-Schwerpunktportfolios zurückzuführen. Die Zinsaufwendungen gingen von EUR 79,4 Mio. im Geschäftsjahr 2016 um EUR 10,5 Mio. auf EUR 68,9 Mio. im Geschäftsjahr 2017 zurück. Die niedrigeren Zinsaufwendungen waren hauptsächlich auf geringere Aufwendungen für Einlagen, die von EUR 54,2 Mio. im Geschäftsjahr 2016 um EUR 9,2 Mio. auf EUR 45,0 Mio. im Geschäftsjahr 2017 zurückgingen, zurückzuführen. Dies wurde aufgrund der Verschiebung von Einlagen mit vereinbarter Laufzeit auf Girokonten/ Tagesgelder möglich.

Provisionsergebnis

Das Provisionsergebnis erhöhte sich von EUR 13,5 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 2,0 Mio. oder 15,1% auf EUR 15,6 Mio. im Dreimonatszeitraum zum 31. März 2019.

Dies war hauptsächlich der Fall Aufgrund des Anstiegs der Provisionserträge von EUR 16,8 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 1,9 Mio. auf EUR 18,7 Mio. im Dreimonatszeitraum zum 31. März 2019, der im Wesentlichen getrieben war nach Erträgen aus Bancassurance, FX & dynamischer Währungsumrechnung und Transaktionen.

Das Provisionsergebnis stieg von EUR 58,5 Mio. im Geschäftsjahr 2017 um EUR 3,9 Mio. bzw. 6,7% auf EUR 62,4 Mio. im Geschäftsjahr 2018. Die Gebühren- und Provisionserträge stiegen von EUR 71,2 Mio. im Geschäftsjahr 2017 um EUR 5,3 Mio. bzw. 7,4% auf EUR 76,5 Mio. im Geschäftsjahr 2018. Der Hauptgrund hierfür war der Anstieg der Gebühren- und Provisionserträge aus Devisengeschäften mit Kunden von EUR 8,9 Mio. im Geschäftsjahr 2017 um EUR 2,1 Mio. auf EUR 11,0 Mio. im Geschäftsjahr 2018, aus dem Bancassurance-Vertrieb von EUR 1,3 Mio. im Geschäftsjahr 2017 um EUR 1,9 Mio. auf EUR 3,2 Mio. im Geschäftsjahr 2018 und aus Accounts & Packages von EUR 15,8 Mio. im Geschäftsjahr 2017 um EUR 1,2 Mio. auf EUR 17,0 Mio. im Geschäftsjahr 2018. Die Aufwendungen für Gebühren und Provisionen stiegen von EUR -12,8 Mio. im Geschäftsjahr 2017 um EUR -1,3 Mio. bzw. 10,7% auf EUR -14,1 Mio. im Geschäftsjahr 2018. Die Hauptgründe hierfür waren ein Anstieg der Aufwendungen für Kartendienstleistungen von EUR -4,6 Mio. im Geschäftsjahr 2017 um EUR -1,7 Mio. auf EUR -6,3 Mio. im Geschäftsjahr 2018 und für Kundenwerbung von EUR 0,0 Mio. im Geschäftsjahr 2017 um EUR -0,6 Mio. auf EUR -0,6 Mio. im Geschäftsjahr 2018.

Das Provisionsergebnis stieg von EUR 50,0 Mio. im Geschäftsjahr 2016 um EUR 8,5 Mio. bzw. 17,0% auf EUR 58,5 Mio. im Geschäftsjahr 2017. Die Hauptgründe hierfür waren ein stärkerer Produkt- und Kundenfokus, durch den die transaktionsbezogenen Erträge und Erträge aus Kontoführungsgebühren für Girokonten stiegen und die Verbesserung in der Umsatzentwicklung sowie die Modernisierung des Netzwerkes von Bankautomaten (inklusive neuer Funktionalitäten), welche durch Auslagerung an einen strategischen Partner im gesamten Bankomatnetzwerk implementiert wurde.

Gewinne und Verluste aus Finanzinstrumenten

Das Nettoergebnis aus Finanzinstrumenten verringerte sich von EUR 70,5 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 67,3 Mio. auf EUR 3,3 Mio. im Dreimonatszeitraum zum 31. März 2019. Der deutliche Rückgang gegenüber zum 31.

März 2018 endenden Monatszeitraum war hauptsächlich auf den Verzicht des Tier-2-Kapitals durch den Aktionär im ersten Quartal des Geschäftsjahres 2018 zurückzuführen (weitere Informationen finden Sie in Abschnitt „*11.3.14 Tier 2 waiver*“).

Die Gewinne und Verluste aus Finanzinstrumenten stiegen um EUR 9,7 Mio. im Geschäftsjahr 2017 um EUR 60,3 Mio. auf EUR 70,0 Mio. im Geschäftsjahr 2018. Dies war hauptsächlich auf den Verzicht auf die beiden Tier 2-Ergänzungskapitaltranchen durch den Anteilseigner im ersten Quartal 2018 zurückzuführen (für weitere Informationen siehe Abschnitt „*11.3.14 Tier 2 waiver*“ des Prospekts). Der Effekt des Tier 2-Verzichts auf die Gewinne und Verluste betrug im Geschäftsjahr 2018 EUR 61,0 Mio.

Die Gewinne und Verluste aus finanziellen Vermögenswerten und Schulden gingen von EUR 20,3 Mio. im Geschäftsjahr 2016 um EUR 10,6 Mio. bzw. 52,2% auf EUR 9,7 Mio. im Geschäftsjahr 2017 zurück. Das Ergebnis für 2017 war hauptsächlich auf Gewinne aus dem Verkauf von Anleihen (EUR 8,5 Mio.), Gewinne aus dem Devisenhandel/Fremdwährungsderivaten (EUR 17,1 Mio.), Gewinne aus Zinsderivaten und –instrumenten (EUR 9,0 Mio.) und Verluste aus Währungsdifferenzen bei Handelsaktivitäten (EUR -24,1 Mio.) zurückzuführen. Im entsprechenden Zeitraum 2016 war das positive Gesamtergebnis hauptsächlich auf Devisenhandel/Fremdwährungsderivate (EUR 13,6 Mio.), Verluste aus Zinsderivaten und –instrumenten (EUR -4,4 Mio.) und Erträge aus dem Verkauf von VISA-Aktien, die als Kapitalbeteiligungen zu Handelszwecken gehalten wurden (EUR 8,5 Mio.), zurückzuführen.

Sonstiges betriebliches Ergebnis

Das sonstige betriebliche Ergebnis erhöhte sich von EUR -6,4 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 1,0 Mio. auf EUR -5,4 Mio. im Dreimonatszeitraum zum 31. März 2019. Dies ist im Wesentlichen auf einen Anstieg zurückzuführen bei der Auflösung von Rückstellungen für Rechtsfälle und einer Verringerung der Aufwendungen für den Sanierungs- und Abwicklungsfonds.

Das sonstige betriebliche Ergebnis ging von EUR -6,5 Mio. im Geschäftsjahr 2017 um EUR 10,0 Mio. auf EUR -16,5 Mio. im Geschäftsjahr 2018 zurück. Der Grund hierfür war der Rückgang der sonstigen betrieblichen Erträge von EUR 27,4 Mio. im Geschäftsjahr 2017 um EUR 8,3 Mio. auf EUR 19,1 Mio. im Geschäftsjahr 2018 und der Anstieg der sonstigen betrieblichen Aufwendungen von EUR -34,0 Mio. im Geschäftsjahr 2017 um EUR -1,7 Mio. auf EUR -35,7 Mio. im Geschäftsjahr 2018. Der Hauptgrund für den Rückgang der sonstigen betrieblichen Erträge war ein Rückgang der Auflösungen von Rückstellungen für Rechtsstreitigkeiten (von EUR 16,2 Mio. im Geschäftsjahr 2017 um EUR 5,0 Mio. auf EUR 11,2 Mio. im Geschäftsjahr 2018), der Erträge aus Operating-Leasing-Vermögensgegenständen (von EUR 3,1 Mio. im Geschäftsjahr 2017 um EUR 3,1 Mio. auf EUR 0,0 Mio. im Geschäftsjahr 2018) und der Erträge aus zur Veräußerung verfügbaren Vermögenswerten und Veräußerungsgruppen (von EUR 2,7 Mio. im Geschäftsjahr 2017 um EUR 2,5 Mio. auf EUR 0,2 Mio. im Geschäftsjahr 2018).

Das sonstige betriebliche Ergebnis stieg von EUR -42,1 Mio. im Geschäftsjahr 2016 um EUR 35,5 Mio. bzw. 84,5% auf EUR -6,5 Mio. im Geschäftsjahr 2017. Die Hauptgründe für die Veränderung des Ergebnisses zwischen 2016 und 2017 waren Zuweisungen zu und Auflösungen von Rückstellungen und Aufwendungen für drohende und anhängige Rechtsstreitigkeiten mit der Addiko Gruppe als beklagter Partei (passive Rechtsstreitigkeiten), Erträge im Zusammenhang mit der CHF-Konvertierung in Kroatien und geringere Erträge und Aufwendungen.

Betriebsaufwendungen

Der Personalaufwand erhöhte sich von EUR -24,4 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 0,5 Mio. oder 2,0% auf EUR -24,8 Mio. im Dreimonatszeitraum zum 31. März 2019. Dies war im Wesentlichen auf im Dreimonatszeitraum zum 31. März 2018 wurde eine Auflösung der Rückstellung für variable Zahlungen vorgenommen, die im Dreimonatszeitraum zum 31. März 2019 nicht berücksichtigt wurde. Die sonstigen Verwaltungsaufwendungen verringerten sich von - EUR 19,3 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 0,2 Mio. oder 1,2% auf EUR -19,0 Mio. im abgelaufenen Dreimonatszeitraum 31. März 2019. Dies war vor allem auf IT-

Aufwendungen und Aufwendungen für Räumlichkeiten zurückzuführen.

Der Personalaufwand stieg von EUR -97,4 Mio. im Geschäftsjahr 2017 um EUR -2,0 Mio. bzw. 2,0% auf EUR -99,4 Mio. im Geschäftsjahr 2018. Dies war hauptsachlich auf Erträge auf der Auflösung von sonstigen Personalrückstellungen zurückzuführen, die von EUR 2,5 Mio. im Geschäftsjahr 2017 um EUR 2,1 Mio. auf EUR 0,4 Mio. im Geschäftsjahr 2018 zurückgingen. Löhne und Gehälter, soziale Abgaben und variable Zahlungen blieben mit EUR 94 Mio. nahezu stabil, während die Anzahl der Mitarbeiter in Vollzeitäquivalenten (FTE) von 2.953 zum 31. Dezember 2017 auf 2.933 zum 31. Dezember 2018 leicht zurückging. Die sonstigen Verwaltungsaufwendungen gingen von EUR -80,9 Mio. im Geschäftsjahr 2017 um EUR 2,9 Mio. bzw. -3,6% auf EUR -78,0 Mio. im Geschäftsjahr 2018 zurück. Dies war hauptsächlich das Ergebnis der laufenden Kostenverbesserungsmaßnahmen trotz zusätzlicher Investitionen, die für das Geschäftswachstum und zur Verbesserung der digitalen Kapazitäten der Addiko Gruppe getätigt wurden. In diesem Kontext gingen der EDV-Aufwand von EUR -32,5 Mio. im Geschäftsjahr 2017 um EUR 2,6 Mio. auf EUR -29,9 Mio. im Geschäftsjahr 2018 und der Raumaufwand (Miete und sonstige Betriebskosten) von EUR -18,8 Mio. im Geschäftsjahr 2017 um EUR 1,0 Mio. auf EUR -17,8 Mio. im Geschäftsjahr 2018 zurück. Rechts- und Beratungskosten, insbesondere für die Kapitalmarktfähigkeit, stiegen hingegen von EUR -7,9 Mio. im Geschäftsjahr 2017 um EUR -2,8 Mio. auf EUR -10,7 Mio. im Geschäftsjahr 2018. Die Abschreibungen gingen von EUR -11,7 Mio. im Geschäftsjahr 2017 um EUR 1,0 Mio. bzw. -8,9% auf EUR -10,7 Mio. im Geschäftsjahr 2018 zurück. Der Hauptgrund hierfür war der Rückgang der Abschreibungen auf selbst genutzte Anlagen von EUR -3,8 Mio. im Geschäftsjahr 2017 um EUR 0,7 Mio. auf EUR -3,1 Mio. im Geschäftsjahr 2018.

Der Personalaufwand ging von EUR -99,8 Mio. im Geschäftsjahr 2016 um EUR 2,4 Mio. bzw. 2,4% auf EUR -97,4 Mio. im Geschäftsjahr 2017 leicht zurück. Dies war hauptsächlich das Ergebnis des Rückgangs der Mitarbeiter im Durchschnitt (FTE) von 3.318 im Geschäftsjahr 2016 auf 3.052 im Geschäftsjahr 2017 infolge verschiedener Effizienz- und Verschlankungsprogramme, die im Geschäftsjahr 2017 umgesetzt wurden. Die sonstigen Verwaltungsaufwendungen gingen von EUR -93,1 Mio. im Geschäftsjahr 2016 um EUR 12,2 Mio. bzw. 13,1% auf EUR -80,9 Mio. im Geschäftsjahr 2017 zurück. Dies war hauptsächlich auf die Rechts- und Beratungskosten zurückzuführen, die sich um EUR 5,3 Mio. bzw. 36,3% verringerten. Die Beratungskosten im Geschäftsjahr 2016 beinhalten Anwalts- und Gerichtskosten in Höhe von EUR 3,1 Mio. im Zusammenhang mit den 2015 von Kroatien und Montenegro verabschiedeten Gesetzen über die CHF-Konvertierung (Konsumentenschutzgesetze). Darüber hinaus gingen die anderen Verwaltungsaufwendungen im Vergleich zum Geschäftsjahr 2016 um EUR 5,2 Mio. bzw. 31,9% zurück. Der Raumaufwand (Miete und sonstige Betriebskosten) ging von EUR -21,0 Mio. im Geschäftsjahr 2016 um EUR 4,8 Mio. bzw. 22,9% auf EUR 16,2 Mio. im Geschäftsjahr 2017 zurück. Dieser Rückgang wurde teilweise durch einen Anstieg der Kosten für Werbung um EUR 2,9 Mio. im Vergleich zum Geschäftsjahr 2016 kompensiert, der die Inaktivität im Marketingbereich in der ersten Hälfte des Geschäftsjahrs 2016 aufgrund der Vorbereitung der Rebranding-Initiative im Juli 2016 widerspiegelt. Die Abschreibungen gingen von EUR -19,5 Mio. im Geschäftsjahr 2016 um EUR 7,8 Mio. bzw. 39,9% auf EUR -11,7 Mio. im Geschäftsjahr 2017 zurück. Der Hauptgrund hierfür war die Strategie der Addiko Gruppe, sich auf ihr Kerngeschäft zu konzentrieren und somit ihr Leasinggeschäft zu reduzieren, was zu einem Rückgang der Abschreibungskosten für materielle Vermögenswerte von EUR -14,7 Mio. im Geschäftsjahr 2016 um EUR 8,7 Mio. bzw. 59,2% auf EUR -6,0 Mio. im Geschäftsjahr 2017 führte.

Kreditrisikokosten auf finanzielle Vermögenswerte

Die Veränderung der Kreditrisikovorsorgen für finanzielle Vermögenswerte verringerte sich von EUR 10,9 Mio. (Nettoauflösung) im Dreimonatszeitraum zum 31. März 2018 um EUR 7,2 Mio. auf EUR 3,7 Mio. (Nettoauflösung) im Dreimonatszeitraum, welcher am 31. März 2019 endete. Das positive Ergebnis im Dreimonatszeitraum zum 31. März 2019 ist beeinflusst durch Rückzahlungen und Re-migrationen in ein risikoärmeres Portfolio im nicht fokussierten Mortgage-Geschäft und dem Segment Large Corporates. Diesem Effekt stehen Allokationen innerhalb des Consumer-Geschäftes gegenüber.

Die Änderung der Kreditrisikokosten auf finanzielle Vermögenswerte ging von

EUR -15,1 Mio. im Geschäftsjahr 2017 um EUR 17,9 Mio. auf EUR 2,8 Mio. (Nettoauflösung) im Geschäftsjahr 2018 zurück. Der Hauptgrund hierfür waren erfolgreiche Restrukturierungsmaßnahmen größerer Einzelkunden im Segment Large Corporates, wo die Änderung der Kreditrisikokosten auf finanzielle Vermögenswerte von EUR -37,0 Mio. im Geschäftsjahr 2017 um EUR 40,6 Mio. auf EUR 3,6 Mio. im Geschäftsjahr 2018 zurückging. Dieser Rückgang wurde teilweise durch einen Anstieg der Kreditrisikokosten auf finanzielle Vermögenswerte im Segment Retail von EUR 21,5 Mio. im Geschäftsjahr 2017 um EUR -21,5 Mio. auf EUR 0,0 Mio. im Geschäftsjahr 2018 kompensiert.

Die Wertminderung/Wertaufholung auf Kredite und Forderungen änderte sich von EUR 4,4 Mio. (Nettoauflösung) im Geschäftsjahr 2016 auf EUR -15,1 Mio. im Geschäftsjahr 2017. Dies war hauptsächlich das Ergebnis eines Anstiegs der Risikovorsorge um EUR 75,2 Mio. bzw. 76,0% von EUR -99,0 Mio. im Geschäftsjahr 2016 aufgrund der finanziellen Schwierigkeiten eines großen kroatischen Unternehmensschuldners der Addiko Gruppe. Einen Kreditnehmer dieser Größe gibt es im Segment Large Corporates jetzt nicht mehr. Dieser negative Effekt wurde teilweise durch die Auflösung von Risikovorsorgen aufgrund starker Tätigkeiten im Bereich Collections und Sanierung sowie durch den Verkauf von notleidenden Krediten im Segment Retail kompensiert. Darüber hinaus wurden im ersten Halbjahr 2017 in einzelnen Fällen erhebliche Rückstellungen für Betrugsfälle im Retail-Underwriting-Prozess in Montenegro und Slowenien gebildet. Der Anstieg der Risikovorsorge wurde vor allem durch Auflösungen von Rückstellungen im Segment Retail im Zusammenhang mit der Konvertierung von CHF-Krediten in Kroatien sowie Vergleichsvereinbarungen und Debt Sales (insbesondere durch die kroatischen, serbischen und bosnischen Gesellschaften der Addiko Gruppe) kompensiert. Dadurch stiegen die Wertaufholungen von EUR 125,8 Mio. im Geschäftsjahr 2016 um EUR 26,8 Mio. bzw. 21,3% auf EUR 152,6 Mio. im Geschäftsjahr 2017.

Ertragsteuern

Die Steuern vom Einkommen und vom Ertrag verringerten sich von EUR -4,6 Mio. im Dreimonatszeitraum zum 31. März 2018 um EUR 1,0 Mio. oder 21,2% auf EUR -3,6 Mio. im Dreimonatszeitraum zum 31. März 2019. Dies war hauptsächlich der Fall aufgrund eines geringeren laufenden Steuerertrags im Dreimonatszeitraum zum 31. März 2019 (EUR -0,7 Mio.) im Vergleich zum Dreimonatszeitraum zum 31. März 2018 (EUR -4,3 Mio.).

Die Ertragsteuern gingen von EUR 19,9 Mio. (d. h. Steuererstattungen) im Geschäftsjahr 2017 um EUR -19,3 Mio. auf EUR 0,5 Mio. (d. h. Steuererstattungen) im Geschäftsjahr 2018 zurück. Dies ist vor allem auf geringere latente Ertragsteuern im Geschäftsjahr 2017 (EUR 22,0 Mio.) im Vergleich zum Geschäftsjahr 2018 (EUR 4,7 Mio.) zurückzuführen.

Die Ertragsteuern veränderten sich von EUR -2,9 Mio. im Geschäftsjahr 2016 um EUR 22,8 Mio., was zu einem Plus von EUR 19,9 Mio. im Geschäftsjahr 2017 führte. Der Grund für diese Veränderung waren hauptsächlich latente Ertragsteuern in Höhe von EUR 22,0 Mio. im Geschäftsjahr 2017 (2016: EUR -1,3 Mio.). Die Steuereffekte aus der geänderten Berücksichtigung latenter Ertragssteueransprüche (DTA) aus steuerlichen Verlustvorträgen und aus temporären Differenzen gemäß IAS 12 erhöhten sich von EUR 1,4 Mio. im Geschäftsjahr 2016 um EUR 20,4 Mio. auf EUR 21,8 Mio. im Geschäftsjahr 2017. Die Überprüfung der Ansatzfähigkeit aktiver latenter Steuern aus Verlustvorträgen (DTA) und steuerbaren temporären Differenzen erfolgt zu jedem Bilanzstichtag. Am Ende des Geschäftsjahres 2017 wies die Addiko Gruppe latente Ertragssteueransprüche aus steuerlichen Verlustvorträgen (DTA) in Höhe von EUR 13,0 Mio. und aus temporären Differenzen in Höhe von EUR 8,8 Mio. aus. Die Berücksichtigung basierte auf der erfolgreichen, von den neuen Eigentümern initiierten Trendwende. Im Zuge dieser Trendwende erlangte die Addiko Gruppe durch die Umsetzung einer neuen Geschäftsstrategie, durch betriebliche Effizienzsteigerungen und durch eine Qualitätserhöhung der Services wieder eine stärkere Marktpräsenz und konnte ihr Ergebnis verbessern.

Für nähere Einzelheiten zu den Ertragsteuern und Ertragssteueransprüchen siehe Abschnitt „*11.3.12 Income taxes, deferred taxes and tax losses carried forward*“ des Prospekts.

Bilanzsumme

Die Bilanzsumme verringerte sich von EUR 6.152,1 Mio. zum 31. Dezember 2018 um EUR 43,8 Mio. oder 0,7% auf EUR 6.108,4 Mio. zum 31. März 2019. Dies war vor allem auf den teilweisen Rückgang der Guthaben bei Zentralbanken zurückzuführen. Gegenläufig wirkte sich ein Anstieg der Forderungen an Kunden sowie der Finanzanlagen aus. Die Sachanlagen erhöhten sich aufgrund der Umsetzung von IFRS 16 - Leasingverhältnisse, was zum Ansatz eines Nutzungsrechtsvermögens in Höhe von EUR 29,8 Mio. führte.

Die Bilanzsumme verringerte sich von EUR 6.485,5 Mio. zum 31. Dezember 2017 um EUR -333,4 Mio. bzw. -5,1% auf EUR 6.152,1 Mio. zum 31. Dezember 2018. Der Hauptgrund hierfür war die Reduzierung überschüssiger Liquidität in Form von Barreserven und Investitionswertpapieren, die teilweise durch einen Anstieg der Kredite und Forderungen an Kunden kompensiert wurde.

Die Bilanzsumme verringerte sich von EUR 7.216,1 Mio. zum 31. Dezember 2016 um EUR 730,6 Mio. bzw. 10,1% auf EUR 6.485,5 Mio. zum 31. Dezember 2017. Die Hauptgründe hierfür waren die Rückzahlung von finanziellen Verbindlichkeiten an den vorherigen Eigentümer in Höhe von EUR 973,9 Mio. sowie der Rückgang des zur Veräußerung verfügbaren Portfolios in Höhe von EUR 75,0 Mio. und des Leasingportfolios in Höhe von EUR 37,4 Mio.

Eigenkapital und Schulden

Die Bilanzsumme verringerte sich von EUR 6.152,1 Mio. zum 31. Dezember 2018 um EUR 43,8 Mio. oder 0,7% auf EUR 6.108,4 Mio. zum 31. März 2019. Dies ist im Wesentlichen auf die Dividendenausschüttung an die Aktionäre in Höhe von EUR 50,0 Mio. zurückzuführen, die das Eigenkapital minderte.

Eigenkapital und Schulden verringerten sich von EUR 6.485,5 Mio. zum 31. Dezember 2017 um EUR -333,4 Mio. bzw. -5,1% auf EUR 6.152,1 Mio. zum 31. Dezember 2018. Der Hauptgrund hierfür war ein Rückgang der zu fortgeführten Anschaffungskosten bilanzierten finanziellen Verbindlichkeiten von EUR 5.521,2 Mio. zum 31. Dezember 2017 um EUR -318,7 Mio. auf EUR 5.202,5 Mio. zum 31. Dezember 2018.

Eigenkapital und Schulden verringerten sich von EUR 7.216,1 Mio. zum 31. Dezember 2016 um EUR -730,6 Mio. bzw. -10,1% auf EUR 6.485,5 Mio. zum 31. Dezember 2017. Der Hauptgrund hierfür war ein Rückgang der zu fortgeführten Anschaffungskosten bilanzierten finanziellen Verbindlichkeiten um EUR -519,2 Mio. bzw. -8,6% und des Eigenkapitals um EUR -150,7 Mio. bzw. -15,2% verglichen mit dem Geschäftsjahr 2016.

Ausgewählte angepasste Finanzinformationen und angepasste Erfolgskennzahlen

Die Addiko Gruppe hat sich entschieden, im Kreditneugeschäft den Schwerpunkt vor allem auf die Nicht-Mortgage-Aktivitäten des Segments Retail und das Segment SME Business (ihre „Schwerpunktbereiche") zu legen, während in der Vergangenheit abgeschlossene Bestandsgeschäfte der Segmente Large Corporates und Public Finance und das Mortgage-Geschäft des Segments Retail (ihre „Nicht-Schwerpunktbereiche") bis zur Fälligkeit weitergeführt werden. Daher ist die Addiko Gruppe der Auffassung, dass eine aufschlussreichere Beurteilung ihrer Leistung durch Vornahme bestimmter Anpassungen an ihren ausgewiesenen Ergebnissen erreicht werden kann, um die historischen Ergebnisse zu zeigen, die auf der Basis des derzeitigen Geschäftsmodells und der derzeitigen Organisationsstruktur der Addiko Gruppe erzielt wurden. Die nachstehend dargestellten angepassten Ergebnisse zeigen eine nachhaltige und vergleichbare Ergebnisbasis, d.h. die Ergebnisse, die unter „normalen" Bedingungen mit dem derzeitigen operativen Geschäftsmodell der Addiko Gruppe erzielt worden wären.

Die nachstehend dargestellten angepassten Daten aus der Konzern-Erfolgsrechnung stellen eine alternative Erfolgskennzahl dar. Sie dürfen nicht getrennt von den gemäß IFRS erstellten Finanzinformationen, als Ersatz für diese oder als diesen übergeordnet verstanden werden und sollten zusammen mit den in diesem Prospekt enthaltenen Konsolidierten Abschlüssen der Addiko Gruppe gelesen werden. Die Verwendung alternativer Erfolgskennzahlen wie der nachstehend dargestellten angepassten Daten aus der Konzern-Erfolgsrechnung unterliegt naturgemäß bestimmten Grenzen, da sie nicht alle Aufwendungen berücksichtigen, die nach IFRS einzubeziehen sind, und

Ermessensentscheidungen darüber beinhalten, welche Aufwandsposten nicht in der alternativen Erfolgskennzahl berücksichtigt werden sollen. Anleger werden daher davor gewarnt, übermäßig auf solche alternativen Erfolgskennzahlen zu vertrauen. Für eine nähere Beschreibung der einzelnen Anpassungen, die bezüglich der nachstehend dargestellten normalisierten Daten aus der Konzern-Erfolgsrechnung vorgenommen wurden, siehe Abschnitt „*10.6 Adjusted Results*" des Prospekts.

Die folgende Tabelle zeigt die angepassten Daten aus der Konzern-Erfolgsrechnung der Addiko Gruppe für die am 31. März 2019 und 2018 endenden Dreimonatszeiträume, die Anpassungen, die an den in der Konzern-Erfolgsrechnung der Addiko Gruppe ausgewiesenen Daten für jeden dieser Zeiträume vorgenommen wurden, sowie die ausgewiesenen Daten zu Referenzzwecken:

	Angepasst für den Dreimonats-zeitraum zum 31. März		**Anpassungen gesamt**		**Ausgewiesen für den für den Dreimonats-zeitraum zum 31. März**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)		**(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)**		**(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)**	
Erfolgrechnung						
Zinserträge	52,3	52,6	-	-	52,3	52,6
Zinsaufwendungen	-7,5	-10,4	-	3,6	-7,5	-14,0
Nettozinsergebnis	**44,9**	**42,2**	**-**	**3,6**	**44,9**	**38,6**
Provisionsergebnis	15,6	13,5	-	-	15,6	13,5
Gewinne und Verluste aus Finanzinstrumenten	3,3	9,5	-	-61,0	3,3	70,5
Sonstiges betriebliches Ergebnis	-6,7	-6,4	-1,3	-	-5,4	-6,4
Betriebserträge	**57,0**	**58,8**	**-1,3**	**-57,4**	**58,3**	**116,2**
Betriebsaufwendungen	-47,4	-46,5	0,9	-0,2	-48,3	-46,3
Operatives Ergebnis	**9,6**	**12,3**	**-0,4**	**-57,6**	**10,0**	**69,9**
Kreditrisikokosten auf finanzielle Vermögenswerte	3,4	9,0	-0,3	-1,9	3,7	10,9
Ergebnis vor Steuern	**12,9**	**21,3**	**-0,7**	**-59,5**	**13,7**	**80,8**
Steuern auf Einkommen	-4,5*	-7,9*	-0,9	-3,4	-3,6	-4,6
Ergebnis nach Steuern	**8,5**	**13,3**	**-1,6**	**-62,9**	**10,1**	**76,2**
Kennzahlen						
Nettozinsergebnis/durchschnittliche Vermögenswerte[1]	3,0%	2,7%	0,0%	0,2%	3,0%	2,5%
Risikokosten-Quote [2]	0,1%	0,2%	-0,0%	-0,0%	0,1%	0,2%
Verhältnis Kosten zu Einkommen [3]	78,5%	83,6%	-1,5%	-5,3%	80,0%	88,9%
Rendite gemessen am durchschnittlichen Eigenkapital (Return on Average Equity)[4]	4,1%	6,4%	-0,8%	-30,3%	4,8%	36,8%
Rendite gemessen am durchschnittlichen materiellen Eigenkapital (Return on Average Tangible Equity (RoTE))[5]	4,2%	6,6%	-0,8%	-31,2%	5,0%	37,8%

Es wurden nur solche Steueranpassungen beachtet, die einen direkten Einfluss auf die Ertragssteuern haben. Andere mögliche (theoretische) Anpassungen und sonstige Anpassungen der Erfolgsrechnung wurden, wegen der unterschiedlichen steuerlichen Behandlung in den verschiedenen Ländern in denen die Addiko Gruppe tätig ist, nicht berücksichtigt.

1 Die durchschnittlichen Vermögenswerte wurden als einfacher Durchschnitt der Vermögenswerte zu Beginn der Periode und zum Ende der Periode berechnet. Die jeweils Nettozinsergebnisse (angepasst/berichtet) für den Dreimonatszeitraum bis zum 31. März 2018 beziehungsweise 2019 wurden mit dem Faktor 365/90 Tage multipliziert um sie auf das Jahr hochzurechnen. Dies geschah unabhängig von den Bestimmungen der Mehrheit der zugrundeliegenden Verträge.

2 Berechnet auf der Grundlage der (angepassten) Kreditrisikokosten auf finanzielle Vermögenswerte und der kreditrisikotragenden Kreditrisikoposition (Credit Risk Bearing Exposure, CRB) für das jeweils angegebene Geschäftsjahr. Die kreditrisikotragende Kreditrisikoposition besteht aus dem Bruttobuchwert (oder bei außerbilanziellen Positionen aus dem Nennwert) ohne die Kreditrisikoposition zu Nationalbanken sowie Wertpapiere und Derivate und ohne Berücksichtigung von erwarteten Kreditverlusten (einschließlich Garantierückstellungen), gehaltenen Sicherheiten, Saldierungseffekten, anderen Bonitätsverbesserungen oder Transaktionen, die das Kreditrisiko mindern. Für die Berechnung der relevanten Kreditrisikoposition für Wertpapiere werden Marktwerte und für Kredite fortgeführte Anschaffungskosten herangezogen.

3 Berechnet als Summe des (angepassten) Personalaufwandes, (angepasster) anderer Verwaltungsaufwendungen und (angepasster) Abschreibungen dividiert durch die Summe des (angepassten) Nettozinsergebnisses und des (angepassten) Provisionsergebnisses.

4 Auf der Basis des (angepassten) Ergebnisses nach Steuern dividiert durch den Durchschnitt des

Eigenkapitals (der Durchschnitt wurde als einfacher Durchschnitt aus dem Eigenkapital zu Beginn und am Ende der Periode berechnet) für den jeweils angegebenen Zeitraum. Die jeweils angegebenen Ergebnisse (angepasst/berichtet) nach Steuern für den Dreimonatszeitraum bis zum 31. März 2018 beziehungsweise 2019 wurden mit dem Faktor 365/90 Tage multipliziert um sie auf das Jahr hochzurechnen. Dies geschah unabhängig von den Bestimmungen der Mehrheit der zugrundeliegenden Verträge.

5 Auf der Basis des (angepassten) Ergebnisses nach Steuern dividiert durch den Durchschnitt des Eigenkapitals ohne immaterielle Vermögensgegenstände für das jeweils angegebene Jahr. Der Durchschnitt wurde als einfacher Durchschnitt aus den Beträgen zu Beginn und am Ende der Periode berechnet. Die jeweils angegebenen Ergebnisse (angepasst/berichtet) nach Steuern für den Dreimonatszeitraum bis zum 31. März 2018 beziehungsweise 2019 wurden mit dem Faktor 365/90 Tage multipliziert um sie auf das Jahr hochzurechnen. Dies geschah unabhängig von den Bestimmungen der Mehrheit der zugrundeliegenden Verträge.

(Quelle: Informationen der Gesellschaft)

Die folgende Tabelle zeigt die angepassten Daten aus der Konzern-Erfolgsrechnung der Addiko Gruppe für die am 31. Dezember 2018, 2017 und 2016 endenden Geschäftsjahre, die Anpassungen, die an den in der Konzern-Erfolgsrechnung der Addiko Gruppe ausgewiesenen Daten für jeden dieser Zeiträume vorgenommen wurden, sowie die ausgewiesenen Daten zu Referenzzwecken:

Erfolgsrechnung	**Angepasst für das Geschäftsjahr zum 31. Dezember**			**Anpassungen gesamt**			**Ausgewiesen für das Geschäftsjahr zum 31. Dezember**		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
	(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)			**(in Mio. EUR, soweit nicht anders angegeben) (ungeprüft)**			**(in Mio. EUR, soweit nicht anders angegeben) (geprüft, soweit nicht anders angegeben)**		
Zinserträge	213,8	221,8	226,7	-	-12,4	-11,4	213,8	234,2	238,2
Zinsaufwendungen	-37,1	-49,2	-72,5	3,6	19,7	6,9	-40,7	-68,9	-79,4
Nettozinsergebnis	**176,7**	**172,6**	**154,2**	**3,6**	**7,3**	**-4,6**	**173,2**	**165,3**	**158,8**
Provisionsergebnis	62,4	58,5	54,7	-	0,0	4,8	62,4	58,5	50,0
Gewinne und Verluste aus Finanzinstrumenten	9,0	5,1	6,5	-61,0	-4,6	-13,9	70,0	9,7	20,3
Sonstiges betriebliches Ergebnis	-18,2	-19,2	-29,0	-1,7	-12,7	13,1	-16,5	-6,5	-42,1
Betriebserträge	**229,9**	**217,0**	**186,4**	**-59,1**	**-10,0**	**-0,6**	**289,0**	**226,9**	**187,0**
Betriebsaufwendungen	-186,9	-193,0	-200,8	1,2	-2,9	11,7	-188,1	-190,1	-212,4
Operatives Ergebnis	**43,0**	**24,0**	**-14,4**	**-57,9**	**-13,0**	**11,1**	**100,9**	**36,9**	**-25,4**
Kreditrisikokosten auf finanzielle Vermögenswerte	2,3	11,3	2,6	-0,5	26,4	-1,8	2,8	-15,1	4,4
Ergebnis vor Steuern	**45,4**	**35,3**	**-11,7**	**-58,3**	**13,5**	**9,3**	**103,7**	**21,8**	**-21,0**
Steuern auf Einkommen*	-14,5	-9,3	-2,8	-15,0	-29,2	0,1	0,5	19,9	-2,9
Ergebnis nach Steuern	**30,9**	**25,9**	**-14,6**	**-73,3**	**-15,7**	**9,4**	**104,2**	**41,6**	**-23,9**
Kennzahlen									
Nettozinsergebnis/durchschnittliche Vermögenswerte [1]	2,8%	2,5%	2,1%	0,1%	0,1%	-0,1%	2,7%	2,4%[7]	2,2%[7]
Risikokosten-Quote[2]	0,0%	0,2%	0,1%	-0,1%	0,5%	0,0%	0,1%	-0,3%[7]	0,1%[7]
Verhältnis Kosten zu Einkommen [3]	78,1%	83,5%	96,1%	-1,8%	-1,4%	-5,7%	79,9%	84,9%[6,7]	101,8%[6,7]
Rendite gemessen am durchschnittlichen Eigenkapital (Return on Average Equity) [4]	3,6%	2,8%	n.a.	-8,6%	-1,7%	n.a.	12,2%[7]	4,5%[7]	n.a.[7]
Rendite gemessen am durchschnittlichen materiellen Eigenkapital (Return on Average Tangible Equity (RoTE) [5]	3,7%	2,9%	n.a.	-8,9%	-1,7%	n.a.	12,6%[7]	4,6%[7]	n.a.[7]

* Es wurden nur solche Steueranpassungen beachtet, die einen direkten Einfluss auf die Ertragssteuern haben. Andere mögliche (theoretische) Anpassungen und sonstige Anpassungen der Erfolgsrechnung wurden, wegen der unterschiedlichen steuerlichen Behandlung in den verschiedenen Ländern in denen die Addiko Gruppe tätig ist, nicht berücksichtigt.

1 Die durchschnittlichen Vermögenswerte wurden als einfacher Durchschnitt aus der Summe der Vermögenswerte zu Beginn der Periode und der Summe der Vermögensgegenstände am Ende der Periode berechnet.

2 Berechnet auf der Grundlage der (angepassten) Kreditrisikokosten auf finanzielle Vermögenswerte und der kreditrisikotragenden Kreditrisikoposition (Credit Risk Bearing Exposure, CRB) für das jeweils angegebene Geschäftsjahr. Die kreditrisikotragende Kreditrisikoposition besteht aus dem Bruttobuchwert (oder bei außerbilanziellen Positionen aus dem Nennwert) ohne die Kreditrisikoposition zu Nationalbanken sowie Wertpapiere und Derivate und ohne Berücksichtigung von erwarteten Kreditverlusten (einschließlich Garantierückstellungen), gehaltenen Sicherheiten, Saldierungseffekten, anderen Bonitätsverbesserungen oder Transaktionen, die das Kreditrisiko mindern. Für die Berechnung der relevanten Kreditrisikoposition für Wertpapiere werden Marktwerte und für Kredite fortgeführte Anschaffungskosten herangezogen.

3 Berechnet als Summe aus (angepasstem) Personalaufwand, (angepassten) sonstigen Verwaltungs-

aufwendungen und (angepassten) Abschreibungen dividiert durch die Summe aus (angepasstem) Nettozinsergebnis und (angepasstem) Provisionsergebnis.

4 Auf der Basis des (angepassten) Ergebnisses nach Steuern dividiert durch den Durchschnitt des den Aktionären zurechenbaren Eigenkapitals (der Durchschnitt wurde als einfacher Durchschnitt aus dem den Aktionären zurechenbaren Eigenkapital zu Beginn und am Ende der Periode berechnet) für das jeweils angegebene Geschäftsjahr.

5 Auf der Basis des (angepassten) Ergebnisses nach Steuern dividiert durch den Durchschnitt des den Aktionären zurechenbaren Eigenkapitals ohne immaterielle Vermögensgegenstände, Geschäfts- und Firmenwert und überschüssige aufsichtsrechtliche Eigenmittel für das jeweils angegebene Jahr. Der Durchschnitt wurde als einfacher Durchschnitt aus den Beträgen zu Beginn und am Ende der Periode berechnet.

6 Dieses Verhältnis Kosten zu Einkommen in den Geprüften Konzernabschlüssen für die Geschäftsjahre 2016 und 2017 wurde als Summe aus Personalaufwand, sonstigen Verwaltungsaufwendungen und Abschreibungen dividiert durch die Summe aus Nettozinsergebnis und Provisionsergebnis und sonstigen betrieblichen Erträgen berechnet. Dies weicht von der vorstehend angegebenen Berechnungsmethode ab.

7 Ungeprüfte Informationen der Gesellschaft.

(Quelle: Geprüfte Konsolidierte Konzernabschlüsse der Addiko Gruppe und Informationen der Gesellschaft)

Rendite auf das materielle Eigenkapital bei einem Zielwert auf die harte Eigenkapitalquote von 14,1% CET1

Die Rendite auf das materielle Eigenkapital bei einem Zielwert auf die harte Eigenkapitalquote 14,1% CET 1 Quote beläuft sich auf 5,5% für den Dreimonatszeitraum zum 31. März 2019. Das ergibt sich aus den angepassten Ergebnissen, vor Steuer, von EUR 12,9 Millionen multipliziert mit dem Faktor 365/90 um den Betrag auf das gesamte Jahr hochzurechnen, den nachsteuerlichen Ausgaben für ein theoretisches Tier 2 Instrument in Höhe von 2% der gesamten nach risikogewichteten Positionen (*risk weighted assets*) (der Zinskupon basiert auf im Mai 2019 erhaltene Informationen zum Marktumfeld) und einer langfristigen, theoretischen Steuerbelastung von 21% (das heißt ohne latente Steuern zu berücksichtigen). Das materielle Eigenkapital bei einem Zielwert auf die harte Eigenkapitalquote von 14,1% CET1 Quote ist definiert, als das IFRS Eigenkapital der Addiko Gruppe (EUR 828,0 Millionen zum 31. März 2019) abzüglich immaterieller Vermögenswerte (EUR 31,2 Millionen zum 31. März 2019), abzüglich Ausgaben für ein theoretisches Tier 2 Instrument in Höhe von 2% der gesamten nach risikogewichteten Positionen (*risk weighted assets*) und abzüglich überschüssigem CET1 Kapital über dem Zielwert von 14,1% (EUR 156,7 Millionen zum 31. März 2019; der Betrag zum 31. März 2019 wird berechnet als die Differenz zwischen EUR 805,3 Millionen CET1 Kapital und den gesamten risikogewichteten Positionen im Betrag von EUR 4.559,8 Millionen multipliziert mit der Zielwert CET1 Quote von 14,1%). Der Durchschnitt des materiellen Eigenkapitals bei einem Zielwert auf die harte Eigenkapitalquote von 14,1% CET1 wird ausgehend von den Werten zu Beginn und zum Ende des Zeitraums berechnet.

Die Rendite auf das materielle Eigenkapital bei einem Zielwert auf die harte Eigenkapitalquote 14,1% CET 1 Quote beläuft sich auf 4,2% (2,6%) für das Geschäftsjahr 2018 (für das Geschäftsjahr 2017). Das ergibt sich aus den angepassten Ergebnissen, vor Steuer, von EUR 45,4 Millionen (EUR 35,3 Millionen) für das Geschäftsjahr 2018 (für das Geschäftsjahr 2017), den nachsteuerlichen Ausgaben für ein theoretisches Tier 2 Instrument in Höhe von 2% der gesamten nach risikogewichteten Positionen (*risk weighted assets*) (der Zinskupon basiert auf im Mai 2019 erhaltene Informationen zum Marktumfeld) und einer langfristigen, theoretischen Steuerbelastung von 21% (das heißt ohne latente Steuern zu berücksichtigen). Das materielle Eigenkapital bei einem Zielwert auf die harte Eigenkapitalquote von 14,1% CET1 Quote ist definiert, als das IFRS Eigenkapital der Addiko Gruppe (EUR 859,5 Millionen und EUR 844,0 Millionen, jeweils zum 31. Dezember 2018 und 2017) abzüglich immaterieller Vermögenswerte (EUR 30,3 Millionen und EUR 21,8 Millionen jeweils zum 31. Dezember 2018 und 2017), abzüglich Ausgaben für ein theoretisches Tier 2 Instrument in Höhe von 2% der gesamten nach risikogewichteten Positionen (*risk weighted assets*) und abzüglich überschüssigem CET1 Kapital über dem Zielwert von 14,1% (EUR 162,0 Millionen und EUR 39,2 Millionen jeweils zum 31. Dezember 2018 und 2017; der Betrag zum 31. Dezember 2018 wird berechnet als die Differenz zwischen EUR 802,8 Millionen CET1 Kapital und den gesamten risikogewichteten Positionen im Betrag von EUR 4.545,0 Millionen multipliziert mit der Zielwert CET1 Quote von 14,1%; der Betrag zum 31. Dezember 2017 wird berechnet als die Differenz zwischen EUR 695,3 Millionen CET1 Kapital und den gesamten risikogewichteten Positionen im Betrag von EUR 4.653,1 Millionen multipliziert mit der Zielwert CET1 Quote von

		14,1%). Der Durchschnitt des materiellen Eigenkapitals bei einem Zielwert auf die harte Eigenkapitalquote von 14,1% CET1 wird ausgehend von den Werten zu Beginn und zum Ende des Zeitraums berechnet.
	Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.	Zwischen dem 31. März 2019 und dem Datum dieses Prospekts gab es keine wesentlichen Änderungen des Geschäfts, der Finanzlage oder des Betriebsergebnisses der Addiko Gruppe.
B.8	**Ausgewählte wesentliche Pro-forma-Finanz-informationen.**	Entfällt. Die Gesellschaft hat keine Pro-forma-Finanzinformationen erstellt.
B.9	**Gewinnprognosen oder -schätzungen.**	Entfällt. Die Gesellschaft hat keine Gewinnprognosen oder -schätzungen abgegeben.
B.10	**Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.**	Entfällt. Die Bestätigungsvermerke für die in diesem Prospekt enthaltenen historischen Finanzinformationen wurden jeweils uneingeschränkt erteilt.
B.11	**Nichtausreichen des Geschäftskapitals des Emittenten zur Erfüllung bestehender Anforderungen.**	Entfällt. Das Geschäftskapital der Gesellschaft reicht für ihre derzeitigen Bedürfnisse aus.
C.	**Wertpapiere**	
C.1	**Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere, einschließlich Wertpapierkennung.**	Auf den Inhaber lautenden Stammaktien ohne Nennbetrag (Stückaktien), jeweils mit einem anteiligen Betrag am Grundkapital der Gesellschaft von EUR 10,00 und mit Gewinnanteilberechtigung ab dem 1. Januar 2019. International Securities Identification Number (ISIN) der Bestehenden Aktien: AT000ADDIKO0.
C.2	**Währung der Wertpapieremission.**	EUR.
C.3	**Zahl der ausgegebenen und voll eingezahlten und der ausgegebenen, aber nicht voll eingezahlten Aktien**	Das Grundkapital der Gesellschaft beträgt EUR 195.000.000,00, eingeteilt in 19.500.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag (*Stückaktien*). Sämtliche Aktien sind voll eingezahlt.
	Nennwert pro Aktie bzw. Angabe, dass die Aktien keinen Nennwert haben.	Jede der Bestehenden Aktien repräsentiert einen anteiligen Betrag von EUR 10,00 am Grundkapital der Gesellschaft.
C.4	**Beschreibung der mit den Wertpapieren verbundenen Rechte**	Jede der Bestehenden Aktien gewährt dem Aktionär in den Hauptversammlungen der Gesellschaft eine Stimme und ist ab dem 1. Januar 2019 gewinnanteilberechtigt. Beschränkungen des Stimmrechts bestehen nicht. Die Stimmrechte sind für alle Aktionäre der Gesellschaft identisch. Im Falle der Liquidation der Gesellschaft werden etwaige Vermögensgegenstände, die nach der Erfüllung aller Verbindlichkeiten der Gesellschaft verbleiben, an die Aktionäre anteilig im Verhältnis zur Höhe ihrer jeweiligen Beteiligung am Grundkapital der Gesellschaft verteilt.

C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.**	Entfällt. Die Bestehenden Aktien sind in Übereinstimmung mit den gesetzlichen Anforderungen für auf den Inhaber lautende Stammaktien frei übertragbar. Es bestehen mit Ausnahme der in E.5 beschriebenen Lock-up-Vereinbarungen keine Beschränkungen für die freie Übertragbarkeit der Bestehenden Aktien.
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel in einem geregelten Markt beantragt wurde bzw. werden soll, Nennung aller geregelten Märkte, an denen die Wertpapiere gehandelt werden oder werden sollen.**	Die Gesellschaft wird am oder um den 11. Juli 2019 die Zulassung der Bestehenden Aktien zum Amtlichen Handel der Wiener Börse (der ***Amtliche Handel***), Primärmarktsegment, beantragen und in Verbindung mit diesem Antrag diesen Prospekt veröffentlichen. Der Handel der Bestehenden Aktien wird ab oder um den 12. Juli 2019 erwartet.
C.7	**Beschreibung der Dividendenpolitik.**	Die Anteile der Aktionäre am Gewinn der Gesellschaft bestimmen sich nach ihren jeweiligen Anteilen am Grundkapital der Gesellschaft. Bei einer österreichischen Aktiengesellschaft wird die Ausschüttung von Dividenden für ein Geschäftsjahr und deren Höhe und Tag der Zahlung im darauffolgenden Jahr in der ordentlichen Hauptversammlung der Gesellschaft auf der Basis eines Vorschlags des Vorstands und Aufsichtsrats, an den die ordentliche Hauptversammlung nicht gebunden ist, beschlossen. Falls eine Dividende beschlossen wird, erfolgt die Ausschüttung an die Aktionäre anteilig im Verhältnis zu den geleisteten Einlagen auf das Grundkapital. Einlagen, die im Lauf des Geschäftsjahres geleistet wurden, werden nach dem Verhältnis der Zeit berücksichtigt, die seit der Leistung verstrichen ist. Nach der Ausgabe neuer Aktien können andere Regeln für die Gewinnanteilberechtigung festgelegt werden. Die Bestehenden Aktien sind ab dem 1. Januar 2019 gewinnanteilberechtigt, d. h. für das volle Geschäftsjahr 2019 und für alle darauffolgenden Geschäftsjahre. Die Fähigkeit der Gesellschaft zur Zahlung von Dividenden bestimmt sich nach dem nicht konsolidierten Jahresabschluss der Gesellschaft, der nach dem österreichischen Unternehmensgesetzbuch (das ***Unternehmensgesetzbuch***) und anderen anwendbaren österreichischen Rechtsvorschriften (***allgemein anerkannte österreichische Rechnungslegungsgrundsätze***) aufgestellt wird. Dividenden können nur aus dem Bilanzgewinn beschlossen und gezahlt werden, der in dem nicht konsolidierten Jahresabschluss ausgewiesen ist, der vom Aufsichtsrat oder von der ordentlichen Hauptversammlung der Gesellschaft genehmigt wurde. Bei der Ermittlung des ausschüttungsfähigen Betrages ist der Jahresüberschuss bzw. –fehlbetrag anzupassen, um Gewinn- oder Verlustvorträge aus Vorjahren sowie Entnahmen und oder Einstellungen in die Rücklagen zu berücksichtigen. Die Bildung bestimmter Rücklagen ist gesetzlich vorgeschrieben, und diese Rücklagen sind daher von dem Jahresüberschuss abzuziehen. Die Gesellschaft hat für die am 31. Dezember 2018, 2017 und 2016 abgelaufenen Geschäftsjahre Dividenden in Höhe von EUR 50 Mio. bzw. EUR 170 Mio. bzw. EUR 430 Mio. ausgeschüttet. Dies erlaubt keine Aussage über zukünftige Dividendenzahlungen. In der Regel wird von gezahlten Dividenden Kapitalertragsteuer einbehalten. Die zukünftige Fähigkeit und Absicht der Gesellschaft zur Zahlung von Dividenden wird von ihrer Finanz- und Ertragslage, ihrem Kapitalbedarf, Anlagealternativen und weiteren Faktoren abhängen, die der Vorstand und Aufsichtsrat gegebenenfalls für relevant halten, und alle Vorschläge des Vorstands und Aufsichtsrats bezüglich Dividendenzahlungen bedürfen der Genehmigung in der ordentlichen Hauptversammlung. Da die Gesellschaft eine Aktiengesellschaft österreichischen Rechts ist, wird ihre Fähigkeit zur Zahlung von Dividenden von der Höhe ihres gemäß allgemein anerkannten österreichischen

Rechnungslegungsgrundsätzen ermittelten Bilanzgewinns im jeweiligen Jahr abhängen.

D. Risiken

D.1	**Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind.**	Eine Anlage in die Bestehenden Aktien ist mit einer Reihe von Risiken verbunden. Die folgenden Risiken könnten alleine oder zusammen mit zusätzlichen Risiken und Unwägbarkeiten, die der Gesellschaft derzeit nicht bekannt sind oder die die Gesellschaft derzeit für unwesentlich hält, das Geschäft der Gesellschaft, ihre Finanz- und Ertragslage und ihre Aussichten wesentlich nachteilig beeinflussen. Falls sich eines dieser Risiken verwirklicht, könnten Anleger ihre Anlage ganz oder teilweise verlieren. Risiken im Zusammenhang mit dem gesamtwirtschaftlichen Umfeld und der Finanzstabilität: ▪ Das Geschäft der Addiko Gruppe ist Risiken im Zusammenhang mit dem weltweiten gesamtwirtschaftlichen Umfeld ausgesetzt. ▪ Die Addiko Gruppe ist Risiken im Zusammenhang mit dem gesamtwirtschaftlichen und politischen Umfeld im CSEE-Raum ausgesetzt. ▪ Die Addiko Gruppe ist Risiken im Zusammenhang mit den noch in der Entwicklung befindlichen rechtlichen Rahmenbedingungen im CSEE-Raum ausgesetzt. ▪ Der geschäftliche Erfolg der Addiko Gruppe hängt von den weltweiten politischen Rahmenbedingungen ab. ▪ Serbien, Montenegro und Bosnien und Herzegowina könnten der Europäischen Union nie beitreten oder ihr Beitritt könnte sich erheblich verzögern, und dies könnte sich negativ auf das politische und wirtschaftliche Umfeld in diesen Ländern auswirken. ▪ Die Abschaffung des Euro oder die Auflösung der Europäischen Währungsunion könnte erhebliche nachteilige Auswirkungen auf das Geschäft und die Finanz- und Ertragslage der Addiko Gruppe haben. Risiken im Zusammenhang mit der Geschäftstätigkeit der Addiko Gruppe und der Branche, in der sie tätig ist: ▪ Die Addiko Gruppe hat den Schwerpunkt ihrer Geschäftstätigkeit auf unbesicherten Kunden und SME und ist daher dem Risiko einer abnehmenden Nachfrage und/oder Profitabilität dieser Produkte sowie höheren Kreditrisiken dieser Kunden ausgesetzt. ▪ Die Addiko Gruppe könnte ihre geschäftlichen und strategischen Ziele verfehlen. Ihre in der Vergangenheit erzielten Ergebnisse sind möglicherweise nicht repräsentativ für ihre zukünftigen Ergebnisse, und ihre Zwischenergebnisse sind nicht unbedingt ein Indikator für ihre Gesamtjahresergebnisse. ▪ Verzögerungen oder eine unvollständige Umsetzung von Digitalisierungsprozessen können erhebliche Auswirkungen auf die Geschäftsergebnisse kommender Jahre haben und sich negativ auf die Entwicklung der Geschäftsstrategie der Addiko Gruppe auswirken. ▪ Die Addiko Gruppe ist einem starken Wettbewerb ausgesetzt, der erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben könnte. ▪ Die Addiko Gruppe ist Kreditrisiken ausgesetzt, und eine Zunahme notleidender Kredite könnte erhebliche nachteilige Auswirkungen auf ihr Geschäft und ihre Finanz- und Ertragslage haben. ▪ Die Addiko Gruppe ist dem Risiko von Verlusten aufgrund von Wechselkursänderungen ausgesetzt, die erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben könnten. ▪ Die Addiko Gruppe könnte nicht in der Lage sein, ihre derzeitigen Margen aus

dem Kredit- und Einlagengeschäft beizubehalten.

- Die Addiko Gruppe ist Risiken hinsichtlich der Bonität von Kunden und Gegenparteien ausgesetzt, die erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben könnten.

- Die Addiko Gruppe könnte Verlustrisiken ausgesetzt sein, falls sich wesentliche Beurteilungen oder Schätzungen bei der Bilanzierung im Nachhinein als unrichtig oder unzutreffend erweisen sollten.

- Die operativen Systeme der Addiko Gruppe sind einem zunehmenden Risiko von Cyber-Angriffen und anderer Internetkriminalität ausgesetzt, die wesentliche Verluste von Kundeninformationen, eine Schädigung des Rufs der Addiko Gruppe und behördliche Strafen und finanzielle Verluste zur Folge haben könnten.

- Die Addiko Gruppe hat einen kontinuierlichen Bedarf an Liquidität zur Finanzierung ihrer Geschäftsaktivitäten und ist Liquiditätsrisiken ausgesetzt, die sich negativ auf ihre Fähigkeit zur Erfüllung ihrer Verbindlichkeiten auswirken könnten.

- Die Addiko Gruppe ist vom Vertrauen ihrer Kunden in das Bankensystem und das Geschäft der Addiko Gruppe abhängig. Ein Vertrauensverlust kann zur Folge haben, dass eine höhere Anzahl an Kunden ihre Einlagen abziehen, und dies könnte erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben.

- Konsumenten, Konsumentenschutzorganisationen, Gerichte oder Aufsichtsbehörden könnten im Zusammenhang mit der Einhaltung geltender Anforderungen gegen unbesicherte Kreditprodukte der Addiko Gruppe vorgehen.

- Sollte es der Addiko Gruppe nicht gelingen, sich an den raschen technologischen Wandel anzupassen, könnte ihre Wettbewerbsfähigkeit abnehmen.

- Aufgrund einer Unzulänglichkeit oder eines Versagens interner Verfahren, Mitarbeiter und Systeme oder aufgrund von externen Ereignissen könnten unerwartete Verluste eintreten.

- Die von der Addiko Gruppe abgeschlossenen Versicherungen und ihre eigenen Risikoprämien könnten nicht ausreichen, um bestimmte zukünftige Verluste abzudecken.

- Ein Ausfall der EDV-Systeme der Addiko Gruppe könnte ihre Geschäftsaktivitäten erheblich beeinträchtigen.

- Die Addiko Gruppe ist operationellen Risiken im Zusammenhang mit Problemen bei ihren zentralen Outsourcing-Dienstleistern, wie z. B. Betriebsunterbrechungen, sowie im Zusammenhang mit ihrem Betriebsmodell ausgesetzt.

- Kündigungen oder der Verlust von Schlüsselmitarbeitern, einschließlich Mitgliedern des Vorstands, und mögliche Schwierigkeiten, qualifizierte Mitarbeiter zu gewinnen oder zu halten, könnten die Fähigkeit der Addiko Gruppe zur Umsetzung ihrer Strategie beeinträchtigen.

- Risiken im Zusammenhang mit Modellen, die bei vielen Aktivitäten der Addiko Gruppe verwendet werden. Falls sich diese Modelle als unzutreffend erweisen sollten, könnte ihr Risikomanagement wirkungslos oder beeinträchtigt sein und/oder der Wert ihrer finanziellen Vermögenswerte und Verbindlichkeiten könnte zu hoch oder zu niedrig eingeschätzt werden.

- Eine Herabstufung des Ratings der Addiko Gruppe könnte ihre Finanzierungskosten erhöhen und wesentliche nachteilige Auswirkungen auf ihre Liquidität und Profitabilität, ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben.

- Die Addiko Gruppe könnte Schwierigkeiten haben, Akquisitionsgelegenheiten zu

finden und wahrzunehmen, und sowohl die Durchführung als auch die Vermeidung von Akquisitionen könnten wesentliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben.

- Die Addiko Gruppe ist Risiken im Zusammenhang mit Annahmen bezüglich Pensionsverpflichtungen ausgesetzt.

- Die Addiko Gruppe hat keine Erfahrung darin, mit ihrer derzeitigen strategischen Ausrichtung eine Rezession zu bewältigen.

Risiken im Zusammenhang mit regulatorischen, rechtlichen und steuerlichen Fragen:

- Vergangene, laufende und nicht absehbare zukünftige Reformen und Initiativen in der Gesetzgebung oder Aufsicht, einschließlich zusätzlicher und strengerer Vorschriften und Einflussnahme der öffentlichen Hand auf den Finanzsektor könnten wesentliche nachteilige Auswirkungen auf das Geschäft und die Finanz- und Ertragslage und Aussichten der Addiko Gruppe haben.

- Rechtsvorschriften für die Abwicklung von Banken und insbesondere die Befugnisse von Abwicklungsbehörden, die Abwicklungsfähigkeit sicherzustellen und Anteilseigner und Gläubiger in einer Krisensituation zur Mitwirkung zu zwingen, könnten, falls solche Maßnahmen zur Sicherstellung des Fortbestands der Addiko Gruppe oder wesentlicher Bereiche von ihr ergriffen werden, erhebliche Auswirkungen auf die Geschäftsaktivitäten der Addiko Gruppe haben und zur Folge haben, dass Aktionäre der Addiko Gruppe ihre gesamte Beteiligung an der Gesellschaft verlieren.

- Erhöhte Eigenkapital- und Liquiditätsanforderungen, einschließlich Anforderungen an die Verschuldungsquote und erweiterte Aufsichtsbefugnisse, höhere Eigenmittel oder Liquidität gemäß der CRD IV/CRR zu verlangen, und geplante Änderungen könnten sich nachteilig auf die Profitabilität der Addiko Gruppe auswirken.

- Mindestanforderungen an Eigenmittel und berücksichtigungsfähige Verbindlichkeiten, wie sie von der zuständigen Abwicklungsbehörde gemäß dem Bundesgesetz über die Sanierung und Abwicklung von Banken und der Verordnung über den einheitlichen Abwicklungsmechanismus vorgeschrieben werden, könnten sich nachteilig auf die Profitabilität der Addiko Gruppe und ihre Fähigkeit zur Zahlung von Dividenden auswirken.

- Die Addiko Gruppe ist Risiken im Zusammenhang mit Feststellungen, die sich aus Prüfungen, Inspektionen und ähnlichen Untersuchungen von Aufsichtsbehörden ergeben, ausgesetzt.

- Die Addiko Gruppe ist Risiken im Zusammenhang mit Einlagensicherungssystemen ausgesetzt.

- Das Geschäft der Addiko Gruppe könnte durch die Anforderungen für zentrales Clearing, Meldung, Risikominderung und andere Compliance-Anforderungen gemäß der Europäischen Marktinfrastruktur-Verordnung (Verordnung (EU) Nr. 648/2012 des Europäischen Parlaments und des Rates vom 4. Juli 2012 über OTC-Derivate, zentrale Gegenparteien und Transaktionsregister oder ***EMIR***) und der Neufassung der Europäischen Finanzmarktrichtlinie (Richtlinie 2014/65/EU des Europäischen Parlaments und des Rates vom 15. Mai 2014 über Märkte für Finanzinstrumente sowie zur Änderung der Richtlinien 2002/92/EG und 2011/61/EU oder ***MiFID II***) und der neuen Verordnung (EU) Nr. 600/2014 des Europäischen Parlaments und des Rates vom 15. Mai 2014 über Märkte für Finanzinstrumente und zur Änderung der Verordnung (EU) Nr. 648/2012 (die Finanzmarktverordnung oder ***MiFIR***) erheblich belastet werden.

- Die Addiko Gruppe unterliegt einer Vielzahl an Gesetzen und Vorschriften und ist zahlreichen Arten von Risiken ausgesetzt, die sich aus der Einhaltung dieser Gesetze und Vorschriften ergeben.

- Das Geschäft der Addiko Gruppe könnte durch regulatorische Änderungen, die

sich auf Transaktionsgebühren auswirken, erheblich belastet werden.

- Der Zugang der Addiko Gruppe zu Liquidität und Refinanzierung könnte durch eine Änderung der Standardkriterien der Europäischen Zentralbank (***EZB***) für Sicherheiten beeinträchtigt werden.

- Die Kosten, die der Addiko Gruppe für die Einhaltung von Vorschriften und Sanktionen im Zusammenhang mit der Bekämpfung von Geldwäsche, Steuerhinterziehung und Terrorismusfinanzierung entstehen, sind erheblich und könnten weiter steigen. Eine Nichteinhaltung dieser und ähnlicher Vorschriften kann schwerwiegende rechtliche Konsequenzen und Folgen für ihren Ruf haben.

- Die Addiko Gruppe verwendet standardisierte Verträge und standardisierte Geschäftsbedingungen, insbesondere in ihren wichtigen auf Privatkunden ausgerichteten Geschäftssegmenten. Hierdurch erhöht sich das Risiko, dass, falls irgendeine Bestimmung für nichtig erklärt werden sollte, diese Bestimmung in einer großen Anzahl an Verträgen unwirksam oder nicht durchsetzbar ist.

- Die Addiko Gruppe könnte Gesetze und Vorschriften zum Schutz personenbezogener Daten nicht einhalten.

- Eine Verschärfung von Konsumentenschutzgesetzen und/oder deren Auslegung sowie die Einhaltung von Vorschriften im Rahmen der nationalen Umsetzung der MiFID II könnten sich nachteilig auf die Profitabilität von Bankgeschäften mit Konsumenten auswirken.

- Änderungen in der Finanzberichterstattung der Addiko Gruppe, wie z.B. Änderungen der IFRS, könnten erhebliche Auswirkungen auf die Finanzergebnisse und regulatorischen Kapitalquoten der Addiko Gruppe haben.

- Trotz der Grundsätze, Verfahren und Methoden des Risikomanagements der Addiko Gruppe könnte sie nicht identifizierten oder unerwarteten Risiken ausgesetzt sein, die erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben könnten.

- Die Addiko Gruppe ist Partei einer Reihe von Gerichtsverfahren und aufsichtsbehördlichen Verfahren bzw. könnte in Zukunft Partei solcher Verfahren werden, deren Ausgang erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben könnte.

- Die Addiko Gruppe ist in einem immer stärker regulierten Umfeld tätig, und die Nichteinhaltung der betreffenden Vorschriften kann behördliche Untersuchungen, regulatorische Beschränkungen, Strafen, Unterlassungsansprüche, Rechtsstreitigkeiten und Strafverfolgung nach sich ziehen. Darüber hinaus ist die Addiko Gruppe dem Risiko von politischer Einflussnahme und Ad-hoc-Rechtsvorschriften ausgesetzt.

- Die Einhaltung oder Nichteinhaltung von auf die Addiko Gruppe anwendbaren Rechtsvorschriften könnte erhebliche nachteilige Auswirkungen auf ihr Geschäft, ihre Finanz- und Ertragslage und ihre Aussichten haben.

- Noch in der Entwicklung befindliche Rechts- und Steuersysteme in einigen der Länder, in denen die Addiko Gruppe tätig ist, könnten erhebliche nachteilige Auswirkungen auf die Gesellschaft haben.

- Die Addiko Gruppe ist Risiken im Zusammenhang mit steuerlichen Verlustvorträgen ausgesetzt.

D.3	**Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind.**	Risiken im Zusammenhang mit der Aktionärsstruktur und den Bestehenden Aktien: ▪ Nach der Durchführung der Privatplatzierung wird der Abgebende Aktionär nicht länger eine Mehrheitsbeteiligung an der Addiko Gruppe haben. Dies könnte einen Verlust von Geschäftsmöglichkeiten zur Folge haben. ▪ Die Bestehenden Aktien wurden bisher nicht an einer Börse gehandelt, und es ist

nicht garantiert, dass sich nach dem Börsengang ein liquider Markt entwickeln.

- Zukünftige Kapitalerhöhungen könnten eine Verwässerung und erhebliche Rückgänge des Werts der Bestehenden Aktien zur Folge haben und damit die Anteile der Aktionäre an der Gesellschaft verwässern.
- Der Kurs und das Handelsvolumen der Bestehenden Aktien könnten erheblich schwanken und Anleger könnten ihre Anlage insgesamt oder teilweise verlieren.
- Die Fähigkeit der Gesellschaft zur Zahlung von Dividenden oder zur Erreichung ihrer Ziel-Ausschüttungsquote hängt in erster Linie vom Zufluss von Finanzmitteln von den Tochtergesellschaften der Gesellschaft ab, und die Gesellschaft könnte in zukünftigen Geschäftsjahren nicht in der Lage sein, eine Dividende zu zahlen, da ihr aufgrund von gesetzlichen Beschränkungen, ihrer Entscheidung, Kapital für Akquisitionen einzubehalten, oder aus anderen Gründen kein Bilanzgewinn zur Ausschüttung zur Verfügung steht.
- Die Börsennotierung der Gesellschaft könnte dazu führen, dass die Addiko Gruppe zusätzliche Verwaltungsanforderungen einhalten muss und ihr höhere laufende Kosten entstehen.
- Anleger mit einer anderen Referenzwährung als dem Euro sind bei einer Anlage in die Bestehenden Aktien dem Wechselkursrisiko ausgesetzt.
- Die Rechte der Aktionäre einer österreichischen Aktiengesellschaft können sich von den Rechten der Anteilseigner einer Kapitalgesellschaft nach dem Recht einer anderen Rechtsordnung unterscheiden.
- Die Bestehende Aktionärin wird nach der Durchführung der Privatplatzierung (wie in E.1 definiert) weiterhin eine wesentliche Beteiligung an der Addiko Gruppe halten.
- Eine Aussetzung des Handels in den Bestehenden Aktien könnte sich nachteilig auf den Aktienkurs auswirken.

E. Angebot

E.1 Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/ des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.

Entfällt. Es wird kein öffentliches Angebot geben.

Im Hinblick auf die erwartete Zulassung der Aktien, der Gesellschaft, zum Handel am Amtlichen Markt der Wiener Börse am 25. Juni 2019 haben die Gesellschaft, die Bestehende Aktionärin, zusammen mit der Citigroup Global Markets Limited und Goldman Sachs International (zusammen die ***Joint Global Coordinators und Joint Bookrunners***), Erste Group Bank AG, Keefe, Bruyette & Woods und Raiffeisen Centrobank AG als weitere Joint Bookrunners (zusammen mit den Joint Global Coordinators und Joint Bookrunners, den ***Joint Bookrunners*** oder den ***Konsortialbanken***) eine Privatplatzierung von Platzierungsaktien (wie unten definiert) aus dem Bestand des verkaufenden Aktionärs, initiiert.

Die Privatplatzierung besteht aus insgesamt 10.725.001 auf den Inhaber lautenden Stammaktien ohne Nennbetrag (Stückaktien), jeweils mit einem anteiligen Betrag am Grundkapital der Gesellschaft von EUR 10,00 und mit Gewinnanteilberechtigung ab dem 1. Januar 2019, bestehend aus:

- 9.750.001 bestehenden auf den Inhaber lautenden Stammaktien ohne Nennbetrag (Stückaktien) (die ***Verbindlichen Aktien*** aus dem Eigentum der Bestehenden Aktionärin; und
- bis zu 975,000 bestehenden auf den Inhaber lautenden Stammaktien ohne Nennbetrag (Stückaktien) (die ***Mehrzuteilungsaktien***, zusammen mit den Verbindlichen Aktien die ***Platzierungsaktien***) aus dem Eigentum der Bestehenden Aktionärin, um eine mögliche Mehrzuteilung (wie in E.3 definiert) abzudecken.

Für die Zwecke der Zulassung zum Amtlichen Handel bezieht sich dieser Prospekt auf alle Bestehenden Aktien.

		Im Zusammenhang mit der möglichen Mehrzuteilung hat der verkaufende Aktionär den Konsortialbanken die Option eingeräumt, eine Anzahl von Aktien zu erwerben, die der Anzahl der Mehrzuteilungsaktien zum Platzierungspreis von EUR 16.00 pro Platzierungsaktie entspricht minus der vereinbarten Provisionen (die ***Greenshoe Option***). Die Greenshoe-Option kann vom Stabilisierungsmanager nur während des Stabilisierungszeitraums ausgeübt werden und endet 30 Kalendertage nach dem Datum des Handelsbeginns für die auf dem amtlichen Markt vorhandenen Anteile. Die Gesellschaft wird keine Erlöse aus der Privatplatzierung erhalten. Die Gesamtkosten und –ausgaben der Privatplatzierung und der Börsenzulassung werden sich voraussichtlich auf ca. EUR 14.666.941 belaufen, die von der Bestehenden Aktionärin getragen wird. Die Bestehenden Aktionärin wird die Nettoerlöse aus dem Verkauf der Verbindlichen Aktien und die Erlöse aus einem potenziellen Verkauf von Mehrzuteilungsaktien, soweit die Greenshoe-Option ausgeübt wird, in einem Gesamtbetrag in Höhe von EUR 14.666.941 erhalten. Die Gesellschaft schätzt, dass die Bruttoerlöse der Bestehenden Aktionärin (unter der Annahme, dass die Greenshoe-Option vollumfänglich ausgeübt wird) ca. EUR 171.600.016 betragen werden. Unter der Annahme, dass die Greenshoe-Option vollumfänglich ausgeübt wird, und unter der weiteren Annahme, dass die ermessensabhängige Gebühr von maximal EUR 3.222.508 in voller Höhe gezahlt wird, wird die an die Konsortialbanken zu zahlende Provision EUR 14.666.941 betragen.
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse.**	Entfällt. Es wird kein öffentliches Angebot geben. Die Gesellschaft beabsichtigt ferner, durch die geplante Zulassung der Bestehenden Aktien zum Amtlichen Handel einen besseren Zugang zu den Kapitalmärkten zu erhalten. Darüber hinaus könnte die Gesellschaft nach der Durchführung der Privatplatzierung im prime market (dem höchsten Marktsegment der Wiener Börse, in dem Aktien von Gesellschaften zusammengefasst sind, welche sich über die für die Zulassung von Aktien zum Amtlichen Handel geltenden gesetzlichen Bestimmungen des Börsengesetzes hinaus in einem privatrechtlichen Vertrag zwischen dem jeweiligen Emittenten und der Wiener Börse AG zur Einhaltung erhöhter Transparenz-, Qualitäts- und Publizitätskriterien verpflichten, die im Regelwerk prime market beschrieben sind) weitere Aktien als Akquisitionswährung in möglichen zukünftigen M&A-Transaktionen ausgeben. Die Bestehende Aktionärin wird die Nettoerlöse aus der Privatplatzierung erhalten. Die Gesellschaft wird keine Erlöse aus der Privatplatzierung erhalten.
E.3	**Beschreibung der Angebotskonditionen.**	Entfällt. Es wird kein öffentliches Angebot geben.
E.4	**Beschreibung aller für die Emission/das Angebot wesentlichen Interessen, einschließlich Interessen-konflikten.**	In Abhängigkeit vom Closing der Privatplatzierung der Verbindlichen Aktien und der Ausübung der Greenshoe-Option wird die Bestehende Aktionärin die Erlöse aus dem Verkauf der Verbindlichen Aktien und der Mehrzuteilungsaktien (nach Abzug von Gebühren und Provisionen) erhalten. Daher hat die Bestehende Aktionärin ein Interesse an der erfolgreichen Durchführung des Angebots zu den bestmöglichen Konditionen. Im Zusammenhang mit dem Angebot der Platzierungsaktien und der Börsenzulassung der Bestehenden Aktien sind die Konsortialbanken ein Vertragsverhältnis mit der Gesellschaft und der Bestehenden Aktionärin eingegangen. Die Konsortialbanken handeln bei dem Angebot für die Gesellschaft und die Bestehende Aktionärin. Nach erfolgreicher Durchführung des Angebots werden die Konsortialbanken eine Provision erhalten, deren Höhe von den Ergebnissen des Angebots abhängt. Aufgrund dieser Vertragsverhältnisse haben die Konsortialbanken ein finanzielles Interesse an der erfolgreichen Durchführung des Angebots zu den bestmöglichen Konditionen. Gemäß den Bedingungen des Investitionsvertrags vom 2. Dezember 2015 (***Investitionsvertrag***) zwischen der AI Lake (Luxembourg) Holding S.à r.l., der Bestehenden Aktionärin, der AI Lake & Cy SCA, der AI Lake (Luxembourg) Management S.à r.l. und bestimmten Personen, haben solche bestimmte Personen durch die AI Lake & Cy SCA Anteile an der Bestehenden Aktionärin, dem einzigen Aktionär

der Gesellschaft, erworben. Einige der investierenden Personen sind oder waren Mitglieder des Aufsichtsrats oder des Vorstands. Durch den Investitionsvertrag ist die AI Lake (Luxembourg) Holding S.à r.l. berechtigt, im Falle einer Börsenzulassung der Aktien der Gesellschaft, zu bestimmen, wie die Aktien der Bestehenden Aktionärin, einschließlich jener, die von der AI Lake & Cy SCA gehalten werden, in Aktien der Gesellschaft umgewandelt oder bar abgefunden werden, wobei eine solche Entscheidung auf jeden Aktionär gleichermaßen und anteilig angewendet wird. Der in einem solchen Fall von der AI Lake & Cy SCA realisierte Erlös wird dann nach den Bestimmungen des Investitionsvertrags verteilt oder, im Einklang mit dem anzuwendenden Recht, anteilig an die Aktionäre der AI Lake & Cy SCA ausgeschüttet. Bei einem Erlös von EUR 156.933.075 würden die jene investierten Personen, die aktuell Mitglieder des Aufsichtsrates der Gesellschaft sind, einen Gesamtbetrag von EUR 17.898.013 erhalten. Darüber hinaus würden jene investierten Personen, die aktuell Mitglieder des Vorstandes sind, einen Betrag von EUR 8.072.543 erhalten, und diese Mitglieder des Vorstands haben sich verpflichtet, davon 50% (nach Steuern) in Aktien im Rahmen der Privatplatzierung zu investieren, wobei übliche Lock-up Vereinbarungen von 365 Tagen zur Anwendung gelangen. Zusätzlich würden diese Mitglieder des Vorstands eine einmalige Ausschüttung auf bereits akkumulierte Erträge ihrer Investition in Höhe von EUR 19.462.834 erhalten, sofern der Bestehende Aktionär seine Beteiligung auf unter 25% reduzieren würde.

Ferner kann im Zusammenhang mit der Privatplatzierung jede der Konsortialbanken bzw. jedes ihrer verbundenen Unternehmen für eigene Rechnung Platzierungsaktien im Rahmen des Angebots erwerben und solche Platzierungsaktien oder damit verbundene Anlagen in dieser Eigenschaft für eigene Rechnung halten, kaufen oder verkaufen und solche Platzierungsaktien oder damit verbundene Anlagen auch außerhalb des Angebots anbieten oder verkaufen. Zudem können bestimmte Konsortialbanken bzw. ihre verbundenen Unternehmen Finanzierungsvereinbarungen (einschließlich Swaps oder Differenzkontrakten) mit Anlegern abschließen, gemäß denen diese Konsortialbanken (bzw. ihre verbundenen Unternehmen) von Zeit zu Zeit Platzierungsaktien erwerben, halten oder veräußern können. Keine der Konsortialbanken beabsichtigt, über den Umfang solcher Anlagen oder Geschäfte mehr Informationen offenzulegen, als dies nach Maßgabe gesetzlicher oder aufsichtsrechtlicher Pflichten erforderlich ist.

Die Konsortialbanken bzw. ihre verbundenen Unternehmen unterhalten geschäftliche Beziehungen, einschließlich Darlehensgeschäften zu der Gesellschaft, der Addiko Gruppe und der Bestehenden Aktionärin, und können solche Beziehungen zukünftig weiter unterhalten oder im Rahmen ihres gewöhnlichen Geschäftsbetriebs Dienstleistungen für die Gesellschaft, die Addiko Gruppe oder die Bestehende Aktionärin erbringen.

E.5 **Name der Person/des Unternehmens, die/das das Wertpapier zum Verkauf anbietet.**

Entfällt. Es wird kein öffentliches Angebot geben. Die Platzierungsaktien werden von den Joint Bookrunnern im Rahmen von Privatplatzierungen zum Verkauf angeboten.

Lock-up-Vereinbarungen; die beteiligten Parteien und die Lock-up-Frist.

Mit dem Übernahmevertrag hat sich die Gesellschaft gegenüber den Konsortialbanken verpflichtet, in dem Zeitraum, der am Tag des Übernahmevertrag beginnt und 180 Tage nach dem ersten Handelstag der Bestehenden Aktien an der Wiener Börse endet, von bestimmten Maßnahmen in Bezug auf Kapitalerhöhungen und Maßnahmen mit ähnlicher Wirkung ohne vorherige schriftliche Zustimmung der Joint Global Coordinators, vorbehaltlich bestimmter Ausnahmen zu dieser Einschränkung, wie etwa zur Einhaltung regulatorischer Mindestanforderungen, abzusehen.

In dem Übernahmevertrag hat sich die Bestehende Aktionärin unter anderem gegenüber den Konsortialbanken verpflichtet, in dem Zeitraum, der am Tag des Übernahmevertrag beginnt und 180 Tage nach dem ersten Handelstag der Bestehenden Aktien an der Wiener Börse endet, bestimmte Transaktionen in Bezug auf seine Aktien nicht durchzuführen oder an bestimmten Maßnahmen in Bezug auf das Grundkapital der Gesellschaft nicht teilzunehmen ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators einzuholen, die nicht unangemessen zurückgehalten oder verzögert werden darf, vorbehaltlich bestimmter Ausnahmen zu dieser Einschränkung, wie im Zusammenhang mit der Annahme seitens des Bestehenden Aktionärs eines öffentlichen

		Übernahmeangebots hinsichtlich der Gesellschaft. Darüber hinaus haben sich die Mitglieder des Vorstands gegenüber den Konsortialbanken verpflichtet, in dem Zeitraum, der am Tag des Übernahmevertrag beginnt und 365 Tage nach dem ersten Handelstages der Bestehenden Aktien an der Wiener Börse endet, keine ihrer Aktien an der Gesellschaft zu verkaufen oder ähnliche Transaktionen durchzuführen, vorbehaltlich bestimmter Ausnahmen zu dieser Einschränkung, wie Verkäufe zur Aufbringung liquider Mittel zur Zahlung persönlicher Steuer- oder Kreditverbindlichkeiten.
E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Fall eines Zeichnungs-angebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das neue Angebot nicht zeichnen.**	Entfällt. Es wird kein öffentliches Angebot geben. Die Privatplatzierung umfasst nur Bestehende Aktien und führt zu keiner Verwässerung. Der nach IFRS ermittelte Nettobuchwert der Addiko Gruppe zum 31. März 2019 betrug EUR 828,0 Mio. Der Nettobuchwert ist die Differenz zwischen der Summe der Vermögenswerte, die EUR 6.108,4 Mio. betrug, und der Summe der kurz- und langfristigen Schulden, die EUR 5.280,3 Mio. betrug, jeweils zum 31. März 2019. Dies entspricht einem Betrag von EUR 4,25 je Bestehender Aktie.
E.7	**Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Entfällt. Den Anlegern werden von der Gesellschaft, den Bestehenden Aktionären und den Konsortialbanken keine Kosten in Rechnung gestellt. Die Anleger haben übliche Transaktions- und Bearbeitungsgebühren zu tragen, die ihnen von ihren Brokern oder sonstigen Finanzdienstleistern in Rechnung gestellt werden, über die sie ihre Wertpapiere halten.

3 Risk Factors

An investment in the Existing Shares is subject to a number of risks. Prospective investors should carefully consider the risk factors set out below, together with the other information contained in this Prospectus, before making an investment decision with respect to investing in the Existing Shares. Addiko Group considers the risks described below to be the most material risks relating to its business as well as to the Existing Shares. The occurrence of any of these risks, individually or together with other circumstances and uncertainties currently unknown to Addiko Group, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. The order in which the risk factors are presented is not an indication of the likelihood of said risks actually occurring, nor of the significance or degree of the risks or the scope of any potential impairment to Addiko Group's business. The risks mentioned could materialize individually or cumulatively.

Various statements in the following risk factors are based on assumptions or judgments and they contain forward-looking statements, estimates and predictions that could turn out to be incorrect (see also "FORWARD-LOOKING STATEMENTS"). Furthermore, other risks, facts or circumstances not presently known to Addiko Group or that Addiko Group might currently deem immaterial, could prove to be important and could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. The value of the Existing Shares could decrease as a result of the occurrence of any of these risks, and investors could lose all or part of their investment.

Investment decisions should not be made solely on the basis of the risk warnings set out in the Prospectus since such information cannot serve as a substitute for individual advice and information that is tailored to the requirements, objectives, experience, knowledge and circumstances of each prospective investor individually. Therefore, before entering into any transaction, each prospective investor should consult with its own legal, regulatory, tax, financial and accounting advisors to the extent it considers necessary in order to determine whether an investment in the Existing Shares is a fit, proper and suitable investment for it with a view to its financial situation, its constitutional documents, its internal policies and guidelines, the laws and regulations applicable to it and the impact an investment in the Existing Shares will have on its overall investment portfolio.

3.1 Risks relating to the macroeconomic environment and financial stability

3.1.1 Addiko Group's business is subject to risks arising from the global macroeconomic environment.

In general, Addiko Group prospers in conditions of economic growth, stable geopolitical conditions, transparent, liquid and buoyant capital markets and positive investor sentiment. Conversely, during the recessionary periods, there may be less demand for loan products and a greater number of customers may default their loans and other obligations. Interest rate rises may also have a negative effect on the demand for loan products of Addiko Group. Addiko Group is therefore affected by the general macroeconomic conditions, which can cause its financial condition and results of operation to fluctuate from year to year as well as on a long-term basis.

The macroeconomic environment is a major driver of the risk of Addiko Group's earning and financial stability, in particular due to the effects of adverse macroeconomic conditions. Weaker macroeconomic conditions may lead to a decline in net interest margins, credit quality and loan portfolio growth. These risks materialized during and following the global economic crisis of 2008, wherein the contagion effect has influenced Central and South Eastern European economies and their respective financial markets, including in countries that represented important trading partners and a large number of businesses becoming bankrupt, all of which had a major impact on the level of economic activity and unemployment rate.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could also affect Addiko Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following negative effects (amongst other things) for the Addiko Group:

- increased cost of funding and/or reduced availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price, or difficulty in pricing, certain assets;
- higher provisions for bad and doubtful debts;
- an increased likelihood of customer and counterparty default and credit losses;
- mark-to-market losses in the value of assets and liabilities; and
- lower growth, business revenues and earnings.

No assurance can be given as to future economic conditions in any market or as to the possibility of improvement in any market. If economic conditions deteriorate or stagnate in any of Addiko Group`s main markets, its business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

The most important economies for Addiko Group are the economies of Austria, Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. Further, Addiko Group has deposit business in Germany. Addiko Group is exposed to general and industry-specific risks to which banks operating in the above-mentioned countries are exposed. Accordingly, the emergence of adverse economic conditions in any or all of those regions may in turn have an adverse impact on Addiko Group. Any deterioration in global and/or relevant regional economic conditions could result in reductions in business activity, lower demand for Addiko Group's products and services, reduced availability of credit, increased funding costs and/or decreased asset values.

The banking markets of Western Europe and the United States are currently characterized by low (or even negative) interest rates coupled with high competition leading, for example, to subdued margins in the banking industry in general. The factors and events that could negatively influence the business success of Addiko Group include, without limitation, a general economic downturn, increasing unemployment, inflation, hyperinflation, deflation, currency fluctuations, falling real estate prices, insolvencies, as well as specific aspects such as energy cost/oil price, terrorist attacks or financial crises. Also, any negative market developments in the real estate markets in which it holds real estate portfolios could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. Indirectly, Addiko Group could be similarly negatively affected by adverse developments of the commodity prices as the economic success of certain of its corporate customers directly correlates with the development of the commodity prices, particularly the oil prices.

In addition, a further strengthening and likely extension of the ECB's easing monetary policies would result in a further weakening of the euro, while interest rates in the region would likely remain subdued for longer. A prolonged extension of the low interest rate environment could have an adverse impact on the operations and profitability of Addiko Group and the regional banking sector, as this would significantly limit the ability of affected financial institutions to increase their margins.

Any deterioration of the general economic climate, the economic situation of the financial services sector, the future exacerbation or expansion in geopolitical conflicts and any resulting deterioration of the financial standing of Addiko Group's customers generally could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.1.2 Addiko Group is subject to risks arising from the macroeconomic and political environment in Central and South Eastern Europe.

The substantial majority of Addiko Group`s assets are located in Croatia (loans and receivables in Croatia constituting 55.2% of total assets as of December 31, 2018), Slovenia (loans and receivables in Slovenia constituting 77.3% of total assets as of December 31, 2018), Bosnia & Herzegovina (loans and receivables in Bosnia & Herzegovina constituting 60.2% of total assets as of December 31, 2018), Serbia (loans and receivables in Serbia constituting 73.3% of total assets as of December 31, 2018) and Montenegro (loans and receivables in Montenegro constituting 78.0% of total assets as of December 31, 2018). GDP growth as well as private consumption could be negatively impacted in the case of a major global economic downturn, as this could lead to decreasing trade and export volumes as well as a decrease in received remittances. Countries in Central and Southeastern Europe (***CSEE***) show significantly higher received remittances than the EU15 average of 0.5% of GDP in 2017. A potential political conflict in CSEE could negatively impact bilateral trade and lower economic growth. Furthermore, a potential risk for CSEE economies would be a perceived weakening of the rule of law with negative effects on foreign direct investments and business in general. The materialization of these risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Slovenia

The economy of Slovenia had a GDP of EUR 43.0 billion in 2017 (source: wiiw Report) and a registered unemployment rate of 9.0% as per year-end 2017 (source: wiiw). The level of non-performing loans in Slovenia was 8.4% as of December 31, 2017 (source: wiiw Report). Its economic growth could be negatively impacted by a severe global trade war or economic downturn, as this would likely affect the industrial production and export volumes of Slovenia. The remittance inflow in 2017 amounted to 1.0% of GDP (source: wiiw). The border dispute with Croatia could also represent a potential political risk.

Croatia

The economy of Croatia had a gross domestic product of EUR 49.0 billion in 2017 (source: wiiw Report) and a registered unemployment rate of 11.9% as per year-end 2017 (source: wiiw). The level of non-performing loans in Croatia was 11.4% as of December 31, 2017 (source: wiiw Report). A global economic downturn or any other event significantly impacting tourism in Croatia could have a negative impact on economic growth in Croatia. Furthermore, a reversal of the Agrokor-related debt settlement combined with a termination of an orderly sales process could lower GDP growth. The remittance inflow in 2017 amounted to 4.5% of GDP (source: wiiw). The border dispute with Slovenia could represent a potential political risk.

Serbia

The economy of Serbia had a gross domestic product of EUR 39.3 billion in 2017 (source: wiiw Report) and a registered unemployment rate of 23.0% as per year-end 2017 (source: wiiw). The level of non-performing loans in Serbia was 9.8% as of December 31, 2017 (source: wiiw Report). A global economic downturn negatively impacting the expected inflow of foreign direct investments and remittances could lower economic growth in Serbia. The remittance inflow in 2017 amounted to 8.7% of GDP (source: wiiw). Potential political risks in Serbia include potential delays in the implementation of the initial agreements reached (or in reaching further agreements) between Serbia and Kosovo as well as delays in the process of EU integration.

Bosnia & Herzegovina

The economy of Bosnia & Herzegovina had a gross domestic product of EUR 16.0 billion in 2017 (source: wiiw Report) and a registered unemployment rate of 38.7% as per year-end 2017 (source: wiiw). The level of non-performing loans in Bosnia & Herzegovina was 10.0% as of December 31, 2017 (source: wiiw Report). A global economic downturn negatively impacting exports and remittances could lower its economic growth. The remittance inflow in 2017 amounted to 11.1% of GDP (source: wiiw). Potential political risks include diverging political interests of Bosnia & Herzegovina and the Republic of Srpska on topics such as further centralization of Bosnia & Herzegovina. Furthermore, a delay in the process of EU integration and/or rule of law improvements could also have a negative impact on foreign direct investments and overall economic growth.

Montenegro

The economy of Montenegro had a gross domestic product of EUR 4.3 billion in 2017 (source: wiiw Report) and a registered unemployment rate of 22.1% as per year-end 2017 (source: wiiw). The level of non-performing loans in Montenegro was 7.3% as of December 31, 2017 (source: wiiw Report). A global economic downturn negatively impacting the expected inflow of foreign direct investments and remittances could lower its economic growth. The remittance inflow in 2017 amounted to 10.9% of GDP (source: wiiw). Potential political risks in Montenegro include a worsening of the political dialogue between the government and the opposition and potential delays in the process of EU integration or improvements in the rule of law.

3.1.3 Addiko Group is subject to risks arising from the still-developing legal regime in CSEE.

The wave of democratization in CSEE during the late 1980s and 1990s affected the former Socialist Federal Republic of Yugoslavia, as a series of political upheavals and conflicts in the early 1990s led to the Yugoslav War. Since the early 2000s, the political situation has become relatively stable. However, Bosnia & Herzegovina, Serbia and Montenegro are not members of the EU and, therefore, may have less developed regulation and control standards than other countries, in which Addiko Group operates. In recent years, EU membership prospects have served as an incentive for political, fiscal and monetary reforms. However, the membership process is a protracted procedure and remains in the early stages.

New laws are being enacted within many of these markets, but many remain untested, and laws, regulations and case law applicable to the securities and financial services industries and many of the transaction in which Addiko Group is involved are still evolving. The laws and courts of these countries have not been fully tested in contract enforcement proceedings and other aspects of Addiko Group`s operations in these markets. Additionally, in some circumstances, it may not be possible to obtain the legal remedies provided for under these laws and regulations in a reasonably timely manner. Institutions and a legal and regulatory system characteristic of parliamentary democracies have been developed in the countries in which Addiko Group operates but suffer from a lack of institutional history and there may be no generally observed procedural guidelines. As a result, changes in government policies and regulations tend to be less predictable than in the countries of Western Europe. Moreover, existing laws may be subject to further substantial revision in countries that have joined or are expected to join the EU in order to bring them in line with EU standards.

A lack of legal certainty or Addiko Group’s inability to obtain effective legal remedies in a reasonably timely manner may have a material adverse effect on Addiko Group’s business, financial position and results of operations. Addiko Group develops its business model based on smaller transactions. Volatility due to untested applications could become material.

Further, such “emerging economies” may have increased risks of political, economic and social changes and related risks, such as exchange rate volatility, exchange control restrictions, regulatory changes, inflation, economic recession, local market disruptions, labor market tensions, ethnic conflicts and income disparity. Non-EU member states generally are characterized by a greater degree of unpredictability in areas such as the legal system, taxation, currency control, real estate, insurance, privatization, healthcare and public finance sectors. The level of risk differs significantly from country to country, and generally depends on the economic and political development stage of each country. Political and economic stability vary throughout the region. Future political, economic and social developments in emerging economies may have a material adverse effect on Addiko Group’s business, financial position and results of operations and may impair its ability to implement its strategies.

3.1.4 Addiko Group’s business success is exposed to global political conditions.

Addiko Group is exposed to risks resulting from the political conditions of the economies in which it operates both generally and as they specifically affect financial institutions. The last several years have been characterized by increased political

uncertainty as Europe in particular has been impacted by its sovereign debt crisis, the outcomes of the referenda in the United Kingdom on EU membership and in Italy on contemplated constitutional reform, the refugee crisis and the increasing attractiveness to voters of populist and anti-austerity movements. The severity of the European sovereign debt crisis appears to have abated somewhat over recent years as actions by the European Central Bank (***ECB***), rescue packages from EU member states and a general economic recovery appear to have stabilized the situation in Europe to some extent, however, political uncertainty has nevertheless continued to be at an elevated level in recent periods.

In 2017 and 2018, there has been a noticeable increase in the potential for political instability worldwide and in Europe. The rise of populist political parties and populist sentiment globally and, in particular, in Europe and in the United States, has significantly increased the potential for political tensions worldwide. In combination with a recent rekindling of tensions between the western countries and Russia, such populist political parties and populist sentiment have the potential to disrupt the economic environment in which the Addiko Group operates. In the United Kingdom, the populist political trend resulted in a referendum decision to leave the EU, which carries with it considerable disruptive potential for the economies of Europe in the near term. A significant regional economic downturn, as a result of failed or contentious exit negotiations, could have a negative impact on Addiko Group's financial stability, due to the reliance of the financial services industry on a stable macroeconomic environment. Additionally, although the populist parties running on nationalist and anti-EU platforms failed to secure the presidency in the May 2017 election in France or a significant number of additional seats in the March 2017 parliamentary election in the Netherlands, the Italian elections in 2018, encouraged by the ongoing European migrant crisis, have resulted in a formation of government with a strong anti-European agenda. Such developments could threaten the foundations of the EU as a whole and could significantly disrupt the positive macroeconomic trend of recent years, which would disrupt Addiko Group's operations and would likely negatively impact its financial stability and earnings potential.

The elevated political uncertainty could trigger the unwinding of certain aspects of European integration that have benefitted Addiko Group's business and that may affect Addiko Group's business in the future. For example, based on the EU principle of single authorization, the Company may offer banking services throughout the EU in reliance on its authorization by the FMA, as the Company currently does in relation to its deposit taking activities in Germany. The prospects for national structural reform and further integration among EU member states, both viewed as important tools to reduce the Eurozone's vulnerabilities to future crises, appear to have worsened. These factors may materially reduce Addiko Group's business success due to reduced levels of economic activity and output in light of the increased uncertainty.

Conversely, any failure in successfully completing the negotiations by some of the CSEE countries within which Addiko Group operates and the EU would not allow Addiko Group to rely on a single harmonized legal framework as established in the EU. Moreover, such failure could have a material adverse effect on the political and general economic situation in these countries, particularly Serbia, Bosnia & Herzegovina and Montenegro and thereby also have adversely affecting Addiko Group's business, financial condition, results of operations and prospects.

Any change in the current political landscape in Austria, Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro may also have a material impact on the legal framework for Addiko Group's business including matters of bank regulation or taxation. In addition, the rise of populist parties and/or increasingly protectionist measures by governments within and outside the EU may negatively affect the global economy and restrict international trade flows, all of which could materially adversely affect Addiko Group's operations. There is also uncertainty with respect to relations between the United States and other economic areas. The current U.S. presidential administration has enacted protectionist economic measures and may enact further protectionist economic measures in the future. It has also engaged in unconventional behavior with respect to world diplomacy and passed domestic tax reform that has significantly increased the U.S. budget deficit. Such actions may ultimately result in greater market instability and have a material adverse effect on the world economy.

Furthermore, the number of world-wide geopolitical conflicts has increased significantly in the last few years, as the recent conflicts in Syria and Ukraine demonstrate. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term. These conflicts have a significant impact on the economies of countries directly or indirectly involved and on customers, investors and sponsors who are located, or who have assets or conduct business, in such countries.

3.1.5 Serbia, Montenegro and Bosnia & Herzegovina may never join the European Union or their accession could be substantially delayed, which could adversely affect the political and economic environment in those countries.

Serbia and Montenegro are candidates for membership in the European Union and Bosnia & Herzegovina is a potential candidate for membership in the European Union. Together, Addiko Group's loan portfolio in these countries makes up 34.9% of its total loans and receivables as of December 31, 2018. Although the negotiating process to become a member of the European Union is likely to take a number of years, development and growth within those regions is significantly influenced by those countries successful candidacy and ultimately accession to the European Union. Political instability, the lack of implementing necessary reforms or other circumstances may lead to a delay in the accession or end any accession plans. If Serbia, Montenegro and Bosnia & Herzegovina do not accede to the European Union, this is likely to be highly

destabilizing, both politically and economically, in those countries, which could have a material adverse effect on Addiko Group's business, results of operations, financial condition and prospects.

3.1.6 The abandonment of the euro or dissolution of the European Monetary Union could materially adversely affect Addiko Group's business, financial condition and results of operations.

Addiko Group's business and financial performance would likely be materially and adversely affected by a break-up of the countries using the euro currency. Although the risk diminished substantially following the height of the financial and sovereign debt crises, it has once again emerged in 2016 and 2017 as a result of pre-election campaigns of populist and far-right parties across the EU and in 2018 with the rise of the anti-establishment Five-Star Movement and far-right League in Italy. Future elections in various European nations could potentially result in the election of populist parties with strong anti-EU and anti-euro agendas. As such, the possibility remains that the euro could be abandoned as a currency by one or more countries that have already adopted its use. In an extreme scenario where the institutions created by and economic reforms put in place by the EU fail to prevent a future crisis or are put into question, it could lead to the abandonment of the euro and the dissolution of the European Monetary Union (the ***EMU***). This would lead to the reintroduction of individual currencies in one or more EMU member states.

The effects on the CSEE and European economies of the dissolution of the EMU, the exit of one or more EU member states from the EMU and/or the redenomination of financial instruments from the euro to a different currency, are impossible to predict fully but would likely result in significant market dislocation and heightened counterparty risk and adversely affect the ability to manage market risk. Addiko Group anticipates that such an event would be likely to have a significant adverse impact on the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting Addiko Group's net interest income and net interest margin.

Turmoil in the EMU, as a result of its dissolution, the exit of one or more EU member states, the redenomination of financial instruments from the euro to a different currency and/or the abandonment of the euro, would likely also result in significant political and economic turmoil, which could adversely affect Addiko Group's operations. Any loss in confidence in the regional economy or any increase in perceived risk in the region could adversely affect investments and consumption in the region and hamper economic growth. This, in turn, would likely result, amongst other factors, in a considerable deterioration of the quality of Addiko Group's credit portfolio, a substantial rise of country risk and rising government yields, which could result in investment portfolio losses, a considerable decrease in loan generation and impaired profitability within Addiko Group's region of operation. The aforementioned factors would have a materially adverse impact on operations and profitability of Addiko Group.

3.2 Risks related to Addiko's business and the industry in which it operates

3.2.1 Addiko Group focuses its business on unsecured customers and SME and is therefore exposed to the risk of decreased demand and/or profitability of such products as well as greater credit risks of such clients.

In line with its strategy, Addiko Group focuses its business on high-margin unsecured consumer and small and medium-sized enterprises (***SME***) lending as well as payment services. As of and for the year ended December 31, 2018, Addiko Group's unsecured retail customer business and its SME business together accounted for 76.4% of Addiko Group's total net banking income and 55.3% of total loans and receivables. As part of its strategic shift, Addiko Group is primarily targeting mass retail customers interested in simple, daily banking services. The demand for, and profitability of, the credit products Addiko Group offers may be reduced due to a variety of factors, such as generational behavior, changes in customer preferences or financial conditions, and regulatory restrictions which, among other things, affect the pricing of, or decrease customer access to, or demand for, particular products or the availability of competing products. In particular, regulatory restrictions could be imposed on the total volume of loans that may be granted to an individual or the maximum interest rate that may be charged on loans. A significant reduction in the demand for, or the profitability of, such products could have a material adverse effect on Addiko Group's business, results of operations, financial condition and prospects.

In addition, lending to retail clients is generally subject to greater credit risk than lending to larger commercial clients. Loans to these clients are often more difficult to accurately price because these clients are generally less financially stable than larger commercial clients and generally have a more limited available credit history. In the case of wider regional or global financial instability (such as a renewed credit crisis or global recession), Addiko Group may suffer higher losses in connection with its consumer loans due to the greater likelihood of retail clients suffering reduced income or even becoming unemployed, which may lead to increases in overdue payments and reduce the ability of such clients to service their debts. Since unsecured retail portfolios are usually characterized by higher loan losses, the average level of Addiko Group's credit losses may exceed the market average. A higher level of credit losses may also result from the growth of Addiko Group's consumer loan portfolio, since loan portfolios which are growing rapidly tend to have higher average losses. Addiko Group estimates the costs of risk associated with each individual loan granted and takes the expected level of losses into account in the pricing of its products, in an effort to manage the profitability of the loan portfolio. However, it is uncertain whether these estimates will be correct in

each case and in all future circumstances (such as during recessions) and, consequently, that the level of losses taken into account in a product price will not be too low. Any failure by Addiko Group to accurately assess the credit risk and loan performance of its retail clients may have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.2 Addiko Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim results may not be an indicator of its full year results.

Addiko Group may not be able to achieve its business and strategic objectives in the future, which could lead to a material decline in profits and materially affect dividend payments and the results of operations in general. This could result from developments or technological advances in the relevant markets, in particular competition from certain financial technology companies that may create disruptive competition for Addiko Group's existing business models. The various elements of Addiko Group's strategy may be individually unnecessary or collectively incomplete. Addiko Group's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector including a misjudgment of customer behavior and demand. Addiko Group's management may adopt strategic decisions including the implementation of new cost-saving or efficiency programs, new product or service concepts and other types of strategic measures which may not render the anticipated returns within the expected timeframe or at all. This may lead, among others, to wasted resources or a need for further investments. Moreover, in the context of the adoption and implementation of strategic decisions, the allocation or re-allocation of financial resources and staff to one or more functions or activities may in hindsight prove to be disadvantageous for Addiko Group, for example if a certain business area is left with insufficient qualified staff following a re-allocation of personnel. In addition, any aspect of Addiko Group's strategy that is dependent upon the value and competitive advantage conveyed by intellectual property rights (including trademarks) may not be adequately protected or deemed to be enforceable.

Addiko Group's financial performance also depends upon the growth of the geographical and industry markets in which it currently operates, as well as its ability to expand within these markets and into new markets. Addiko Group's shift in strategy to focus on consumers and SME could be adversely affected by a decline in consumer and/or SME business demand. Addiko Group may not be able to offset a potential decline in consumer and SME revenues by increasing its margins elsewhere. Addiko Group's intention to reduce barriers to customer acquisition and to streamline its cross selling capabilities may not succeed in growing Addiko Group's customer base and revenue generation per customer. It can be difficult and costly to attract new customers within existing markets because of the reluctance of many customers to change providers, including as a result of costs directly associated with transitioning to new providers and the risk of downtime or loss of functionality. Further, Addiko Group's investments in digital innovation and online offerings may not succeed in increasing revenues or reducing costs to the extent currently expected.

The strategy may need to be amended from time to time as a result of developments in external conditions (economic growth, interest rate, foreign exchange rates, and regulatory requirements) that would deviate from assumptions that underline strategic projections. Hence, such necessary adjustments of the strategy may negatively impact Addiko Group's results.

The business strategy of Addiko Group is subject to continual review. Despite its current business strategy Addiko Group may, among others, be exposed to the following risks:

- Addiko Group fails to accurately forecast certain macroeconomic trends, such as GDP growth rates or unemployment rate.
- Addiko Group fails to accurately forecast certain interest rates such as the European interbank offered rate (***EURIBOR***), the Zagreb interbank offered rate (***ZIBOR***), the Belgrade interbank offered rate (***BELIBOR***) or the Swiss Franc London interbank offered rate (***CHF LIBOR***).
- The shift in Addiko Group's strategy requires a certain level of stability of management to ensure oversight over the envisaged changes and such stability cannot be fully assured.
- Future results of Addiko Group are based to an important extent on the favorable development of banking markets in CSEE. Political and security risks in any of these markets could impact the results of subsidiaries.
- The high complexity of the programming, the high level of interdependencies of strategic initiatives or the ability of IT to support automation of certain processes and provide a specific platform to implement strategic initiatives cannot be fully assured.

Furthermore, Addiko Group's Audited Consolidated Financial Statements and the other historical financial information included in this Prospectus do not indicate what Addiko Group's results of operations, financial position, cash flows or costs and expenses will be in the future. In addition, the results of operations for interim periods included in this Prospectus are not necessarily indicative of the results to be expected for the full year or any future period. In addition, there may be a failure to implement envisaged further improvements to the balance sheet, as well as a failure to replenish the loan book at the same terms. This may negatively affect Addiko Group's business, financial condition, results of operations and prospects.

3.2.3 *Delays or incomplete implementation of digitalization processes could have a significant effect on the business results in coming years and could adversely affect the development of Addiko Group's business strategy*

Failure or delays in implementing changes and upgrades to new support systems related to IT infrastructure could delay the implementation of Addiko Group's business strategy which could have a material adverse effect on Addiko Group's business, financial condition, results of operations, cash flows and prospects. As part of Addiko Group's digitalization strategy, it is focusing on taking advantage of efficiencies in electronic, mobile and other remote functionalities. Delays of the various phases of the IT strategy implementation could also have a direct impact on particular business sites and result in system downtime, operational delays and other technical issues. In addition, some of the business initiatives may not have proper IT support or may not be able to achieve expected financial results. In addition, should Addiko Group experience difficulties in the implementation of its distribution channels strategy, Addiko Group may suffer negative publicity, a reduction in new customers or a loss of existing customers, which may have a material adverse effect on Addiko Group's business, prospects, financial condition, results of operations or cash flows, and may limit Addiko Group's ability to implement its business strategy.

3.2.4 *Addiko Group is exposed to intense competition, which could have a material adverse effect on its business, financial condition, results of operations and prospects.*

Addiko Group operates in a highly competitive market alongside a significant number of competitors. Increasing competition in banking sector and/or the inability of Addiko Group to compete effectively in its market may have a material adverse effect on Addiko Group's business, financial condition, results of operations, cash flows and prospects.

Addiko Group's primary exposure to competition is in CSEE, where Addiko Group focuses its operative business. In Austria and Germany, Addiko Group faces competition in the direct deposit market, where it is active. In the corporate and public sector lending business, Addiko Group faces competition from an increasingly diverse mix of lenders with the entry of non-bank financial institutions such as insurance companies, debt funds, sovereign wealth funds, private equity firms, high net worth individuals and family offices. In the consumer banking business, including competition to lend to consumers and competition for consumer deposits, Addiko Group primarily competes with other banks operating in CSEE, such as Western European banks with a CEE network including presences in CSEE countries (e.g. Unicredit Group, Banca Intesa, Erste Group, Raiffeisen Bank International), CEE / CSEE based banks with a sizeable position in their respective home market and presences in CSEE countries (e.g. NLB, OTP Group, Sberbank, Komercijalna banka) or local single market banks (e.g. NKBM, Abanka, AIK, Nova Banka, Hipotekarna banka).

Addiko Group also faces competition from local banks, which may have a much stronger presence in local markets than Addiko Group. In some countries, Addiko Group has only a relatively small market share. In many markets, there are well-established local banks with a larger number of branch offices that offer a broader range of products and services. Addiko Group may lose customers to competitors, for example if such competitors pursue a less risk-averse business strategy than Addiko Group or are subject to a less stringent regulation. To the extent that local banks have competitive advantages in local markets, it may make it more difficult for Addiko Group to compete in these markets. Increasing competition for customer deposits and loans may also result in narrowing net interest margins and lower profitability. Although Addiko Group currently generates profit through applying transaction fees on banking transactions, increased competition for customers could limit or prevent Addiko Group from applying such transaction fees on banking transactions, thereby reducing its profit. Addiko Group seeks to increase its current level of customer loyalty and retention, which can be influenced by a number of factors, including service levels, prices and attributes of products and services, financial strength and actions taken by competitors. The competitiveness of Addiko Group will largely depend on its ability to adapt to new market developments and trends. If Addiko Group is unable to compete with attractive and profitable products and service offerings, it may lose market share or may incur losses on some or all of its activities. Addiko Group is able to compete with the various competitors in the jurisdiction because of its approach to offer a convenient and fast service to its customers based on digitalization rather than because of its interest rates, which reduces its ability to compete on a price level. Because of this, the creation of an online comparator to show differences in interest rates offered by various bank could have material adverse impact on Addiko Group's competitive position.

In addition, continued technological advancements and developments in e-commerce make it possible for non-bank financial institutions and other new entrants to offer products and services that traditionally have been offered exclusively by banks, including competition for loans, deposits and other products and services offered by Addiko Group. Such non-bank competitors may be subject to less or more favorable regulation than traditional banks. In particular, Addiko Group faces growing competition from financial services technology companies (so-called ***Fintechs***). The introduction of Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (known as ***PSD2***) may also enable the emergence of new competitors in the European Union, which could reduce the relevance of traditional bank platforms and weaken brand relationships. Moreover, such regulations may also be implemented by countries in anticipation of joining the EU, as is the case in Serbia and Montenegro in relation to PSD2. Large online retailers, such as Amazon, may also provide financing options to customers that may otherwise have gone to financial institutions such as Addiko Group for such financing purposes, thereby reducing the number of Addiko Group's potential

customers. In addition, competition in the financial services industry could be substantially distorted by government intervention, such as the Austrian bank levy (*Bankenstabilitätsabgabe*) which was introduced in 2011.

Furthermore, customers are focusing increasingly on the various services offered in connection with banking products. Further increases in customer expectations could require Addiko Group to increase its investments in the development of additional services in both physical and digital channels. Any failure to manage the competitive dynamics to which it is exposed could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.5 Addiko Group is exposed to credit risk and increases in non-performing loans may materially adversely affect Addiko Group's business, financial condition and results of operation.

Addiko Group is exposed to the risk that its borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. This risk is materially increased in times of economic slowdown.

As of December 31, 2018, Addiko Group's non-performing exposures (***NPEs***) amounted to EUR 403.8 million or 5.6% of our total credit risk exposure (EUR 605.7 million or 8.1% of our total credit risk exposure as of December 31, 2017 and EUR 760.8 million or 9.2% of our total credit risk exposure as of December 31, 2016). Addiko Group's NPE coverage ratio was 75.4% as of December 31, 2018 (67.0% as of December 31, 2017 and 67.5% as of December 31, 2016) and its cost of risk ratio (CRB based) was 0.1% as of December 31, 2018 (-0.3% as of December 31, 2017 and 0.1% as of December 31, 2016). Although Addiko Group has taken several measures in recent years to manage its NPEs stock or loans with higher risk, its current approach may be less effective than anticipated, more management resources may be diverted to alternative measures to reduce Addiko Group's NPE levels, which could detract from the performance of other aspects of Addiko Group's operations. Furthermore, there can be no assurance that these procedures will materially reduce Addiko Group's NPEs or the impairments which are made in respect of future periods. Any potential increase in the impairment allowances for loans and advances to customers, any potential loan losses in excess of the previously determined impairment allowances for loans and advances to customers with respect thereto or any potential changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans may have a material adverse effect on Addiko Group's business, financial condition, results of operations, cash flows and prospects.

Furthermore, low value of real estate collateral could materially impair Addiko Group's ability to compensate loan defaults by foreclosing on collateral. The Mortgage Business comprises 23.2% of Addiko Group's gross performing loans as of December 31, 2018, which it is currently seeking to reduce as part of its strategy of focusing instead on unsecured retail consumer and SME financing. A significant devaluation of real estate could have adverse effects on the banking sector, including Addiko Group, which could be particularly negatively affected by any such devaluation due to its exposure to real estate. Reduced income of its customers from real estate may result in payment defaults and write-offs on assets held by Addiko Group.

Due to its exposure with respect to real estate collateral,Addiko Group would also be negatively affected by devaluations of such real estate. Political developments in the region may lead to devaluations of real estate prices.

In the case of foreclosures, real estate collateral may not be sufficient to cover secured claims due to declining market values. Resulting write-offs could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.6 Addiko Group is exposed to the risk of loss due to changes in foreign exchange rates, which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group performs some of its business activities in several CSEE countries, where it operates through wholly-owned subsidiary credit institutions, which belong to Addiko Group. Addiko Group has granted loans to households and companies denominated in foreign currencies, such as BAM, CHF, HRK and RSD, which are exposed to various risks.

Revenue in other currencies may be reduced as a result of its conversion into euro, and expenses in currencies other than the euro may increase due to conversion. Cash flow hedges which Addiko Group regularly uses to address these risks may prove to be ineffective to manage these risks as they are based on certain assumptions (relating, among other things, to the repayment profile of the hedged cash flows) which may prove incorrect. Assets denominated in foreign currencies may have to be depreciated in the case of a devaluation of the currency and it cannot be guaranteed that hedges which Addiko Group employs (using foreign exchange derivatives and refinancing facilities in the same currency) adequately protect it against the accompanying risks. Moreover, risk-weighted assets denominated in foreign currencies may have to be recalculated in the case of an appreciation of the currency in which they are denominated. The risk of increasing risk-weighted assets denominated in foreign currencies is not hedged by Addiko Group.

The materialisation of these risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.7 Addiko Group may not be able to maintain its current margins on loans and deposits

Addiko Group's operations are, *inter alia*, affected by fluctuations of interest rates in the EU and CSEE. In particular, Addiko Group's operations depend on its interest rate risk management taking into account historical trends and expert knowledge, as well as the connection between market rates and interest margins. Addiko Group's interest income largely depends on the level of Addiko Group's interest-bearing assets and liabilities and the average interest rates on interest-earning assets and liabilities. Various factors could affect Addiko Group's ability to maintain credit and deposit margins at their current level. These factors include the evolving regulatory environment, such as the introduction of an interest rate ceiling with respect to consumer loans (e.g., in Croatia), increasing competition in the market, changes in demand, monetary policy, inflation and relevant interest rates such as EURIBOR, ZIBOR, BELIBOR or CHF LIBOR, in relation to which Addiko Group expects that interest levels will increase in future.

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue. It is now clear that certain central banks may start tightening their monetary policy to increase interest rates back to levels closer to historical norms and eliminate quantitative easing. As part of its business planning, Addiko Group expects higher interest rate levels in the future of around 100 basis points by 2023.

Addiko Group would need to bear the consequences of a decline in its margins or the inability to achieve its strategic goal of increasing its margins, which could arise from, in particular, (i) a reduction in market interest rates on variable rate loans and Addiko Group's inability to cover this decline with a reduction in interest on deposits, or (ii) an increase in interest payable on deposits or other funds which Addiko Group is unable to compensate for by increasing interest rates on lending products resulting from increasing price competition between banks operating in the market. On the other hand, Addiko Group's reduction in margins could lead to a reduction in net interest income. Furthermore, an increase in interest rates could result in an increase in the amount of the loan repayments which Addiko Group's customers have to make. This increase may cause difficulties in repaying outstanding loans.

In addition, Addiko Group engages in hedging activities, in relation to interest rate risk, in an attempt to limit the potential adverse effect of interest rate fluctuations on its operations. Addiko Group cannot guarantee that its hedging strategies will be successful because of factors such as behavioral risk, unforeseen volatility in interest rates or the decreasing credit quality of hedge counterparties in times of market dislocation. Addiko Group's inability to maintain margins and commissions on loans and deposits offered by Addiko Group, whether through hedging, product pricing, monitoring of borrower credit quality or other means, or its inability to achieve it strategic goal of increasing its margins and commissions could materially adversely affect Addiko Group's business, financial condition, results of operations or prospects.

3.2.8 Addiko Group is exposed to risks concerning customer and counterparty credit quality which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group is exposed to many financial products, counterparties and obligors whose credit quality can have a significant adverse impact on Addiko Group's earnings and the value of assets on Addiko Group's balance sheet. Addiko Group is at risk that the economic situation of its counterparties deteriorates and that its counterparties are or become incapable to fulfill their financial obligations or such financial obligations become subject to a bail-in. Addiko Group's risk modelling in regards to its customers and counterparties may be deficient or inadequate, making the avoidance of such risks more difficult. Furthermore, Addiko Group is exposed to additional risk, such as tenant risk in relation to mortgage loans, which could adversely affect a counterparty's ability to fulfill its obligations to Addiko Group. Addiko Group is also exposed to the risk that it may have to provide involuntary credit extensions to counterparties who are unable to attain refinancing elsewhere.

Collateral granted to Addiko Group comprises, *inter alia*, mortgages and other security over assets. Most of such collateral relates to assets within CSEE, including Bosnia & Herzegovina, Serbia and Montenegro. For collateralized lending, Addiko Group will try to recover unpaid amounts by disposing of the collateral securing such products. There is a risk that Addiko Group may not be able to enforce its security interests in such collateral and as such, Addiko Group may not be able to recover the full value of its collateralized loans. In particular, the enforcement of securities located outside the EU may prove to be more difficult and time consuming and, therefore, more expensive than within the EU. As of December 31, 2018, 9.1% of Addiko Group's credit risk exposure was secured by collateral held outside the EU (with uncertain cases regarded as being outside the EU). If Addiko Group is not able to enforce security over collateral in a timely manner or at all, this may have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

As part of the ordinary course of its operations, Addiko Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures, including assessments of security rights and value of collateral. This process involves complex judgments, including the determination of certain assumptions and effect of macro-economic conditions on the ability of customers to repay their loans and on the realization of security. However, Addiko Group is a young financial institution with relatively few years of risk modelling on which to base its assessments and calculations. Its risk models may therefore be less effective at determining risk exposure than those of other, more experienced or longer

existing financial institutions. Addiko Group may fail to adequately identify or anticipate factors which could adversely affect customer or counterparty credit quality, including those factors resulting from value changes due to country-specific political and economic conditions (country risks) and from cluster formation with regards to risk factors or counterparties. The failure of customers or counterparties to meet their commitments as they fall due may result in higher impairments on the fair value of assets or hedging derivatives and/or have a negative impact on Addiko Group's lending portfolio and income. This could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.9 Addiko Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate

The preparation of Addiko Group's consolidated financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. All estimates and assumptions required in conformity with IFRS are the best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events. Some areas involving a higher degree of judgement, or where assumptions are significant to the consolidated financial statements, include the recognition of the expected losses for all financial instruments, not measured at fair value through profit and loss, including loan commitments and financial guarantees, recognition of deferred tax assets (***DTA***) and the fair value of unquoted financial instruments and investments in subsidiaries, associates and joint ventures. As of January 1, 2018, Addiko Group adopted the IFRS 9 Financial Instruments. In relation to the recognition of expected losses, IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset. When determining whether the risk of default has increased significantly since initial recognition, Addiko Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Addiko Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

3.2.10 Addiko Group's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of customer information, damage Addiko Group's reputation and lead to regulatory penalties and financial losses.

Addiko Group is exposed to the risk of breaches of the security of its computer systems due to unauthorized access to network resources or other forms of cyber-attack or internet crime including the use of viruses and Trojans. Such breaches could disrupt Addiko Group's business, result in the disclosure of confidential information and create significant financial and/or legal exposure and could damage the reputation of Addiko Group. Addiko Group devotes significant resources towards the protection of its systems against such breaches, but it cannot be guaranteed that the protection measures Addiko Group has taken will be effective against all threats, particularly against unknown future threats given the use of new technologies and increasing reliance on the Internet and the varying nature and evolving sophistication of such attacks. There is no assurance that Addiko Group's security measures will provide adequate security. Addiko Group's efforts to ensure the integrity of its systems may not be sufficient to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside Addiko Group such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. If an actual or perceived breach of security occurs, customer perception of the effectiveness of Addiko Group's security measures could be harmed which could result in the loss of customers.

Actual or anticipated attacks and risks may cause Addiko Group to incur increased costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants. The realization of any of the aforementioned risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.11 Addiko Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks, which may negatively affect its ability to fulfill its obligations.

Addiko Group is subject to the liquidity risk of not having access to sufficient liquidity at acceptable terms as and when required (refinancing risk), and that Addiko Group, due to insufficient market funding or due to market disturbances, is not able to, or may only with a loss, terminate or settle transactions (market liquidity risk).

These risks are inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit

ratings or market-wide phenomena such as market dislocation and major disasters. In particular, since the start of the global financial crisis, the capital and credit markets have been volatile and, at times, this has resulted in significant liquidity problems for some financial institutions. As a result, in addition to partially limited access to wholesale markets, the cost of accessing traditional sources of liquidity (other than deposits) continues to be higher than in the period before the financial crisis. Currently, Addiko Group's funding cost are relatively low due to its funding structure and low market interest rates; however, they could increase due to changes in market conditions or new regulatory requirements, including in connection with the implementation of the minimum requirements for own funds and eligible liabilities (***MREL***), which may require Addiko Group to increase its long-term funding requirements, which would in turn increase its cost of funding.

Future disruptions, uncertainty or volatility in the capital and credit markets could limit Addiko Group's ability to refinance maturing liabilities with long-term funding. The availability of any additional financing Addiko Group may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, the volume of trading activities, Addiko Group's financial condition, its credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of Addiko Group's financial prospects if, for example, Addiko Group continues to incur large losses, experiences significant deposit outflows or if the level of Addiko Group's business activity decreases due to a market downturn. In particular, Addiko Group's access to funds may be impaired if regulatory authorities or rating agencies impose additional regulatory capital requirements or downgrade Addiko Group's rating. Any of these developments may limit Addiko Group's ability to raise additional capital to support business growth or to counterbalance the consequence of losses or increased regulatory capital requirements, and could have a material adverse effect on Addiko Group's business, financial condition, results of operations, liquidity and prospects.

In particular, Addiko Group's funding strategy is dependent upon its stable customer deposits base. Of the EUR 4,836.7 million retail and corporate deposits as of December 31, 2018, 50.3% are current deposits which can be withdrawn on short notice. Deposits may fluctuate as a result of several factors, some of which are outside Addiko Group's control. These factors include a loss of confidence in Addiko Group or in banks generally or increasing competitive pressures, which could result in a significant outflow of deposits within a short period of time. In the event that these deposits are withdrawn to a significant extent, Addiko Group may need to secure alternative sources of funding. Further, Addiko Group may decide not only to use deposits as its funding strategy, but also access alternative sources of funding, including funding through the capital market. There can be no assurance that any alternative sources of funding would be available to Addiko Group on commercially acceptable terms, particularly as Addiko Group has not accessed the capital market for raising debt financing before. Any failure to secure necessary alternative sources of funding may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

If Addiko Group is unable to meet its funding requirements, it may be forced to sell liquid assets at economically unfavorable terms in order to attempt to restore its liquidity position. Market liquidity risk may materialize where inadequate market liquidity or a market disruption limit Addiko Group's ability to easily monetize assets. Refinancing risk could also result from a rollover of funding positions coupled with a longer period of increased refinancing costs. In general, Addiko Group is exposed to the risk of higher funding costs if and to the extent its asset/liability management does not adequately address mismatches of maturities, interest rates, currencies or other parameters. In addition, external funding sources may become – possibly within a very short time period – insufficient. The ongoing extraordinary liquidity provisioning and asset buying by the ECB may reflect continued structural problems in the refinancing markets. Furthermore, a change in the ECB's policies could undermine market confidence and liquidity in Europe and, therefore, destabilize the markets. In addition, a recession in Europe could endanger economic recovery and lead to a loss of trust in the stability of the financial markets.

The financial crisis resulted in pressure on banks' creditworthiness, often irrespective of their financial strength, and has had a similar effect on other capital markets participants. A market disruption of substantial magnitude could restrict Addiko Group's access to the capital markets and limit its ability to obtain short, medium and long-term refinancing on acceptable terms and meet regulatory capital requirements.

Any deterioration in Addiko Group's liquidity could have a material adverse effect on its business, financial condition, results of operations and prospects.

3.2.12 Addiko Group is dependent on the confidence of its customers in the banking system and the business of Addiko Group. A loss of confidence may cause increased deposit withdrawals which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

One of the core funding strategies of Addiko Group are stable customer deposits. Their availability depends on various external factors beyond its control such as the confidence of the public in the economy, the financial sector, and Addiko Group. A change of such confidence levels, as well as an increase in general interest rates or the deterioration of economic conditions may limit the ability of Addiko Group to maintain an adequate level of customer deposits on acceptable terms, which may have a material adverse effect on its ability to fund its operations. Addiko Group uses standardized agreements and standardized terms and conditions, in particular in its important retail-focused business segments, which increases the potential that, if any clause is held to be void, this clause is invalid or unenforceable in a large number of contracts. The recurrence of such a liquidity crisis cannot be excluded. Significant outflows of deposits could have a material adverse effect

on Addiko Group's business, financial condition, results of operations and prospects. In extreme situations such as "bank runs" Addiko Group may even become unable to fund its operations.

Management believes that maintaining and enhancing Addiko Group's brand and quality of service is important in retaining its market share and penetration and growing its business in the future. Since 2009, Addiko Group has undergone significant restructuring that allowed legacy HYPO GROUP ALPE ADRIA AG after its re-privatization in July 2015 to remain a standalone banking group under new ownership. Following this restructuring Addiko Group completed an extensive repositioning with a new brand and strategy. Notwithstanding this repositioning, there is a risk that consumers could lose trust in the success of the restructuring and re-positioning and still consider the reputation of HYPO GROUP ALPE ADRIA AG. This could have a material adverse effect on Addiko Group's reputation and its customers' confidence, leading to significant liquidity outflows. Significant outflows of deposits could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group's ability to maintain and enhance its reputation will depend largely on its ability to continue to provide high-quality, effective and specialized services at prices which meet the requirements of its customers. In the event that Addiko Group's brand or reputation is damaged, for example as a result of litigation, such as in connection with the FX disputes relating to CHF lending activities, or other claims against Addiko Group, administrative investigations or proceedings, negative press coverage or general negative perceptions about Addiko Group's services, this may have a negative effect on Addiko Group's business, financial condition, results of operations, cash flows and prospects.

3.2.13 Addiko Group's unsecured lending products may be challenged by consumers, consumer protection organizations, courts or regulatory agencies in connection with compliance with applicable requirements.

Addiko Group is exposed to the risk that its unsecured lending products may become subject of public scrutiny and onerous regulatory and transparency requirements, which may make offering loans in certain countries less profitable or unattractive. Certain consumer protection bodies, consumer advocacy groups, in particular in the run-up to elections, media reports, and a number of regulators and elected officials, may advocate government action designed to prohibit or place severe restrictions on the activities of short-term lenders such as Addiko Group's unsecured lending products, claiming that interest rates and fees charged to clients are, on an annualised basis, higher than those charged by credit card issuers or banks to consumers with established credit histories or are otherwise usurious. If any of these proposals were to materialize, they could render Addiko Group's current business activities in certain countries unprofitable or impractical to continue.

Due to the nature of Addiko Group's business model, Addiko Group focuses on retail customers and unsecured lending. While Addiko Group has client protection policies and procedures in place, there can be no assurance that its unsecured lending products will not be considered non-compliant with the relevant guidelines in the future or that they will be able to respond satisfactorily to all such queries from regulators. If consumers or regulators accept the characterization of unsecured lending as unreasonably expensive or abusive toward clients, Addiko Group's unsecured lending products could become subject to additional, more onerous legal and regulatory requirements, including, in particular, with respect to consumer protection and credit laws, and the demand for its products could be adversely affected.

3.2.14 If Addiko Group fails to adapt to rapid technological changes its competitiveness could decline.

Addiko Group's IT and communications systems are critical to its success and digitized banking services are a core part of its strategy. Addiko Group allocates a significant number of resources and capital developing for implementing its IT strategy. In particular, Addiko Group relies heavily on its proprietary online banking platform, which requires constant ongoing development and investment to reflect new technological developments and changes in industry practice, including as a result of regulatory changes and innovation in products and services. If Addiko Group is unable to manage upgrades, developments, allocates insufficient funds for its IT Systems or changes to its proprietary online banking platform and other IT systems, it could be subject to operational disruption, reputational damage, regulatory scrutiny, and significant additional costs. If the investments in Addiko Group's IT and communication systems do not or not fully result in the expected synergies, this could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

The online direct banking industry is subject to rapid technological change with new product and service introductions, evolving regulatory requirements and industry standards, and constantly changing merchant and consumer needs and expectations. For example, new online-based market entrants may be able to offer similar products at more attractive prices due to lower fixed costs. Furthermore, online-based market entrants may introduce new products or services, and Addiko Group may be unable to introduce competing products quickly or at reasonable cost, or at all. In order to remain competitive and grow in this rapidly evolving market, Addiko Group must continually adapt and enhance its existing technology and product offerings, and continue to develop new products to meet the particular service requirements of specific markets or types of customers. To do this, Addiko Group needs to anticipate consumer banking demands and technological trends in a wide variety of markets and industries and devote appropriate resources to technology, including research and development. Efforts to enhance and improve existing products and technologies, as well as develop new ones, involve inherent risks, and Addiko Group may not be able to anticipate these developments and enhancements successfully. Addiko Group may also fail

to accurately foresee developments in online banking or other technologies, which could lead it to make investments in technologies and products that do not gain market acceptance or generate sufficient returns. There is also a risk that Addiko Group may not have adequate financial or technological resources, or that it may not be able to secure appropriate products and distribution channels to satisfy changing consumer demand. Any delay in the delivery of new products or services, or the failure to differentiate Addiko Group's products and services from those of current or future competitors, could render them less desirable to its customers, or possibly even obsolete.

If Addiko Group is unable to develop technologies internally, it may have to license or acquire technologies from third parties, which may be costly or not possible at all. Any failure to remain innovative or to introduce new or upgraded technologies that are responsive to changing consumer or regulatory requirements may have a material adverse effect on Addiko Group's competitiveness and could cause it to lose its market position in core markets, which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.15 Due to any inadequacy or failure of internal procedures, employees and systems or due to external events unexpected losses could occur.

Addiko Group is exposed to unexpected losses caused by the operational risk of inadequacy or failure of internal procedures, employees or systems or due to external risks including legal risk or a combination thereof. This encompasses (i) internal risks including theft and fraud by employees, development and process failures, business interruptions or system failures, and lack of sufficient human resources and (ii) external risk factors such as property damage and fraud by customers. Addiko Group may not detect all such fraudulent activity and, even where it does, may not be able to prevent such fraudulent activity or recover losses incurred. These risks increase in volatile, illiquid or in developing markets. Significant or regular fraudulent activity may have a material adverse effect on Addiko Group's business, results of operations, financial condition and or prospects.

Internal risks

In the EU (as well as CSEE), there have been a number of cases involving fraud or other misconduct by employees of banks and other financial services firms in recent years. Addiko Group's employees could execute transactions that: (i) exceed authorized limits or present unacceptable risks to Addiko Group; (ii) divert funds from Addiko Group; or (iii) are contrary to contractual arrangements with customers or applicable consumer protection law. For example, Addiko Group has experienced individual cases of alleged fraudulent activity by employees in Montenegro, Serbia and Slovenia. In addition, Addiko Group's customers, prospective customers, employees, partners and suppliers could use Addiko Group proprietary information, confidential customer information or other confidential information provided by third parties to Addiko Group for personal or other improper purposes, as well as misrepresent or conceal improper activities from the Addiko Group.

Such misconduct could subject Addiko Group to financial losses or regulatory sanctions and seriously harm its reputation. It may not be possible to detect or prevent such misconduct and the precautions Addiko Group takes to detect and prevent this activity may not be effective in all cases.

Addiko Group's employees may also commit errors or take actions that could subject the Group to financial claims for negligence or otherwise, as well as regulatory actions. Such errors expose Addiko Group to the risk of material losses, in particular if errors are not detected promptly and/or the related transactions cannot be reversed without adverse consequences. Such errors may be more likely to occur if Addiko Group expands its business to include new products and new technological systems. Such errors or actions could result in unforeseen business risk, losses, and regulatory and other sanctions, could seriously damage Addiko Group's reputation and expose it to litigation, including financial losses resulting from the need to reimburse customers or business partners, or as a result of fines or other regulatory sanctions. Any delinquencies, errors, misappropriation or fraudulent activities on the part of any of Addiko Group's employees could, therefore, have a material adverse effect on Addiko Group's reputation, business, results of operations, financial condition, prospects and reputation.

External risks

In deciding whether to approve loans or to enter into other transactions with existing customers or new applicants, Addiko Group must rely on information and documentation provided to it by or on behalf of the existing customer or applicant, including financial information. Addiko Group may also rely on representations from existing customers and applicants as to the accuracy and completeness of that information and documentation. If any of this information or documentation is inaccurate (whether intentionally or otherwise) and such inaccuracy is not detected prior to Addiko Group advancing funds, the likelihood of repayment of the loan may be significantly lower than expected. Addiko Group generally bears the risk of loss associated with the inaccuracies. Addiko Group's controls and processes may not have detected or may not detect all inaccurate information or documentation provided by or on behalf of its customers and applicants. Any such inaccurate information or documentation or fraudulent activities on the part of Addiko Group's customers could materially adversely affect Addiko Group's business, results of operations, financial condition or prospects.

The legal inability of Addiko Group's counterparties to close a transaction, contractual deficiencies, incomplete documentation of transactions or legal particularities and amendments in the legal foundations of a company could also lead to claims/receivables from a transaction not being legally enforceable which could result in Addiko Group incurring losses

which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.16 Addiko Group's insurance policies and own risk assessment premiums may not cover particular future losses.

While Addiko Group believes that the insurance policies presently held by Addiko Group to cover its assets and operations are in line with general market practice, and is actively following the development of and implementing insurance products pursuant to changes in the business and regulatory environment, there is no guarantee that Addiko Group's insurance adequately covers every possible future loss, or that the terms of currently implemented insurance will be sufficient to cover losses as they occur.

Any loss which is not covered by Addiko Group's existing insurance policies or own risk assessment premiums may have a material adverse effect on Addiko Group's business, prospects, financial condition, results of operations or cash flows, and even if covered, may result in increased insurance costs, rise of risk assessment premiums charged to the clients or difficulties in acquiring insurance in the future for Addiko Group.

3.2.17 Failure of Addiko Group's IT systems could lead to a significant impairment of the business operations of Addiko Group.

Addiko Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and/or employees, and maintaining financial records.

The IT systems used by Addiko Group may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber-criminals, internet fraudsters or by virtue of internal abuse which could lead to, amongst other things, a leakage of Addiko Group's customer data, damage related to incursions, destruction of documents, inability or delays in processing transactions and unauthorized transactions. Furthermore, software errors and similar problems could affect Addiko Group's ability to support and satisfy the needs of customers in a timely manner, interrupt Addiko Group's activities, breach its reputation, expose Addiko Group to increased regulatory audits or cause it to incur substantial technical, legal and other costs. Addiko Group has business continuity management policies in place. However, interruptions to Addiko Group's IT systems may occur on a large magnitude and may have significant effects regarding the ability to serve its customers' needs on a timely basis and could result in damage to Addiko Group's reputation, exposure to increased regulatory scrutiny and could require Addiko Group to incur significant expenses. The occurrence of any IT systems failures or a security breach may adversely affect the business, financial condition, results of operations or development prospects of Addiko Group.

Addiko Group's information technology division provides the majority of the IT services for its entities and product offerings, including its proprietary banking platform, in the areas of product pricing and products sales, assessing acceptable levels of risk exposure, determining product approvals, setting required levels of provisions and capital, providing and maintaining customer service (including payment services and other customer transactions) and maintaining regulatory requirements. To provide redundancy Addiko Group uses two separate datacenters in Serbia and Croatia and two datacenters in Austria, each of which are connected via redundant data lines. However, a wider catastrophic event in the region could potentially disable redundant datacenters. Addiko Group faces the risk of loss events due to the instability, malfunction or outage of its IT system and IT infrastructure. Such losses could materially affect Addiko Group's ability to perform business processes and may, for example, arise from technical failures, human error, unauthorized access, cybercrime, natural hazards or disasters, or similarly disruptive events as well as from the erroneous or delayed execution of processes as either a result of system outages or degraded services in systems and IT applications. A delay in processing a transaction, for example, could result in an operational loss if market conditions worsen during the period after the error. IT-related errors may also result in the mishandling of confidential information, damage to Addiko Group's computer systems, financial losses, additional costs for repairing systems, reputational damage, customer dissatisfaction or potential regulatory or litigation exposure. This could have a material adverse effect on Addiko Group's reputation, business, financial condition, results of operations and prospects.

3.2.18 Addiko Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions, as well as in connection with the operating model.

Addiko Group outsources significant parts of its business to third-party suppliers or within the Group. In general, all decisions on the outsourcing of any business activities are taken in line with a framework which Addiko Group has implemented for this purpose. The most significant outsourcing arrangements relate to the Group-wide IT-related outsourcing to DXC Technology (covering IT infrastructure and operations and, partially, core banking) and to ARZ Allgemeines Rechenzentrum GmbH (***ARZ***) (covering support for holding functions and Group-wide access to SWIFT).

Outsourcing to third-party suppliers is crucial to the efficient operation of Addiko Group and Addiko Group depends significantly on its third party providers. However, outsourcing of services to third-party suppliers involves certain risks, including risks related to legal disputes, performance, non-compliance with regulatory requirements, suitability of the service

providers, loss of know-how, service interruptions, lack of service quality, leaking of confidential information, sudden terminations of service contracts, insolvency of the provider or similarly disruptive events. Additionally, Addiko Group may not be able to exercise the same level of control over third-party service providers as with its own employees, which could limit Addiko Group's ability to ensure the quality of the service provided. Certain of Addiko Group's outsourcing arrangements are subject to regulatory approval and supervision and, upon implementation, subject to internal control and monitoring. There can be no assurance that outsourcing arrangements will be approved or, if approved, will be subject to restrictions or scrutiny by regulatory authorities.

Addiko Group's operating platform seeks to build capabilities, improve customer experience and manage costs through, among other things, an operating model that facilitates the leveraging of skills and scales. The operating model is implemented on the basis of a series of legal arrangements between Addiko Group entities. Such arrangements can qualify as outsourcing and are therefore subject to regulatory approval and supervision. The implementation of the operating model is ongoing and there can be no assurance that regulatory approvals will in fact be obtained, in which case certain anticipated synergies may not, or not fully, be realized.

These risks, if they materialize, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.19 Resignation or loss of key personnel, including members of the Management Board, and possible difficulties in recruiting or retaining qualified employees could adversely affect Addiko Group's ability to execute its strategy.

Addiko Group's key personnel, i.e., the management of Addiko Group and other members of its senior management, have been essential in establishing and implementing Addiko Group's key strategies. In addition, Addiko Group needs to attract new talent to be able to compete in the national and international banking market. Market-based remuneration is required to attract talent. Addiko Group may fail to attract and retain the necessary employees with sufficient qualification to implement its strategic initiatives. Limitations on the remuneration policies of credit institutions, in particular on the variable elements of remuneration, as set forth in the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the ***CRD IV***) as implemented in the Austrian Banking Act (*Bundesgesetz über das Bankwesen* – ***Banking Act***) and the local regulations applicable to credit institutions, could impede Addiko Group's efforts to retain or recruit highly qualified personnel. Furthermore, emerging competitors from the Fintech industry, if any, as well as employers in other industries competing for talent with Addiko Group (such as consulting firms or auditors) or employers in other jurisdictions may not be subject to these limits on remuneration policies and could therefore be able to offer more attractive remuneration packages than Addiko Group. If Addiko Group is unable to retain the services of one or more members of its management, it may not succeed in attracting individuals with equal qualifications and comparable experience within a suitable time period and at adequate terms. The loss of management or other key personnel and failure in recruiting new replacing personnel could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.20 Risks related to models across many of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.

Addiko Group relies on models in relation to planning its business and strategies, such as capital management, credit grading, provisioning, valuations, liquidity, pricing and stress testing. Addiko Group uses risk management models based on historical information it has collected. There is a risk that they underestimate or overestimate exposure to various risks to the extent that future market conditions deviate from historical information or because such historical information may be limited in time or scope.

The information used to prepare such models may be based on inaccurate information, the assumptions underlying such models may be wrong or may not materialize, or the applied methodology may be flawed or not fully applicable. Addiko Group has not independently verified the accuracy or completeness of such models and it therefore cannot be excluded that such models are, in fact, erroneous. Also, with respect to its legacy portfolio of loans, Addiko Group does not in all instances have the full historical information upon which to base its risk management models. As a result, Addiko Group could manage its risks ineffectively and/or the value of its financial assets and liabilities may be overestimated or underestimated. This could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.2.21 A downgrading of Addiko Group's credit rating could increase its financing costs and could have a material adverse effect on Addiko Group's liquidity, profitability, business, financial condition, results of operations and prospects.

The Company is rated by Moody's, who has assigned the Company, among other ratings, a counterparty risk rating and a bank deposits rating of, in each case, Ba3. The mandated rating agency is established in the EU and has been registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies.

However, Addiko Group's credit ratings could be subject to downgrades in the future. As a precondition for assigning a certain credit rating, credit rating agencies may expect the issuers to comply with certain criteria and covenants. Any non-compliance by Addiko Group with these criteria and covenants may lead to rating downgrades. Such downgrades could contribute to an increase in Addiko Group's refinancing costs and Addiko Group is unable to predict the extent of the effects that would follow a credit rating downgrade of the Company. These would depend on a number of factors including whether a downgrade affects financial institutions across the industry or on a regional basis, or is intended to reflect circumstances specific to Addiko Group; any actions its senior management may take in advance of or in response to the downgrade; the willingness of counterparties to continue to do business with it; any impact of other market events and the state of the macroeconomic environment more generally. In particular, should any of the major credit rating agencies lower the Company's credit rating to a level considered sub-investment grade, significant aspects of its business model would be materially and adversely affected.

Further, certain potential types of customers, such as governmental institutions and internationally active companies, may not conduct deposit or payment business with a bank which does not have a credit rating or a bank whose credit rating does not reach a certain level. If Addiko Group receives a rating downgrade or loses its rating at all, it might be unable to generate new business with such customers or retain existing customers.

Addiko Group's credit rating can affect the terms on which Addiko Group's creditors are willing to transact with it. To the extent Addiko Group secures funding on the basis of a credit rating, any deterioration in such credit rating could result in increased funding costs and may limit Addiko Group's funding sources or impact Addiko Group's liquidity, which could limit its ability to conduct certain business activities. In addition, rating downgrades may cause customers, prospective customers, partners and suppliers to be reluctant to do business with Addiko Group. If in future Addiko Group relies on any external funding, including financing via the capital markets, a deterioration in Addiko Group's credit rating or outlook could, as a result of the negative consequences of a credit rating downgrade on Addiko Group's funding costs and the impact on its liquidity, have a material adverse effect on Addiko Group's business, results of operations, financial condition and prospects.

3.2.22 Addiko Group may have difficulty in identifying and executing opportunistic acquisitions, and both making acquisitions and avoiding them could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Even though not currently part of Addiko Group's business strategy, opportunistic acquisitions may prove to be necessary or advantageous for Addiko Group and, therefore, become part of Addiko Group's future business model. Addiko Group may in the future pursue acquisitions intended to develop or acquire new products and services. Addiko Group's ability to integrate and manage acquired businesses effectively on an opportunistic basis will depend upon a number of factors including the size and field of the acquired business and the resulting difficulty of integrating the acquired business's operations, if any. Even if Addiko Group is able to successfully implement these acquisitions, they may not provide Addiko Group with the value and benefits it anticipates. Addiko Group may also be subject to unexpected claims and liabilities arising from such opportunistic acquisitions. These claims and liabilities could be costly to defend, could be material to Addiko Group's financial position and might exceed either the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties. There can also be no assurance that Addiko Group will be able to assess ongoing profitability and identify all actual or potential liabilities of a business prior to its acquisition. If Addiko Group decides to acquire businesses which result in assuming unforeseen liabilities in respect of which it has not obtained contractual protections or for which protection is not available, this could materially adversely affect Addiko Group's business, financial conditions, results of operations or prospects.

3.2.23 Addiko Group is exposed to risks relating to the assumptions with respect to pension liabilities.

Addiko Group and certain of its subsidiaries have incurred and incur pension obligations vis-à-vis present or past employees. Addiko Group does not maintain insurance cover for such obligations but makes provisions on its balance sheet. The amount of these provisions is based upon certain actuarial assumptions, which include assumptions with respect to prevailing interest rates, life expectancy, the rate of current and future pension levels and the future development of salaries and wages. To the extent that these assumptions materially deviate from actual future pension liabilities, Addiko Group's business, financial condition and results of operations could be materially adversely affected.

3.2.24 Addiko Group has no experience navigating a recession with its current strategic orientation.

Since its inception, Addiko Group has operated in a relatively benign economic environment. While some of the local CSEE economies in which it operates have economic challenges, there has thus far been no significant economic crisis with which Addiko Group has had to contend. Consequently, there can be no assurance that Addiko Group's risk models and/or crisis management procedures will be adequate to successfully navigate a recession should one arise in the years ahead. Lack of experience operating in its current strategic orientation in a challenging economic environment may also result in poor decision making during a potential future recession, which could exacerbate the problems faced by Addiko Group at such time. Therefore, Addiko Group may have a more difficult time during a future recession than a more established financial institution.

3.3 Risks related to regulatory, legal and tax matters

3.3.1 Past, ongoing and uncertain future reforms and initiatives in legislation or supervision, including additional and more stringent regulation and public sector influence on the financial sector, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

The business activities of Addiko Group are subject to national, European and international legal frameworks as well as supervision by regulatory authorities in the relevant markets. The financial crisis has prompted the supervisory practice to act more rigorously, and the international standard setters such as, for example, the Basel Committee on Banking Supervision (***BCBS***) and the Financial Stability Board (the ***FSB***) as well as national and European legislators, governments and regulatory authorities have adopted a variety of reforms of financial regulation to improve the ability of the financial sector to withstand future crises. Further reforms are pending or may still be proposed. The wide range of new laws, regulations, guidelines and other papers or current proposals includes, but is not limited to:

- early intervention powers of supervisory authorities to intervene in, and prior to, a crisis of banks, including the implementation of recovery plan measures, changes to an institution's business strategy and changes to the legal or operational structures of an institution,
- powers of supervisory and resolution authorities to determine that an institution is failing or likely to fail and powers of resolution authorities to apply resolutions powers and tools, including the forced participation of creditors to bear losses and participate in a recapitalization (so-called bail-in),
- restrictions on the remuneration policies and practices of institutions,
- more stringent rules for the annual supervisory review and evaluation process (the ***SREP***) by which the ECB assesses and measures the risks for each bank and assesses its adequacy of own funds, liquidity, business model and internal governance and institution-wide controls and subsequently may require the banks to hold additional own funds and liquidity,
- the establishment of the Single Supervisory Mechanism (the ***SSM***) with the ECB as the central prudential supervisor directly supervising significant institutions. and the creation of a Single Resolution Mechanism (the ***SRM***) with, the Single Resolution Board (the ***SRB***) as the central body in charge of, inter alia, the resolvability assessment, the resolution planning and resolution of, *inter alia*, institutions directly supervised by the ECB and other cross-border groups, including Addiko Group, both within the Eurozone and any other EU countries that choose to participate in these mechanisms,
- reporting and information requirements for securities financing transactions such as securities lending or repurchase transactions (so-called repos) as well as transparency and approval requirements for the reuse of collateral (so-called rehypothecation),
- rules on payment services, including stricter security requirements for electronic payments and opening up the European payment market to non-banks offering account information or payment initiation services as contemplated by Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (known as PSD2),
- more stringent and risk-sensitive capital requirements, in particular in relation to credit risk, counterparty credit risk and market risk, leverage and liquidity standards including, in particular, the proposals of the BCBS in relation to revisions to the standardized approach for credit risk, operational risk, constraining the use of internal models for credit risk, capital floors and revisions to the leverage ratio (sometimes referred to as 'Basel IV'),
- transposing the FSB standard on total loss-absorbing capacity (the ***TLAC***) developed for global systemically important institutions into the European resolution regime applicable to all banks by integrating the more stringent

TLAC requirements into the MREL as laid out in Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the ***BRRD***), and

- the revision of the European System of Financial Supervision with the possibility to impose fees on the supervised entities to finance the European Supervisory Authorities, namely the European Banking Authority (***EBA***) and the European Securities and Markets Authority (***ESMA***).

It is not yet fully clear if, when and how those reforms (some of them have not yet been finalized) could be implemented. Neither the final scope of the currently available proposals nor their potential effect on Addiko Group may be determined at this early stage. The likely possibility of other future changes of the regulatory framework causes uncertainty for Addiko Group and the financial sector as a whole.

In addition, regulatory authorities, in particular those with jurisdiction over Addiko Group, including under the SSM the FMA as national competent authority for prudential supervision in charge of consolidated supervision of Addiko Group and supervision of the Company, the ECB indirectly supervising less significant institutions such as Addiko Group via instructions and guidance provided to the FMA, the FMA for certain other matters including AML and securities supervision and the SRB for resolution related matters, as well as local bank regulatory authorities in Addiko Group's countries of operation outside the EU, have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulatory authorities, have been steadily increasing during recent years. Moreover, if Croatia joins the Eurozone as is currently envisioned, Addiko Group would have cross-border activities in more than one other participating Member State of the SSM (i.e. the Eurozone). This could result in direct supervision Addiko Group by the ECB.

The aforementioned events and any other regulatory measures, as well as possibly a more stringent supervisory practice, including by the FMA, the SRB and, indirectly (or in the future potentially directly), by the ECB, and changes in customer lending laws and regulations in the future may, once adopted or implemented, influence the profitability of Addiko Group's business activities, require adjustments of its business practices and/or increase costs, including compliance costs. Implementing the required changes may also require the attention of, and substantial resources from, management of Addiko Group. Addiko Group may face higher financing and/or capital costs and restrictions on its growth or permitted business activities. The business model of Addiko Group as well as individual business areas could be endangered. Any reforms of regulatory law or practice could affect the financial position, assets, profitability and business prospects of Addiko Group.

3.3.2 Legislation regarding the resolution of banks, in particular the powers of resolution authorities to ensure resolvability and to force shareholders and creditors to participate in a situation of crisis, could, if such steps were taken to ensure that Addiko Group or critical functions thereof continue(s) as a going concern, significantly affect Addiko Group's business operations, and lead to the loss by Addiko Group shareholders of their entire investment in the Company.

Austria participates in the SSM and, as a consequence, in the SRM which centralizes at a European level the key competences and resources for managing the failure of banks in the Eurozone. The SRM is based on Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (the Single Resolution Mechanism Regulation or ***SRM Regulation***) and the BRRD which has been implemented in Austria by the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken* – ***BaSAG***).

The SRM Regulation and the BaSAG grant broad powers to public authorities. For a bank or banking group directly supervised by the ECB or for other cross-border groups, as is the case for, Addiko Group, the SRB assesses its resolvability and may require legal and operational changes to the structure of Addiko Group to ensure its resolvability. In the event that such a bank is failing or likely to fail and certain other conditions are met, the SRB is responsible for adopting a resolution scheme for resolving the bank pursuant to the SRM Regulation. The European Commission and, to a lesser extent, the Council of the European Union, have a role in endorsing or objecting to the resolution scheme proposed by the SRB. The resolution scheme would be addressed to and implemented by the competent national resolution authority, which is, for Austrian entities such as the Company and its Austrian banking subsidiaries, the FMA. The FMA would insofar act in accordance with the SRM Regulation and the BaSAG. The SRM Regulation and the BaSAG provide the SRB and the FMA, respectively, with a set of resolution tools which may be used under certain conditions for resolution, such as the imminent failure of a credit institution, to achieve one or more resolution objectives. These tools are the sale of the entity's business to the private sector, the establishment of a bridge institution or the transfer of assets and liabilities to an asset management vehicle (so-called 'bad bank') as well as the bail-in tool. In particular, pursuant to the SRM Regulation and the BaSAG, if certain conditions with respect to a credit institution or a financial holding company such as the Company are met, the SRB and the FMA are entitled to allocate losses and recapitalization needs to such entity's shareholders and creditors by the dilution of the existing shareholders of the failing entity or the cancellation of their shares outright, the write down in full or in part of the principal amount or the outstanding amount of any capital instruments that qualify as Additional Tier 1 (***AT1***) or Tier 2 (***T2***) capital instruments as well as any other subordinated debt instruments liabilities and finally even senior unsecured

liabilities (subject to exceptions in respect of certain liabilities) or convert such capital instruments and eligible liabilities into new CET1 instruments, in particular of the resolved entity or a bridge institution. Furthermore, pursuant to the SRM Regulation and the BaSAG, a write-down and conversion of AT1 and T2 capital instruments may be imposed at the "point of non-viability" before and regardless of any subsequent resolution action. In addition to the resolution tools, the SRB and the FMA as national resolution authority hold a number of additional powers to facilitate the process in case of a resolution, including the power to potentially suspend obligations of a credit institution in resolution such as redemption or interest payment obligations under notes it issued, to restrict the enforcement of security interests in relation to any assets of the institution and to suspend termination rights until the expiration of the business day which follows the day of publication of the notice of suspension.

The SRM Regulation and the BRRD, implemented under Austrian law by the BaSAG, are intended to eliminate, or reduce, the need for public support of banks in a crisis. Therefore, it is the overall goal that public financial support for such banks, if any, would be used only as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution powers, including the allocation of losses and recapitalization requirements to shareholders and creditors.

Regulatory measures under the BRRD resolution framework as implemented in the BaSAG and as applicable under the SRM Regulation taken in the event of failure of the Company or any of its banking subsidiaries, in particular the participation of Company's shareholders, holders of other relevant capital instruments and/or creditors and/or the use of any other of the available resolution tools, may severely affect the rights of the Company's shareholders as it may, in the event of resolution of the Company, lead to a significant dilution or even result in the outright cancellation of the Existing Shares and hence in the loss of the entire investment of the Company's shareholders, and could have a material adverse effect on Addiko Group's business, financial condition, results of operations.

In Bosnia & Herzegovina, the following restructuring tools may be applied by the banking agency: (i) the sale of business; (ii) the transfer of whole or part of the business to a special purpose bank; (iii) the asset separation and transfer; and (iv) internal restructuring. In principle, resolution authorities may apply the resolution tools individually (with some exceptions) or in any combination. Further, write down and conversion of the instruments of the capital may be ordered independently from any restructuring measures or together with restructuring measures, if the conditions for restructuring have been met.

In Serbia, the resolution tools are the following: (i) the sale of shares or assets and liabilities; (ii) transfer of shares, or assets and liabilities to a bank for specific purposes (established by the Republic of Serbia); (iii) the separation of asset; and (iv) distribution of losses to shareholders and creditors. The National Bank of Serbia may apply the resolution tools individually (with some exceptions) or in any combination. It also has the write-down and conversion powers which may be used prior to or upon opening of the resolution procedure.

In Montenegro, there is currently no legal framework for the resolution of banks. However, it is expected that mechanisms comparable to those described above will be implemented in the near future.

If any such mechanisms would be applied, in relation to Addiko Group or any member of Addiko Group, it may severely affect the rights of the Company's shareholders (directly in case of resolution of the Company and indirectly in case of resolution of any other member of Addiko Group) as this could have a material adverse effect on Addiko Group's business, financial condition, results of operations.

3.3.3 Increased capital and liquidity requirements, including leverage ratio requirements and enhanced supervisory powers to demand further own funds or liquidity under CRD IV/CRR and proposed amendments may adversely affect the profitability of Addiko Group.

In December 2010, the BCBS published a set of comprehensive changes to the international capital adequacy framework, known as Basel III (***Basel III***), which have been implemented into EU law by a legislative package. This legislative package consists of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the ***CRR*** and together with the CRD IV the ***CRD IV/CRR Package***) which has been implemented in Austria by amendments to the Banking Act. The implementation of Basel III into European and Austrian law brought stricter requirements on the eligibility of capital instruments and items as regulatory own funds, higher minimum capital ratios, introduced new capital buffers and a binding liquidity coverage ratio (the ***LCR***) and equipped the competent supervisors with discretion to a certain extent with respect to additional buffers. The CRD IV/CRR Package became effective on January 1, 2014, with some of the regulatory requirements gradually phasing in through January 1, 2023.

In addition, the regulatory authorities that oversee Addiko Group, in particular the FMA as national competent authority for prudential supervision of less important banks such as Addiko Group within the SSM, may, in connection with the SREP or otherwise, conduct stress tests and have discretion to impose additional capital requirements for risks that are not otherwise recognized in the statutory capital requirements or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to a bank's business. In this context, the FMA has imposed and is expected to impose in the future on an annual basis on Addiko Group individual capital requirements resulting from the SREP which are referred to as 'Pillar 2 requirements'. Pillar 2 requirements must be fulfilled with CET1 capital in addition to the statutory capital and buffer requirements, and any non-compliance may have immediate legal consequences such as

restrictions on dividend payments and other distributions. The FMA may communicate to Addiko Group an expectation to hold further CET1 capital, the so-called 'Pillar 2 guidance'. Although the Pillar 2 guidance is not legally binding and failure to meet the Pillar 2 guidance does not automatically trigger legal action, the FMA expects banks to meet the Pillar 2 guidance. As of the date of this Prospectus, the SREP requirement for Addiko Group is expected to be set at 4.1%.

On November 23, 2016, and following a broader review of the rules currently in place, the European Commission published a proposal to change the CRD IV/CRR Package (so far, such proposal is referred to as ***CRD V/CRR II***), the SRM Regulation and the BRRD (the ***EU Banking Package***). On June 7, 2019, the EU Banking Package was published in the Official Journal of the EU. As part of the EU Banking Package, a binding leverage ratio of 3% of Tier 1 capital will be introduced in order to prevent institutions from excessively increasing their leverage. In addition, it is proposed that institutions will be required to meet, amongst others, a binding net stable funding ratio (the ***NSFR***), more risk-sensitive capital requirements for counterparty credit risk, market risk and exposures to central counterparties and tighter regulation of large exposures. With regard to the recovery and resolution framework, the EU Banking Package, *inter alia*, aims to implement the FSB's new standard on a TLAC applying to global systemically important banks and to change the ranking of unsecured debt instruments in the insolvency hierarchy. The latter has already been implemented by the Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending the BRRD and had to be transposed by the Member States into national legislation by December 29, 2018. In Austria, Directive (EU) 2017/2399 was transposed into the BaSAG and applies since June 30, 2018. In Slovenia, Directive (EU) 2017/2399 was transposed into the Resolution and Compulsory Dissolution of Credit Institutions Act, which applies since February 12, 2019. In Croatia, the Directive (EU) 2017/2399 was transposed into the Croatian Act on Recovery and Resolution of Credit Institutions and Investment Firms, which applies since February 23, 2019. Similar rules and regulations apply also in certain non-EU countries where Addiko Group operates.

The need to comply with the aforementioned existing and proposed requirements and the change in ranking of certain debt instruments issued or to be issued by Addiko Group could have a material adverse effect on Addiko Group's profitability, business, financial condition, results of operations and prospects.

3.3.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends.

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, Austrian banks are required by the BaSAG (and potentially also the SRM Regulation) to meet MREL at all times. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, which is the SRB in the case of Addiko Group. Under the currently applicable legal regime, MREL targets are expressed as a percentage of Total Liabilities and Own Funds ("**TLOF**") of the relevant institution.

The EU Banking Package, *inter alia,* includes amendments of the BRRD and the SRM Regulation, such as: (i) to express MREL as percentages of the total risk exposure amount and the leverage ratio exposure measure; as well as (ii) to provide that (in addition to the existing supervisory measures of the competent authority which include restrictions on dividend payments) the relevant resolution authority may impose restrictions on distributions on CET 1, including shares, in case of a shortfall in combined buffer requirements triggered by an MREL shortfall.

The SRB may also require from Addiko Group, that the MREL target is wholly or partially composed of own funds or of a specific type of liabilities, including subordinated liabilities. Furthermore, the SRB will decide on the resolution strategy to be applied by Addiko Group, i.e. which entities of the Addiko Group form a resolution group and/or which entities are resolution entities. Addiko Group's consolidated MREL target would be determined, inter alia, depending on the scope of its resolution group. The applicable resolution strategy is subject to an annual review by the SRB, which review entails all relevant aspects in determining MREL, including a confirmation and/or change in the resolution strategy to be applied. SRB's current approach is based on its most recent MREL policy, i.e., the "2018 SRB Policy for the second wave of resolutions plans", published on 16 January 2019 (the "**2018 SRB Policy**"). Addiko Group expects that the SRB will decide on (and the FMA will communicate) the MREL target for Addiko Group during the second half of 2019, to be met after a transitional period of up to 4 years. Furthermore, Addiko Group expects that the SRB will apply a "single-point-of-entry" (SPE) approach as resolution strategy to Addiko Group, as a result of which Addiko Group forms a resolution group with the Company as resolution entity when setting the (consolidated) MREL target for the first time.

The Management Board is, however, of the view and has communicated to the SRB that Addiko Group performs critical functions for bank resolution purposes only in Croatia. Consequently, a resolution approach whereby solely Addiko Bank Croatia would be a resolution entity and an MREL target would be set solely for Addiko Bank Croatia, should be the adequate approach. For this reason, the Management Board made it clear in the course of its regular exchange with the SRB that it would consider a resolution strategy based on Addiko Bank Croatia as the only entry point more appropriate given that Addiko Bank Croatia is the only entity considered to provide critical functions, particularly as it provides functions considered to be important for the real economy.

If Addiko Bank Croatia were treated as the only entry point for resolution purposes, an MREL target set solely for Addiko Bank Croatia would be expected to be significantly less than would be the case if the SRB implements its approach as currently applied. Under the SPE approach currently applied for Addiko Group by the SRB, the MREL target of Addiko Group would require additional own funds and eligible liabilities in the amount of up to EUR 467 million (based on Addiko Group's capital structure and balance sheet composition as of March 31, 2019 and subject to a transitional period of up to 4 years). As to the approach currently applied by the SRB for Addiko Group, the Management Board, however, takes the view that such a consolidated MREL target should neither comprise a recapitalization amount nor a market confidence charge for subsidiaries without critical functions for which liquidation is the preferred resolution strategy, arguing that recapitalization is not meaningful in such scenario. According to the SRB, its resolution strategy applied to Addiko Group is subject to an annual review, which review entails all relevant aspects in determining MREL, including a confirmation and/or change in the resolution strategy to be applied. Addiko Group is in continued conversations with the SRB regarding the adequate resolution strategy.

As of the date of this Prospectus, the SRB has not yet announced any binding MREL target for Addiko Group, but only indicated an informative MREL target. The binding MREL target will significantly depend on the resolution strategy set for Addiko Group and there can be no assurance that the SRB, in coordination with the FMA, will follow the resolution approach suggested by the Management Board. The MREL target, its required composition, including levels of eligible liabilities and the extent of subordination requirements, as well as the applicable transitional periods will likely have a substantial effect on the balance sheet structure and the composition and cost of funding of Addiko Group and could have a material adverse effect on Addiko Group's profitability, business, financial condition, results of operations, prospects as well as Addiko Group's ability to pay dividends.

3.3.5 Addiko Group is subject to risks attributable to findings based on audits, inspections and similar investigations conducted by regulators.

Addiko Group has been, and expects to be, subject to periodic and ad hoc audits, inspections and similar investigations conducted by regulators which focus on Addiko Group's compliance with applicable laws and regulations. This may for example include inspections conducted by or on behalf of the FMA, the Central Bank of Austria (***OeNB)*** or other national competent authorities for prudential purposes or audits conducted by or on behalf of the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*) or the FMA, in each case either on a random basis or on a targeted basis such as in case of indications for the non-compliance with banking regulatory requirements or the infringement of accounting standards. It cannot be ruled out that the findings in any of those audits, inspections and similar investigations will lead to supervisory action and/or (additional) requirements for Addiko Group imposed by the regulators and/or adversely affect Addiko Group's reputation should those findings become public.

The realization of any of these risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.6 Addiko Group is subject to risks attributable to deposit guarantee schemes

EU

In April 2014, the Directive 2014/49/EU of the European Parliament and of the Council of April 16, 2014 on deposit guarantee schemes (Directive on Deposit Guarantee Schemes – ***DGSD***) entered into force and stipulates financing requirements for the (mandatory) deposit guarantee schemes (***DGS***). Subsequently, DGSD was implemented in all EU member states. Under the DGSD, in principle, the target level of ex ante financed funds for each DGS is 0.8% of covered deposits to be collected from credit institutions until July 3, 2024; i.e. the deposit guarantee fund must be fully funded until July 3, 2024.

Bosnia & Herzegovina

In Bosnia & Herzegovina, the deposit guarantee scheme is regulated at the state level with the BiH Law on Bank Deposit Insurance (BiH official gazette nos. 20/02, 18/05, 100/08, 75/09 and 58/13) (*Zakon o osiguranju depozita u bankama BiH*) establishing the BiH Deposit Insurance Agency (***DIABiH***). The BiH Law on Bank Deposit Insurance prescribes the protection of deposits of up to BAM 50,000.00 (approx. EUR 25,000.00) made by natural or legal persons in the participating bank members of the deposit insurance fund in case of loss of banking license by actions of respective banking agency or by voluntary winding down of bank's operations or in the case of appointment of provisional administrator. The insurance premium rate to be paid by the member bank each quarter is calculated on the basis of average total of eligible deposit increased for the accrued interest, excluding the deposits and assets defined by the BiH Law on Bank Deposit Insurance. In 2018, the insurance premium is set at 0.26%.

Serbia

Pursuant to the Law on Insurance of Deposits ("*Zakon o osiguranju depozita*", RS Official Gazette No. 14/2015 and 51/2017 – ***Law on Insurance of Deposits***), a bank is obligated to insure in Serbian dinars (RSD) or in a foreign currency, deposits

made by natural persons, entrepreneurs and SMEs (small and medium size enterprises). The *ex lege* insured amount is currently set to EUR 50,000.00 per depositor, guaranteed by the Republic of Serbia. As of January 1, 2019, banks are obliged to pay quarterly premium of 0.15% of the overall deposited amount.

Montenegro

In Montenegro, the DGSD is expected to be transposed into national law after adoption of the draft new Law on Bank Deposit Protection which has passed public discussion earlier this year. Currently, regime of statutory deposit guarantee scheme is governed by the Law on Deposit Protection pursuant to which each credit institution is obliged to pay the following ex ante contributions: (i) initial premium in the amount of EUR 50,000.00 before the start of its operational activities; and (ii) regular premium which may not be higher than 0.8% of the average of the total deposits of credit institution as of the last day of each month in the previous trimester. As of January 1, 2019, banks are obliged to pay quarterly premium of 0.5% of the overall deposited amount.

Addiko Group is subject to these deposit guarantee schemes and has to comply with the required contributions under each scheme. Also, required ratios or premiums can change unilaterally. New DGS rules and related financings or reporting requirements could result in increased compliance burden for Addiko Group and failure to comply with these rules could have a material adverse effect on Addiko Group's business, financial condition and results of operations.

3.3.7 Addiko Group's business could be significantly burdened due to the central clearing, reporting, risk mitigation and other compliance requirements imposed by EMIR and MiFID II.

In 2012, the EU adopted the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories or ***EMIR***). EMIR requires the clearing via a central counterparty of certain standardized over-the-counter (***OTC***) derivative contracts the average value of which is reaching or exceeding specified clearing thresholds during a 30-day period, reporting to trade repositories and various risk mitigation techniques depending on the counterparty's status, including rules regarding margining and collateral arrangements. Accordingly, EMIR and related developments such as the adoption of the revised Markets in Financial Instruments Directive (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU or ***MiFID II***) and the new Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (the Markets in Financial Instruments Regulation or ***MiFIR***) may require adaptations of its commercial practices and further increase costs, including compliance costs, as well as a deterioration of its unique value proposition. The requirements imposed by EMIR and MiFID II already resulted in higher costs which are primarily due to higher ongoing expenditures for software applications and personnel required to address new requirements relating to, inter alia, transaction reporting, trade reporting, cost transparency, new technical standards and initial margins for non-cleared derivatives. Changes in regulation can affect commercial premises used for planning, e.g. customer demand.

3.3.8 Addiko Group is subject to a wide variety of laws and regulations and is exposed to many forms of risks arising from compliance with such laws and regulations

Addiko Group is subject to a wide variety of laws and regulations relating to banking, insurance and financial services, including those governing its marketing and selling practices, and faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates. For instance, local regulators could enact laws, such as the retroactive Swiss Franc loan conversion laws enacted in Croatia, Montenegro Bosnia & Herzegovina and Serbia and as currently being considered in Slovenia offering the retroactive conversion of past lending indexed in Swiss Franc into Euro / local currency, which may impose significant financial and/or administrative burdens on Addiko Group. The systems and mechanisms to ensure compliance with these laws and regulations and internal procedures throughout Addiko Group could fail and could impact the compliance by Addiko Group with local and EU regulations, as well as the ability of Addiko Group to properly assess and prepare themselves for regulatory changes in a timely manner.

Addiko Group is, therefore, exposed to many forms of risk arising from compliance with regulations which could have an adverse effect on Addiko Group's business, financial condition and results of operations.

3.3.9 Addiko Group's business could be significantly burdened due to regulatory changes affecting transaction fees.

Addiko Group operates in jurisdictions, where it is lawful and common to apply transaction fees to banking transactions. Addiko Group generates profit through applying such transaction fees on banking transactions. Therefore, changes in the legal framework in such jurisdictions limiting or prohibiting the application of transaction fees on banking transactions could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.10 The access of Addiko Group to liquidity and funding may be adversely affected by a change of the collateral standards of the ECB.

Following the sovereign debt crisis, the ECB has been intervening in the money market by a series of measures, including facilitating the access to low-interest loans with favorable collateral requirements for European financial institutions. Any tightening of these collateral standards (such as the rating for collateral securities) would increase the cost of funding of Addiko Group. Any limitation imposed on Addiko Group's access to liquidity at adequate terms could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.11 The cost incurred by Addiko Group for compliance with anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and regulations and sanctions is significant and may further increase. Failure to comply with these and similar rules may have severe legal and reputational consequences.

Addiko Group is subject to rules and regulations, in particular on anti-money laundering and anti-terrorism financing, anti-corruption and fraud prevention, economic sanctions and tax as well as capital markets (securities and stock exchange related). These rules and regulations have been recently tightened particular by the implementation of the "Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC" (***4th AML Directive***), implemented in Austrian law, inter alia, the Austrian Financial Markets Anti-Money Laundering Act (*Finanzmarkt-Geldwäschegesetz* – ***FM-GwG***) and the Austrian Beneficial Ownership Register Act (*Wirtschaftliches Eigentümer Registergesetz* – ***WiEReG***), and might be further tightened and more strictly enforced in the future, such as in connection with the 5th AML Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. Such rules and regulations not only trigger costs enforcing compliance therewith, but also adversely affect the demand for products offered by Addiko Group due to, for instance, documentary burdens. Economic sanctions, such as embargos, may impose further restrictions on the operations of Addiko Group in certain countries or with certain customers, may require Addiko Group to terminate business relationships or to block assets such as bank accounts.

Addiko Group engages in business with customers and counterparties from a diverse background. In light of recent U.S. and EU sanctions, particularly against Russian individuals, it cannot be ruled out that some of Addiko Group's customers or counterparties are or may become subjected to sanctions. Such sanctions may result in Addiko Group being unable to gain or retain such customers or counterparties or receive payments from them. In addition, the association with such individuals or countries may damage Addiko Group's reputation or result in significant fines. Furthermore, Addiko Group may also transact business with politicians or other high-profile individuals in the markets in which it operates, which individuals may be found to have later engaged in corrupt practices using the money borrowed from Addiko Group. Even if Addiko Group has no fault in regards to such activities, the financial connection to such individuals alone may lead to reputational damage for Addiko Group.

Addiko Group directs significant funds, personnel, technical and other resources at its compliance with anti-money laundering, anti-tax evasion (including the Foreign Account Tax Compliance Act (***FATCA***)), anti-corruption and anti-terrorism financing rules and sanctions and may even have to step-up these efforts in line with a future tightening of these rules. In addition to these costs, additional documentary burdens may adversely affect demand for products offered by Addiko Group.

The compliance with these rules and management of the associated risks require modern information technology, wide data resources to support decision-making processes and professional and trained human resources. In addition CSEE is considered as a higher risk region by field experts in the banking industry and at regulatory institutions, as well as by AML, anti-bribery and anti-terrorist financing authorities such as the Financial Action Task Force (FATF) and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval), with respect to money laundering, bribery, terrorist financing and corruption, particularly in those countries outside the EU, including Bosnia & Herzegovina, Serbia and Montenegro. In particular, Serbia has been included in the FATF black list in 2018. Such regionally specific risks may include:

- a significantly higher occurrence of cash transactions in comparison to other parts of Europe, which may result in difficulties in establishing the source of funds;
- a large number of transactions to or from high-risk countries, especially those defined as "offshore" by the International Monetary Fund;
- a significant number of investments and financial transactions involving or deriving from Russian residents as a result of longstanding ties in Southeastern European countries to Russia, where the source of funds is often poorly disclosed; and

- a high corruption perception index as defined by Transparency International.

In 2019, Addiko Group engaged Deloitte Audit Wirtschaftsprüfungs GmbH to conduct a financial crime due diligence review focusing on Addiko Group's financial crime program and its risk exposure, as well as payments and transactions for 2018. The review served as an update to the 2017 review by Promontory Financial Group, which resulted in 60 recommendations, 45 of which were classified as high priority, and assessed the status of the implementation of those recommendations. Addiko Group is currently in the process of implementing those recommendations, and, as a result, there remain a number of vulnerabilities in Addiko Group's anti-money laundering practices. Also, there can be no assurance that the implementation of the recommendations will be completed in a timely manner, or at all.

Despite all efforts, Addiko Group cannot guarantee that all applicable anti-money laundering, anti-tax evasion, anti-corruption and anti-terrorism financing rules and sanctions are consistently complied with at all times and in all respects. For instance, employees in Slovenia were previously investigated for money laundering and bribery, while in Croatia, Addiko Group has been accused of money laundering and bribery. Addiko Group may also in the future become subject to investigations by authorities alleging a violation of such rules, and failure to comply with these and similar rules, or the allegation of such failure may have severe legal, monetary and reputational consequences and could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. Further, increasing bureaucracy may adversely affect the demand for products offered by Addiko Group.

3.3.12 Addiko Group uses standardized agreements and standardized terms and conditions, in particular in its important retail-focused business segments, which increases the potential that, if any clause is held to be void, this clause is invalid or unenforceable in a large number of contracts.

Addiko Group entertains legal relationships with a large number of customers. In this context, Addiko Group uses standardized documents, standard-form contracts and standardized terms and conditions, some of which are regulated by law, e.g., the Consumer Information Association (*Verein für Konsumenteninformation*) which are statutorily entitled to assert collective redress claims, regarding the validity of certain aspects of its terms. If such documents, contracts or terms and conditions turn out to contain provisions that are disadvantageous to customers of Addiko Group, or if clauses in such documents or contracts are declared invalid and thus replaced by statutory provisions which are unfavorable to customers of Addiko Group, a large number of standardized documents, contracts or terms and conditions could be affected.

Additionally, standardized contractual terms and conditions under Austrian law (*Allgemeine Geschäftsbedingungen*) have to comply with statutory laws, which means they are subject to rigid fairness and transparency controls by the courts regarding their content and the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. This applies in particular if they are used vis-à-vis retail customers, who form the majority of Addiko Group's customers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded, or if they are unbalanced or discriminate against the other party inappropriately. Due to the frequent changes to the legal framework, particularly with regard to court decisions relating to general terms and conditions (including such terms and conditions that have been used for a long time by numerous market participants), Addiko Group cannot fully protect itself against risks arising from the use of such standardized contractual terms. Even if documents, contracts and terms and conditions are prepared with legal advice, it is not possible to avoid all potential risks from the outset or in the future, as the changes may continue to occur in the legal framework, particularly via case law. Addiko Group faces similar risks regarding standardized agreements and standardized terms and conditions in other jurisdictions, where it operates.

If any of Addiko Group's standardized agreements and standardized terms and conditions are found to be invalid or unenforceable, Addiko Group may, among other things, not rely on such agreements and conditions and be forced to reimburse its customers for fees or expenses paid to it. The realization of this risk or any of the other risks described above could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.13 Addiko Group may fail to comply with laws and regulations with respect to private data protection.

Addiko Group is subject to national and international laws and regulations governing the collection, use, retention, sharing and security of personal data. A failure to comply with applicable laws or regulations could have an adverse impact on Addiko Group's reputation and subject Addiko Group to penalties or claims, which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. The need to comply with data protection legislation results in significant controlling, operational and reputational risks which can affect Addiko Group in a number of ways including, for example, making it more difficult to maintain and exploit marketing data and also through potential litigation relating to the alleged misuse of personal data. Regulation regarding data collection and data protection may also become more stringent in the future. Thus, new laws, regulations or developments in this field and changes in consumer behavior could interfere with Addiko Group's strategies to use privacy-related information for its marketing efforts, particularly with respect to its retail customers, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

As a result of significant amendments to laws or regulations in countries in which Addiko Group operates, Addiko Group may have to incur higher costs or change its business practices. Addiko Group also expects compliance to become more complex and to involve higher costs, complications to process reduced demand and the increasing risk of non-compliance may give rise to civil liability, administrative orders (including injunctive relief), fines or even criminal charges. For example, the new regulation (EU) 2016/679 on data privacy (the ***General Data Protection Regulation***) has introduced substantial changes to the data protection regime of the EU, including regarding intragroup as well as external data transfers and will to a large extent replace current national data protection laws by a directly applicable EU legislation. The General Data Protection Regulation is applicable as of May 25, 2018 and imposes a substantially higher compliance burden on Addiko Group's business. In addition, the regulation will increase the maximum level of fines for undertakings to the higher of up to EUR 20 million or 4% of a company's total worldwide annual turnover.

Addiko Group is also exposed to the risk that its data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by it or on its behalf. If Addiko Group or any third party service providers on which it may rely, fails to transmit customer information in a secure manner, or if any such loss of personal customer data were otherwise to occur, Addiko Group could face liability under data protection laws. This could also result in the loss of its customers' goodwill and deter new customers. There is also a risk of data abuse by any of its service providers for which Addiko Group may have to assume the liability.

The realization of any of these risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.14 Tightening of consumer protection laws and/or their interpretation as well as compliance with the national implementation of MiFID II may have a negative influence on the profitability of consumer banking transactions.

Retail banking is a significant business segment of Addiko Group. Any tightening of consumer protection laws or the interpretation thereof by courts or other competent authorities could result in lower profitability of certain of its products and services, which may impair the ability of Addiko Group to offer certain products and services or to enforce certain clauses and thus could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Likewise, limitations imposed by, and cost of compliance with new rules implemented into national law under MiFID II may result in further limitations, increased cost and lower profitability of Addiko Group's retail banking business involving financial instruments.

3.3.15 Changes in Addiko Group's financial reporting, such as changes to IFRS, could materially affect Addiko Group's financial results and regulatory capital ratios.

Addiko Group prepares its consolidated financial statements in accordance with IFRS. Future amendments to the IFRS or their interpretation, as announced by the International Accounting Standards Board (an increased amount of amendments has been proposed since the financial crisis) will have to be applied by Addiko Group and could have a material adverse effect on Addiko Group's financial reporting, its own funds, business, financial condition, results of operations and prospects

3.3.16 Despite Addiko Group's risk management policies, procedures and methods, it may be exposed to unidentified or unanticipated risks, which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group may be exposed to risks which are not sufficiently covered by its risk management policies. There can be no guarantee that the risk management policies are fully effective in mitigating Addiko Group's risk exposure against all types of risk, including risks that it fails to identify or anticipate or that are generally unknown. Additionally, it should be noted that some of Addiko Group's quantitative tools and metrics are based on historical market behavior and developments, which may limit their effectiveness at predicting future economic changes. The risk management tools used in the financial sector failed to predict a number of the losses experienced during the global financial crisis and it cannot be guaranteed that Addiko Group's systems will be able to predict future risks accurately. The realization of any of these risks could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.17 Addiko Group is, and may in the future be, subject to a number of legal and regulatory proceedings, the outcome of which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group is subject to a number of legal and regulatory proceedings that are often highly complex, take considerable time and are difficult to predict or estimate. As of December 31, 2018, Addiko Group's overall passive legal disputes (i.e.,

disputes where Addiko Group is the defendant) amounted to claims of EUR 331 million (excluding accrued interest) relating to 2,729 cases. Such proceedings include lawsuits with customers and consumer protection associations. Legal claims asserted against Addiko Group may involve new or untested legal theories. The outcome of such proceedings is, therefore, difficult to predict or estimate until late in the proceedings, which may also last for several years.

Addiko Group has established provisions of EUR 30.1 million (as of December 31, 2018) in its consolidated financial statements for certain of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings. While management believes that Addiko Group's consolidated financial statements make adequate provision for pending legal proceedings, a worse than expected outcome in any legal proceedings would mean that such provisions, or the absence of any provision, insufficiently cover Addiko Group's liabilities and consequently could have a material adverse effect on Addiko Group's business, financial condition, results of operations, cash flows and prospects.

Furthermore, the volume of claims and the amount of damages and penalties claimed in litigation, arbitration and regulatory proceedings against financial institutions are generally high. Proceedings brought against Addiko Group may result in judgments, settlements, fines, penalties, injunctions, court orders, or other results adverse to Addiko Group, which could have a material adverse effect on Addiko Group's reputation, organization, business, financial condition, results of operations and prospects.

In general, any litigation could have a negative influence on the financial condition of Addiko Group. The amounts ultimately incurred in relation to legal proceedings may be substantially higher or lower than the amounts reserved for by Addiko Group and, if the amounts are higher, this could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.18 Addiko Group operates in an increasingly regulated environment and failure to comply with such rules may result in regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution. Moreover, Addiko Group is exposed to the risk of political influence and ad hoc legislation.

Addiko Group has to comply with the wide range of laws and regulations applicable to it, including an increasing number of reporting requirements, such as, inter alia, mandatory voting rights notifications, obligations imposed by the Common Reporting Standards (CRS), the ECB's "AnaCredit" project by which granular credit and credit risk data will be collected and which is started in September 2018, and additional reporting requirements imposed by the ECB, the OeNB, the FMA and other authorities. It cannot be guaranteed that Addiko Group continuously complies with all laws and regulations all the time, in particular since legislation, regulation and jurisprudence is developing fast. In countries where Addiko Group does not have a local presence compliance with local laws is more challenging. Also when Addiko Group enters or invests in new markets, it may be subject to additional laws and regulations and compliance therewith may be more challenging especially during the initial phase. Addiko Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigations and criminal prosecution for any failures to comply with all laws and regulations. This could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Addiko Group operates in jurisdictions in which corruption, or alleged corruptive behaviors, and political influence can have a greater impact on business than in many Western European countries as evidenced, by, for instance, a report from the International Monetary Fund from November 2017 (IMF, Regional Economic Outlooks: Europe Hitting its Stride, Chapter 2 – Reforming the Judiciary: Learning from the Experience of Central, Eastern and Southeastern Europe). Slovenia ranks 34th, Croatia ranks 57th, Montenegro ranks 64th, Serbia ranks 77th and Bosnia & Herzegovina ranks 91st among 180 countries in the 2017 corruption perception index (CPI) of Transparency International (with a lower ranking denoting more perceived corruption). Such factors also result in greater economic and commercial uncertainty for companies operating in those jurisdictions, since authorities may not always act in the best interests of the local market or serve all its participants equally. Addiko Group could therefore suffer the adverse effects of competitors being given unfair advantages or of local markets weakening overall because of the additional uncertainty caused by an unfair and unpredictable political system.

Moreover, companies in such jurisdictions may be more likely to suffer the effects of unexpected and hastily passed ad hoc legislation.

3.3.19 Compliance or non-compliance with legal provisions applicable to it could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Legal compliance by Addiko Group is associated with significant costs and non-compliance with applicable laws or regulations is subject to sanctions imposed by the competent supervisory authorities and a loss of reputation. Such additional costs, or the imposition of fines or sanctions, or a loss of reputation could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

This particularly applies to bank supervisory regulations, regulations generally applicable to companies, and tax regulations.

Bank supervisory regulations. Addiko Group is subject to consolidated supervision in Austria. Furthermore, institutions of Addiko Group are subject to supervision by financial supervisory authorities in all jurisdictions in which it carries on banking

activities. It cannot be excluded that the banking license of institutions of Addiko Group, in the case of serious and repeated breaches of regulatory provisions, may in the future be withdrawn or restricted in a jurisdiction. Should the banking license of institutions of Addiko Group be withdrawn or restricted in a jurisdiction this could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Regulations generally applicable to companies. In addition to the specific regulations applicable to financial service providers, Addiko Group must comply with a series of other regulations relating to general corporate law areas such as labor, competition and tax law. These regulations and their interpretation by the competent authorities are subject to change. Addiko Group expects that in the future, the costs associated with compliance with these regulations will increase which could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Tax regulations. The financial position, the assets position and the profitability of Addiko Group is particularly dependent on the taxation of profits at the level of Addiko Group, its subsidiaries and affiliates. Amendments to local tax law or other regulations could affect the ability or willingness of prospects to enter into business relations with members of Addiko Group. Every amendment of the legal situation, judicial or administrative practice of taxation could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects. Moreover, tax audits could, on account of diverging interpretations, result in assessments of tax deficiencies, which could require Addiko Group to pay additional taxes not previously expected. This, too, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.3.20 Developing legal and taxation systems in some of the countries in which Addiko Group operates may have a material adverse effect on the Company.

The legal systems of many countries in which Addiko Group operates, in particular in the emerging economies, have undergone dramatic changes over the past two decades. In many cases, the interpretation and procedural safeguards of the new legal and regulatory systems of these countries are continuing to be developed, which may result in existing laws and regulations being applied inconsistently or arbitrary and onerous new laws being introduced.

Additionally, it may not be possible to obtain legal remedies in a reasonably timely manner, which could in particular have a material adverse effect on the legal enforcement of loan collateral which in many cases is mandatory. Addiko Group is subject to a large number of tax regulations that in some cases have only been in effect for a short period of time, are frequently amended and enforced by various political subdivisions. Thus, there are hardly any precedents for such enforcement, and administrative practices may be unpredictable. Taxpayers often have to take recourse to the courts to defend their position against the fiscal authorities.

Furthermore, the lack of collectability in some CSEE countries may result in new taxes being continuously introduced in an attempt to increase tax revenues. Therefore, there is a risk that Addiko Group may be subject to arbitrary and onerous taxation. In some CSEE countries, tax returns and taxation matters are not subject to the statute of limitations and thus might be addressed by the authorities for years afterwards. Therefore, the tax risk in some CSEE countries is significantly higher than in other countries whose tax systems are based on a longer historical development.

Moreover, in a number of cases the introduction of legal or tax measures is allegedly based on political or protectionist reasons and directed primarily against foreign investors, in particular credit institutions. The risks related to the development and application of the legal and tax systems in some of the countries in which Addiko Group operates may have a material adverse effect on the Company's financial position and results of operations.

3.3.21 Addiko Group is exposed to risks related to tax loss carry forwards

Possible revisions to tax legislation or to its interpretation may affect Addiko Group`s financial condition in the future.

Addiko Group assumes that it will be able to deduct goodwill amortizations and tax loss carry forwards from its taxable income. Addiko Group has unrecognized DTA for tax loss carry forward in the amount of EUR 26.6 million for the year ended December 31, 2018 (EUR 20.6 million for the year ended December 31, 2017).

The deductibility of goodwill amortizations and tax loss carry forwards is based on a number of assumptions, including, among others, the correct recognition of these items, certain earning levels and unchanged tax regulations. If any of these assumptions prove incorrect, Addiko Group may not be able to deduct these items (in whole or part) from its taxable income resulting in higher than expected tax payments which would have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

Although Addiko Group currently has no information or indications of a change in relation to tax loss carry forwards, this may be revised in the future, with the imposition of a time limit for carry forward losses.

3.4 Risks related to the shareholder structure and the Existing Shares

3.4.1 After completion of the Private Placement, Addiko Group will no longer be majority-owned by the Existing Shareholder which may lead to the loss of business opportunities.

In the past, Addiko Group has benefited from being majority-owned by the Existing Shareholder and its affiliates. Following the reduction of the investment of the Existing Shareholder in the Company, Addiko Group might lose or have reduced access to business opportunities, and such loss or reduction may not be fully offset by broader opportunities from other financial sponsors that did not wish to conduct business with Addiko Group while it was owned and controlled by the Existing Shareholder. Due to the fact that the Existing Shareholder is owned and controlled by investment funds, it can be expected that they will further reduce their shareholdings in the Company over time. Thereafter, individual or coordinated action by minority shareholders may prevent the implementation of strategically important measures of the Company. This could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.4.2 The Existing Shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop.

As of the date of this Prospectus, there was no public trading for the Existing Shares. The Placement Price was set by the Existing Shareholder by way of a bookbuilding process jointly with the Joint Global Coordinators and Joint Bookrunners. There is no guarantee that the placement price will correspond to the price at which the Existing Shares are subsequently traded after the Private Placement, or that a liquid market in the Existing Shares will develop and become established after the Private Placement. The fact that, upon completion of the Private Placement, the Existing Shareholder will hold 45% of the Existing Shares (assuming full exercise of the Greenshoe Option) limits the number of free float shares in the Company and could, therefore, adversely affect the development and maintenance of a liquid market in the Existing Shares. In addition, although application has been made for the Existing Shares to be listed on the Official Market, the Company cannot assure that the Existing Shares will become or remain listed. Failure to be approved for listing or the delisting of the Existing Shares from the Official Market may have a material effect on investors to resell the Company's shares on the secondary market. Investors may not be able to sell the Existing Shares at the placement price, at a higher price or at all under certain circumstances.

3.4.3 Future capital increases could be dilutive and lead to substantial reductions in the value of the Existing Shares, thereby diluting the shareholders' interest in the Company.

In the future the Company may raise further capital to finance its business activities. The issuance of equity securities, the exercise of any convertible bonds or bonds with warrants the Company may issue in the future, as well as the purchase of other enterprises or participations in enterprises in exchange for shares, if so approved by general meeting of the Company, may lead to a commercial dilution of shareholders' interests in the Company.

Under Austrian corporate law, shareholders have preferential statutory subscription rights (*Bezugsrechte*) in respect of any new shares issued by the Company in a capital increase in proportion to their shareholdings. Subscription rights may be excluded with a three quarters majority vote in the general meeting of the Company. Also, due to restrictions in other jurisdictions, such as the United States, shareholders outside Austria may be prohibited under applicable law or excluded under the terms of the capital increase from participating in future capital increases.

In the case of any future capital increase of the Company by way of a rights issue, shareholders who have not exercised their subscription rights will no longer hold the same percentage of voting and dividend rights in the Company. If a shareholder fails to exercise its rights to subscribe for new shares or is precluded from participating in the rights offering, its percentage share in the Company would be diluted in proportion to the percentage by which the Company's capital is increased. Correspondingly, such a shareholder's portion of any dividend or other distribution or voting rights would decrease.

Pursuant to the Austrian Stock Corporation Act (*Aktiengesetz*; the ***Stock Corporation Act***), the shareholders' meeting of the Company (the ***Shareholders' Meeting***) may, in certain cases, adopt a resolution on a capital increase that excludes shareholders' subscription rights. In such case, shareholders who are not offered any of the shares to be issued could not prevent the dilution of their shares in the Company unless they purchased additional shares in the secondary market, for example on the stock exchange, possibly at a higher price. This also applies where new shares are issued exclusively to holders of convertible instruments, e.g. convertible bonds or bonds with warrants, issued by the Company.

A capital increase may also lead to a decline of the price of the Existing Shares, e.g., as a result of the market's dislike of the dilutive effect and/or a markdown of the subscription price.

3.4.4 The price and trading volume of the Existing Shares could fluctuate significantly, and investors could lose all or parts of their investments.

Following completion of the Private Placement, the price of the Existing Shares may be subject to substantial fluctuations. Also in the period immediately following completion of the Private Placement, although Citigroup Global Markets Limited, acting as stabilization manager (***Stabilization Manager***) may take stabilization measures from the date of the commencement of trading of the Existing Shares on the Official Market up to 30 calendar days after such date, the Stabilization Manager is under no obligation to take any stabilization measures. As a result, investors in the Existing Shares could lose all or part of their investments. Fluctuations may especially follow from changes in the actual or forecast operating results of Addiko Group or its competitors, changes in the profit forecasts or failure to meet profit expectations of investors and securities analysts, assessments by investors with regard to the success and the effects of the Private Placement and the strategy described in this Prospectus as well as the assessment of the related risks, changes in the general economic conditions, changes in the shareholder structure, random events as well as other factors. Furthermore, external factors such as changing demand in the monetary or interest rate policy measures by central banks, regulatory changes or other external factors, seasonal influences or unique events can impact the revenues and the earnings of Addiko Group and lead to fluctuations in the price of the Existing Shares. General fluctuations in share prices, especially the price of shares in other companies in the same industry Addiko Group operates, or a general deterioration in capital markets, may lead to pressure on the price of the Existing Shares, and these fluctuations in share price may not necessarily be based on its business operations or earnings prospects.

3.4.5 The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons.

A dividend may only be distributed if and to the extent the Company has recognized a balance sheet profit available for distribution in its audited annual unconsolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*, **Commercial Code**). Accounting under these rules may differ materially from IFRS accounting. The balance sheet profit may be reduced for losses carried forward as well as for the formation or increase of reserves. While some reserves may be formed or increased (as the case may be) at the discretion of the management board of the Company, certain reserves must be formed or increased (as the case may be) by law.

The Company is a holding company with limited operational activities. Its ability to pay dividends, therefore, depends primarily on the inflow of sufficient funds from its subsidiaries. The volume of these funds in turn largely depends on the net assets, financial position and results of operations of the relevant subsidiary and is subject to applicable local laws and regulatory requirements such as applicable tax laws and other restrictions, including corporate restrictions on payments to shareholders, bank law requirements as well as restrictions imposed by the competent authority in accordance with the applicable bank law and the treatment as subordinated liabilities in the event of the subsidiary's insolvency. There can be no assurance that the Company will be able to pay dividends or meet its goal of paying dividends of EUR 40 million in 2019 and 2020, either from earnings, excess capital, or a combination of both, and 60% of its profits, if any, after tax (as determined in accordance with IFRS) in the years thereafter, subject to maintaining a minimum 16.1% total capital ratio as per the dividend policy previously adopted by the Management Board, which requires, among other things, that the payment of such dividends is consistent with its long-term and sustainable business and compliant with then applicable regulatory requirements. In addition, the Company is targeting the issuance of a Tier 2 instrument in the second half of 2019 and currently intends to pay any excess cash resulting from that issuance as a dividend to its shareholders. There can be no guarantee however that the Company will be able to issue a Tier 2 instrument on satisfactory terms or at all and any issuance will be subject to then-current market conditions. In addition, any dividend payment resulting from such Tier 2 instrument will be determined by the Management Board at that time and at its sole discretion and subject to approval of the shareholders of the Company. The Management Board's determination on the payment of dividends will depend on a range of factors, including the Company and Addiko Group's liquidity and financial position, future prospects and strategic plans, tax considerations, regulatory developments and other relevant factors it determines.

In addition, if Addiko Group fails to meet the regulatory capital adequacy requirements or liquidity requirements, including capital buffer requirements, under the applicable banking regulations, the competent supervisory authority may suspend or limit the payment of dividends.

Furthermore, should Addiko Group issue instruments, such as AT1 instruments or profit participation certificates (*Genussscheine*) which provide for payments that are effectively preferential to dividend payments, the ability to pay dividends may be limited or even suspended. Finally, Addiko Group may also decide to retain capital to finance acquisitions.

3.4.6 Addiko Group will face additional administrative requirements and incur higher ongoing costs as a result of the Company's listing.

After the listing, the Company will be subject to the legal requirements for Austrian stock corporations listed on a public stock exchange for the first time. These include requirements relating to corporate governance, periodic financial reporting and other public disclosures of information (including those required by the stock exchange listing authorities) and other required disclosures. Furthermore, the Company would be expected to make other common disclosures, including regular calls with securities and industry analysts. There is no guarantee that Addiko Group's accounting, controlling and legal or other corporate administrative functions will be capable of responding to these additional requirements without difficulties and inefficiencies that cause it to incur significant additional expenditures and/or expose it to legal, regulatory or civil costs or penalties. Furthermore, the preparation, convening and conduct of ordinary Shareholders' Meetings and the Company's regular communications with shareholders and potential investors will entail substantially greater expenses and risks. The management of the Company will need to develop the expertise necessary and, hence, to devote time to these additional requirements that it could have otherwise devoted to other aspects of managing its operations. These additional requirements could also entail substantially increased time commitments and costs for accounting, controlling and legal departments and other administrative functions in Addiko Group. Any inability of Addiko Group's administration to handle the additional demands placed on it by becoming a company with listed shares, as well as any costs resulting therefrom, could have a material adverse effect on Addiko Group's business, financial condition, results of operations and prospects.

3.4.7 Investors with a reference currency other than euro will become subject to foreign exchange rate risk when investing in the Existing Shares.

The Existing Shares are, and any dividends to be announced in respect of the Existing Shares will be, denominated in euro. An investment in the Existing Shares by an investor whose principal currency is not euro exposes the investor to currency exchange rate risk that may impact the value of the investment in the Existing Shares or any dividends.

3.4.8 Rights of shareholders in an Austrian stock corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction.

The Company is an Austrian stock corporation (*Aktiengesellschaft*) organized under the laws of Austria. The rights of the Company's shareholders are governed by the Company's articles of association and by Austrian law. These rights may differ in some respects from the rights of shareholders in corporations organized in jurisdiction other than Austria. In addition, it may be difficult for investors to enforce the securities laws of other jurisdictions, or to prevail with a claim against the Company based on those laws.

3.4.9 The Existing Shareholder will continue to have a significant shareholding in Addiko Group following the Private Placement.

Following completion of the Private Placement, the Existing Shareholder will remain Addiko Group's principal shareholder. This means that the Existing Shareholder will be able to exert influence over Addiko Group at its general meetings or, in limited circumstances, block certain matters that must be decided by a vote of the shareholders of Addiko Group at a general meeting. To the extent that the interests of the Existing Shareholder differ from the interests of Addiko Group's other shareholders, such other shareholders may be disadvantaged by any actions that the Existing Shareholder may seek to pursue. The potential for the Existing Shareholder to exert influence through voting at the general meetings of the Company or the exertion by the Existing Shareholder of influence in any other way that conflicts with the interests of other shareholders may have a significant adverse impact on Addiko Group's share price, may, in turn, make it more difficult for Addiko Group to raise further capital or only allow it to do so on unfavorable terms, and may conflict with the interests of Addiko Group or its other shareholders.

3.4.10 A suspension of trading in the Existing Shares could adversely affect the share price.

With respect to securities publicly traded on the Vienna Stock Exchange, the FMA is authorized to suspend, or request the relevant regulated market on which securities are admitted to trading to suspend, such securities from trading, if, in its opinion, the respective issuer's situation is such that continued trading would be detrimental to investors' interests. The FMA is further authorized to instruct the Vienna Stock Exchange to suspend trading in an issuer's securities in connection with measures taken against market manipulation and insider trading. The Vienna Stock Exchange must suspend trading in securities which no longer comply with the rules of the regulated market unless such a step would likely cause significant damage to investors' interests or orderly functioning of the market. In addition, if the Vienna Stock Exchange does not do so, the FMA could demand the suspension of trading in securities if it is in the interest of the orderly functioning of the market and does not impair investors' interests. Existing orders are deemed void if trading is suspended. Any suspension of trading in the Existing Shares (other than for protecting investors' interest) could adversely affect the price and the liquidity of the

Existing Shares and, consequently, could have a negative effect on investors' ability to sell the Existing Shares at a satisfactory price.

4 General Information

4.1 Purpose of this Prospectus

This Prospectus relates to the listing of all of the Company's 19,500,000 Existing Shares, with each share representing a notional value of EUR 10.00, on the Official Market and the admission to trading of all the Existing Shares to trading on the Official Market. Upon commencement of trading of the Existing Shares, the price of such shares will depend on market demand therefor and available supply thereof on the Vienna Stock Exchange at the relevant time, provided that trading of the Existing Shares will commence on the basis of the price of the Existing Shares as determined in the Private Placement at EUR 16.00 per Placement Share. The Existing Shares are represented by one or more global certificates (*Sammelurkunde*) deposited with OeKB CSD GmbH (***OeKB CSD***), Strauchgasse 1-3, 1010 Vienna, Austria. Settlements of transactions concluded on the Vienna Stock Exchange occur on a T+2 and delivery versus payment basis. For further details, see "*23.1.5 Trading and Settlement*". This Prospectus has been approved by the FMA in its capacity as competent authority under the Capital Markets Act.

4.2 Private Placement

4.2.1 Background to the Private Placement

On June 25, 2019, in anticipation of the expected admission to trading of the Existing Shares on the Official Market of the Vienna Stock Exchange, the Company, the Existing Shareholder together with the Underwriters initiated a private placement (the ***Private Placement***) of 9,750,001 Firm Shares from the holdings of the Existing Shareholder and 975,000 Over-Allotment Shares from the holdings of the Existing Shareholder to cover a potential Over-Allotment (as defined below).

The placement price and the final number of shares to be placed in the Private Placement were determined based on the order book prepared during the bookbuilding process (that took place in the period from June 25, 2019 and July 10, 2019) on or about July 10, 2019. The results of the Private Placement, including the final placement price of EUR 16.00 per Placement Share (the ***Placement Price***), were published by the Company through an electronic information dissemination system and on the Company's website on July 10, 2019.

In addition, Citigroup Global Markets Limited, or its affiliates, acting as the stabilization manager (the ***Stabilization Manager***) for the account of the Underwriters, will be provided with the Over-Allotment Shares from the holdings of the Existing Shareholder in the form of a securities loan.

Immediately prior to the date of this Prospectus, all Placement Shares are held by the Existing Shareholder, AI Lake (Luxembourg) S.à r.l., a limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, registered in the Luxembourg companies register (*Registre de Commerce et des Sociétés*) under registration number B191802. As of such date, 78.4% of the shares in the Existing Shareholder are controlled by funds ultimately advised and managed by Advent International Corporation (AIC), a SEC registered corporation established under the laws of the U.S. state Delaware, and 18.5% of the shares are held by the European Bank for Reconstruction and Development (***EBRD***), with the remaining 3.1% held by the Managers (as defined in "*22.2.4 Management Board Compensation*") (with the members of the Management Board holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board holding 1.1%).

For more details on the shareholder structure of the Company, see "*20 Shareholder Structure*".

4.2.2 Private Placement Structure

The Private Placement consisted of a private placement to selected institutional investors, including a private placement within the United States of America (the ***United States*** or ***U.S.***) to qualified institutional buyers (***QIBs***) in reliance on Rule 144A (***Rule 144A***) under the U.S. Securities Act of 1933, as amended (the ***Securities Act***), and outside of the United States to certain other eligible institutional investors in reliance on Regulation S (***Regulation S***) under the Securities Act.

The Private Placement and the Placement Shares have not been and will not be registered under the securities laws of any jurisdiction and, in particular, have not been and will not be registered under the Securities Act. The Placement Shares were offered or sold in the United States only to QIBs in reliance on Rule 144A or in reliance on another available exemption from, or in transactions not subject to, the registration requirements of the Securities Act and outside the United States in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Placement Shares may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act. The Placement Shares are transferable only in accordance with the restrictions described under "*26 Selling Restrictions*".

The Placement Shares carry the same rights as all other shares of the Company and confer no additional rights or benefits. All shares of the Company, including the Placement Shares, are subject to and governed by Austrian corporate law.

The Existing Shareholder will receive the net proceeds resulting from the sale of the Firm Shares and any sale of Over-Allotment Shares.

Book-entry delivery of the Placement Shares sold in the Private Placement against payment of the Placement Price is expected to occur on July 15, 2019.

4.2.3 Delivery and Settlement

The Underwriters expect to deliver the Placement Shares, assigned and allotted in the Private Placement, in book-entry form through the facilities of OeKB CSD, Euroclear S.A./N.V. and Clearstream Banking, société anonyme against payment of the Placement Price on or about July 15, 2019. Investors will not be charged with expenses by the Company, the Existing Shareholder or the Underwriters. Investors may, however, have to bear customary security commissions (*Effektenprovision*) and handling fees charged by their account-keeping financial institution. Prospective investors are advised to inform themselves about these costs.

If an investor has sold Placement Shares to a third party prior to the delivery of such Placement Shares in book-entry form and is unable to meet its obligations to deliver the Placement Shares to a third party due to the termination of the underwriting agreement by the Underwriters, any legal recourse will arise exclusively from and be limited to the contractual relationship between the investor and such third party. In case of short sales in the Placement Shares by investors, the selling investor bears the risk of being unable to fulfill its delivery obligation.

4.3 Lock-Up Agreements

4.3.1 Lock-Up of the Company

In the Underwriting Agreement, the Company has committed to an obligation *vis-à-vis* the Underwriters that during the period commencing on the date of the Underwriting Agreement and ending 180 days after the first day of trading of the Existing Shares on the Vienna Stock Exchange, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld or delayed, the Company, its management board or its supervisory board will not, and will not agree to:

(a) announce or effect an increase of the share capital of the Company out of any authorized capital;

(b) submit a proposal for a capital increase to any meeting of the shareholders for resolution;

(c) announce, effect or propose the issue of securities with conversion or option rights on the Existing Shares; and

(d) enter into a transaction or perform any action economically similar to those described in (a) through (c) above.

The lock-up restrictions described will, however, not apply in the case of share sales under future employment and management participation plans, certain corporate actions undertaken by the Company and upon request by the supervisory authorities or in order to comply with minimum regulatory standards.

4.3.2 Lock-Up of the Existing Shareholder

In the Underwriting Agreement, the Existing Shareholder has committed, *inter alia*, to an obligation *vis-à-vis* the Underwriters that, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld or delayed, during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the Existing Shares on the Vienna Stock Exchange, except for (i) transactions among the Existing Shareholder and any affiliate of the Existing Shareholder, such affiliate assuming towards the Underwriters the same obligation as the Existing Shareholder for the then remaining part of the lock-up period of the Existing Shareholder, (ii) in connection with the acceptance by the Existing Shareholder of a public takeover bid for the Company, (iii) any transaction expressly contemplated by the Underwriting Agreement, (iv) in connection with and in order to participate in any share buy-back program of the Company, (v) to satisfy any tax liabilities arising as a result of the Private Placement; or (vi) if required by law, it will not:

(a) offer, pledge, allot, distribute, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, transfer or otherwise dispose of, directly or indirectly, all Existing Shares held by the Existing Shareholder as of the date of the Underwriting Agreement;

(b) cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of any securities convertible into or exercisable or exchangeable for Existing Shares of the Company;

(c) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of Existing Shares of the Company;

(d) whether any such transaction described in clause (a) to (c) above is to be settled by delivery of Existing Shares of the Company or such other securities, in cash or otherwise;

(e) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any Existing Shares of the Company or any security convertible into or exercisable or exchangeable for Existing Shares of the Company;

(f) cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of Existing Shares of the Company (other than expressly contemplated by the Underwriting Agreement);

(g) propose, directly or indirectly, any increase in the share capital of the Company to any meetings of the shareholders for resolution, vote in favor of such a proposed increase or vote in favor of any other capital increase proposed with respect to the Company; or

enter into a transaction or perform any action economically similar to those described in (a) through (g) above.

4.3.3 Lock-Up of the Management Board and senior management

Furthermore, the members of the Management Board have committed to an obligation *vis-à-vis* the Underwriters that they will not sell any of their shares in the Company or conduct similar transactions during the period commencing on the date of the Underwriting Agreement and ending 365 days after the date of the first day of trading of the Existing Shares on the Vienna Stock Exchange, subject to certain exceptions.

4.4 Interests of Parties Participating in the Private Placement

Subject to the placement of the Firm Shares, and the exercise of the Greenshoe Option, the Existing Shareholder will receive the proceeds from the sale of the Firm and the Over-Allotment Shares (after deduction of fees and commissions). Accordingly, the Existing Shareholder has an interest in the success of the Private Placement at the best possible terms.

In connection with the Private Placement of the Placement Shares and the admission to trading of the Placement Shares, the Underwriters have formed a contractual relationship with the Company and the Existing Shareholder. The Underwriters act for the Company and the Existing Shareholder in connection with the Private Placement. Upon successful completion of the Private Placement, the Underwriters will receive a commission and the size of this commission depends on the results of the Private Placement. As a result of these contractual relationships, the Underwriters have a financial interest in the success of the Private Placement at the best possible terms.

For information regarding the investment agreement dated December 2, 2015 (the ***Investment Agreement***), between AI Lake (Luxembourg) Holding S.à r.l., the Existing Shareholder, AI Lake & Cy SCA, AI Lake (Luxembourg) Management S.à r.l., AI Lake S.à r.l., and certain individuals, including current and former members of the Supervisory Board and the Management Board (the ***Managers***), see "*21.2.4. Management Board Compensation*".

Furthermore, in connection with the Private Placement, each of the Underwriters and any of their respective affiliates, may take up Placement Shares in the Private Placement as a principal position and in that capacity may retain, purchase or sell such Placement Shares or related investments for its own account and may offer or sell such Placement Shares or other investments otherwise than in connection with the Private Placement. In addition, certain of the Underwriters or their respective affiliates may enter into financing arrangements, including swaps or contracts for difference with investors, due to which such Underwriters (or their affiliates) may, from time to time, acquire, hold or dispose of Placement Shares. None of the Underwriters intend to disclose the extent of any such investments or transaction other than in accordance with any legal or regulatory obligation to do so.

The Underwriters or their respective affiliates have, and may from time to time in the future continue to have, business relations with the Company, Addiko Group and the Existing Shareholder, including lending activities, or may perform services for the Company, Addiko Group or the Existing Shareholder in the ordinary course of business.

Other than the interests described above, there are no material interests, in particular no material conflicts of interest, with respect to the Private Placement of the Placement Shares or the listing of the Existing Shares.

4.5 Information on the Existing Shares

4.5.1 Dividend and Liquidation Rights

Each share in the Company carries full dividend rights. In the event of the Company's liquidation, any proceeds will be distributed to the holders of the Company's shares in proportion to their shareholding in the Company. Please also read "*21.3.3.2 Dividend Rights*" and "*21.3.3.3 Liquidation Proceeds*".

4.5.2 Voting Rights

Each Existing Share entitles its holder to participate, ask questions and cast one vote at the Shareholders' Meeting. As of the date of this Prospectus different voting rights do not exist. There are no restrictions on voting rights except pursuant to a limited number of provisions as set out in "*21.3.3.1 Voting Rights and Majority Requirements* of this Prospectus. Shareholders may vote by proxy. Resolutions are passed by a simple majority of the votes cast, unless Austrian law or the Articles of Association prescribe a larger majority (such as a resolution to reduce the issued share capital, for which a majority of 75% of the share capital present at a shareholders' meeting is required).

4.5.3 ISIN, Common Code and Trading Symbol

International Securities Identification Number (ISIN): AT000ADDIKO0

Common Code: 201998778

Trading Symbol: ADKO

4.6 Stock Exchange Admission and Commencement of Trading

The Company will apply for admission of the Existing Shares to trading on the Official Market on or about July 11, 2019. The decision on the admission of the Existing Shares is expected to be announced on or about July 11, 2019. Subject to the approval by the Vienna Stock Exchange, trading of the Existing Shares on the Official Market (*Prime Market segment*) is expected to commence on or about July 12, 2019.

5 Reasons for and Costs of the Listing

5.1 Reasons for the Listing

Immediately prior to the date of this Prospectus, the Existing Shareholder holds directly 100% of the Existing Shares. The Existing Shareholder intends to sell 55% of the Existing Shares in the Private Placement (assuming full exercise of the Greenshoe Option). However, the Existing Shareholder will thereafter continue to hold a substantial stake in the Company (at least 45% assuming a full exercise of the Greenshoe Option). See *"4.2 Private Placement"*.

The Company intends to achieve better access to the capital markets due to the planned listing of the Existing Shares on the Official Market.

5.2 Proceeds and Costs of the Private Placement

The Company will not receive any proceeds from the Private Placement. The total costs and expenses from the Private Placement and listing are expected to be approximately EUR 14,666,941 million which will be borne by the Existing Shareholder. The Existing Shareholder will receive the net proceeds resulting from the sale of the Firm Shares, and the net proceeds resulting from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option is exercised in the aggregate amount of EUR 156,933,075.

The Company estimates that the gross proceeds to the Existing Shareholder (assuming full exercise of the Greenshoe Option) would amount to approximately EUR 171,600,016 million.

Assuming the Greenshoe Option has been fully exercised, and assuming further payment in full of the discretionary fee of up to EUR 3,222,508 million, the aggregate commission payable to the Underwriters for placing the Placement Shares will amount to EUR 14,666,941 million.

6 Dividend Policy

6.1 General Rules on Allocation of Profits and Dividend Payments

The shareholders' share of the Company's profits is determined based on their respective interests in the Company's share capital. For an Austrian stock corporation (*Aktiengesellschaft*), the distribution of dividends for a given fiscal year and the amount and payment date thereof are resolved upon in the following year at the Company's annual ordinary Shareholders' Meeting on the basis of a proposal made by the Management Board and the Supervisory Board without the Company's annual ordinary Shareholders' Meeting being bound by such proposal.

If a dividend is declared, distributions are made to the shareholders on a *pro rata* basis, based on the contributed capital. Capital contributed during a business year will receive a *pro rata* dividend distribution since the day of the capital contribution. Upon the issuance of new shares other rules for dividend rights may be determined.

The Existing Shares will be entitled to profit participation as from January 1, 2019, i.e., for the full financial year 2019 and for all subsequent financial years.

The Company's ability to pay dividends is determined based on the Company's separate unconsolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*, ***Commercial Code***) and other applicable Austrian law (***Austrian GAAP***). Dividends may only be declared and paid from the accumulated profit (*Bilanzgewinn*) recorded in the Company's separate unconsolidated annual financial statements as approved by the Supervisory Board or the Company's annual ordinary Shareholders' Meeting. In determining the amount available for distribution, the annual surplus (*Jahresüberschuss*) or annual loss (*Jahresfehlbetrag*), as the case may be, must be adjusted to account for any accumulated undistributed profit or loss from previous financial years as well as for withdrawals from or allocations to reserves. Certain reserves must be established by law, and such reserves must therefore be deducted from the annual surplus.

The Company distributed dividends in the amount of EUR 50 million, EUR 170 million and EUR 430 million for the financial years ended December 31, 2018, 2017 and 2016, respectively. This does not provide an indication on future dividend payments.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends see "*25.1.2.2 Taxation of Dividends"*.

6.2 Dividend Policy

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, regulatory capital requirements, including capital buffer requirements, MREL targets, investment alternatives and other factors that the Management Board and the Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to approval at the Company's annual ordinary Shareholders' Meeting. Subject to the foregoing, the Company's future dividend policy targets a dividend of EUR 40 million in 2019 and 2020, either from earnings, excess capital, or a combination of both, and 60% of its profits, if any, after tax (as determined in accordance with IFRS) in the years thereafter, subject to maintaining a minimum 16.1% total capital ratio as per the dividend policy previously adopted by the Management Board, which requires, among other things, that the payment of such dividends is consistent with its long-term and sustainable business and compliant with then applicable regulatory requirements. In addition, the Company is targeting the issuance of a Tier 2 instrument in the second half of 2019 and currently intends to pay any excess cash resulting from that issuance as a dividend to its shareholders. There can be no guarantee however that the Company will be able to issue a Tier 2 instrument on satisfactory terms or at all and any issuance will be subject to then-current market conditions. In addition, any dividend payment resulting from such Tier 2 instrument will be determined by the Management Board at that time and at its sole discretion and subject to approval of the shareholders of the Company. The Management Board's determination on the payment of dividends will depend on a range of factors, including the Company and Addiko Group's liquidity and financial position, future prospects and strategic plans, tax considerations, regulatory developments and other relevant factors it determines. See also "*27 Outlook*" and "*3.4.5 The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons.*".

7 Capitalization and Indebtedness

7.1 Capitalization

The Private Placement conducted prior to the listing of the Existing Shares on the Vienna Stock Exchange does not involve the issuance of new shares by the Company and the Company will not receive any cash proceeds from the Private Placement. The Private Placement will have no effect on the Company's capitalization as reflected below.

The following table sets forth an overview of Addiko Group's capitalization as of April 30, 2019 derived from the Unaudited Interim Condensed Consolidated Financial Statements and the Company's accounting records prior to the date of this Prospectus.

	As of April 30, 2019
(in EUR million)	**(unaudited)**
Total current debt[1]	**4,366.7**
Guaranteed	0.0
Secured	0.0
Unguaranteed/Unsecured	4,366.7
Total non-current debt[2]	**835.3**
Guaranteed	0.0
Secured	0.0
Unguaranteed/Unsecured	835.3
Subordinated debt	**0.0**
Total of current, non-current and subordinated debt	**5,202.0**
Share capital	195.0
Capital reserve	476.5
Fair value reserve[3]	15.8
Foreign currency reserve	-5.8
Cumulative results and other reserves	153.1
Shareholders' Equity	**834.6**
Non-controlling interests	0.0
Total equity	834.6
Total of current, non-current and subordinated debt and equity	**6,036.6**

1 Includes deposits from customers and credit institutions with maturities of up to one year, short-term borrowings, financial liabilities held for trading with maturities of up to one year, and senior long-term debt with maturities of up to one year.
2 Includes deposits from customers and credit institutions with maturities of more than one year, financial liabilities held for trading with maturities of more than one year, and senior long-term debt with maturities of more than one year.
3 Including FVTOCI reserve net of tax, cash flow hedge reserve net of tax and actuarial gains/losses net of tax.
(Source: Company information)

Between April 30, 2019, and the date of this Prospectus, there have been no material changes to Addiko Group's capitalization as set out above.

7.2 Net Financial Indebtedness

The following table shows an overview of Addiko Group's net financial indebtedness as of April 30, 2019 derived from the Unaudited Interim Condensed Consolidated Financial Statements and the Company's accounting records prior to the date of this Prospectus.

	As of April 30, 2019
(in EUR million)	**(unaudited)**
A. Cash and central bank balances	774.1
B. Trading securities	19.3
C. Liquidity (A + B)	**793.4**
D. Current financial receivables[1)]	**1,063.9**
E. Current financial liabilities[2)]	4,366.7
F. Current portion of non-current financial debt (incl. bonds)[3)]	0.0
G. Other current financial debt[4)]	0.0
H. Current financial liabilities and debt (E + F + G)	**4,366.7**
I. Net current financial indebtedness (H – D – C)	**2,509.4**
J. Non-current financial liabilities[5)]	835.3
K. Non-current financial debt (incl. bonds)[6)]	0.0
L. Non-current financial liabilities and debt (J + K)	**835.3**
M. Net financial indebtedness (H + L)	**5,202.0**

1 Includes interbank balances (excluding central banks) with maturities of up to one year, financial assets at fair value through other comprehensive income with maturities of up to one year, financial assets at fair value through profit and loss with maturities of up to one year (excluding trading securities), claims arising from loans with maturities of up to one year, and financial claims with maturities of up to one year (recognized as other assets).
2 Includes deposits from customers and credit institutions with maturities of up to one year, short-term borrowings, financial liabilities held for trading with maturities of up to one year, and senior long-term debt with maturities of up to one year.

3 Includes long-term debt with maturities of up to one year and subordinated capital instruments with maturities of up to one year.
4 Includes short-term notes and non-listed private placements with maturities of up to one year.
5 Includes deposits from customers and credit institutions with maturities of more than one year, financial liabilities held for trading with maturities of more than one year, and senior long-term debt with maturities of more than one year.
6 Includes long-term debt with maturities of more than one year, short-term notes and non-listed private placements with maturities of more than one year, and subordinated capital instruments with maturities of more than one year.
(Source: Company information)

Between April 30, 2019 and the date of this Prospectus, there have been no material changes to Addiko Group's net financial indebtedness as set out above.

7.3 Commitments and contingent liabilities

In the normal course of business, Addiko Group regularly enters into irrevocable lending commitments, (customer credit lines) as well as contingent liabilities consisting of financial and performance guarantees on behalf of its customers. Under these contracts Addiko Group is required to perform under an obligation agreement or to make payments to the beneficiary based on third party's failure to meet its obligations. For these instruments it is not known to Addiko Group in detail if, when and to what extent claims will be made.

Addiko Group considers all the above instruments in monitoring the credit risk exposure and may require collateral to mitigate inherent credit risk. If the credit risk monitoring provides sufficient perception about a loss from an expected claim, a provision is established and recognized on the balance sheet.

The following table shows Addiko Group's irrevocable lending commitments and lending related contingent liabilities without considering collateral or provisions. It shows the maximum potential utilization of Addiko Group in case all these liabilities entered into must be fulfilled. The table therefore does not show the expected future cash flows from these liabilities as many of them will expire without being drawn and arising claims will be honored by the customers or can be recovered from proceeds of arranged collateral.

Contingent liabilities and other liabilities not included in the statement of financial position	**As of April 30,**	**As of December 31,**		
	2019	**2018**	**2017**	**2016**
	(in EUR million) **(unaudited)**		**(in EUR million)** **(audited)**	
Loan commitments, granted	576.6	600.6	512.3	465.7
Financial guarantees, given	266.3	192.5	135.6[1]	132.6
Other commitments, given[3]	147.2	171.5	171.9[2]	167.9
Total	**990.0**	**964.7**	**819.9**	**766.3**

1 Financial guarantees, given are presented as "contingent liabilities from financial guarantees" in the Audited Consolidated Financial Statements 2017.
2 Other commitments, given are presented as "contingent liabilities from other commitments" in the Audited Consolidated Financial Statements 2017.
3 The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.
(Source: Audited Consolidated Financial Statements and Company information)

7.4 Working capital statement

The Company is of the opinion that both the Company and Addiko Group have sufficient working capital to meet its present requirements. Furthermore, the Company is of the opinion that both the Company and Addiko Group are able to meet their payment obligations that become due within a minimum of twelve months following the date of this Prospectus.

7.5 No significant change

Between March 31, 2019 and the date of this Prospectus, there have been no significant changes in Addiko Group's financial or trading position. For information on management's view on full year trends, see "*27 Outlook*".

8 Dilution

As the Private Placement conducted prior to the listing of the Existing Shares on the Vienna Stock Exchange includes only Existing Shares, it will not lead to any dilution as would potentially be the case in connection with a capital increase.

The net asset value of the Addiko Group determined pursuant to IFRS amounted to EUR 828.0 million as of March 31, 2019. The net asset value is the difference between total assets, which amounted to EUR 6,108.4 million, and total current and non-current liabilities, which amounted to EUR 5,280.3 million, in each case as of March 31, 2019. This corresponds to EUR 42.5 per Existing Share.

9 Alternative Performance Measures

Monitoring and management at the Addiko Group are based on a consistent and integrated key performance indicator system (***KPI system***), which assists executives in the management of Addiko Group. The KPI system comprises the dimensions of profitability, growth in the segments, risk limitation, liquidity and capital. As is customary in Addiko Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are non-GAAP measures (***Non-GAAP APMs***) used to evaluate, monitor and manage Addiko Group's business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from Addiko Group's accounting system and management estimates. These non-GAAP APMs are defined by Addiko Group's management and may not be comparable to similar measures used by other companies. Non-GAAP APMs should not be considered in isolation and investors should not consider such information as alternatives to revenues or profit before tax or any other figure or ratio calculated in accordance with IFRS, as indications of operating performance or as measures of Addiko Group's profitability or other performance or financial position of any kind.

Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these non-GAAP APMs and are also advised to review them in conjunction with the financial statements and related notes included elsewhere in this Prospectus.

The following list includes explanations of the definitions of certain key non-GAAP APMs based on the Addiko Group's Consolidated Financial Statements, as well as information regarding such non-GAAP APMs relevance:

non-GAAP APM	Definition	Relevance of its use / reasons for changes to the definition
Net banking income	Calculated as the sum of net interest income and net fee and commission income.	Net banking income is a performance measure showing Addiko Group's ability to generate revenue in its core banking activities.
Cost-Income Ratio	Calculated by dividing operating expenses by net banking income	Shows operating expenses in relation to net banking income, to give a view of operation efficiency. Management uses the Cost-Income Ratio as a measure of Addiko Group's efficiency and to compare its efficiency with other financial institutions.
Net Interest Margin (Net interest income/ total average assets) *(Group)*	Calculated as total net interest income over total average assets. Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets	Net Interest Margin (Group) is a performance measure and is expressed as a percentage of what Addiko Group earns on loans and other interest-earning assets in a time period less the interest it pays on deposits and other liabilities during such period divided by total average assets. It is used for external comparison with other banks.
Net Interest Margin (*NIM*) (*Segments*)	Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing divided by the respective average financial liabilities at amortised cost using daily balances. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.	Net Interest Margin (Segments) is a performance measure and is expressed as a percentage of what a Segment of Addiko Group earns on loans and other interest-earning assets as well as on financial liabilities at amortised cost in a time period. It is used for internal profitability measurement of products and segments.
Return on Average Equity (*RoE*)	Calculated by dividing result after tax by the simple average equity attributable to the owners of the parent set forth in the Consolidated Financial Statements (***IFRS Equity***)	These metrics provide a profitability measure for both management and investors by expressing the result after tax as presented in the income statement as a percentage of the respective underlying. RoE and RoTE demonstrate profitability of Addiko Group on the equity invested by its shareholders and thus the success of their investment.
Return on Average Tangible Equity *(RoTE)*	Based on the result after tax divided by total average shareholder's IFRS equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of	

non-GAAP APM	Definition	Relevance of its use / reasons for changes to the definition
	the beginning and end of period total amounts.	
Gross performing loans	Defined as the gross carrying amount of loans and receivables to customers excluding any non-performing loans and receivables to customers.	Gross performing loans are used to assess Addiko Group's loan portfolio development and for yield calculations.
Gross Yield	Gross yield, calculated as recorded interest income divided by the simple average amount of gross performing loans. For reconciliation of the "gross yield" financial figures presented in this Prospectus, see *"10.3.3 Focus on growing unsecured consumer and SME banking whilst gradually reducing the relative contribution of public finance, mortgage and large corporate lending business"* below.	The gross yield, expressed in percentage terms, is used to express the annual return that Addiko Group receives for the individual segments.
Loan to deposit ratio	Calculated as total loans and receivables over total financial liabilities measured at amortised cost as of and for the specified financial year.	Indicates Addiko Group's ability to refinance its total lending business using customer deposits and Wholesale Funding.
Customer loan to deposit ratio	Calculated as loans and receivables to customers (i.e. excluding central banks and other credit institutions) divided by deposits from customers as of and for the specified financial year.	Indicates Addiko Group's ability to refinance its customer loans by its customer deposits rather than wholesale funding.
Credit Risk Exposure	The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant credit risk exposure for securities, whereas amortised cost is used for loans.	The credit risk exposure is used within credit risk management for the quantification of credit risk related performance indicators and credit quality indicators.
Credit Risk Bearing Exposure	Based on credit risk exposure, but excluding credit risk exposure towards national banks, securities and derivatives as well as repurchase agreements.	The credit risk bearing exposure is used within credit risk management for the quantification of credit risk related performance indicators and credit quality indicators.
Cost of Risk Ratio	Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.	Cost of risk ratio is a risk performance measure expressed as percentage of credit loss expenses associated with Addiko Group's risk function (i.e. impairments relating to loans and receivables) compared to the corresponding risk bearing assets. The ratio provides information on Addiko Group's loan portfolio risk costs and can be used for comparison with its peer group.
Non-performing exposure ratio (*NPE Ratio*)	Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.	The NPE ratio is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the total financial assets. The ratio reflects the quality of the loan portfolio of Addiko Group and provides an indicator for the performance of Addiko Group's credit risk management.
Non-performing exposure ratio (*CRB based*)	Calculated based on non-performing exposure (NPE) divided by the credit bearing risk exposure as of and for the specified financial year.	The NPE ratio CRB based is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the financial assets defined as credit risk bearing. The ratio

non-GAAP APM	Definition	Relevance of its use / reasons for changes to the definition
		reflects the quality of the loan portfolio of Addiko Group and provides an indicator for the performance of Addiko Group's credit risk management.
Non-performing exposure ratio under the New Risk Framework	Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year, but only for customers where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss are excluded from the new framework.	The NPE ratio under the New Risk Framework is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing after the turn-around in relation to the financial assets after the turnaround. The ratio reflects the quality of the loan portfolio of Addiko Group and provides an indicator for the performance of Addiko Group's credit risk management.
Non-Performing Exposure Coverage Ratio *(NPE Coverage Ratio)*	Calculated based on the stage 3 expected credit losses divided by the non-performing exposure as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial years 2016 and 2017.	The NPE coverage ratio describes to which extent defaulted non-performing exposure have been covered by loan loss provisions.
Non-Performing Exposure Coverage Ratio under the New Risk Framework	Calculated based on the IFRS 9 stage 3 expected credit losses divided by the non-performing exposure as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial years 2016 and 2017, but only for customers where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss are excluded from the new framework.	The NPE coverage ratio under the New Risk Framework describes to which extent defaulted non-performing exposure under the New Risk Framework have been covered by loan loss provisions under the New Risk Framework.
Adjusted financial figures	For an explanation and reconciliation of the "adjusted" financial figures presented in this Prospectus, see "*11.6 Adjusted Results*" below.	Addiko Group has chosen to focus new lending business activities predominately on the Retail Segment's non-mortgage business and the SME Business Segment (its "focus areas"), while the legacy business of the Large Corporates Segment, the Public Finance Segment and the Retail Segment's Mortgage Business (its "non-focus areas") entered into previously continues to be steered and managed to maturity. Consequently, Addiko Group believes that a more insightful assessment of its performance can be obtained by making certain adjustments to its reported results in order to show historical earnings generated by Addiko Group's current business model and organizational structure. The adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

(Source: Company information)

The table below sets out a reconciliation of non-GAAP APMs based on Addiko Group's Consolidated Financial Statements:

	As of and for the three-month period ended March 31,	As of and for the financial years ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (unaudited, unless otherwise indicated)		
Net Banking Income				
Net interest income	44.9	173.2[1]	165.3[1]	158.8[1]
Net fee and commission income	15.6	62.4[1]	58.5[1]	50.0[1]
Net Banking Income	**60.4**	**235.5**[1]	**223.8**[1]	**208.7**
Cost-Income Ratio				
Operating Expenses	-48.3	-188.1[1]	-190.1[1]	-212.4[1]
Net Banking Income	60.4	235.5[1]	223.8[1]	208.7
Cost-Income Ratio	**80.0%**	**79.9%**[1]	**84.9%**[1, 10]	**101.8%**
Net Interest Margin (Net interest income/ total average assets) (Group)				
Net interest income	44.9	173.2[1]	165.3[1]	158.8[1]
Average total assets (based on beginning of period and end of period amounts)	6,130.2	6,318.8	6,850.8	7,315.8
Net Interest Margin (Group)	**3.0%**[5]	**2.7%**[1]	**2.4%**[1, 10]	**2.2%**
Net Interest Margin (NIM) (Segments)				
Daily average gross performing loans				
Retail Segment	2,055.9	2,039.9	2,031.9	n.a.
o/w Mortgage Business	857.6	929.3	1,085.0	n.a.
o/w Consumer Business	1,198.2	1,110.6	946.8	n.a.
SME Business Segment	957.2	865.8	724.3	n.a.
Large Corporates Segment	571.9	517.1	455.1	n.a.
Public Finance Segment	191.2	238.5	464.0	n.a.
Interest income (excl. unwinding)				
Retail Segment	19.5	77.9	75.5	n.a.
o/w Mortgage Business	3.6	16.6	21.9	n.a.
o/w Consumer Business	15.9	61.4	53.6	n.a.
SME Business Segment	3.0	13.8	15.6	n.a.
Large Corporates Segment	1.2	5.0	8.5	n.a.
Public Finance Segment	0.3	1.9	6.9	n.a.
Yield on daily average gross performing loans				
Retail Segment	3.8%[6]	3.8%	3.7%	n.a.
o/w Mortgage Business	1.7%[6]	1.8%	2.0%	n.a.
o/w Consumer Business	5.3%[6]	5.5%	5.7%	n.a.
SME Business Segment	1.3%[5]	1.6%	2.1%	n.a.
Large Corporates Segment	0.8%[5]	1.0%	1.9%	n.a.
Public Finance Segment	0.7%[5]	0.8%	1.5%	n.a.
Daily average financial liabilities at amortised cost				
Retail Segment	2,754.7	2,742.8	2,693.8	n.a.
o/w Mortgage Business	n.a.	n.a.	n.a.	n.a.
o/w Consumer Business	2,754.7	2,742.8	2,693.8	n.a.
SME Business Segment	615.3	568.5	503.3	n.a.
Large Corporates Segment	397.0	495.2	434.9	n.a.
Public Finance Segment	605.3	656.4	707.4	n.a.
Interest expense (positive sign indicates income on liabilities)				
Retail Segment	5.2	17.0	10.3	n.a.
o/w Mortgage Business	n.a.	n.a.	n.a.	n.a.
o/w Consumer Business	5.2	17.0	10.3	n.a.
SME Business Segment	1.7	6.4	5.5	n.a.
Large Corporates Segment	0.7	2.4	1.2	n.a.
Public Finance Segment	1.0	6.1	7.6	n.a.
Yield on daily average financial liabilities at amortised cost				
Retail Segment	0.8%[5]	0.6%	0.4%	n.a.
o/w Mortgage Business	n.a.	n.a.	n.a.	n.a.
o/w Consumer Business	0.8%[5]	0.6%	0.4%	n.a.
SME Business Segment	1.1%[5]	1.1%	1.1%	n.a.
Large Corporates Segment	0.7%[5]	0.5%	0.3%	n.a.
Public Finance Segment	0.7%[5]	0.9%	1.1%	n.a.
Net interest margin (NIM) (Segments)				
Retail Segment	4.5%[7]	4.4%[1, 7]	4.1%[1, 7, 10]	n.a.
o/w Mortgage Business	1.7%[7]	1.8%[1, 7]	2.0%[1, 7, 10]	n.a.
o/w Consumer Business	6.1%[7]	6.1%[1, 7]	6.0%[1, 7, 10]	n.a.
SME Business Segment	2.4%[7]	2.7%[1, 7]	3.2%[1, 7, 10]	n.a.
Large Corporates Segment	1.5%[7]	1.4%[1, 7]	2.2%[1, 7, 10]	n.a.
Public Finance Segment	1.4%[7]	1.7%[1, 7]	2.6%[1, 7, 10]	n.a.

	As of and for the three-month period ended March 31,	As of and for the financial years ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (unaudited, unless otherwise indicated)		
Return on Average Equity (RoE)				
Result after tax	10.1	104.2[1]	41.6[1]	-23.9[1]
IFRS equity	828.0	859.5[1]	844.0[1]	994.7[1]
Average Equity(based on beginning of period and end of period amounts)	843.8	851.7	919.4	n.a.
Return on Average Equity	**4.8%[5]**	**12.2%**	**4.5%**	**n.a.**
Return on Average Tangible Equity (RoTE)				
IFRS equity	828.0	859.5[1]	844.0[1]	994.7[1]
Intangibles	31.2	30.3[1]	21.8[1]	17.3[1]
Tangible equity	796.8	829.2	822.2	977.4
Avg. tangible equity (based on beginning of period and end of period amounts)	813.0	825.7	899.8	n.a.
Result after tax	10.1	104.2	41.6	-23.9
Return on Average Tangible Equity (RoTE)	**5.0%[5]**	**12.6%**	**4.6%**	**n.a.**
Gross performing loans				
Loans and advances	3,879.2	3,792.9[1]	3,757.2[1]	3,779.9[1]
Loans and advances to credit institutions	-14.4	-5.6[1]	-65.5[1]	-49.4[1]
Non-performing exposure	-378.2	-388.5[1]	-584.3[1]	-720.9[9]
Risk provisions	369.9	378.5[1]	418.7[1]	535.3[1]
Other credit risk exposure adjustments	-15.2	-11.2	35.9	5.2
Total gross performing loans	**3,841.4**	**3,766.1[1]**	**3,562.0[1, 10]**	**3,550.1**
Gross Yield				
Gross performing loans				
Retail Segment	2,075.7	2,060.5[1]	2,026.7[1, 10]	1,937.1
o/w Mortgage Business	846.7	872.7[1]	998.9[1, 10]	1,163.1
o/w Consumer Business	1,229.1	1,187.8[1]	1,027.8[1, 10]	774.0
SME Business Segment	991.5	928.4[1]	791.2[1, 10]	646.4
Large Corporates Segment	580.2	588.4[1]	469.1[1, 10]	457.4
Public Finance Segment	193.9	188.8[1]	275.1[1, 10]	509.3
Total gross performing loans	**3,841.4**	**3,766.1[1]**	**3,562.0[1, 10]**	**3,550.1**
Total average gross performing loans (based on beginning of period and end of period amounts)	**3,803.8**	**3,664.1**	**3,556.1**	**n.a.**
Regular interest income				
Retail Segment	30.6	121.4[1]	116.4[1, 10]	105.4
o/w Mortgage Business	8.2	36.5[1]	44.0[1, 10]	54.7
o/w Consumer Business	22.5	84.9[1]	72.4[1, 10]	50.7
SME Business Segment	7.0	27.6[1]	26.0[1, 10]	27.3
Large Corporates Segment	3.7	14.2[1]	14.7[1, 10]	17.6
Public Finance Segment	1.4	6.3[1]	15.1[1, 10]	23.5
Regular interest income (attributable to total average gross performing loans)	**42.7**	**169.5[1]**	**172.1[1, 10]**	**173.8**
Gross Yield				
Retail Segment	6.0%[3, 8]	5.9%[3]	5.9%[3]	5.4%[2]
o/w Mortgage Business	3.8%[3, 8]	3.9%[3]	4.1%[3]	4.7%[2]
o/w Consumer Business	7.5%[3, 8]	7.7%[3]	8.0%[3]	6.6%[2]
SME Business Segment	2.9%[3, 8]	3.2%[3]	3.6%[3]	4.2%[2]
Large Corporates Segment	2.6%[3, 8]	2.7%[3]	3.2%[3]	3.9%[2]
Public Finance Segment	2.9%[3, 8]	2.7%[3]	3.9%[3]	4.6%[2]
Gross Yield to total average gross performing loans	**4.6%[3, 8]**	**4.6%[3]**	**4.8%[3]**	**4.9%[2]**
Loan to deposit ratio				
Loans and advances	3,879.2	3,792.9[1]	3,757.2[1]	3,779.9[1]
Financial liabilities measured at amortised cost	5,187.9	5,202.5[1]	5,521.2[1]	6,040.4[1]
Loan to deposit ratio	74.8%	**72.9%[1]**	**68.0%[1, 10]**	**62.6%**
Customer loan to deposit ratio				
Loans and advances to customers	3,864.9	3,787.3[1]	3,691.9[1]	3,730.5[1]
Deposits of customers	4,855.5	4,836.7[1]	4,933.8[1]	4,435.6[1]
Customer loan to deposit ratio	**79.6%**	**78.3%**	**74.8%**	**84.1%**
Credit risk exposure				
Total assets	6,108.4	**6,152.1[1]**	**6,485.5[1]**	**7,216.1[1]**
Cash on hand	-96.4	-105.2[1]	-98.5[1]	-93.4[1]
Equity instruments[4]	-5.0	-4.2[1]	-9.2[1]	-4.6
Derivatives - Hedge accounting	0.0	0.0	-0.1[1]	-0.1[1]
Tangible assets	-87.6	-57.7[1]	-57.3[1]	-70.4[1]

	As of and for the three-month period ended March 31,	As of and for the financial years ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (unaudited, unless otherwise indicated)		
Intangible assets	-31.2	-30.3[1]	-21.8[1]	-17.3[1]
Tax assets	-24.0	-28.3[1]	-22.3[1]	-2.6[1]
Other assets	-25.3	-25.5[1]	-24.8[1]	-18.9[1]
Non-current assets and disposal groups classified as held for sale	-5.5	-5.6[1]	-6.5[1]	-10.3[1]
Risk relevant on-balance amount	**5,833.3**	**5,895.3**[1]	**6,245.0**[1, 10]	**6,998.5**
Provisions	374.7	384.6[1]	436.6[1]	537.2[1]
On balance credit risk exposure	**6,208.0**	**6,279.9**[1]	**6,681.6**[1, 10]	**7,535.7**
Gross off balance credit risk exposure	975.8	964.7[1]	819.9[1]	766.3[1]
Adjustments	-2.3	-8.8[1]	-3.4[1]	6.8
Total credit risk exposure	**7,181.4**	**7,235.7**[1]	**7,498.1**[1]	**8,308.7**
Credit risk bearing exposure				
Total credit risk exposure	**7,181.4**	**7,235.7**[1]	**7,498.1**[1]	**8,308.7**[1]
of which Securities and derivatives	1,274.7	1,201.2	1,302.9	1,419.4
of which Repurchase agreements	19.2	9.7	13.1	33.4
of which Central banks	589.8	788.2	979.1	1,699.5
of which credit risk bearing exposure	**5,297.8**	**5,236.6**[1]	**5,203.1**[1, 10]	**5,156.5**
Cost of Risk Ratio (CRB based)				
Credit loss expenses on financial assets	3.7	2.8[1]	-15.1[1]	4.4[1]
Credit Risk Bearing Exposure	5,297.8	5,236.6[1]	5,203.1[1, 10]	5,156.5
Cost of Risk Ratio (CRB based)	**0.1%**	**0.1%**[1]	**-0.3%**[1, 10]	**0.1%**
Non-performing exposure ratio (NPE Ratio)				
Non-performing exposure	393.2	403.8[1]	605.7[1]	760.8[1]
Total credit risk exposure	7,181.4	7,235.7[1]	7,498.1[1]	8,308.7[1]
Non-performing exposure ratio (NPE Ratio)	**5.5%**	**5.6%**[1]	**8.1%**[1]	**9.2%**[1]
Non-performing exposure ratio (CRB based)				
Non-performing exposure	393.2	403.8[1]	605.7[1]	760.8[1]
Credit bearing risk exposure	5,297.8	5,236.6[1]	5,203.1[1, 10]	5,156.5
Non-performing exposure ratio (CRB based)	**7.4%**	**7.7%**[1]	**11.6%**[1, 10]	**14.8%**
Non-performing exposure ratio under the New Risk Framework				
Non-performing exposure - New Risk Framework	79.7	77.6	64.7	65.2
Total credit risk exposure - New Risk Framework	5,465.3	5,404.7	4,851.5	4,094.7
Non-performing exposure ratio - Under New Risk Framework	**1.5%**	**1.4%**	**1.3%**	**1.6%**
Non-Performing Exposure Coverage Ratio (NPE Coverage Ratio)				
Stage 3 ECL/SRP	298.1	304.4[1]	405.5[1]	513.6[1]
Non-performing exposure	393.2	403.8[1]	605.7[1]	760.8[1]
Non-Performing Exposure Coverage Ratio (NPE Coverage Ratio)	**75.8%**	**75.4%**[1]	**67.0%**[1]	**67.5%**[1]
Non-Performing Exposure Coverage Ratio under the New Risk Framework				
Stage 3 ECL/SRP - New Risk Framework	57.3	53.7	36.7	27.9
Non-performing exposure - New Risk Framework	79.7	77.6	64.7	65.2
Non-Performing Exposure Coverage Ratio under the New Risk Framework	**72.0%**	**69.2%**	**56.7%**	**42.8%**

1 Audited information.
2 Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.
3 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.
4 Investment securities excluding equity instruments and excluding participation in the bank resolution fund in Slovenia.
5 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 365/90 days, based on the contractual terms of the majority of the underlying contracts.
6 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 360/90 days, based on the contractual terms of the majority of the underlying contracts.
7 Equals the yield on daily average gross performing loans plus the yield on daily average financial liabilities at amortised cost.
8 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.
9 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
10 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

(Source: Company information)

Adjusted financial figures are presented in “*11.6 Adjusted Results*”.

10 Selected Financial and Business Information

The following selected historical financial and business information of Addiko Group should be read in conjunction with, "3 Risk Factors", "11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations" and "15 Business", the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2018, 2017, and 2016, as well as the Unaudited Interim Condensed Consolidated Financial Statements of the Company as of an for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018) and the respective related notes included therein, which are contained in this Prospectus. See also "Presentation of Financial Information", "Alternative Performance Measure", "Rounding Adjustments" and "Currency Presentation and Presentation of Other Figures" for further information on the Consolidated Financial Statements.

The Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2018, 2017, and 2016, were prepared in accordance with IFRS as adopted by the EU. They were audited in accordance with Section 59a Banking Act and Austrian generally accepted standards for the audit of financial statements by Deloitte Audit Wirtschaftsprüfungs GmbH who issued unqualified audit opinions thereon. The Unaudited Interim Condensed Consolidated Financial Statements as of and for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018) were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the EU and have been reviewed by Deloitte Audit Wirtschaftsprüfungs GmbH in accordance with International Standard on Review Engagements 2410.

In this Prospectus, where financial information for Addiko Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2018, 2017, and 2016. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Consolidated Financial Statements of the Company as of and for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018), or Addiko Group's accounting records or internal management reporting systems.

Some tables in this section also present non-GAAP APMs (neither defined under IFRS nor under the Commercial Code). These non-GAAP APMs are key figures used by Addiko Group's management to monitor the performance of Addiko Group. Non-GAAP APMs not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP APMs included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. Unless indicated otherwise, all financial data in the text and tables in this section of this Prospectus is presented in millions of euros (EUR), and, if applicable, rounded to one decimal point or whole numbers. Unless expressly noted otherwise, percentage amounts in the text and tables have also been rounded to one decimal point. Because of this rounding, the figures shown in the tables may sometimes not add up exactly to the respective totals given.

10.1 Selected Financial Information and Performance Indicators

The following tables show selected consolidated income statement data of Addiko Group for the three-month periods ended March 31, 2019 and 2018 and the financial years ended December 31, 2018, 2017 and 2016 and financial information derived from the Consolidated Financial Statements:

Profit and loss statement*	**For the three-month period ended March 31,**		**For the financial year ended December 31,**		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)		**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Interest income calculated using the effective interest method	51.5	51.0	209.6	226.0[1]	232.2[1]
Other interest income	0.9	1.6	4.2	8.3[2]	6.0[2]
Interest expense	-7.5	-14.0	-40.7	-68.9[3]	-79.4[3]
Net interest income	**44.9**	**38.6**	**173.2**	**165.3**	**158.8**
Fee and commission income	18.7	16.8	76.5	71.3[4]	62.0[5]
Fee and commission expense	-3.1	-3.3	-14.1	-12.8[4]	-12.0[5]
Net fee and commission income	**15.6**	**13.5**	**62.4**	**58.5**	**50.0**
Net result on financial instruments	3.3	70.5	70.0	9.7	20.3[6]
Other operating income	2.6	1.8	19.1	27.4[7]	29.6[3]
Other operating expenses	-8.0	-8.2	-35.7	-34.0[7]	-71.7[3]
Operating income	**58.3**	**116.2**	**289.0**	**226.9**	**187.0**
Personnel expenses	-24.8	-24.4	-99.4	-97.4	-99.8
Other administrative expenses	-19.0	-19.3	-78.0	-80.9	-93.1
Depreciation and amortization	-4.5	-2.7	-10.7	-11.7	-19.5
Operating expenses	**-48.3**	**-46.3**	**-188.1**	**-190.1**	**-212.4**
Operating result before change in credit loss expense	**10.0**	**69.9**	**100.9**	**36.9**	**-25.4**
Credit loss expenses on financial assets	3.7	10.9	2.8	-15.1	4.4
Operating result before tax	**13.7**	**80.8**	**103.7**	**21.8**	**-21.0**
Taxes on income	-3.6	-4.6	0.5	19.9	-2.9
Result after tax	**10.1**	**76.2**	**104.2**	**41.6**	**-23.9**

Profit and loss statement*	For the three-month period ended March 31,		For the financial year ended December 31,		
	2019	2018	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)		(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)		
Selected Performance Indicators					
Net interest income/total average assets[8]	3.0%	2.5%	2.7%	2.4%	2.2%[9,14]
Cost/income ratio[10]	80.0%	88.9%	79.9%	84.9%[10]	101.8%[10,14]
Cost of risk ratio[11]	0.1%	0.2%	0.1%	-0.3%	0.1%[14]
Return on average equity[12]	4.8%	36.8%	12.2%[14]	4.5%[14]	n.a.[14]
Return on Average Tangible Equity (RoTE)[13]	5.0%	37.8%	12.6%[14]	4.6%[14]	n.a.[14]

* The line item structure of the table presented follows that of the consolidated statement of comprehensive income in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Interest income calculated using the effective interest method comprises interest income from available-for-sale financial assets, loans and receivables, held-to-maturity investments and derivatives – hedge accounting, interest rate risk as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

2 Other interest income comprises interest income from financial assets held for trading, other assets and dividend income as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

4 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.

5 Fee and commission income and fee and commission expense were not presented as separate line items in the Audited Consolidated Financial Statements as of and for the financial year 2016. Numbers taken from the accounting records as of and for the financial year 2016 (unaudited).

6 Net result on financial instruments was not presented as a separate line item in the Audited Consolidated Financial Statements as of and for the financial year 2016. As of and for the financial year 2016, the position is calculated on the basis of the Audited Consolidated Financial Statements positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L".

7 Numbers follow the presentation in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018. As of and for the financial year 2018 the presentation of other operating result was changed to gross presentation of other operating income and other operating expenses, including the comparative figures. The new presentation improves the understanding of Addiko Group's financial performance.

8 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

9 Net interest income/total average assets for the financial year 2016 was taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

10 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.

11 Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

12 Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

13 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

14 Unaudited Company information.

(Source: Audited Consolidated Financial Statements and Company information)

Balance Sheet*	For the three-month period ended March, 31	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)		
Cash reserves	777.5	1,002.9	1,285.9	1,878.2
Financial assets held for trading	24.7	24.3	19.8	17.4
Loans and receivables	3,879.2	3,792.9	3,757.2	3,779.9
Loans and receivables to credit institutions	14.4	5.6	65.3	49.4
Loans and receivables to customers	3,864.9	3,787.3	3,691.9	3,730.5
Investment securities	1,253.3	1,184.6	1,276.8[1]	1,391.9[1]
Derivatives – hedge accounting	-	0.0	0.1	0.1
Tangible assets	87.6	57.7	57.3	70.4
Property, plant & equipment	85.5	55.7	55.3[2]	67.9[2]
Investment properties	2.0	2.0	2.0[2]	2.5[2]
Intangible assets	31.2	30.3	21.8	17.3
Tax Assets	24.0	28.3	22.3	2.6
Current tax assets	1.7	1.7	1.6	2.6
Deferred tax assets	22.3	26.6	20.6	0.0
Other assets	25.3	25.5	24.8	18.9
Non-current assets and disposal groups classified as held for sale	5.5	5.7	19.5	39.3
Total assets	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**

Balance Sheet*	For the three-month period ended March, 31	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)		
Financial liabilities at fair value through profit or loss	0.0	0.0	0.0	25.0
Financial liabilities held for trading	3.6	2.1	1.8	9.1
Financial liabilities measured at amortized cost	5,187.9	5,202.5	5,521.2	6,040.4
Deposits from credit institutions	272.8	324.4	341.6	316.0
Deposits from customers	4,855.5	4,836.7	4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital	1.1	1.1	198.5	73.5[10]
Other financial liabilities	58.5	40.3	47.3	1,215.3[10]
Derivatives – hedge accounting	0.0	0.0	0.0	6.9
Provisions	59.7	62.0	83.3	107.8
Tax liabilities	1.1	1.0	1.3	1.4
Current tax liabilities	1.0	0.9	0.9	1.0
Deferred tax liabilities	0.2	0.1	0.5	0.5
Other liabilities	28.1	25.1	33.8	28.1
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	2.7
Total liabilities	**5,280.3**	**5,292.7**	**5,641.5**	**6,221.5**
Equity	828.0	859.5	844.0	994.7
Thereof attributable to equity holders of parent	828.0	859.5	844.0	994.7
Total shareholders' equity	**828.0**	**859.5**	**844.0**	**994.7**
Total liabilities and shareholders' equity	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Key Ratios				
Customer loan to deposit ratio[3]	79.6%	78.3%[9]	74.8%[9]	84.1%[9]
NPE ratio[5]	5.5%	5.6%	8.1%	9.2%
NPE ratio (CRB based)[6]	7.4%	7.7%	11.6%[4]	14.8%[4,9]
NPE coverage ratio[7]	75.8%	75.4%	67.0%	67.5%
NPE ratio under the new risk framework[8]	1.5%	1.4%[9]	1.3%[9]	1.6%[9]
NPE coverage ratio under the new risk framework[8]	72.0%	69.2%[9]	56.7%[9]	42.8%[9]

* The line item structure of the table presented follows that of the consolidated statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 The line item "Investment securities" was introduced in the Audited Consolidated Financial Statements as of and for the financial year 2018, due to introduction of IFRS 9. The position includes also the IAS 39 positions "available-for-sale financial assets "and "held-to-maturity investments" as presented in the Audited Consolidated Financial Statements for the financial years 2016 and 2017.

2 Numbers taken from the notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 The customer loan to deposit ratio is calculated as loans and receivables to customers divided by deposits from customers (i.e. excluding central banks and other credit institutions) as of and for the specified financial year.

4 Not presented in the Audited Consolidated Financial Statements as of and for the specified financial year, but calculated based on the same methodology as in the Audited Consolidated Financial Statements as of and for the financial year 2018 and the accounting records for the specified financial year.

5 Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.

6 Calculated based on non-performing exposure (NPE) divided by the credit bearing risk exposure as of and for the specified financial year.

7 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.

8 New risk framework refers to clients where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss (e.g. large Croatian retailer) are excluded from the new risk framework. Ratios taken from the risk records as of and for the financial years 2016, 2017 and 2018.

9 Unaudited Company information.

10 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

(Source: Audited Consolidated Financial Statements and Company information)

Cash Flow	For the three-month period ended March 31,		For the financial years ended December 31,		
	2019	2018	2018	2017	2016
	(in EUR million) (unaudited)		(in EUR million) (audited)		
Cash and cash equivalents at end of previous period	**1,002.9**	**1,285.9**	**1,285.9**	**1,878.2**	**1,319.0**
Cash flows from operating activities	-171.0	43.6	-93.6	-206.5	454.1
Cash flows from investing activities	-3.7	-3.9	-21.1	31.9	104.6
Cash flows from financing activities	-50.0	-170.0	-170.0	-430.0	0.0
Effect of exchange rate changes	-0.7	0.5	1.6	12.2	0.5
Cash and cash equivalents at end of period	**777.5**	**1,156.1**	**1,002.9**	**1,285.9**	**1,878.2**

(Source Audited Consolidated Financial Statements and Company information)

10.2 Key financials and key performance indicators – segments

The following tables show certain key financial information and performance indicators for the segments of Addiko Group in the periods under review (segment view for the three-month periods ended March 31, 2019 and 2018 and the financial years 2017 and 2018):

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the three-month period ended March 31, 2019							
	(in EUR million, unless otherwise indicated) (unaudited)							
Net banking income	**41.5**	**6.1**	**35.4**	**9.5**	**4.2**	**2.1**	**3.2**	**60.4**
Net interest income[1]	31.2	6.1	25.2	5.5	2.8	1.7	3.6	44.9
o/w regular interest income[2]	30.6	8.2	22.5	7.0	3.7	1.4	5.0	47.7
Net fee and commission income	10.3	0.0	10.3	4.0	1.4	0.3	-0.4	15.6
Net result on financial instruments............................	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.3
Other operating result............	0.0	0.0	0.0	0.0	0.0	0.0	-5.4	-5.4
Operating income	**41.5**	**6.1**	**35.4**	**9.5**	**4.2**	**2.1**	**1.1**	**58.3**
Operating expenses	-22.2			-5.8	-1.1	-0.6	-18.7	-48.3
Operating result	**19.3**			**3.7**	**3.1**	**1.5**	**-17.6**	**10.0**
Change in CL	-1.5	3.0	-4.5	2.1	1.6	0.2	1.3	3.7
Operating result before tax..	**17.8**			**5.8**	**4.7**	**1.6**	**-16.3**	**13.7**
Business Volume								
Loans and receivables[3]	2,057.8	858.8	1,199.0	994.4	603.9	195.4	27.8	3,879.3
o/w gross performing loans ..	2,075.7	846.7	1,229.1	991.5	580.2	193.9		3,841.4
Financial liabilities at AC.......	2,759.0		2,759.0	604.9	415.5	579.7	828.7[4]	5,187.8
RWA[5]....................................	1,456.9	546.9	910.0	922.0	661.6	120.3	813.1	3,973.9
Key Ratio								
Net interest margin (NIM)[6].....	4.5%[12]	1.7%[12]	6.1%[12]	2.4%[13]	1.5%[13]	1.4%[13]		3.0%[14]
Cost/income ratio[7].................	53.5%			60.6%	26.0%	28.6%		80.0%
Cost of risk ratio[8]...................	-0.1%	0.3%	-0.3%	0.1%	0.2%	0.1%		0.1%
Loan to deposit ratio[9]	74.6%			164.4%	145.3%	33.7%		74.8%
NPE ratio (CRB based)[10]........	9.8%	14.1%	6.9%	4.5%	8.0%	4.2%		7.4%
NPE coverage ratio[11]	81.7%	74.6%	91.6%	62.1%	70.1%	75.3%		75.8%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.
2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.
3 Gross carrying amount of loans and receivables less expected credit loss allowance.
4 EUR 828.7 million presented in Corporate Center contains: EUR 433 million direct online deposits of customers in Company, EUR 273 million deposits of credit institutions and EUR 123 million other financial liabilities at amortised cost.
5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 850.5 million and in total EUR 4,011.3 million.
6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.
7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.
8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.
9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.
10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.
11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).
12 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 360/90 days, based on the contractual terms of the majority of the underlying contracts.
13 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 365/90 days, based on the contractual terms of the majority of the underlying contracts.
14 Calculated as total net interest income over total average assets. Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 44.9 million for the three-month period ended March 31, 2019 has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the three-month period ended March 31, 2018							
	(in EUR million, unless otherwise indicated) (unaudited)							
Net banking income	**36.8**	**6.2**	**30.6**	**9.1**	**4.3**	**2.9**	**-1.0**	**52.1**
Net interest income[1]	27.7	6.2	21.4	5.8	2.8	2.7	-0.4	38.6
o/w regular interest income[2]	29.7	9.7	20.1	6.6	3.2	1.8	5.0	46.3
Net fee and commission income	9.1	0.0	9.1	3.3	1.5	0.2	-0.6	13.5
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.5	70.5
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-6.4	-6.4
Operating income	**36.8**	**6.2**	**30.6**	**9.1**	**4.3**	**2.9**	**63.1**	**116.2**
Operating expenses	-21.9			-5.6	-1.2	-0.7	-17.0	-46.3
Operating result	**15.0**			**3.5**	**3.1**	**2.2**	**46.1**	**69.9**
Change in CL	4.4	6.8	-2.5	2.2	2.6	1.3	0.5	10.9
Operating result before tax	**19.3**			**5.7**	**5.7**	**3.5**	**46.6**	**80.8**
Business Volume								
Loans and receivables[3]	2,046.0	988.2	1,057.8	853.3	531.4	253.7	115.2	3,799.6
o/w gross performing loans	2,032.4	956.7	1,075.7	827.1	481.1	253.2		3,593.8
Financial liabilities at AC	2,737.5		2,737.5	533.8	479.0	654.7	846.8[4]	5,251.8
RWA[5]	1,494.4	661.5	832.9	878.5	619.1	148.3	834.4	3,974.7
Key Ratios								
Net interest margin (NIM)[6]	4.4%[12]	1.9%[12]	6.2%[12]	3.0%[13]	1.4%[13]	2.4%[13]		2.5%[14]
Cost/income ratio[7]	59.4%			61.7%	27.5%	23.7%		88.9%
Cost of risk ratio[8]	0.2%	0.6%	-0.2%	0.2%	0.3%	0.4%		0.2%
Loan to deposit ratio[9]	74.7%			159.9%	110.9%	38.7%		72.3%
NPE ratio (CRB based)[10]	13.3%	16.8%	10.3%	5.7%	18.9%	1.3%		11.0%
NPE coverage ratio[11]	81.7%	73.7%	92.8%	52.7%	54.0%	42.7%		69.8%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 846.8 million presented in Corporate Center contains: EUR 446 million direct online deposits of customers in Company, EUR 281 million deposits of credit institutions and EUR 120 million other financial liabilities at amortised cost.

5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 870.4 million and in total EUR 4,010.7 million.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

12 Specified ratio for the three-month period ended March 31, 2018 has been annualised with the factor 360/90 days, based on the contractual terms of the majority of the underlying contracts.

13 Specified ratio for the three-month period ended March 31, 2018 has been annualised with the factor 365/90 days, based on the contractual terms of the majority of the underlying contracts.

14 Calculated as total net interest income over total average assets. Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million for the three-month period ended March 31, 2018 has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the financial year ended December 31, 2018							
	(in EUR million, unless otherwise indicated) (audited)							
Net banking income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**1.7**	**226.9**
Net interest income[1]	118.6	24.5	94.1	23.0	11.7	8.6	2.6	164.4
o/w regular interest income[2]	121.4	36.5	84.9	27.6	14.2	6.3		169.5
Net fee and commission income	41.0	0.0	41.0	15.1	6.1	1.1	-0.9	62.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.0	70.0
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-7.8	-7.8
Operating income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**63.9**	**289.0**
Operating expenses	-86.9			-21.9	-4.1	-2.3	-72.9	-188.1
Operating result	**72.8**			**16.2**	**13.7**	**7.3**	**-9.0**	**100.9**
Change in CL	0.0	9.5	-9.5	-7.4	3.6	2.4	4.1	2.8
Operating result before tax	**72.8**			**8.8**	**17.3**	**9.7**	**-4.9**	**103.7**
Business Volume								
Loans and receivables[3]	2,048.2	883.6	1,164.6	931.3	611.6	189.6	12.2	3,792.9
o/w gross performing loans	2,060.5	872.7	1,187.8	928.4	588.4	188.8		3,766.1
Financial liabilities at AC	2,756.9		2,756.9	605.4	426.6	616.0	797.7[4]	5,202.5
RWA[5]	1,445.8	561.5	884.2	883.4	652.3	113.9	819.5	3,914.8
Ratios								
Net interest margin (NIM)[6]	4.4%	1.8%	6.1%	2.7%	1.4%	1.7%		2.6%
Cost/income ratio[7]	54.4%			57.6%	23.2%	24.1%		82.9%
Cost of risk ratio[8]	0.0%	0.9%	-0.7%	-0.5%	0.4%	1.1%		0.1%
Loan to deposit ratio[9]	74.3%			153.8%	143.4%	30.8%		72.9%
NPE ratio (CRB based)[10]	10.2%	14.3%	7.3%	4.5%	8.9%	1.5%		7.7%
NPE coverage ratio[11]	80.9%	73.6%	91.1%	63.7%	70.1%	42.0%		75.4%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 797.7 million presented in Corporate Center contains: EUR 360 million direct online deposits of customers in Company, EUR 324 million deposits of credit institutions and EUR 113 million other financial liabilities at amortised cost.

5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk risk-weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 863.2 million and in total EUR 3,958.5 million.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

(Source: Audited Consolidated Financial Statements)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the financial year ended December 31, 2017*							
	(in EUR million, unless otherwise indicated) (audited)							
Net banking income	**141.2**	**30.0**	**111.2**	**38.5**	**21.0**	**16.6**	**-1.8**	**215.5**
Net interest income[1]	103.2	30.0	73.1	24.2	14.5	15.4	-0.2	157.0
o/w regular interest income[2].	116.4	44.0	72.4	26.0	14.7	15.1		172.1
Net fee and commission income	38.1	0.0	38.1	14.3	6.5	1.2	-1.6	58.5
Net result on financial instruments............................	0.0	0.0	0.0	0.0	0.0	0.0	9.7	9.7
Other operating result............	0.0	0.0	0.0	0.0	2.3	0.0	-0.5	1.8
Operating income	**141.2**	**30.0**	**111.2**	**38.5**	**23.3**	**16.6**	**7.4**	**227.0**
Operating expenses	-89.4			-21.8	-4.3	-2.7	-71.9	-190.1
Operating result	**51.8**			**16.7**	**19.0**	**13.9**	**-64.5**	**36.9**
Change in CL	21.5			-1.1	-37.0	1.5	0.0	-15.1
Operating result before tax..	**73.3**			**15.5**	**-18.0**	**15.4**	**-64.5**	**21.8**
Business Volume								
Loans and receivables[3]	2,078.2	1,048.0	1,030.2	825.0	524.1	276.1	53.8	3,757.2
o/w gross performing loans..	2,026.7	998.9	1,027.8	791.2	469.1	275.1		3,562.0
Financial liabilities at AC.......	2,770.8		2,770.8	572.3	434.9	703.1	1,040.1[4]	5,521.2
RWA[5]....................................	1,485.2	692.1	793.1	857.6	568.2	180.3	968.5	4,059.6
Ratios								
Net interest margin (NIM)[6].....	4.1%	2.0%	6.0%	3.2%	2.2%	2.6%		2.3%
Cost/income ratio[7]	63.3%			56.7%	20.2%	16.0%		88.2%
Cost of risk ratio[8]...................	0.9%			-0.1%	-4.7%	0.5%		-0.3%
Loan to deposit ratio[9]	75.0%			144.2%	120.5%	39.3%		68.1%
NPE ratio (CRB based)[10]........	14.1%	18.5%	10.0%	6.7%	19.0%	1.4%		11.6%
NPE coverage ratio[11]	78.0%	71.6%	89.2%	50.0%	53.3%	48.4%		67.0%

* All figures and ratios presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 1,040.1 million presented in Corporate Center contains: EUR 409 million direct online deposits of customers in Company, EUR 342 million deposits of credit institutions, EUR 190 million Tier 2 and EUR 99 million other financial liabilities at amortised cost.

5 Includes only credit risk-weighted assets.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

(Source: Audited Consolidated Financial Statements)

10.3 Summary of Key Financials and Key Performance Indicators for Addiko Group – Adjusted

Addiko Group has chosen to focus new lending business activities predominately on the Retail Segment's non-mortgage business and the SME Business Segment (its "focus areas"), while the legacy business of the Large Corporates Segment, the Public Finance Segment and the Retail Segment's mortgage business (its "non-focus areas") entered into previously continues to be steered and managed to maturity. Consequently, Addiko Group believes that a more insightful assessment of its performance can be obtained by making certain adjustments to its reported results in order to show historical earnings generated by Addiko Group's current business model and organizational structure. The adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

The adjusted consolidated income statement data presented below constitutes a non-GAAP APM and should not be considered in isolation of, as a substitute for, or superior to, the financial information prepared in accordance with IFRS, and should be read in conjunction with Addiko Group's Consolidated Financial Statements included in this Prospectus. Use of alternative performance measures, such as the adjusted consolidated income statement data presented below, is subject to inherent limitations because they do not include all the revenues and expenses that must be included under IFRS and because they involve the exercise of judgment of which revenue and expense items should properly be excluded from the alternative performance measure. Investors are cautioned therefore not to place undue reliance on such alternative performance

measures. For a detailed description of the individual adjustments made in respect of the adjusted consolidated income statement data presented below, see *"11.6 Adjusted Results"*.

The following table shows the adjusted consolidated income statement data of Addiko Group for the three-month periods ended March 31, 2019 and 2018 as well as the financial years ended December 31, 2018, 2017 and 2016:

	For the three-month period ended March, 31		**For the financial year ended December 31,**		
	2019	**2018**	**2018**	**2017**	**2016**
Selected adjusted profit or loss items	**(in EUR million, unless otherwise indicated)**				
	(unaudited)				
Adjusted net banking income	60.4	55.7	239.1	231.1	208.9
Adjusted net interest income	44.9	42.2	176.7	172.6	154.2
Adjusted net fee and commission income	15.6	13.5	62.4	58.5	54.7
Adjusted net result on financial instruments	3.3	9.5	9.0	5.1	6.5
Adjusted other operating result	-6.7	-6.4	-18.2	-19.2	-29.0
Adjusted operating expenses	-47.4	-46.5	-186.9	-193.0	-200.8
Adjusted operating result before change in credit loss expense	**9.6**	**12.3**	**43.0**	**24.0**	**-14.4**
Adjusted credit loss expenses on financial assets	3.4	9.0	2.3	11.3	2.6
Adjusted operating result before tax	**12.9**	**21.3**	**45.4**	**35.3**	**-11.7**
Adjusted tax on income*	-4.5	-7.9	-14.5	-9.3	-2.8
Adjusted result after tax	**8.5**	**13.3**	**30.9**	**25.9**	**-14.6**
Key Ratios					
Adjusted net interest income/total average assets[1]	3.0%	2.7%	2.8%	2.5%	2.1%
Adjusted cost of risk ratio[2]	0.1%	0.2%	0.0%	0.2%	0.1%
Adjusted cost/income ratio[3]	78.5%	83.6%	78.1%	83.5%	96.1%
Adjusted return on average equity[4]	4.1%	6.4%	3.6%	2.8%	n.a.
Adjusted return on average tangible equity (RoTE)[5]	4.2%	6.6%	3.7%	2.9%	n.a.

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The adjusted net interest income of EUR 42.2 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

2 Calculated based on adjusted credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

3 Calculated as the sum of adjusted personnel expenses, adjusted other administrative expenses and adjusted depreciation and amortization divided by the sum of adjusted net interest income and adjusted net fee and commission income for the specified year.

4 Based on the adjusted result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The adjusted result after tax of EUR 13.3 million and EUR 8.5 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The adjusted result after tax of EUR 13.3 million and EUR 8.5 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

Return on tangible equity @ 14.1% CET1 ratio

The return on tangible equity @ 14.1% CET1 ratio amounts to 5.5% for the three-month period ended March 31, 2019. This is based on the adjusted result before tax of EUR 12.9 million multiplied by the factor 365/90 days for simple annualisation, the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 828.0 million as of March 31, 2019) less any intangibles (EUR 31.2 million as of March 31, 2019), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 156.7 million as of March 31, 2019; the amount as of March 31, 2018 is calculated as the difference between EUR 805.3 million CET1 capital and the total RWAs in the amount of EUR 4,599.8 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

The return on tangible equity @ 14.1% CET1 ratio amounts to 4.2% (2.6%) for the financial year 2018 (for the financial year 2017). This is based on the adjusted result before tax of EUR 45.4 million (EUR 35.3 million) for the financial year 2018 (for the financial year 2017), the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 859.5 million and EUR 844.0 million as of December 31, 2018 and 2017, respectively) less any intangibles (EUR 30.3 million and EUR 21.8 million as of December 31, 2018 and 2017, respectively),

less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 162.0 million and EUR 39.2 million as of December 31, 2018 and 2017, respectively; the amount as of December 31, 2018 is calculated as the difference between EUR 802.8 million CET1 capital and the total RWAs in the amount of EUR 4,545.0 million multiplied with the target CET1 ratio of 14.1%; the amount as of December 31, 2017 is calculated as the difference between EUR 695.3 million CET1 capital and the total RWAs in the amount of EUR 4,653.1 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations

The following discussion and analysis of Addiko Group's net assets, financial position and results of operations should be read in conjunction with "10 Selected Financial and Business Information", "3 Risk Factors" and "15 Business", the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2018, 2017, and 2016, as well as the Unaudited Interim Condensed Consolidated Financial Statements of the Company as of an for the three-month period ended March 31, 2019 (including comparative figures for the three-month period ended March 31, 2018) and the respective related notes included therein, which are contained in this Prospectus. See also "Presentation of Financial Information", "Alternative Performance Measure", "Rounding Adjustments" and "Currency Presentation and Presentation of Other Figures" for further information on the consolidated financial statements.

11.1 Overview

Addiko Group is a consumer and small and medium-sized enterprises (***SME***) specialist banking group in CSEE. Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the FMA, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of March 31, 2019 approximately 828 thousand customers in CSEE, using a well-dispersed network of 197 branches and modern digital banking channels. Addiko Bank AG manages its subsidiary banks through group-wide strategies, policies and controls and manages Addiko Group's liquidity reserve.

Addiko Group was established in 2015, when the HETA ASSET RESOLUTION AG (***HETA***) (former HYPO ALPE-ADRIA-BANK INTERNATIONAL AG) spun off its fully licensed CSEE banking subsidiaries to be owned by a newly created Austrian parent bank, which received infrastructure and employees previously employed in the management of the CSEE banking subsidiaries. AI Lake (Luxembourg) S.à r.l., indirectly owned by funds advised by Advent International (78.4%), a global active private equity investor and the European Bank for Reconstruction and Development (EBRD) (18.5%) with the remaining 3.1% held by the Managers (with the members of the Management Board holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board holding 1.1%), acquired the Austrian parent bank in 2015 from HETA ASSET RESOLUTION AG, following a mandatory, non-discriminatory sales process required by the European Commission as a condition for approving the payment of Austrian state aid to HETA ASSET RESOLUTION AG. Addiko Bank has been operating under its name since July 11, 2016, reflecting the rebranding of Addiko Group.

Following AI Lake (Luxembourg) S.à r.l.'s acquisition, Addiko Group started to reposition itself as a specialist consumer and SME banking group with a focus on growing its unsecured (non-mortgage) consumer lending activities (***Consumer Business***) and SME lending activities as well as payment services, funded largely by retail deposits. Addiko Group's mortgage finance (***Mortgage Business***), public lending and large corporate lending portfolios were gradually reduced over time, with repayments by customers exceeding the new business generated in those fields, thereby providing liquidity and capital for the gradual growth in its Consumer Business and SME lending. Addiko Group delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity".

Addiko Group generated result after tax of EUR 104.2 million in the 2018 financial year (EUR 41.6 million in the 2017 financial year), a RoTE (Return on Average Tangible Equity) of 12.6% in the 2018 financial year with 17.7% transitional CET1 (RoTE of 4.6% in the 2017 financial year with 14.9% transitional CET1). Addiko Group's total assets amounted to EUR 6,152.1 million as of December 31, 2018 (EUR 6,485.5 million as of December 31, 2017), of which EUR 3,787.3 million relate to loans and advances to customers as of December 31, 2018 (EUR 3,691.9 million as of December 31, 2017). Addiko Group refinances its activities mainly by deposits from customers, which amounted to EUR 4,836.7 million as of December 31, 2018 (EUR 4,933.8 million as of December 31, 2017). Addiko Group's financial strength is demonstrated by its fully loaded CET1 ratio of 16.9% and a fully loaded total capital ratio of 16.9% as of December 31, 2018 and fully loaded CET1 ratio of 14.9% and a fully loaded total capital ratio of 17.1% as of December 31, 2017.

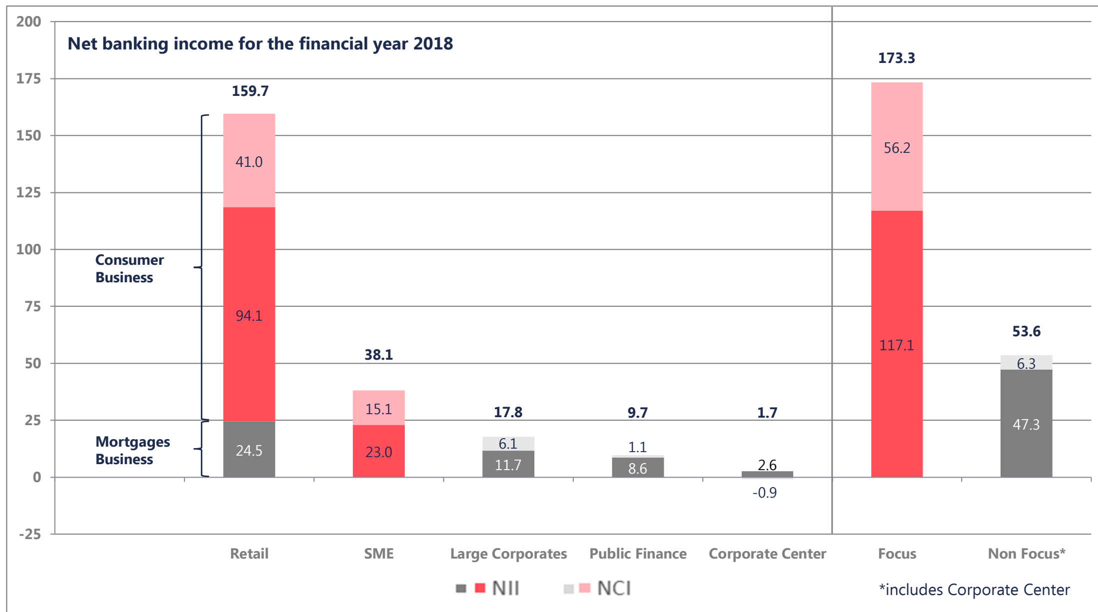
11.2 Segmentation

Addiko Group manages and reports its business through five segments:

- Retail Segment, which accounted for 70.4% of Addiko Group's net banking income in the financial year 2018, consisting of its
  - Consumer Business, which accounted for 59.6% of Addiko Group's net banking income in the financial year 2018 (incl. all net fee and commission income allocated to the Retail segment)
  - Mortgage Business, which accounted for 10.8% of Addiko Group's net banking income in the financial year 2018
- SME Business Segment, which accounted for 16.8% of Addiko Group's net banking income in the financial year 2018

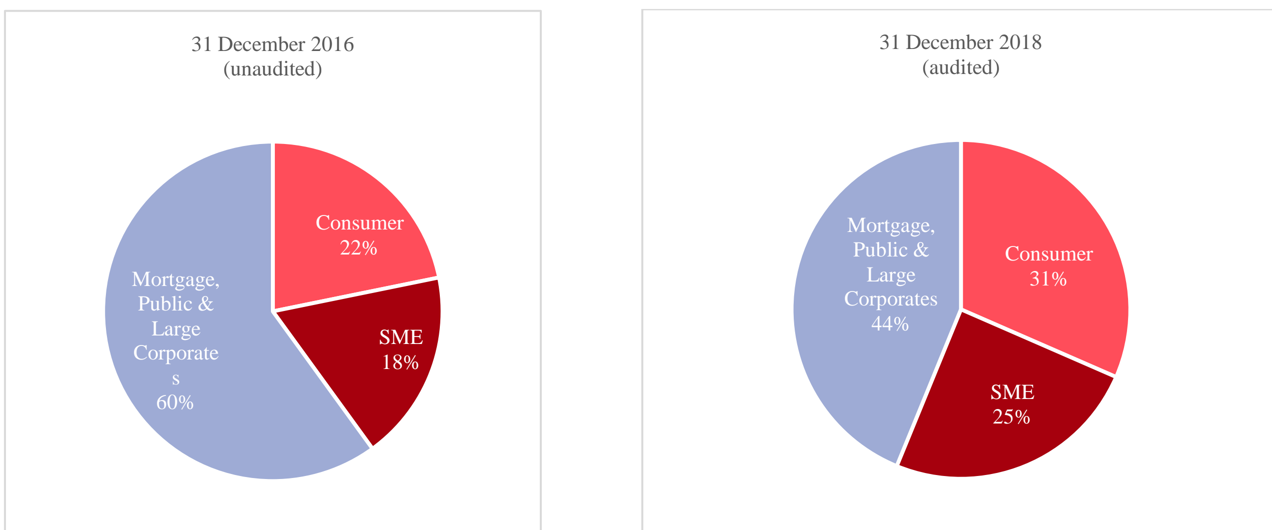
- Large Corporates Segment, which accounted for 7.8% of Addiko Group's net banking income in the financial year 2018
- Public Finance Segment, which accounted for 4.3% of Addiko Group's net banking income in the financial year 2018
- Corporate Center Segment, which accounted for 0.7% of Addiko Group's net banking income in the financial year 2018.

The segmental management and reporting reflects Addiko Group's continuing focus on growing its Consumer Business and activities accounted for in the SME Business Segment, whilst gradually redeploying liquidity and capital previously used to support its Mortgage Business, Large Corporates Segment and Public Finance Segment.



(Source: Audited Consolidated Financial Statements)

As an illustration of Addiko Group's increased focus on its Consumer Business and SME Business Segment, the chart below shows the increase in Addiko Group's gross performing loans in its focus areas, as well as a reduction of the gross performing loans in its non-focus areas, by comparing the gross performing loan percentages as of December 31, 2016 and December 31, 2018:



(Source: Audited Consolidated Financial Statements and Company information)

Effective as of January 1, 2018, internal and external reporting reflects the above-described segmental management structure. Prior to 2018, Addiko Group's results and performance were primarily reported and monitored on a country basis, although the focus on growing consumer finance and lending to SME businesses began in 2016, following the acquisition of Addiko Group by Advent and EBRD.

As the current segmentation of Addiko Group was only adopted at the beginning of the financial year 2018, the financial figures for individual segments in 2018 and the 2017 comparable period presented in this document are not comparable to those of prior financial years.

11.2.1 Retail

Addiko Group's Retail Segment serves approximately 780 thousand (805 thousand) customers not representing a group, company, or organization (***Private Individuals***) and approximately 32 thousand (33 thousand) private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million (***Micro Customers***) as of March 31, 2019 (December 31, 2018).

Addiko Group offers daily banking services (e.g. current accounts, payment services, debit cards, bancassurance), consumer lending (e.g. consumer loans, credit cards, overdrafts) and deposit taking services (e.g. savings accounts, term deposits) to its Private Individual customers, forming part of its Consumer Business, while it offers primarily transactional and unsecured lending services to its Micro Customers. The Retail Segment also offers mortgages, which is a non-focus business of Addiko Group.

Addiko Group's strategic growth focus is on higher-margin unsecured consumer lending. Addiko Group has gradually reduced its exposure to mortgage lending by issuing fewer new mortgages than are being repaid by customers. Liquidity and capital released from the mortgage book are redeployed in its focus consumer lending.

Retail customers are serviced through a network of 197 (198) branches as of March 31, 2019 (December 31, 2018) and digital channels, such as online banking, mobile banking or chat banking. Account packages, including a small, focused product set designed to deliver the essential banking needs, are a cornerstone of Addiko Group's strategy of straightforward banking. Through the digitalization of its service offering and standardization of its products, Addiko Group seeks to not only enhance the customer experience through faster decision-making times (e.g. it takes customers on average 3 minutes to open a deposit account and 14 hours to receive a lending decision) but also to improve the efficiency of Addiko Group's operations (e.g. more than 65% of Addiko Group's consumer lending decisions are fully automated).

11.2.2 SME Business

The SME Business Segment services corporate customers with an annual turnover ranging from EUR 0.5 million to EUR 40 million. Through its SME customer base, Addiko Group targets the "real" economy, i.e., manufacturing, production, trade finance, agriculture and tourism businesses with pre-existing cash flows, by offering working capital and investment loans and maintaining a strong focus on trade finance products. Addiko Group offers a full suite of products, focusing on deposit products (current accounts, savings accounts, term deposits and transactional accounts), banking products and packages including payment services and debit cards, lending products (consumer loans, credit cards, overdrafts), trade finance, frames and guarantees as well as other complementary products such as bancassurance and sales of investment funds. Addiko Group's strategy for its SME Business segment is to achieve primary bank status among its clients by providing services with a focus on convenience, developing flexible solutions and efficiently offering products through enhanced digitalization.

All SME clients are served through relationship managers, who not only sell banking products but also act as a trusted advisor to their clients, facilitating and communicating Addiko Group's fast decision making processes. Relationship managers are located in 38 SME business centers across the countries where Addiko Group is active. As part of its digital transformation Addiko Group will introduce a group wide e-banking system for the SME Business segment which will allow implementing simple loan products for the SME Business segment. Through its digital automation, Addiko Group is able to offer simple loan products which are approved directly on the digital platform for the SME Business Segment, freeing up sales force capacity for further customer acquisitions.

The SME Business Segment together with the Consumer Business are the two focus areas of business for Addiko Group.

11.2.3 Large Corporates

The Large Corporates Segment comprises Addiko Group's business activities relating to the offering of a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large legal entity customers, i.e. companies with annual turnover of over EUR 40 million.

The largest local and international companies are serviced by Addiko Group's centralized and specialized local teams, supported by an experienced group of experts at the headquarters of Addiko Group. Through this structure, Addiko Group aims to provide its customers with a seamless financing service across the entire Addiko Group. The Large Corporates Segment's aim is to deliver its services in a straightforward and efficient manner and provide its customers convenient access to those services. No significant growth in the Large Corporates Segment is anticipated, but Addiko Group will continue to serve selected customers where the risk and reward ratio is favourable.

11.2.4 Public Finance

The Public Finance Segment conducts Addiko Group's business with key public institutions in CSEE countries, such as ministries of finance, state enterprises and local governments. Addiko Group offers those public institutions a full suite of products, comprising deposit products (current accounts, savings accounts and term deposits), lending products (term loans, operating financing loans and leasing products) and other complementary products such as domestic and foreign payments, insurance, treasury and trade finance products.

Public Finance lending is not an area that Addiko Group is focused on growing. It rather focuses on maintaining the existing deposits and provide account keeping services while lending on a selected basis only.

11.2.5 Corporate Center

The Corporate Center Segment is primarily an internal segment without direct product offerings to external customers containing the results from Addiko Group's liquidity and capital management. It is responsible for Addiko Group's treasury activities as well as other functions, such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levy and other one-off items, including Addiko Group's reconciliation to IFRS (i.e. consolidation effects). In addition, this segment includes direct deposit activities in Austria and Germany, which are steered by treasury for liquidity purposes.

The Corporate Center Segment's prime responsibilities comprise the Group-wide asset and liability management (ALM) steering, management of liquidity portfolios within the regulatory requirements and the optimisation of subsidiaries' funding mix.

11.3 Principal Factors Affecting Addiko Group's Results of Operations

Addiko Group's consolidated results of operations are largely driven by the performance of its Consumer Business and SME Business Segment, which accounted for 58.6% (59.6%) and 15.7% (16.8%) of net banking income of Addiko Group in the three-month period ended March 31, 2019 (in the financial year 2018).

The following is a discussion of the principal factors that Addiko Group believes have had, in the periods for which financial information is presented in this Prospectus, an important impact on the development of the net assets, financial condition and result of operations of Addiko Group. Factors regarding only a specific segment, but which are significant enough to affect the net assets, financial condition or results of operations of Addiko Group, are also included in this section. Addiko Group believes that the influence of these factors on the development of Addiko Group's net assets, financial condition and results of operations will continue in the future.

11.3.1 General economic conditions in the network countries

Addiko Group's operating and financial results are highly dependent on the general economic conditions in Croatia, Slovenia and Serbia (together with Montenegro and Bosnia & Herzegovina, the ***network countries***). Operations in Croatia, Slovenia and Serbia accounted for 40.1% (29.6%), 20.9% (18.0%) and 17.1% (13.2%) of Addiko Group's operating income (before operating expenses, risk costs and taxes) in the three-month period ended March 31, 2019 (for the financial year ended December 31, 2018), respectively. Furthermore, Addiko Group has operations in Bosnia & Herzegovina and Montenegro.

There has been significant economic growth in the economies of the network countries with GDP growth in 2018 amounting to 4.9% in Montenegro, 4.5% in Slovenia, 4.3% in Serbia, 3.1% in Bosnia & Herzegovina and 2.6% in Croatia. The economic growth in the region is accommodated by growing unsecured loan stocks. The compound annual growth rate of the unsecured loan stock based in EUR between 2015 and 2018 amounted to 12.5% in Serbia, 12.0% in Montenegro, 6.5% in Slovenia, 2.6% in Croatia and 7.3% in Bosnia & Herzegovina compared to 2.6% in the Eurozone area underlining the bank's strategic focus (source: wiiw Report).

Addiko Group has benefited from the economic growth in the network countries in 2018, with all Addiko Group subsidiary banks returning a profit.

Croatia's banking system's balance sheet amounted to EUR 52.6 billion in 2017, representing an increase of 2.3% compared to the previous year (source: wiiw Report). The stock of non-financial private sector loans amounted to EUR 27.2 billion as per year-end 2017. Total non-financial private sector deposits amounted to EUR 34.6 billion as per year-end 2017, representing an increase of 4% compared to the previous year. Non-performing loans amounted to 11.4% of total loans as per year-end 2017 compared to 13.8% in the previous year. The banking sector generated net interest income of EUR 1.5 billion in 2017 (source: wiiw Report).

Slovenia's banking system's balance sheet amounted to EUR 19.8 billion in 2017, representing an increase of 2.4% compared to the previous year (source: wiiw Report). The stock of non-financial private sector loans amounted to EUR 19.8 billion as

per year-end 2017. Total non-financial private sector deposits amounted to EUR 24.8 billion as per year-end 2017, representing an increase of 7% compared to the previous year. Non-performing loans amounted to 8.4% of total loans as per year-end 2017 compared to 11.6% in the previous year. The banking sector generated net interest income of EUR 0.65 billion in 2017 (source: wiiw Report).

Serbia's banking system's balance sheet amounted to EUR 28.4 billion in 2017, representing an increase of 3.9% compared to the previous year (source: wiiw Report). The stock of non-financial private sector loans amounted to EUR 16.9 billion as per year-end 2017. Total non-financial private sector deposits amounted to EUR 16.7 billion as per year-end 2017, representing an increase of 7% compared to the previous year. Non-performing loans amounted to 9.4% of total loans as per year-end 2017 compared to 17.0% in the previous year. The banking sector generated net interest income of EUR 1.0 billion in 2017 (source: wiiw Report).

Bosnia & Herzegovina's banking system's balance sheet amounted to EUR 15.7 billion in 2017, representing an increase of 7.8% compared to the previous year (source: wiiw Report). The stock of non-financial private sector loans amounted to EUR 8.9 billion as per year-end 2017. Total non-financial private sector deposits amounted to EUR 8.2 billion as per year-end 2017, representing an increase of 9% compared to the previous year. Non-performing loans amounted to 10.0% of total loans as per year-end 2017 compared to 11.8% in the previous year. The banking sector generated net interest income of EUR 0.83 billion in 2017 (source: wiiw Report).

Montenegro's banking system's balance sheet amounted to EUR 4.2 billion in 2017, representing an increase of 10.3% compared to the previous year (source: wiiw Report). The stock of non-financial private sector loans amounted to EUR 2.1 billion as per year-end 2017. Total non-financial private sector deposits amounted to EUR 2.4 billion as per year-end 2017, representing an increase of 14% compared to the previous year. Non-performing loans amounted to 7.3% of total loans as per year-end 2017 compared to 10.3% in the previous year (source: wiiw Report).

Despite the past economic conditions in Addiko's countries of operation, the banks' profitability is still uncertain, therefore adequate loan activity and higher net interest income are essential achieving solid profitability in the longer term.

11.3.2 Competition and key developments in network countries

The level of competition in the banking sectors of the network countries has a significant impact on Addiko Group's net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits. Higher competitiveness in the banking sector typically leads to increased competition in particular for lending products, creating downward pressure on Addiko Group's net interest margin, and potentially its profitability, by forcing Addiko Group to offer lower interest rates on loans. Accordingly, Addiko Group's operating results could be materially impacted by changes in the competitive landscape in the banking sectors of the network countries.

For the period under review, competition in the network countries allowed Addiko Group to price retail consumer products at favorable market rates, without being forced to decrease the interest rates in order to achieve the desired loan volume growth in this focus area. This is predominantly due to the fact that Addiko Group focuses on speed of approval and convenience, as well as lower principle amounts and long maturity of loans, which are not in the focus of Addiko Group's competitors.

In the SME Business Segment, Addiko Group, compared to the Retail Segment, faces more competition, since the SME market is also covered by universal banks. Addiko Group's strategy is to cover the smaller end of the market with the lower average loan volumes as well as more standardized products on digital and cost effective platforms.

The level of competition in the banking sectors of the network countries is relatively high. Addiko Group faces competition from foreign and domestic universal banks. As of December 31, 2017, the number of banks in Croatia amounted to 25 with the major 5 banks having a share of 73.5% in total banking sector assets. In Slovenia, the number of banks amounted to 15 with the major 5 banks having a share of 60.6% in total banking sector assets. In Serbia, the number of banks amounted to 29 with the major 5 banks having a share of 54.9% in total banking sector assets. In Bosnia & Herzegovina, the number of banks amounted to 23 with the major 5 banks having a share of 53.6% in total banking sector assets. In Montenegro, the number of banks amounted to 15 with the major 5 banks having a share of 60.8% in total banking sector assets. For additional information on the risks Addiko Group faces as a result of competition and the impact competition may have on Addiko Group in the future, see "*3.2.4 Addiko Group is exposed to intense competition, which could have a material adverse effect on its business, financial condition, results of operations and prospects.*" Notwithstanding this competition, Addiko Group aims to become one of the leading financial groups in CSEE in consumer and SME lending.

In respect of the number of banks in Montenegro, this number was accurate on December 31, 2017. However, in 2019, the Central Bank of Montenegro took regulatory action against two local banks. On January 4, 2019, bankruptcy proceedings were initiated against Invest Banka Montenegro AD Podgorica and on January 24, 2019, the moratorium of Atlas Banka AD Podgorica was prolonged for an additional 90 days.

11.3.3 Focus on growing unsecured consumer and SME banking whilst gradually reducing the relative contribution of public finance, mortgage and large corporate lending business

Background

Following the acquisition of Addiko Group by Advent and EBRD in 2015, Addiko Group began re-focusing its operations towards serving the daily banking needs of retail and SME customers through straightforward, essential products with a particular focus on fee generating current account services, consumer finance and retail deposit taking. The delivery of these services is further underpinned by customer-facing digitalization efforts as well as enhanced and automated internal processing.

The illustration table below reflects Addiko Group's re-focusing over the preceding three years, by increasing the loan volume and the interest income in the focus area and decreasing the loan volume and the interest income in the non-focus area:

	Gross performing loans*				**Regular interest income***					**Gross yield**			
	For the three-month period ended March 31,	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**For the three-month period ended March 31,**	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**for the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**	**2019**	**2018**	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**
	(in EUR million) (unaudi-ted)	**(in EUR million) (audited, unless otherwise indicated)**			**(in EUR million) (unaudited)**		**(in EUR million) (audited, unless otherwise indicated)**			**(unaudi ted)**	**(unaudited)**		
Consumer Business	1,229.1	1,187.8	1,027.8	774.0[4]	22.5	20.1	84.9	72.4	50.7[4]	7.5%[2, 5]	7.7%[2]	8.0%[2]	6.6%[1]
SME Business Segment	991.5	928.4	791.2	646.4[4]	7.0	6.6	27.6	26.0	27.3[4]	2.9%[2, 5]	3.2%[2]	3.6%[2]	4.2%[1]
Focus areas	**2,220.6**	**2,116.2**	**1,819.0**	**1,420.3[4]**	29.4	26.7	**112.5**	**98.4**	**78.0[4]**	**5.5%[2, 5]**	**5.7%[2]**	**6.1%[2]**	**5.5%[1]**
Mortgage Business	846.7	872.7	998.9	1,163.1[4]	8.2	9.7	36.5	44.0	54.7[4]	3.8%[2, 5]	3.9%[2]	4.1%[2]	4.7%[1]
Large Corporates Segment	580.2	588.4	469.1	457.4[4]	3.7	3.2	14.2	14.7	17.6[4]	2.6%[2, 5]	2.7%[2]	3.2%[2]	3.9%[1]
Public Finance Segment	193.9	188.8	275.1	509.3[4]	1.4	1.8	6.3	15.1	23.5[4]	2.9%[2, 5]	2.7%[2]	3.9%[2]	4.6%[1]
Non-focus area.............	**1,620.8**	**1,649.9**	**1,743.0**	**2,129.8[4]**	**13.2**	**14.6**	**57.0**	**73.8**	**95.8[4]**	**3.3%[2, 5]**	**3.4%[2]**	**3.8%[2]**	**4.5%[1]**
TOTAL gross performing loans	**3,841.4**	**3,766.1**	**3,562.0**	**3,550.1[4]**	**42.7**	**41.3**	**169.5**	**172.1**	**173.8[4]**	**4.6%[2, 5]**	**4.6%[2]**	**4.8%[2]**	**4.9%[1]**
Other[3]..........					9.7	11.3	44.3[4]	62.1[4]	64.4[4]				
TOTAL					**52.3**	**52.6**	**213.8**	**234.2**	**238.2**				

* Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Not comparable to gross yield for the financial years 2017 and 2018 as calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.

2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.

3 Other includes interest like income (EUR 15.7 million, EUR 14.2 million and EUR 12.6 million for the financial years 2016, 2017 and 2018, respectively), unwinding (EUR 10.5 million, EUR 9.0 million and EUR 7.4 million for the financial years 2016, 2017 and 2018, respectively), suspended income (EUR 11.2 million and EUR 10.3 million for the financial years 2016 and 2017, respectively) and other interest income from non-client business (EUR 26.9 million, EUR 28.6 million and EUR 24.3 million for the financial years 2016, 2017 and 2018, respectively).

4 Unaudited Company information.

5 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.

(Source: Audited Consolidated Financial Statements and Company information)

The increasing loan stock was driven by increased new business disbursement, which increased from EUR 1,240.2 million for the financial year 2016 to EUR 1,458.9 million for the financial year 2018 and for the three-month period ended March 31, 2019. However, the amount of the financial year 2016 may not be compared to the amount for the financial year 2018, because the calculation methodology of disbursements was harmonised across the subsidiaries in the financial year 2018 and prior years were not adjusted retrospectively. The continued growth of Addiko Group's focus areas was possible without additional funding by gradually redeploying liquidity and capital previously used to support the Mortgage Business, Large Corporates Segment and the Public Finance Segment.

Addiko Group's outstanding loans and advances to customers (EUR 3.9 billion at March 31, 2019) are financed by deposits of customers (EUR 4.9 billion at March 31, 2019). The deposit surplus is largely held in cash and other high liquid financial assets. This excess liquidity will be reduced over time by increasing the loans and advances to customers in the focus areas. A more rapid expansion of the loan volume in the focus areas would require taking on greater risk. Addiko Group therefore closely monitors this expansion to ensure that such growth also remains in line with its new risk framework. It is also possible, though, that the loan volumes and interest income distribution will shift over time between the individual focus areas or the individual non-focus areas.

Focus Area: Consumer Business

The Consumer Business gross performing loan volume increased from EUR 774 million at December 31, 2016 to EUR 1,028 million at December 31, 2017, EUR 1,188 million at December 31, 2018 and 1,229 million at March 31, 2019. The share of the Consumer Business gross performing loans over total gross performing loans increased from 22% at December 31, 2016 to 32% at March 31, 2019. Gross performing loans of the Consumer Business comprised mainly cash loans which increased from EUR 597.0 million at December 31, 2016, to EUR 888.9 million at December 31, 2017, EUR 1,080.8 million at December 31, 2018 and EUR 1,123.9 million at March 31, 2019. Supplementary Consumer Business products (includes overdrafts, credit cards, micro business) amounted to EUR 177.0 million at December 31, 2016, EUR 139.0 million at December 31, 2017, EUR 106.9 million at December 31, 2018 and EUR 105.2 million at March 31, 2019. The disbursements in the Consumer Business increased from EUR 482.0 million in the financial year 2016 and to EUR 579.1 million in the financial year 2018, which contributed to the increasing gross performing loan stock. Consumer Business disbursements in the financial year 2018 comprised cash loans amounting to EUR 573.4 million and EUR 5.8 million supplementary products. The Consumer Business disbursements in the financial year 2016 may not be compared to the Consumer Business disbursements in the financial year 2018, because the calculation methodology of disbursements was harmonised across the subsidiaries in the financial year 2018 and prior years were not adjusted retrospectively. The average contractual remaining maturity was 68 months as of December 31, 2018.

The higher loan volume, together with a slightly higher average gross yield in a decreasing EURIBOR environment resulted in an increase in interest income from EUR 50.7 million in the financial year 2016 to EUR 72.4 million in the financial year 2017, EUR 84.9 million in the financial year 2018 and EUR 22.5 million in the three-month period ended March 31, 2019. The share of interest income from retail consumer lending over total interest income increased from 21% in the financial year 2016 to 43% in the three-month period ended March 31, 2019. The gross yield from Consumer Business increased from 6.6% (based on gross performing loans as of December 31, 2016) in the financial year 2016 to 8.0% (based on simple average of gross performing loans as of December 31, 2016 and 2017) in the financial year 2017, to 7.7% (based on simple average of gross performing loans as of December 31, 2017 and 2018) in the financial year 2018 and to 7.5% (the regular interest income of EUR 22.5 million for the three-month period ended March 31, 2019 has been multiplied with the factor 365/90 days for annualisation, based on simple average of gross performing loans as of December 31, 2018 and March 31, 2019) three-month period ended March 31, 2019. The deduction of the costs of risk of 0.9% (based on change in credit loss expenses for the financial year 2018 over simple average of gross performing loans as of December 31, 2017 and 2018) would result to a risk adjusted interest yield of 6.8% for the financial year 2018.

In line with its strategy, Addiko Group will continue to focus on growing its consumer finance lending portfolio within the parameters of its risk framework and consequently the total contribution as well as the relative share of interest income therefrom is expected to further increase in the coming years.

The following table presents the Consumer Business by country for the three-month period ended March 31, 2019 and for the financial years 2016 to 2018:

	Gross performing loans				Regular interest income				Gross yield			
	For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,		
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016
	(in EUR million) (unau-dited)	(in EUR million) (unaudited, unless otherwise indicated)			(in EUR million)	(in EUR million) (unaudited, unless otherwise indicated)			(unaudi ted)	(unaudited)		
ABC, Croatia	363.3	352.4	317.1	262.9	6.4	25.8	23.3	18.6	7.3%[2,3]	7.7%[2]	8.0%[2]	7.1%[1]
ABS, Slovenia	362.4	349.6	306.1	210.0	5.5	20.7	16.6	10.4	6.3%[2,3]	6.3%[2]	6.4%[2]	5.0%[1]
ABSA, Federation of Bosnia & Herzegovina	116.7	112.2	106.7	80.2	2.1	8.2	7.7	5.5	7.4%[2,3]	7.5%[2]	8.2%[2]	6.9%[1]
ABBL, Republic of Srpska	124.4	120.2	113.7	91.6	2.2	8.9	8.2	5.9	7.4%[2,3]	7.6%[2]	8.0%[2]	6.4%[1]
ABSE, Serbia	164.3	158.4	105.0	72.5	4.2	13.4	10.5	6.5	10.5%[2,3]	10.1%[2]	11.9%[2]	9.0%[1]
ABM, Montenegro	98.0	95.0	79.2	56.8	2.1	7.9	6.1	3.8	8.6%[2,3]	9.1%[2]	8.9%[2]	6.7%[1]
Total regular interest income on gross performing loans	**1,229.1**	**1,187.8[4]**	**1,027.8[4]**	**774.0**	**22.5**	**84.9[4]**	**72.4[4]**	**50.7**	**7.5%[2,3]**	**7.7%[2]**	**8.0%[2]**	**6.6%[1]**

1 Not comparable to gross yield for the financial years 2017 and 2018. Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.
2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.
3 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.
4 Audited information. Audited figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

Focus Area: SME

Apart from consumer finance, Addiko Group chose, in line with its strategic focus, to provide banking services to SME in the "real" economy, i.e., manufacturing, production, trade finance, agriculture and tourism businesses with pre-existing cash flows. As in the Retail Segment, banking services of the SME Business Segment focus on the straight forward, essential banking needs of SME customers, such as current account and transaction banking, trade finance and SME lending. These services are increasingly complemented by digital delivery and processing channels. For instance, a digital trade finance product is offered to SME customers.

The volume of loans to SME increased from EUR 646 million as of December 31, 2016 to EUR 791 million at December 31, 2017, EUR 928 million at December 31, 2018 and EUR 992 million at March 31, 2019. The share of SME loans over total customer loans increased from 18% at December 31, 2016 to 26% at March 31, 2019. Gross performing loans of the SME Business Segment comprised loans to small SME increasing from EUR 320.1 million at December 31, 2016, to EUR 391.7 million at December 31, 2017, to EUR 462.5 million at December 31, 2018 and to EUR 484.8 million at March 31, 2019 as well as loans to medium SME, which increased from EUR 326.2 million at December 31, 2016, EUR 399.5 million at December 31, 2017, EUR 465.9 million at December 31, 2018 and EUR 506.8 million at March 31, 2019. The development of gross performing loans reflects increased disbursements in the SME Business Segment from EUR 401.0 million in the financial year 2016 and to EUR 557.7 million in the financial year 2018. The disbursements of medium SME amounted to EUR 260.4 million and of small SME to EUR 297.3 million for the financial year 2018. The disbursements in the SME Business Segment disbursements in the financial year 2016 may not be compared to the disbursements in the SME Business Segment in the financial year 2018, because the calculation methodology of disbursements was harmonised across the subsidiaries in the financial year 2018 and prior years were not adjusted retrospectively. The average contractual remaining maturity was 29 months as of December 31, 2018.

The above development, together with reduced EURIBOR levels, resulted in a decrease in average gross yield from 4.2% (based on performing loans as of December 31, 2016) in the financial year 2016 to 3.6% (based on simple average of gross performing loans as of December 31, 2016 and 2017) in the financial year 2017, 3.2% (based on simple average of gross performing loans as of December 31, 2017 and 2018) in the financial year 2018 and 2.9% (the regular interest income of EUR 7.0 million for the three-month period ended March 31, 2019 has been multiplied with the factor 365/90 days for annualisation, based on simple average of gross performing loans as of December 31, 2018 and March 31, 2019) in the three-month period ended March 31, 2019. The deduction of the costs of risk of 0.9% (based on change in credit loss expenses for the financial year 2018 over simple average of gross performing loans as of December 31, 2017 and 2018) would result to a risk adjusted interest yield of 2.4% for the financial year 2018. Volume increases combined with rate reductions resulted in an overall nearly stable interest income of EUR 27.3 million in the financial year 2016, EUR 26.0 million in the financial year

2017, 27.6 million in the financial year 2018 and EUR 7.0 million in the three-month period ended March 31,2019. The share of interest income from the SME Business Segment over total interest income increased from 11% in the financial year 2016 to 13% in the three-month period ended March 31, 2019. Regular interest income of EUR 7.0 million (EUR 27.6 million) in the three month period ended March 31, 2019 (in the financial year 2018) comprised EUR 3.2 million (EUR 14.8 million) relating to medium SME and EUR 3.7 million (EUR 12.8 million) from small SME reflecting the structure of the gross performing loan portfolio.

SME finance is expected to continue to increase in volume as Addiko Group continues to develop straight forward, digitally-based products designed to appeal to customers and also make it cost efficient to engage with smaller sized SME customers at comparatively higher rates.

The following table presents the SME Business Segment by country for the three-month period ended March 31, 2019 and for the financial years 2016 to 2018:

	Gross performing loans				Regular interest income				Gross yield			
	For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,		
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016
	(in EUR million) (unaudi-ted)	(in EUR million) (unaudited, unless otherwise indicated)			(in EUR million)	(in EUR million) (unaudited, unless otherwise indicated)			(unaudi ted)	(unaudited)		
ABC, Croatia	317.1	295.8	243.6	232.7	2.4	9.9	10.0	11.4	3.1%[2,3]	3.7%[2]	4.2%[2]	4.9%[1]
ABS, Slovenia	285.4	264.0	237.2	206.1	1.4	5.5	6.0	7.4	2.0%[2,3]	2.2%[2]	2.7%[2]	3.6%[1]
ABSA, Federation of Bosnia & Herzegovina	87.3	87.2	63.8	33.8	0.7	2.3	1.8	1.4	3.0%[2,3]	3.0%[2]	3.7%[2]	4.2%[1]
ABBL, Republic of Srpska	60.1	58.7	59.4	34.4	0.5	2.2	1.7	1.1	3.2%[2,3]	3.7%[2]	3.6%[2]	3.3%[1]
ABSE, Serbia	186.0	171.8	122.9	91.9	1.5	4.9	3.7	3.4	3.4%[2,3]	3.3%[2]	3.5%[2]	3.7%[1]
ABM, Montenegro	55.6	50.9	64.2	47.5	0.6	2.9	2.7	2.4	4.6%[2,3]	5.1%[2]	4.9%[2]	5.1%[1]
Total regular interest income on gross performing loans	**991.5**	**928.4[4]**	**791. 2[4]**	**646.4**	**7.0**	**27.6[4]**	**26.0[4]**	**27.3**	**2.9%[2,3]**	**3.2%[2]**	**3.6%[2]**	**4.2%[1]**

1 Not comparable to gross yield for the financial years 2017 and 2018. Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.
2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.
3 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.
4 Audited information. Audited figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

Non-focus Area: Mortgage Business

Mortgage lending to retail customers had, prior to the acquisition of Addiko Group by Advent and EBRD, been a key pillar of Addiko Group's product portfolio. In 2015, the Management Board, together with the Supervisory Board, determined that the risk adjusted returns of long-term products, such as mortgages, were less attractive than consumer finance and SME lending. Addiko Group consequently adopted a more selective, margin focused approach to new mortgage lending or extensions of existing mortgages.

The volume of mortgages therefore decreased from EUR 1,163 million at December 31, 2016 to EUR 999 million at December 31, 2017, EUR 873 million at December 31, 2018 and EUR 847 million at March 31, 2019. The share of mortgages over total customer loans decreased from 33% at December 31, 2016 to 22% at March 31, 2019. Mortgage repayments in excess of new issuances reduced interest income from EUR 54.7 million in the financial year 2016 to EUR 44.0 million in the financial year 2017, EUR 36.5 million in the financial year 2018 and EUR 8.2 million in the three-month period ended March 31, 2019. The share of interest income from mortgage loans over total interest income decreased from 23% in the financial year 2016 to 16% in the three-month period ended March 31, 2019.

Mortgage financing will continue to complement selected customer relationships but will not be a focus area for Addiko Group. Its relative contribution to interest income is therefore expected to decrease in the next few years, corresponding to an increase in the share of Consumer Business and SME. The below table presents the maturities of loans in the Mortgage Business:

	For the three-month period ended March 31, 2019	For the financial year ended December 31, 2018
	(in EUR million)	(in EUR million)
	(unaudited)	(unaudited)
Intermediate maturity	0	0
< 3 months	0	0
3 months to 1 year	3	3
1 year to 5 years	68	71
5 years to 10 years	187	193
> 10 years	588	606
TOTAL	**847**	**873**

(Source: Company information)

The average contractual remaining maturity was 132 months as of December 31, 2018.

The below table presents the interest yield of loans in the Mortgage Business:

	For the three-month period ended March 31, 2019	For the financial year ended December 31, 2018
	(in EUR million)	(in EUR million)
	(unaudited)	(unaudited)
< 200 bps	222	236
200-400 bps	217	207
400-600 bps	373	301
600-800 bps	25	118
>800 bps	11	11
TOTAL	**847**	**873**

(Source: Company information)

The following table presents the Mortgage Business by country for the three-month period ended March 31, 2019 and for the financial years 2016 to 2018:

	Gross performing loans				Regular interest income				Gross yield			
	For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,			For the three-month period ended March 31,	for the financial year ended December 31,		
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016
	(in EUR million) (unaudi-ted)	(in EUR million) (unaudited, unless otherwise indicated)			(in EUR million)	(in EUR million) (unaudited, unless otherwise indicated)			(unaudi ted)	(unaudited)		
ABC, Croatia	393.8	407.9	469.9	537.4	5.0	22.9	27.5	35.0	5.1%[2,3]	5.2%[2]	5.5%[2]	6.5%[1]
ABS, Slovenia	261.6	269.2	305.1	357.0	1.2	5.0	5.8	6.6	1.8%[2,3]	1.7%[2]	1.7%[2]	1.9%[1]
ABSA, Federation of Bosnia & Herzegovina	18.4	19.3	24.5	28.8	0.3	1.3	1.7	2.0	6.2%[2,3]	6.0%[2]	6.3%[2]	6.9%[1]
ABBL, Republic of Srpska	27.8	29.2	36.4	42.3	0.4	1.7	2.3	2.7	5.2%[2,3]	5.2%[2]	5.8%[2]	6.4%[1]
ABSE, Serbia	118.0	121.6	134.5	160.9	1.0	4.1	4.8	5.8	3.3%[2,3]	3.2%[2]	3.3%[2]	3.6%[1]
ABM, Montenegro	27.1	25.4	28.5	36.7	0.3	1.4	1.9	2.6	5.2%[2,3]	5.4%[2]	6.0%[2]	7.0%[1]
Total regular interest income on gross performing loans	**846.7**	**872.7[4]**	**998.9[4]**	**1,163.1**	**8.2**	**36.5[4]**	**44.0[4]**	**54.7**	**3.8%[2,3]**	**3.9%[2]**	**4.1%[2]**	**4.7%[1]**

1 Not comparable to gross yield for the financial years 2017 and 2018. Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.
2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.
3 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.
4 Audited information. Audited figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

Non-focus Area: Large Corporates

The volume in the Large Corporates Segment increased from EUR 457 million at December 31, 2016 to EUR 469 million at December 31, 2017, EUR 588 million at December 31, 2018 and EUR 580 million at March 31, 2019. The share of large corporate loans over total customer loans increased from 13% at December 31, 2016 to 15% at March 31, 2019. The share of

interest income from the large corporate segment over total interest income remained stable at 7% from the financial year 2016 to the three-month period ended March 31, 2019. Despite the increase in volume since 2016, the Large Corporates Segment is not considered as a focus area for Addiko Group. Its relative contribution to interest income is therefore expected to decrease in the next few years.

The below table presents the maturities of loans in the Large Corporates Segment:

	For the three-month period ended March 31, 2019	For the financial year ended December 31, 2018
	(in EUR million)	(in EUR million)
	(unaudited)	(unaudited)
Intermediate maturity	78	85
< 3 months	22	14
3 months to 1 year	64	60
1 year to 5 years	211	215
5 years to 10 years	183	188
> 10 years	22	25
TOTAL	**580**	**588**

(Source: Company information)

The average contractual remaining maturity was 33 months as of December 31, 2018.

The below table presents the interest yield of loans in the Large Corporates Segment:

	For the three-month period ended March 31, 2019	For the financial year ended December 31, 2018
	(in EUR million)	(in EUR million)
	(unaudited)	(unaudited)
< 200 bps	199	176
200-400 bps	306	314
400-600 bps	66	75
600-800 bps	2	3
>800 bps	7	21
TOTAL	**580**	**588**

(Source: Company information)

The following table presents the Large Corporates Segment by country for the three-month period ended March 31, 2019 and for the financial years 2016 to 2018:

	Gross performing loans				**Regular interest income**				**Gross yield**			
	For the three-month period ended March 31,	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**for the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**
	(in EUR million) (unaudi-ted)	**(in EUR million) (unaudited, unless otherwise indicated)**			**(in EUR million)**	**(in EUR million) (unaudited, unless otherwise indicated)**			**(unaudi ted)**	**(unaudited)**		
ABC, Croatia	190.7	179.3	165.7	216.6	1.2	4.9	6.7	10.1	2.6%[2,3]	2.8%[2]	3.5%[2]	4.7%[1]
ABS, Slovenia	180.7	174.1	130.8	100.2	0.9	3.2	2.6	2.6	2.0%[2,3]	2.1%[2]	2.3%[2]	2.6%[1]
ABSA, Federation of Bosnia & Herzegovina	37.0	25.6	22.5	20.0	0.2	0.8	0.6	0.6	3.1%[2,3]	3.2%[2]	3.0%[2]	3.1%[1]
ABBL, Republic of Srpska	33.0	34.9	28.2	18.3	0.3	1.2	0.8	0.2	3.3%[2,3]	3.7%[2]	3.5%[2]	1.3%[1]
ABSE, Serbia	130.8	168.0	112.9	91.1	1.1	4.0	3.5	3.4	3.0%[2,3]	2.8%[2]	3.4%[2]	3.7%[1]
ABM, Montenegro	8.0	6.6	9.0	11.3	0.1	0.2	0.4	0.6	4.0%[2,3]	3.2%[2]	4.4%[2]	5.6%[1]
Total regular interest income on gross performing loans	**580.2**	**588.4[4]**	**469.1[4]**	**457.4**	**3.7**	**14.2[4]**	**14.7[4]**	**17.6**	**2.6%[2,3]**	**2.7%[2]**	**3.2%[2]**	**3.9%[1]**

1 Not comparable to gross yield for the financial years 2017 and 2018. Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.

2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.

3 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.

4 Audited information. Audited figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

(Source: Audited Consolidated Financial Statements and Company information)

Non-focus Area: Public Finance

The volume in the Public Finance Segment decreased from EUR 509 million at December 31, 2016 to EUR 275 million at December 31, 2017, EUR 189 million at December 31, 2018 and EUR 194 million at March 31, 2019. The share of Public Finance over total customer loans decreased from 14% at December 31, 2016 to 5% at March 31, 2019. The share of interest income from the Public Finance Segment over total interest income decreased from 10% in the financial year 2016 to 3% in the three-month period ended March 31, 2019. Public finance will not be a focus area for Addiko Group. Its relative contribution to interest income is therefore expected to decrease in the next few years.

The below table presents the maturities of loans in the Public Finance Segment:

	For the three-month period ended March 31, 2019	**For the financial year ended December 31, 2018**
	(in EUR million)	**(in EUR million)**
	(unaudited)	**(unaudited)**
Intermediate maturity	10	1
< 3 months	3	2
3 months to 1 year	2	7
1 year to 5 years	82	80
5 years to 10 years	76	77
> 10 years	20	22
TOTAL	**194**	**189**

(Source: Company information)

The average contractual remaining maturity was 32 months as of December 31, 2018.

The below table presents the interest yield of loans in the Public Finance Segment:

	For the three-month period ended March 31, 2019	**For the financial year ended December 31, 2018**
	(in EUR million)	**(in EUR million)**
	(unaudited)	**(unaudited)**
< 200 bps	97	98
200-400 bps	68	61
400-600 bps	13	15
600-800 bps	13	15
>800 bps	3	0
TOTAL	**194**	**189**

(Source: Company information)

The following table presents the Public Finance Segment by country for the three-month period ended March 31, 2019 and for the financial years 2016 to 2018:

	Gross performing loans				**Regular interest income**				**Gross yield**			
	For the three-month period ended March 31,	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**for the financial year ended December 31,**			**For the three-month period ended March 31,**	**for the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**
	(in EUR million)	**(in EUR million)**			**(in EUR million)**	**(in EUR million)**			**(unaudited)**			
	(unaudi-ted)	**(unaudited, unless otherwise indicated)**				**(unaudited, unless otherwise indicated)**					**(unaudited)**	
ABC, Croatia	75.6	77.5	123.0	314.3	0.6	2.9	10.4	16.6	2.9%[2,3]	2.9%[2]	4.8%[2]	5.3%[1]
ABS, Slovenia	77.1	71.8	84.8	100.7	0.3	1.1	1.1	2.0	1.9%[2,3]	1.4%[2]	1.2%[2]	2.0%[1]
ABSA, Federation of Bosnia & Herzegovina	3.6	4.4	6.4	5.7	0.0	0.2	0.3	0.4	4.7%[2,3]	3.8%[2]	4.9%[2]	6.1%[1]
ABBL, Republic of Srpska	14.4	16.1	24.5	36.5	0.2	1.0	1.5	2.0	5.2%[2,3]	5.0%[2]	5.0%[2]	5.6%[1]
ABSE, Serbia	15.8	11.4	26.9	40.6	0.1	0.6	1.2	2.0	4.1%[2,3]	3.4%[2]	3.7%[2]	4.9%[1]
ABM, Montenegro	7.4	7.7	9.6	11.5	0.1	0.4	0.5	0.6	4.5%[2,3]	4.8%[2]	5.0%[2]	5.1%[1]
Total regular interest income on gross performing loans	**193.9**	**188.8[4]**	**275.1[4]**	**509.3**	**1.4**	**6.3[4]**	**15.1[4]**	**23.5**	**2.9%[2,3]**	**2.7%[2]**	**3.9%[2]**	**4.6%[1]**

1 Not comparable to gross yield for the financial years 2017 and 2018. Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure.

2 Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year.
3 Specified ratio for the three-month period ended March 31, 2019 has been simply annualised with the factor 365/90 days for all segments, regardless the contractual terms of the majority of the underlying contracts.
4 Audited information. Audited figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

11.3.4 Cost of deposit funding and funding mix

Addiko Group is largely funded through customer overnight and term deposits (EUR 4,856 million or 79.5% of total liabilities and equity at March 31, 2019, EUR 4,837 million or 78.6% of total liabilities and equity at December 31, 2018, EUR 4,934 million or 76.1% of total liabilities and equity at December 31, 2017, EUR 4,436 million or 61.5% of total liabilities and equity at December 31, 2016). Following the change in ownership in 2015, which eliminated uncertainty over Addiko Group's future as a going concern caused by the conditions of the EU approval of Austrian State Aid provided to Addiko Group's former parent, HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (***HAA***), management gradually reduced interest rates paid on deposit funding and adjusted the overall deposit volume to the funding needs of the newly-focused retail and SME banking group.

The following tables presents the loan to deposit ratio (calculated as total loans and advances over total financial liabilities measured at amortised cost) for each of the segments and Addiko Group as a whole:

Loan to deposit ratio*	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(unaudited)	(audited)	(audited)	(unaudited)
Retail Segment	74.6%	74.3%	75.0%	n.a.
SME Business Segment	164.4%	153.8%	144.2%	n.a.
Large Corporates Segment	145.3%	143.4%	120.5%	n.a.
Public Finance Segment	33.7%	30.8%	39.3%	n.a.
Addiko Group	**74.8%**	**72.9%**	**68.1%**	**62.6%**

* Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

Average interest rates on deposits taken by Addiko Group's network banks in its countries of operation decreased from 1.21% (based on average customer deposits) in the financial year 2016 to 0.91% (based on average customer deposits) in the financial year 2017, 0.68% (based on average customer deposits) in the financial year 2018 and 0.52% (the interest expense on customer deposits of EUR 6.3 million for the three-month period ended March 31, 2019 has been multiplied with the factor 365/90 days for annualisation, based on average customer deposits calculated as simple average of the beginning of period and end of period amounts) in the three-month period ended March 31, 2019. This overall reduction was achieved through a combination of a change in deposit mix from customer term deposits to customer overnight deposits in current accounts and a reduction in the rate paid on term deposits, driven by the prevailing interest rate environment. As all subsidiaries are self-funded there is no significant mismatch between the lending portfolio and the deposit base.

The following tables presents the loan to deposit ratio (calculated as total loans and advances over total financial liabilities measured at amortised cost) for each of the six banking subsidiaries of Addiko Group, Addiko Bank d.d. Ljubljana (***ABS***), Addiko Bank d.d. Zagreb (***ABC***), Addiko Bank a.d. Beograd (***ABSE***), Addiko Bank d.d. Sarajevo (***ABSA***), Addiko Bank a.d. Banja Luka (***ABBL***), Addiko Bank a.d. Podgorica (***ABM***), and the Addiko Group as a whole:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(unaudited)	(audited)	(audited)	(unaudited)
ABC, Croatia	70.0%	66.1%	60.7%	71.0%
ABS, Slovenia	86.3%	86.6%	85.7%	77.3%
ABBL, Republic of Srpska	80.7%	81.8%	96.7%	86.4%
ABSA, Federation of Bosnia & Herzegovina	77.5%	74.5%	70.0%	61.5%
ABSE, Serbia	99.1%	94.0%	89.0%	85.9%
ABM, Montenegro	91.6%	86.8%	85.3%	75.1%
Addiko Group	**74.8%**	**72.9%**	**68.1%**	**62.6%**

* Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

The share of lower priced overnight deposits increased from 40% of total customer deposits at December 31, 2016 to 43% at December 31, 2017, 50% at December 31, 2018 and 52% at March 31, 2019. This shift towards overnight demand deposits

instead of fixed-term deposits has been driven by the low interest rates currently available to retail customers on fixed-term deposits. Addiko Group anticipates that the relative weight of overnight demand deposits will continue in the short- to medium-term.

The following table presents the deposit amounts and expenses of deposits for the financial years 2016, 2017 and 2018:

	Deposits			Interest expense			Interest expense in % of average[1] deposits		
	for the financial year ended December 31,			for the financial year ended December 31,			for the financial year ended December 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	(in EUR million) (audited)			(in EUR million) (audited, unless otherwise indicated)			(unaudited)		
Customer Deposit									
Current Accounts	2,430.8	2,113.9	1,761.0	-2.4[2]	-3.0[2]	-3.1[2]	-0.11%	-0.15%	-0.21%
Deposit with agreed terms	2,350.4	2,731.6	2,634.1	-28.5[2]	-37.7[2]	-45.7[2]	-1.12%	-1.41%	-1.75%
Other deposits	55.6	88.2	40.5	-2.6[2]	-2.0[2]	-1.5[2]	-3.61%	-3.11%	-2.95%
TOTAL CUSTOMER DEPOSITS	**4,836.7**	**4,933.8**	**4,435.6**	**-33.4**	**-42.7**	**-50.4**	**-0.68%**	**-0.91%**	**-1.21%**
Credit Institution Deposits									
Current Accounts	51.4	32.3	5.8	-0.1[2]	-0.2[2]	-0.2[2]	-0.15%	-0.98%	-2.05%
Deposit with agreed terms	255.7	309.3	310.2	-0.9[2]	-0.5[2]	-1.0[2]	-0.30%	-0.15%	-0.31%
Other deposits	17.4	0.0	0.0	0.0[2]	-1.7[2]	-2.7[2]	-0.20%	0.00%	-19.57%
TOTAL CREDIT INSTITUTIONS DEPOSITS	**324.4**	**341.6**	**316.0**	**-1.0**	**-2.4**	**-3.9**	**-0.29%**	**-0.72%**	**-1.12%**
TOTAL DEPOSITS	**5,161.1**	**5,275.4**	**4,751.6**	**-34.4**	**-45.0**	**-54.2**	**-0.66%**	**-0.90%**	**-1.20%**

1 Calculated based on simple average of deposits at beginning and at end of period for the respective year.
2 Unaudited Company information.
(Source: Company information)

In addition to customer deposits taken on by Addiko Group's network banks, Addiko Bank AG, using its Austrian banking license, also started to accept deposits from customers in Germany and Austria through online platforms. The online deposit activities in Germany commenced at the end of October 2016 while its Austrian online deposit activities commenced in July 2017. Such deposits provide Addiko Group with a strategic liquidity reserve and are invested by Addiko Group's treasury in liquid government bonds and similar financial assets. Austrian customer direct online deposits amounted to EUR 352.4 million (EUR 248.3 million) and German customer direct online deposits to EUR 80.1 million (EUR 112.1 million), which account for approximately 7.3% (5.1%) and approximately 1.6% (2.3%) of Addiko Group's total customer deposits as of March 31, 2019 (as of December 31, 2018), respectively. The interest expense for direct online deposits was EUR 1.55 million and EUR 1.63 million for Austrian and for German direct online deposits in the financial year 2018, respectively.

The downward adjustments of interest rates paid on deposits was aggravated by a reduction in EURIBOR and other local central bank rates in Addiko Group's principal countries of operation.

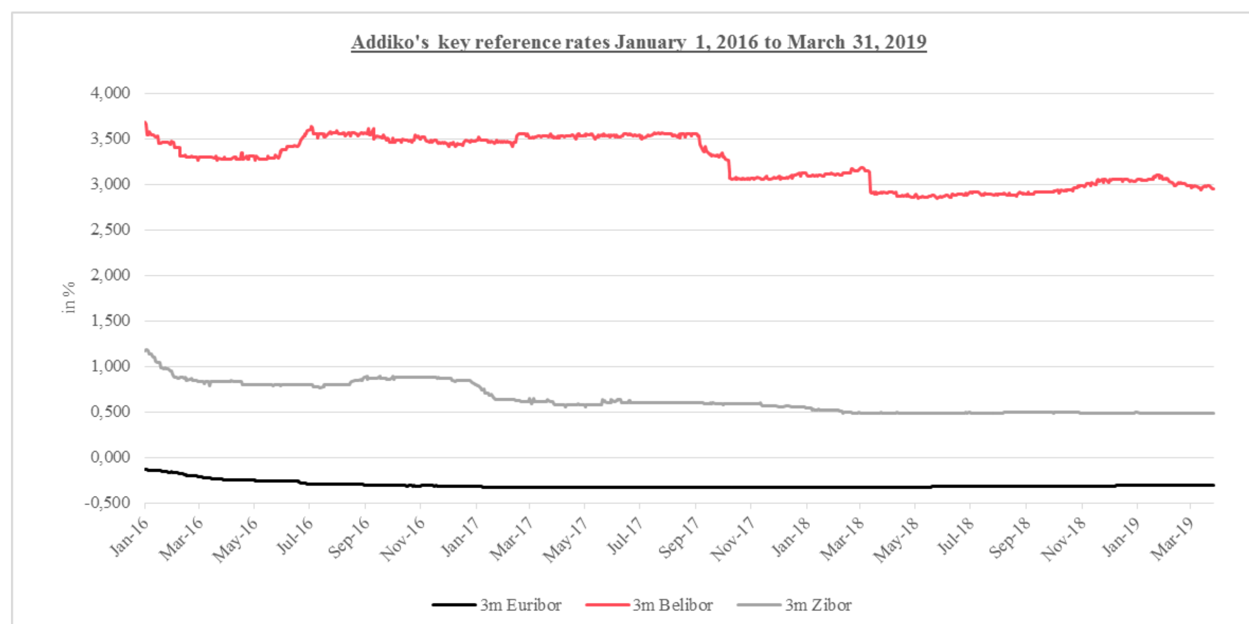
Addiko Group has, subject to market rate developments, largely completed its alignment of deposit structures and interest rate adjustments.

Addiko Group also holds licenses that permit the issuance of unsecured and covered bonds, although no bonds have thus far been issued. To facilitate the future issuance of bonds, Addiko Group has commissioned private ratings from external rating agency Moody's. See "*19.9 Ratings*".

11.3.5 Interest rate environment

Addiko Group's interest income and interest expense is influenced by fluctuations in market interest rates, as reflected in the interbank reference rates in Addiko Group's key markets, such as EURIBOR, ZIBOR or BELIBOR. These reference rates are directly and indirectly used as a basis for setting customer interest rates on lending and deposit products in the countries in which Addiko Group operates. Addiko Group's operations depend on its interest rate risk management taking into account historical trends and expert knowledge, as well as the connection between market rates and interest margins. Addiko Group's interest income largely depends on the level of Addiko Group's interest-bearing assets and liabilities and the average interest rates on interest-earning assets and liabilities. Various factors could affect Addiko Group's ability to maintain credit and deposit margins at their current level. These factors include the evolving regulatory environment, such as the introduction of an interest rate ceiling with respect to consumer loans (e.g., in Croatia), increasing competition in the market, changes in demand, monetary policy, inflation and relevant interest rates such as EURIBOR, ZIBOR, BELIBOR or CHF LIBOR, in relation to which Addiko Group expects that interest levels will increase in future.

All reference rates in Addiko Group's key markets had a decreasing trend since 1 January 2016. The 3-month EURIBOR decreased from -0.132% at January 4, 2016 (average -0.265% for 2016) to -0.311% at March 31, 2019 (average -0.309% for the three-month period ended March 31, 2019.), remaining on stable low level. The 3M ZIBOR decreased from 1.170% at January 4, 2016 (average 0.855% for 2016) to 0.490% at March 31, 2019 (average 0.490% for the three-month period ended March 31, 2019). The 3M BELIBOR decreased from 3.680% at January 4, 2016 (average 3.439% for 2016) to 2.950% at March 31, 2019 (average 3.018% for the three-month period ended March 31, 2019).



(Source: Bloomberg)

Depending on customer needs, Addiko Group offers loans with fixed interest rates. As of March 31, 2019, the fixed interest rate gross performing loans amounted to EUR 1,053.7 million (EUR 989.2 million as of December 2018) for the Consumer Business, to EUR 432.2 million (EUR 379.8 million as of December 2018) for the SME Business Segment, to EUR 90.7 million (EUR 89.8 million as of December 2018) for the Mortgage Business, to EUR 236.3 million (EUR 231.3 million as of December 2018) for the Large Corporates Segment and to EUR 29.1 million (EUR 24.2 million as of December 2018) for the Public Finance Segment. As of March 31, 2019, outstanding gross performing loans with variable interest rates totaled EUR 175.4 million (EUR 198.6 million as of December 2018) for the Consumer Business, EUR 559.3 million (EUR 548.5 million as of December 2018) for the SME Business Segment, EUR 756.0 million (EUR 782.9 million as of December 2018) for the Mortgage Business, EUR 343.9 million (EUR 357.2 million as of December 2018) for the Large Corporates Segment and EUR 164.8 million (EUR 164.6 million as of December 2018) for the Public Finance Segment.

As customer interest rates are partially fixed for varying contractually agreed periods of time, interest rates on lending and deposit products typically adjust to changes in market rates with a time delay (temporary interest rate repricing gap). Addiko Group expects to benefit from rising market interest rates, as these will widen net interest margins. A parallel increase in the interest rate curves by 1 basis point in all maturity bands and currencies would result in a change in present value of the banking book of EUR -273 thousand as of March 31, 2019 (EUR -293 thousand as of December 31, 2018, EUR -94 thousand as of December 31, 2017 and EUR 153 thousand as of December 31, 2016).

11.3.6 Foreign exchange movements

As Addiko Group reports its financial results in Euro, Addiko Group's operational business activities are exposed to foreign currency translation risk, except for the subsidiaries operating in Slovenia and Montenegro as well as Addiko Bank AG, where the operating currency is identical to the reporting currency Euro. Results of operations in Bosnia & Herzegovina, Croatia, and Serbia are translated from the local currency into the reporting currency Euro and therefore changes in the respective exchange rates can affect Addiko Group's financial performance as well as Addiko Group's balance sheet. Addiko Group's lending business in local currency is mostly funded through local currency deposits either from Retail or Corporate clients, without reliance on interbank money, bond issuances or FX swaps in material amounts. Additional funding in local currency from institutional clients (mostly pension funds) is only used in Croatia. As all subsidiaries are self-funded there is no significant mismatch between the lending portfolio and the deposit base.

The main foreign currency risk drivers are the value of HRK and RSD currencies relative to the Euro. The FX value at risk was approximately EUR 0.6 million per day as of March 31, 2019 (value at risk as of December 31, 2018: EUR 0.8 million per day, as of December 31, 2017: EUR 1.6 million per day), at a confidence interval of 99.0%. Addiko Group had set itself an internal limit of EUR 2.0 million at December 31, 2018 (EUR 2.0 million at December 31, 2017).

The majority of Addiko Group's open FX positions result from consolidation of Addiko Bank AG's strategic investment in its subsidiaries Addiko Bank a.d. Belgrade and Addiko Bank d.d. Zagreb. Addiko Group internally implemented low risk limits, which typically do not allow the building of large open FX positions.

As of March 31, 2019 (December 31, 2018) Addiko Group held CHF assets equal to EUR 178 million (EUR 192 million) and had CHF liabilities of EUR 26 million (EUR 26 million). This funding gap was concentrated in Serbia, Croatia and Bosnia & Herzegovina. However, the corresponding FX risk was hedged by long-term cross-currency swaps and short-term FX swaps. A similar but considerably smaller USD position equal to EUR 5 million (EUR 15 million) was hedged entirely using FX swaps as of March 31, 2019 (December 31, 2018). For local currencies such as HRK, RSD and BAM respective subsidiaries hold asset surpluses. Open FX risks from these positions are also hedged using short-term FX swaps.

Hedging transactions are predominantly hedged by the Company, which then offsets the risk in the market.

The following tables present Addiko Group's currency position as of the dates indicated:

	For the financial year ended December 31, 2018 (in EUR million) (unaudited)		
	Assets	**Liabilities**	**Δ**
CHF	192	26	166
USD	205	190	15
HRK	1,153	801	352
BAM	334	319	15
RSD	296	156	140
Other currencies	18	18	0

(Source: Company information)

	For the three-month period ended March 31, 2019 (in EUR million) (unaudited)		
	Assets	**Liabilities**	**Δ**
CHF	178	26	152
USD	199	194	5
HRK	1,122	401	722
BAM	340	116	223
RSD	311	-38	348
Other currencies	17	16	1

(Source: Company information)

11.3.7 Cost of risk

The cost of risk indicates the net impairment of loans to and receivables from customers. Addiko Group's cost of risk ratio was +9bp (calculated as EUR 4.4 million of net releases on financial assets divided by the credit risk bearing exposure of EUR 5,157 million) for the financial year 2016, -29bp (calculated as EUR 15.1 million of net credit loss expenses on financial assets divided by the credit risk bearing exposure of EUR 5,203 million) for the financial year 2017, +5bp (calculated as EUR 2.8 million of net releases on financial assets divided by the credit risk bearing exposure of EUR 5,237 million) for the financial year 2018 and +7bp (calculated as EUR 3.7 million of net releases on financial assets divided by the credit risk bearing exposure of EUR 5,298 million) for the three-month period ended March 31, 2019.

The cost of risk during the financial years 2016 to 2018 was primarily driven by:

- *maturity profile of unsecured loans* – Addiko Group's loan portfolio was stagnant and declining in the financial years before 2016. The new business generated since the financial year 2016, which was mainly focused on unsecured consumer and SME lending, is not mature, thus full effects of cost of risk have not been realized.
- *strict underwriting principles and strong monitoring of portfolio* – the new underwriting and monitoring processes first implemented in 2016 have mitigated more significant cost of risk materialization through strong monitoring which enables timely reactions to any portfolio-level worsening by modifying underwriting criteria and intensifying collection activities when needed.

  The two drivers described above were the basis for achieving the low NPE ratio under the "new framework", defined as all credit risk exposures to clients who have been evaluated and in regards to which a new risk decision was made after January 1, 2016, therefore signifying that the credit risk exposure was underwritten in line with Addiko Group's standards:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(unaudited)		(unaudited)	
NPE ratio under new risk framework[1,2]	1.5%	1.4%	1.3%	1.6%
NPE coverage under new risk framework[1,3]	72.0%	69.2%	56.7%	42.8%

1 New risk framework refers to clients where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss (e.g. large Croatian retailer) are excluded from the new risk framework. Ratios taken from the risk records as of and for the financial years 2016, 2017 and 2018.

2 Calculated based on the non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.

3 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.

(Source: Company information)

- *improved management of the existing non-performing portfolio* – as Addiko Group improved the management of its non-performing portfolio generated in the financial years prior to 2016, additional cost of risk generated from the non-performing portfolio decreased and even turned to positive results (i.e. releases of loan loss provisioning) as the individual non-performing exposures or packages of non-performing exposures were successfully restructured, renegotiated or sold.

Due to the improvement in non-performing exposure management the NPE decreased from EUR 1,229 million as of December 31, 2015, by EUR 836 million, or 68%, to EUR 393 million as of March 31, 2019. Below table illustrates the development from the financial year 2016 through the financial year 2018, which also shows that the loan loss provisioning coverage ratio of non-performing exposures did not decrease, but rather improved.

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (audited)		
Performing credit risk exposure	6,788.2	6,831.9	6,892.4[3]	7,547.9[4]
Non-performing exposure	393.2	403.8	605.7	760.8
Loan loss provisioning on NPE[1]..............	298.1	304.4	405.5	513.6
Coverage ratio[1,2]......................................	75.8%	75.4%	67.0%	67.5%

1 Presents the stage 3 expected credit losses as of and for the financial year 2018 as well as the single risk provisions as of and for the financial year 2016 and 2017.

2 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as calculated based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.

3 Based on Note 69 of the Audited Consolidated Financial Statements of Addiko Group as of and for the financial year 2018.

4 Based on Note 59 of the Audited Consolidated Financial Statements of Addiko Group as of and for the financial year 2016.

(Source: Audited Consolidated Financial Statements and Company information)

Addiko Group expects that its focus on unsecured consumer and SME lending will ultimately result in cost of risk higher than a portfolio comprised of a diversified product mix, as portfolios of consumer loans and SME loans result, in all markets, in higher risk costs than portfolios of large corporates, public institutions or retail mortgages due to the inherently higher risk posed by Consumer Business and SME Business Segment customers as well as the increased concentration risk to specific customer types. Furthermore, Addiko Group does not expect to benefit from releases from non-focus segments going forward.

However, Addiko Group expects that unsecured consumer and SME portfolios, characterized by shorter maturity structures and smaller average ticket sizes, as well as lower overall debt to income are relatively more resilient and quicker to recover in cases of macro-economic downturns, as well as easier to manage in a cost-effective, automated, portfolio-focused approach. Additionally, Addiko Group believes that specialist focus on such portfolios, which Addiko Group is developing, enables enhanced monitoring and more effective management of cost of risk.

11.3.8 Swiss Franc loan conversion law (Croatia, Montenegro, Bosnia & Herzegovina, Serbia and Slovenia)

Addiko Group, like many other banking groups in the CSEE region, used to provide loans to retail customers indexed to Swiss Francs. This lending practice was stopped before the acquisition of Addiko Group by Advent and EBRD in 2015. Customers and consumer protection agencies allege that customers were not provided with sufficient information on the consequences of a currency exchange to the detriment of consumers under such agreements before entering into them and/or that the application of the foreign currency and/or interest rate adjustment clauses were contrary to the terms of the agreement.

Historically, Addiko Group was affected by the implementation of retroactive laws in Croatia and Montenegro in 2015 requiring its subsidiaries in Croatia and Montenegro to offer the retroactive conversion of past lending indexed in Swiss Franc into Euro / local currency.

Addiko Group commenced bilateral investment treaty (BIT) proceedings against the Republic of Croatia and Montenegro at the ICSID in Washington in September 2017, against the retroactive implementation of the conversion laws. See also "*15.16 Material Legal Disputes and Administrative Proceedings*".

In 2016, Addiko Group's subsidiaries in Bosnia & Herzegovina, made voluntary conversion offers to its private individual clients with outstanding Swiss Franc loans. A retroactive CHF conversion law has been in parliamentary procedure in Bosnia & Herzegovina on the state level, but has not been adopted, yet, whereas the state has referred the decision process to the entities' parliaments. Addiko Group does not expect its implementation since in 2017, by referring to the BIT proceedings with Montenegro and Croatia, the government informally publicly announced that the costs and the potential negative outcome would be paid by the state that has no budget for such payments. Also, Addiko FBiH has subsequently settled and keeps settling with CHF loan clients. As of April 30, 2019, there are less than 700 open CHF loans.

In Serbia, a conversion law regarding CHF mortgage loans was enacted on April 29, 2019 and came into force on May 7, 2019. The law obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The Republic of Serbia will participate in the amount of 17% of the reduction.

In Slovenia, a draft act on the relationship between the creditors and borrowers with respect to loans denominated in Swiss Francs (***Draft Slovenian CHF Loans Act***) has been put into the parliamentary procedure by the lower house of the Slovenian Parliament (the National Council) to the upper house (the National Assembly) on May 15, 2019. The Draft Slovenian CHF Loans Act envisages, among other things, the preparation by banks of documentation for the conversion of Swiss Francs denominated loans concluded between June 28, 2004 and December 31, 2010 into Euro denominated loans at the exchange rate determined in the respective loan agreements, a loan recalculation and a revised repayment plan, with borrowers required to either accept or reject such proposed documentation within 30 days of receipt thereof. Addiko Group can currently not predict as to whether, when and with which wording the Draft Slovenian CHF Loans Act may eventually be accepted in parliament and enter into force.

The table below presents the CHF exposure of Addiko Group's network banks:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)	**(in EUR million) (audited, unless otherwise indicated)**		
ABC, Croatia	41.0	45.8	66.5	99.0
ABS, Slovenia	76.1	79.5	91.9	118.0
ABSE, Serbia	87.9	91.9	114.5	156.6
ABBL and ABSA, Bosnia & Herzegovina	19.1	21.1	46.4	74.3
ABM, Montenegro	5.5	5.6	6.9	9.1
Company	0.1	0.0	5.0	2.5
Total CHF exposure	**229.7**	**243.9**	**331.2**	**459.5**
o/w non-performing exposure	51.2	53.4	113.5[1]	182.0[1]
o/w performing exposure	178.5	190.5[1]	217.7[1]	277.5[1]

1 Unaudited Company information
(Source: Audited Consolidated Financial Statements and Company information)

11.3.9 Resolution of passive legal cases

Addiko Group, in particular its operating subsidiaries in Bosnia & Herzegovina and Croatia, faced a number of passive legal cases, where former customers filed claims against Addiko Group seeking compensation for damages, mainly related to FX and unilateral interest change clauses.

Beginning in 2006, Addiko Group banks in Bosnia & Herzegovina decided to no longer pass-through interest rate changes to their customers (a practice termed "unilateral interest change") following decreases in the EURIBOR or the London interbank offered rate (LIBOR) reference rate. The practice of unilateral interest change was not explicitly prohibited by local law and so Addiko Group interpreted its contracts with customers as allowing such unilateral interest changes. Beginning in 2012, however, a significant number of lawsuits were filed against Addiko Group by individual customers and customers associations challenging this practice.

Furthermore, loan agreements with private customers in CSEE who took out foreign currency loans (especially CHF loans) increasingly became the subject of customer complaints and even legal proceedings, the latter initiated in particular by consumer protection organizations.

In regards to those court cases, the network banks locally adopted a "passive settlement strategy" by defending themselves in court against the allegations. This approach was chosen to avoid significant immediate cash expenditures that would have resulted from active settlement negotiations. As a consequence, a significant number of cases were accumulated.

Addiko Group's Management Board began pursuing an active settlement strategy in 2016 with the aim of eliminating all potential future risks connected with such passive legal cases. This strategy became possible due to the positive financial development of Addiko Group. For this reason, Addiko Group set up provisions to reflect the expected individual settlements of the legal actions outside normal court proceedings. Consequently, Addiko Group's total provisions on pending legal disputes and tax litigations increased by EUR 22.4 million to EUR 64.0 million in the financial year 2016.

The effects of this strategy became visible during the financial years 2017 and 2018, when the overall number of passive legal disputes was reduced significantly. Also, the number of major passive legal disputes pending within the Addiko Group, i.e. those with an amount in dispute exceeding EUR 15.0 million, decreased substantially as compared to 2016. In line with this development, Addiko Group's provisions for pending legal disputes and tax litigation decreased by EUR 33.9 million to EUR 30.1 million between December 31, 2016 and December 31, 2018 (EUR 29.6 million as of March 31, 2019).

11.3.10 Regulatory environment

Bank levies and other regulatory charges

Addiko Group operates in a highly regulated environment. The current number and ongoing development of financial services laws and regulations, corporate governance and administrative requirements and policies have had and will continue to have an impact on Addiko Group's results of operations. This includes the Austrian stability tax to fund government-borne bank recapitalization expenditures. Bank levies and other regulatory charges of Addiko Group amounted to EUR 4.9 million for the three-month period ended March 31, 2019 and, EUR 15.0 million, EUR 13.7 million and EUR 19.2 million in the financial years 2018, 2017 and 2016, respectively. In 2016 Addiko Group made a EUR 3.6 million non-recurring one-time bank levy payment (*Einmal-Sonderzahlung; Bankenstabilitätsabgabe*) introduced by an amendment to the Austrian bank levy regulation reflecting an optional additional one-time payment, rather than spreading the payment out over 5 years. For further information on the regulatory environment, specific regulatory initiatives and frameworks with possible significant impact on Addiko Group's business, financial condition, results of operations and prospects, please refer to "*18 Regulation and Supervision*".

The below table presents all bank levies and regulatory charges for all of Addiko Group's network banks:

		For the three-month period ended March 31,	For the financial year ended December 31,		
		2019	**2018**	**2017[2]**	**2016[2]**
		(in EUR million) (unaudited)	**(in EUR million) (unaudited, unless otherwise indicated)**		
ABC, Croatia	Banking levies and other taxes	-0.1	-0.6	-0.2	-0.2
	Resolution fund	-1.0	-1.0	-0.9	-1.7
	Deposit guarantee	-0.7	-3.3	-3.4	-3.8
	Total	**-1.8**	**-4.8**	**-4.5**	**-5.7**
ABS, Slovenia	Banking levies and other taxes	-0.5	-1.8	-1.7	-1.6
	Resolution fund	-0.7	-0.7	-0.7	-0.9
	Deposit guarantee	-0.1	-0.4	-0.4	-0.5
	Total	**-1.3**	**-3.0**	**-2.8**	**-3.0**
ABBL, Republic of Srpska	Banking levies and other taxes	-0.1	-0.2	-0.2	-0.2
	Resolution fund	0.0	0.0	0.0	0.0
	Deposit guarantee	-0.2	-0.6	-0.5	-0.5
	Total	**-0.2**	**-0.8**	**-0.7**	**-0.7**
ABSA, Federation of Bosnia & Herzegovina	Banking levies and other taxes	-0.1	-0.4	-0.3	-0.4
	Resolution fund	0.0	0.0	0.0	0.0
	Deposit guarantee	-0.2	-0.8	-0.7	-0.7
	Total	**-0.3**	**-1.2**	**-1.1**	**-1.1**
ABSE, Serbia	Banking levies and other taxes	-0.1	-0.3	-0.1	-0.1
	Resolution fund	0.0	0.0	0.0	0.0
	Deposit guarantee	-0.7	-2.3	-2.4	-2.4
	Total	**-0.7**	**-2.6**	**-2.4**	**-2.5**
ABM, Montenegro	Banking levies and other taxes	-0.1	-0.3	-0.2	-0.0
	Resolution fund	0.0	0.0	0.0	0.0
	Deposit guarantee	-0.2	-1.0	-0.8	-0.7
	Total	**-0.3**	**-1.3**	**-1.1**	**-0.8**
Company including consolidation	Banking levies and other taxes	-0.0	-0.3	-0.3	-4.9
	Resolution fund	0.0	-0.7	-0.7	-0.6
	Deposit guarantee	-0.1	-0.3	-0.1	-0.0
	Total	**-0.1**	**-1.3**	**-1.1**	**-5.6**
TOTAL	Banking levies and other taxes	-1.0	-3.8[1]	-2.9[1]	-7.5
	Resolution fund	-1.6	-2.4[1]	-2.3[1]	-3.2

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017[2]	2016[2]
	(in EUR million) (unaudited)	(in EUR million) (unaudited, unless otherwise indicated)		
Deposit guarantee	-2.2	-8.8[1]	-8.4[1]	-8.5
Total	**-4.9**	**-15.0**	**-13.7**	**-19.2**

1 Audited information

2 In the financial year 2018, Addiko Group harmonized the booking entries for bank levies and other regulatory charges across its network banks. Thus the overview shown herein deviates from the bank levies and regulatory charges shown in the Audited Consolidated Financial Statements of Addiko Group for the financial years 2016 and 2017.

(Source: Audited Consolidated Financial Statements and Company information)

MREL

The BRRD requires institutions to maintain a minimum amount of liabilities eligible for bail-in in case of a bank's resolution. Under the currently applicable legal regime, MREL ratios are expressed as a percentage of TLOF. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, in the case of Addiko Group the SRB. For each of the components of the MREL, the resolution authority may consider upward or downward adjustments, on the basis of a thorough case-by-case analysis of financial information, supervisory data and resolution strategies.

Pursuant to the 2018 SRB Policy, MREL involves bank-specific transition periods and is expected to have implications on the issuance of debt instruments of institutions and banking groups. MREL-eligible instruments include a bank's debt instruments that fulfill the criteria set out in Article 45(4) of BRRD (i.e. debt instruments: (a) which are issued and fully paid up; (b) which are not owed to, secured by or guaranteed by the institution itself; (c) whose purchase was not funded by the institution; (d) whose remaining maturity is at least one year; (e) which do not arise from a derivative; and (f) which do not arise from a deposit which benefits from preference in the national insolvency hierarchy). MREL may also be met by senior debt instruments, including senior non-preferred liabilities or regulatory capital instruments, such as "Additional Tier 1" or "Tier 2" instruments.

As of the date of this Prospectus, the SRB has not yet announced any binding MREL target for the Addiko Group, but only indicated an informative MREL target. Historic balance sheets and financial performance of the Addiko Group have therefore not been affected by MREL. Based on the SPE approach expected to be applied by SRB, Addiko Group would require additional own funds and eligible liabilities in the amount of EUR 467 million.

The MREL target and its required structure, including the extent of subordination requirements, may have an effect on the future balance sheet structure and the composition of funding of the Addiko Group and could have a material adverse effect on Addiko Group's profitability, business, financial condition, results of operations and prospects. See also *"3.3.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends."*

SREP

The Capital Requirements Directive (2013/36/EU; CRD IV) and the Capital Requirements Regulation (575/2013; CRR) require the Addiko Group to maintain minimum capital ratios (so-called Pillar 1 requirement). Addiko Group also has to fulfill capital requirements as well as Pillar 2 capital guidance (risk coverage ratios) determined as part of the Supervisory Review and Evaluation Process (SREP) performed by the FMA on an annual basis. The SREP performed for 2018 requires the Addiko Group to maintain an additional CET1 ratio of 4.7%. The 2018 requirement is 20 basis points less than the requirement in the financial year 2017.

The SREP for 2019 is expected to require add-ons in amount of 4.1%, which is 60 basis points less compared to the financial year 2018.

Regulators have announced their intention to issue bank-specific Pillar 2 Guidance, which is treated as a capital recommendation (it is not obligatory), in addition to minimum Pillar 2 Requirements.

11.3.11 Digitalization

One of the big challenges and opportunities the banking industry faces is the rapid pace of change driven by technological advancements. For this reason, systematic digitalization is one of the strategic focus areas of Addiko Group. Addiko Group thus continuously invests in enhancing its digital capabilities, improving its technological infrastructure, leveraging open API's (application processing interfaces) for strategic partnerships within the ecosystem, and developing new digital platforms ensuring greater customer convenience, efficiency and operating excellence in the process.

The digitalization trend is particularly relevant for direct banking, but is also significantly reshaping retail banking. Low-value payment transactions are increasingly shifting to digital solutions. Challenges resulting from the digitalization trend include competition from non-banking industries, such as technology or service companies extending their product offerings to include banking services, and Fintech start-ups, as well as fundamental changes in the attitudes of customers. To address this trend, Addiko Group continues its digital transformation.

Front office digitalization and enhanced customer experience

The roll-out of the Group-wide mobile and e-banking solution for retail customers, which was initiated in 2016, was successfully concluded in 2017. Customer service will be further enhanced by "Addiko Chat Banking", a unique Viber-based payments service, which was launched in Slovenia and is undergoing an implementation process in Bosnia & Herzegovina, Montenegro, Croatia and Serbia garnering international attention. At the same time, further "Addiko Express" digital branches were opened in Slovenia and Croatia offering fully integrated digital capabilities for retail customers including online current account opening, fast processing of online loan applications and an automated cash/ consumer loan processing platform, which was launched in all branches in Serbia in 2017. As a result, the productivity and new lending in Addiko Group branches increased significantly.

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	**2018**	**2017**	**2016**
Digitalization KPIs				
Digital penetration[1]	52%	52%	43%	33%
Registered mobile app users (thousand)	130	120	84	58
Digital users (thousand)	182	175	141	104

1 Based on 348 thousand, 338 thousand, 331 thousand and 319 thousand primary customers at March 31, 2019, December 31, 2018, 2017 and 2016, respectively. Primary customers are defined as customers with a salary account at Addiko Group, i.e. with a regular monthly inflow.
(Source: Company information)

Middle and Back office digitalization

Furthermore, Addiko Group continued its digital transformation efforts by launching two new key digital initiatives, namely a completely new group wide e-banking system for the Large Corporates segment and the SME Business segment. The system leveraged both the assets created for the Retail segment in close collaboration with Addiko Group's strategic partner, Comtrade, as well as the partnership with Appian. The new e-banking system was launched in Croatia and Bosnia & Herzegovina. The completion of the roll-out of this platform is planned for the second half of 2019. With enhanced digital services, Addiko Group is planning to increase the commission income from account keeping services and trade finance, while lowering the funding costs by raising current account deposits.

In addition, Addiko Group announced its partnership with Appian on July 31, 2017 using Appian's business process management software, which was easy to integrate into Addiko Group's new technology architecture. The integration demonstrated the ability of Addiko Group's open application program interface (API) architecture for creating an ecosystem with strategic partners. Addiko Group went live in two countries (Slovenia and Serbia), with the remaining countries to follow in the coming months. Relationship Managers of the Large Corporates segment and the SME Business segment will be able to digitally apply for a loan or a trade finance product on behalf of their customers, significantly decreasing the approval time for customers. In a future release of the software, customers will even be able to apply on their own for any of these two products without the need to visit one of Addiko Group's SME centers.

Capital expenditure (CAPEX) for digitalization

In order to take advantage of the opportunities afforded by the current digitalization trend in banking, Addiko Group is investing a significant amount of resources in identifying innovative solutions that aim to solve specific customer problems. In pursuing this approach, Addiko Group aims to be perceived as a market leader in the countries in which it operates.

IT related (software only) capital expenditures amounted to EUR 11.1 million in the financial year 2016, EUR 11.8 million in the financial year 2017, EUR 17.2 million in the financial year 2018 and EUR 2.6 million for the three-month period ended March 31, 2019. The increase is mainly driven by the Company due to finalisation of IT projects which are expected to depreciate starting in the financial year 2019. Intangible assets are amortizing on average in approximately five years, with circa two third of the investments in intangible assets for the financial year 2018 expected to mature in the next three years. The IT related capital expenditures for the financial year 2019 are expected to be in similar levels than for the financial year 2018, following the investments in the last years. Further years investments are expected to decrease with an average amortization of around five years.

11.3.12 Income taxes, deferred taxes and tax losses carried forward

As a consequence of the financial difficulties faced by Addiko Group's subsidiary banks during the period from 2013 to 2015, i.e. before the acquisition of Addiko Group by the Existing Shareholder and thus before Addiko Group's turnaround, the

banks within Addiko Group had accumulated taxable losses, amounting to EUR 944.7 million as of December 31, 2016. The remaining tax losses carried forward amount to EUR 821.8 million as of December 31, 2018 of which EUR 26.6 million are recognised as DTA on the balance sheet.

The following table depicts the tax losses carried forward per Addiko Group entity as of December 31, 2018:

	For the financial year ended December 31, 2018 (in EUR million) (audited)							
	ABC	**ABS**	**ABBL**	**ABSA**	**ABSE**	**ABM**	**ABH**	**Total**
applicable tax rate - current year	18.00%	19.00%	10.00%	10.00%	15.00%	9.00%	25.00%	
Total tax losses carried forward	**326.9**	**200.5**	**3.8**	**44.4**	**89.8**	**23.9**	**132.6**	**821.8**
thereof fully/ unlimited utilisable	0.0	200.5	0.0	0.0	0.0	0.0	132.6	333.1
thereof restricted utilisable	326.9	0.0	3.8	44.4	89.8	23.9	0.0	488.8
1st following year	19.0	0.0	0.0	0.0	16.9	1.2	0.0	37.1
2nd following year	307.9	0.0	0.0	41.6	60.7	14.4	0.0	424.6
3rd following year	0.0	0.0	3.8	2.8	12.2	8.3	0.0	27.1

(Source: Audited Consolidated Financial Statements)

There are time limits on the future utilization of tax losses carry forwards in each country of Addiko Group's operation, except Slovenia and Austria, where the utilization of tax losses carried forward is not subject to such time restriction. In Croatia, tax losses carried forward must be used by 2020, while in Serbia, Bosnia & Herzegovina and Montenegro they must be used by 2021.

Though Addiko Group's subsidiaries recorded a series of taxable losses in the recent past, the criteria for recognising DTA are more stringent under IAS 12. The recognition of DTA is only permitted if there is convincing, substantive evidence that sufficient taxable profits will be available in the future. As a result, DTA on taxable losses were first recognized in the financial year 2017. In 2018, DTA on existing tax loss carryforwards in the amount of EUR 13.6 million (2017: EUR 13.0 million) and on temporary differences as well as an utilisation of tax loss carried forward of EUR 7.6 million was recognized by Addiko Group. The recognition was based on the successful turnaround process initiated by the new ownership of Addiko Group, which implemented a new business strategy and improved the efficiency of operations and the quality of service.

The following DTA and tax liabilities have been recorded for the financial years 2017 and 2018:

	For the three-month period ended March 31, 2019 (in EUR million) (unaudited)			For the financial year ended December 31, 2018 (in EUR million) (audited)			For the financial year ended December 31, 2017 (in EUR million) (audited)		
	Deferred Tax (netted)	**Income statement**	**Other comprehensive income (OCI)**	**Deferred Tax (netted)**	**Income statement**	**Other comprehensive income (OCI)**	**Deferred Tax (netted)**	**Income statement**	**Other comprehensive income (OCI)**
Provisions for loans and advances	-0.7	0.0	0.0	-0.7	-0.2	0.0	0.2	0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	1.1	-0.1	0.0	1.2	0.2	0.0	0.5	0.9	0.0
Revaluations of AFS financial assets	-2.3	0.0	-1.4	-	-	-	-0.6	-0.2	0.2
Impairment on debt instruments at FVTOCI	0.0	0.0	0.0	-0.9	0.2	1.0	-	-	-
Hedge Accounting	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Deferred revenue fee income	-0.2	0.1	0.0	-0.3	0.6	0.0	0.0	-1.3	0.0
Other	7.4	-0.7	0.0	8.1	-2.1	1.4	7.2	9.3	-1.6
Tax losses carried forward	16.7	-2.3	0.0	19.0	6.0	0.0	13.0	13.0	0.0
Total deferred Tax	**22.1**	**-2.9**	**-1.4**	**26.5**	**4.7**	**2.4**	**20.2**	**22.0**	**-1.4**

(Source: Audited Consolidated Financial Statements and Company information)

	For the three-month period ended March 31,	For the financial year ended December 31,	
	2019	2018	2017
	(in EUR million) (unaudited)	(in EUR million) (audited)	
Deferred tax assets	22.3	26.6	20.6
Deferred tax liabilities	-0.2	-0.1	-0.5
Total	**22.1**	**26.5**	**20.2**

(Source: Audited Consolidated Financial Statements and Company information)

11.3.13 Settlements with HETA ASSET RESOLUTION AG

Brush and initial HETA settlement

Addiko Group recognised a capital increase in the amount of EUR 189.0 million by the parent company AI Lake (Luxembourg) S.à r.l., arising from a claim against HETA ASSET RESOLUTION AG (***HETA***) for the compensation of impairment on an NPE portfolio in its consolidated financial statements for the financial year 2015.

On 10 March 2016, relating to the Share Purchase Agreement concluded between the HETA and the current owner, Addiko Group received a capital increase in the amount of EUR 265.8 million (including additional EUR 0.8 million from the compensation of impairment on an NPE portfolio in the financial year 2015) as well as a Tier 2 supplementary instrument in the amount of EUR 60 million. These were provided in form of an indemnity settlement related to liabilities arising from the credit deterioration of part of the retail portfolio and from CHF conversions.

Final HETA settlement

In February 2017, the holding company AI Lake (Luxembourg) S.à r.l. agreed with HETA the termination of all rights and obligations previously granted by the two parties to each other in the contract for the acquisition of Addiko Bank AG's share capital by AI Lake (Luxembourg) S.à r.l. in 2015 (final settlement). The final settlement included the repayment of all outstanding funding by Addiko Bank AG to HETA in the amount of EUR 973.9 million. In the context of this transaction Addiko Group received from its parent company a further capital contribution of EUR 219.7 million which was recognised in the financial year 2017.

Due to the brush transactions, where NPE loan portfolios were transferred to HETA as part of Addiko Group's strategic turnaround, Addiko Group is still connected to the respective HETA subsidiary in connection with various passive legal proceedings, i.e. the HETA subsidiary acts as intervenor on the side of Addiko Group or, if this is not granted by the court, HETA selects the lawyer and assumes the costs.

11.3.14 Tier 2 waiver

As of December 31, 2017, two subordinated loans granted to Addiko Bank AG by its shareholder, AI Lake (Luxembourg) S.à r.l., were outstanding: (i) one for EUR 60.0 million, signed on March 10, 2016 with an interest rate of 14% and a maturity of 10 years (with a call option for Addiko Bank AG after five years), as well as (ii) one for EUR 130.0 million, signed on February 22, 2017 with an interest rate of 10% and a maturity of 10 years (with a call option for Addiko Bank AG after five years). Both subordinated loans fulfilled, at the date of issuance, the CRR conditions for recognition as Tier 2 capital for regulatory capital purposes.

	CET1	Tier 2	Total Capital
	(in EUR million) (unaudited, unless otherwise indicated)		
December 31, 2017 after profit and other regulatory effects, before Tier 2 waiver and dividend payment	805	190	995
Dividend payment for the financial year 2017	-170		-170
Initial Tier 2 waiver (EUR 90 million)	60	-90	-30
December 31, 2017 after EUR 90 million T2 waiver and dividend payment	**695**[1]	**100**[1]	**795**[1]
Extended Tier 2 waiver (EUR 100 million)	69	-100	-31
Dividend payment for the financial year 2018	-50		-50
Profit (excl. Tier 2 waiver effects), OCI and other regulatory deductions/additions for the financial year 2018	28		28
Profit from Tier 2 waiver (EUR 190 million)	61		61
December 31, 2018 capital	**803**[1]	**-**	**803**[1]

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

Addiko Group management agreed in February 2018 with its shareholder the waiver of EUR 90.0 million of the outstanding subordinated loans. The waiver agreement was signed on the February 26, 2018. On March 7, 2018, the volume of the waiver was extended to the residual EUR 100.0 million from the instrument issued in 2017. The corresponding consolidated financial statements for the financial year 2017 were approved on March 8, 2018 by Addiko Group's supervisory board.

Constituting a capital contribution, the waivers were recognized as an increase in the capital reserves by an amount equal to the fair value of the instruments, with the difference between the carrying amount and the fair value being recognized in the profit and loss statement, and thus not immediately part of CET1. Due to the fair value of the EUR 90.0 million Tier 2 instruments having been, at the time of the conversion, EUR 60.3 million, the net impact on CET1 was a "neutralization" of the planned dividends in an amount of EUR 60.3 million. At the same time, in the regulatory capital calculation for the financial year 2017, the amount of the Tier 2 capital was reduced by the carrying amount of the waived instruments, thereby reducing the total amount of the Tier 2 capital from EUR 190.0 million to EUR 100.0 million.

The additional waiver agreements, signed on March 7, 2018, were reflected in regulatory capital as of March 31, 2018. The EUR 100.0 million waiver of the Tier 2 supplementary capital signed on March 7, 2018 was recognized as a capital contribution by the parent company, AI Lake (Luxembourg) S.à r.l., with the fair value (less related transaction costs) of EUR 68.4 million (fair value EUR 68.7 million; transaction costs EUR -0.3 million) correspondingly increasing the CET1 capital. The difference between the carrying amount and the fair value of the instruments was recognized in the income statement. At the same time, the Tier 2 capital was reduced by the carrying amount of the waived instruments (EUR 100.0 million), thereby reducing the total amount of the Tier 2 capital to EUR 0.0 million. Since the EUR 90.0 million waiver agreement signed on February 26, 2018 was already included in the regulatory capital calculations for the financial year 2017, they had no additional impact on subsequent regulatory capital calculations.

The waiver of Tier 2 capital leads to a reduction in annual interest expenses of approx. EUR 21.4 million going forward.

11.3.15 IFRS 9 impact

On January 1, 2018, the new accounting standard for financial instruments (IFRS 9) took effect. This replaced IAS 39, which was the previous accounting standard for measurements and classification of financial instruments. The regulations set out in the new standard are primarily reflected in the loan loss provisions, as they apply to impairment losses on financial assets valued at amortised cost or at fair value recognised directly in equity. Under IFRS 9 the impairment requirements also apply to credit commitments and financial guarantees. The model used to determine impairment losses also changes, from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected credit losses).

The implementation of IFRS 9 has limited effects on product pricing, as the overall risk costs on deal level do not change, but only the timing of the provisions. Addiko Group prices its loans to corporate clients based on standard lifetime risk costs, thus there is only limited IFRS 9 impact. For retail products, IFRS 9 only impacts the product approval process (with effects on profitability within a five year period). The pricing of retail products is not directly impacted, as the product prices are standardised.

The following table presents the impact of the IFRS 9 adoption on equity as of January 1, 2018:

	(in EUR million) **(audited)**
Equity under IAS 39 as of December 31, 2017	**844.0**
Changes in accounting for credit losses	-40.7
Changes in accounting of classification and measurement	9.3
Overall deferred taxes	-1.0
Total Impact	**-32.4**
Equity under IFRS 9 as of January 1, 2018	**811.6**

(Source: Audited Consolidated Financial Statements)

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

	As of January 1, 2018			
	(in EUR million) **(audited)**			
	IAS 39	**Reclassification**	**Remeasurement**	**IFRS 9**
Amortised costs	5,085.5	-41.8	-41.9	5,001.8
Cash reserves	1,285.9	0.0	-7.3	1,278.6
Loans and advances to credit institutions	65.3	0.0	-0.4	64.9
Loans and advances to customers	3,691.8	0.0	-34.2	3,657.7
Debt securities	0.0	0.7	0.0	0.7
HTM securities	42.5	-42.5	0.0	0.0
Fair value through profit and loss	19.9	22.9	0.0	42.9
Fair value through OCI	1,234.3	18.9	9.3	1,262.5
FVTOCI	0.0	1,253.2	9.3	1,262.5
AFS	1,234.3	-1,234.3	0.0	0.0
Total financial assets	**6,339.8**	**0.0**	**-32.6**	**6,307.2**
Deferred taxes			-1.0	
Off-balance loss allowances			1.2	
Total ECL impact on equity			**-32.4**	

(Source: Audited Consolidated Financial Statements)

11.4 Key Financials and Key Performance Indicators

Monitoring and management at Addiko Group are based on a consistent and integrated key performance indicator system (KPI system), which assists Addiko Group's management board in the management of Addiko Group. As is customary in Addiko Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are non-GAAP APMs, in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from Addiko Group's accounting system and management estimates. These non-GAAP APMs are defined by Addiko Group's management and may not be comparable to similar measures used by other companies. Non-GAAP APMs should not be considered in isolation and investors should not consider such information as alternatives to revenues or profit before tax or any other figure or ratio calculated in accordance with IFRS, as indications of operating performance or as measures of Addiko Group's profitability or other performance or financial position of any kind. Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these non-GAAP APMs and are also advised to review them in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Prospectus.

Please note that due to changes in the accounting standards and the transition from IAS 39, which applied until 2017, to IFRS 9, which applies from 2018 onwards, some of the presented financial data may be not fully comparable when comparing the financial years 2016 or 2017 with the financial year 2018 and the three-month period ended March 31, 2018 with the three-month period ended March 31, 2019.

11.4.1 Summary of Key Financials and Key Performance Indicators for Addiko Group

Certain key financials and key performance indicators for Addiko Group for the three-month period ended March 31, 2019 and 2018 and the financial years ended December 31, 2018, 2017, and 2016, are shown below:

Key financials and key performance indicators

Profit and loss statement*	For the three-month period ended March 31,		For the financial year ended December 31,		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)		**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Interest income calculated using the effective interest method	51.5	51.0	209.6	226.0[1]	232.2[1]
Other interest income	0.9	1.6	4.2	8.3[2]	6.0[2]
Interest expense	-7.5	-14.0	-40.7	-68.9[3]	-79.4[3]
Net interest income	**44.9**	**38.6**	**173.2**	**165.3**	**158.8**
Fee and commission income	18.7	16.8	76.5	71.3[4]	62.0[5]
Fee and commission expense	-3.1	-3.3	-14.1	-12.8[4]	-12.0[5]
Net fee and commission income	**15.6**	**13.5**	**62.4**	**58.5**	**50.0**
Net result on financial instruments	3.3	70.5	70.0	9.7	20.3[6]
Other operating income	2.6	1.8	19.1	27.4[7]	29.6[3]
Other operating expenses	-8.0	-8.2	-35.7	-34.0[7]	-71.7[3]
Operating income	**58.3**	**116.2**	**289.0**	**226.9**	**187.0**
Personnel expenses	-24.8	-24.4	-99.4	-97.4	-99.8
Other administrative expenses	-19.0	-19.3	-78.0	-80.9	-93.1
Depreciation and amortization	-4.5	-2.7	-10.7	-11.7	-19.5
Operating expenses	**-48.3**	**-46.3**	**-188.1**	**-190.1**	**-212.4**
Operating result before change in credit loss expense	**10.0**	**69.9**	**100.9**	**36.9**	**-25.4**
Credit loss expenses on financial assets	3.7	10.9	2.8	-15.1	4.4
Operating result before tax	**13.7**	**80.8**	**103.7**	**21.8**	**-21.0**
Taxes on income	-3.6	-4.6	0.5	19.9	-2.9
Result after tax	**10.1**	**76.2**	**104.2**	**41.6**	**-23.9**
Selected Performance Indicators					
Net interest income/total average assets[8]	3.0%	2.5%	2.7%	2.4%	2.2%[9, 14]
Cost/income ratio[10]	80.0%	88.9%	79.9%	84.9%[10]	101.8%[10, 14]
Cost of risk ratio[11]	0.1%	0.2%	0.1%	-0.3%	0.1%[14]
Return on average equity[12]	4.8%	36.8%	12.2%	4.5%[14]	n.a.[14]
Return on average tangible equity (RoTE)[13]	5.0%	37.8%	12.6%[14]	4.6%[14]	n.a.[14]

* The line item structure of the table presented follows that of the consolidated statement of comprehensive income in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Interest income calculated using the effective interest method comprises interest income from available-for-sale financial assets, loans and receivables, held-to-maturity investments and derivatives – hedge accounting, interest rate risk as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

2 Other interest income comprises interest income from financial assets held for trading, other assets and dividend income as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.
3 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.
4 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.
5 Fee and commission income and fee and commission expense were not presented as separate line items in the Audited Consolidated Financial Statements as of and for the financial year 2016. Numbers taken from the accounting records as of and for the financial year 2016 (unaudited).
6 Net result on financial instruments was not presented as a separate line item in the Audited Consolidated Financial Statements as of and for the financial year 2016. As of and for the financial year 2016, the position is calculated on the basis of the Audited Consolidated Financial Statements positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L".
7 Numbers follow the presentation in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018. As of and for the financial year 2018 the presentation of other operating result was changed to gross presentation of other operating income and other operating expenses, including the comparative figures. The new presentation improves the understanding of Addiko Group's financial performance.
8 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.
9 Net interest income/total average assets for the financial year 2016 was taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
10 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.
11 Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.
12 Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.
13 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.
14 Unaudited Company information
(Source: Audited Consolidated Financial Statements and Company information)

Balance Sheet*	**For the three-month period ended March, 31**	**For the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)	**(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)**		
Cash reserves	777.5	1,002.9	1,285.9	1,878.2
Financial assets held for trading	24.7	24.3	19.8	17.4
Loans and receivables	3,879.2	3,792.9	3,757.2	3,779.9
Loans and receivables to credit institutions	14.4	5.6	65.3	49.4
Loans and receivables to customers	3,864.9	3,787.3	3,691.9	3,730.5
Investment securities	1,253.3	1,184.6	1,276.8[1]	1,391.9[1]
Derivatives – hedge accounting	-	0.0	0.1	0.1
Tangible assets	87.6	57.7	57.3	70.4
Property, plant & equipment	85.5	55.7	55.3[2]	67.9[2]
Investment properties	2.0	2.0	2.0[2]	2.5[2]
Intangible assets	31.2	30.3	21.8	17.3
Tax Assets	24.0	28.3	22.3	2.6
Current tax assets	1.7	1.7	1.6	2.6
Deferred tax assets	22.3	26.6	20.6	0.0
Other assets	25.3	25.5	24.8	18.9
Non-current assets and disposal groups classified as held for sale	5.5	5.7	19.5	39.3
Total assets	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Financial liabilities at fair value through profit or loss	0.0	0.0	0.0	25.0
Financial liabilities held for trading	3.6	2.1	1.8	9.1
Financial liabilities measured at amortized cost	5,187.9	5,202.5	5,521.2	6,040.4
Deposits from credit institutions	272.8	324.4	341.6	316.0
Deposits from customers	4,855.5	4,836.7	4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital	1.1	1.1	198.5	73.5[10]
Other financial liabilities	58.5	40.3	47.3	1,215.3[10]
Derivatives – hedge accounting	0.0	0.0	0.0	6.9
Provisions	59.7	62.0	83.3	107.8
Tax liabilities	1.1	1.0	1.3	1.4
Current tax liabilities	1.0	0.9	0.9	1.0
Deferred tax liabilities	0.2	0.1	0.5	0.5
Other liabilities	28.1	25.1	33.8	28.1
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	2.7
Total liabilities	**5,280.3**	**5,292.7**	**5,641.5**	**6,221.5**
Equity	828.0	859.5	844.0	994.7
Thereof attributable to equity holders of parent	828.0	859.5	844.0	994.7

Total shareholders' equity	**828.0**	**859.5**	**844.0**	**994.7**
Total liabilities and shareholders' equity	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Key Ratios				
Customer loan to deposit ratio[3]	79.6%	78.3%[9]	74.8%[9]	84.1%[9]
NPE ratio[5]	5.5%	5.6%	8.1%	9.2%
NPE ratio (CRB based)[6]	7.4%	7.7%	11.6%[4]	14.8%[4,9]
NPE coverage ratio[7]	75.8%	75.4%	67.0%	67.5%
NPE ratio under the new risk framework[8]	1.5%	1.4%[9]	1.3%[9]	1.6%[9]
NPE coverage ratio under the new risk framework[8]	72.0%	69.2%[9]	56.7%[9]	42.8%[9]

* The line item structure of the table presented follows that of the consolidated statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 The line item "Investment securities" was introduced in the Audited Consolidated Financial Statements as of and for the financial year 2018, due to introduction of IFRS 9. The position includes also the IAS 39 positions "available-for-sale financial assets "and "held-to-maturity investments" as presented in the Audited Consolidated Financial Statements for the financial years 2016 and 2017.

2 Numbers taken from the notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 The customer loan to deposit ratio is calculated as loans and receivables to customers (i.e. excluding central banks and other credit institutions) divided by deposits from customers as of and for the specified financial year.

4 Not presented in the Audited Consolidated Financial Statements as of and for the specified financial year, but calculated based on the same methodology as in the Audited Consolidated Financial Statements as of and for the financial year 2018 and the accounting records for the specified financial year.

5 Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.

6 Calculated based on non-performing exposure (NPE) divided by the credit bearing risk exposure as of and for the specified financial year.

7 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.

8 New risk framework refers to clients where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss (e.g. large Croatian retailer) are excluded from the new risk framework. Ratios taken from the risk records as of and for the financial years 2016, 2017 and 2018.

9 Unaudited Company information

10 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

(Source: Audited Consolidated Financial Statements and Company Information)

11.4.2 Summary of Key Financials and Key Performance Indicators for the segments of Addiko Group

The below tables show certain key financial information for the segments of Addiko Group in the periods for the three-month periods ended March 31, 2019 and 2018 and the financial years 2017. Segmental information for the financial year 2016 is not available, since the segments were introduced in the current structure in 2018.

Key financials and key performance indicators – segments

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the three-month period ended March 31, 2019 (in EUR million, unless otherwise indicated) (unaudited)							
Net banking income	41.5	6.1	35.4	9.5	4.2	2.1	3.2	60.4
Net interest income[1]	31.2	6.1	25.2	5.5	2.8	1.7	3.6	44.9
o/w regular interest income[2]	30.6	8.2	22.5	7.0	3.7	1.4	5.0	47.7
Net fee and commission income	10.3	0.0	10.3	4.0	1.4	0.3	-0.4	15.6
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-5.4	-5.4
Operating income	41.5	6.1	35.4	9.5	4.2	2.1	1.1	58.3
Operating expenses	-22.2			-5.8	-1.1	-0.6	-18.7	-48.3
Operating result	19.3			3.7	3.1	1.5	-17.6	10.0
Change in CL	-1.5	3.0	-4.5	2.1	1.6	0.2	1.3	3.7
Operating result before tax	17.8			5.8	4.7	1.6	-16.3	13.7
Business Volume								
Loans and receivables[3]	2,057.8	858.8	1,199.0	994.4	603.9	195.4	27.8	3,879.3
o/w gross performing loans	2,075.7	846.7	1,229.1	991.5	580.2	193.9		3,841.4
Financial liabilities at AC	2,759.0		2,759.0	604.9	415.5	579.7	828.7[4]	5,187.8
RWA[5]	1,456.9	546.9	910.0	922.0	661.6	120.3	813.1	3,973.9
Key Ratios								
Net interest margin (NIM)[6]	4.5%[12]	1.7%[12]	6.1%[12]	2.4%[13]	1.5%[13]	1.4%[13]		3.0%[14]
Cost/income ratio[7]	53.5%			60.6%	26.0%	28.6%		80.0%
Cost of risk ratio[8]	-0.1%	0.3%	-0.3%	0.1%	0.2%	0.1%		0.1%
Loan to deposit ratio[9]	74.6%			164.4%	145.3%	33.7%		74.8%
NPE ratio (CRB based)[10]	9.8%	14.1%	6.9%	4.5%	8.0%	4.2%		7.4%
NPE coverage ratio[11]	81.7%	74.6%	91.6%	62.1%	70.1%	75.3%		75.8%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 828.7 million presented in Corporate Center contains: EUR 433 million direct online deposits of customers in Company, EUR 273 million deposits of credit institutions and EUR 123 million other financial liabilities at amortised cost.

5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk risk-weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 850.5 million and in total EUR 4,011.3 million.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

12 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 360/90 days, based on the contractual terms of the majority of the underlying contracts.

13 Specified ratio for the three-month period ended March 31, 2019 has been annualised with the factor 365/90 days, based on the contractual terms of the majority of the underlying contracts.

14 Calculated as total net interest income over total average assets. Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 44.9 million for the three-month period ended March 31, 2019 has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the three-month period ended March 31, 2018 (in EUR million, unless otherwise indicated) (unaudited)							
Net banking income	**36.8**	**6.2**	**30.6**	**9.1**	**4.3**	**2.9**	**-1.0**	**52.1**
Net interest income[1]	27.7	6.2	21.4	5.8	2.8	2.7	-0.4	38.6
o/w regular interest income[2]	29.7	9.7	20.1	6.6	3.2	1.8	5.0	46.3
Net fee and commission income	9.1	0.0	9.1	3.3	1.5	0.2	-0.6	13.5
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.5	70.5
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-6.4	-6.4
Operating income	**36.8**	**6.2**	**30.6**	**9.1**	**4.3**	**2.9**	**63.1**	**116.2**
Operating expenses	-21.9			-5.6	-1.2	-0.7	-17.0	-46.3
Operating result	**15.0**			**3.5**	**3.1**	**2.2**	**46.1**	**69.9**
Change in CL	4.4	6.8	-2.5	2.2	2.6	1.3	0.5	10.9
Operating result before tax	**19.3**			**5.7**	**5.7**	**3.5**	**46.6**	**80.8**
Business Volume								
Loans and receivables[3]	2,046.0	988.2	1,057.8	853.3	531.4	253.7	115.2	3,799.6
o/w gross performing loans	2,032.4	956.7	1,075.7	827.1	481.1	253.2		3,593.8
Financial liabilities at AC	2,737.5		2,737.5	533.8	479.0	654.7	846.8[4]	5,251.8
RWA[5]	1,494.4	661.5	832.9	878.5	619.1	148.3	834.4	3,974.7
Key Ratios								
Net interest margin (NIM)[6]	4.4%[12]	1.9%[12]	6.2%[12]	3.0%[13]	1.4%[13]	2.4%[13]		2.5%[14]
Cost/income ratio[7]	59.4%			61.7%	27.5%	23.7%		88.9%
Cost of risk ratio[8]	0.2%	0.6%	-0.2%	0.2%	0.3%	0.4%		0.2%
Loan to deposit ratio[9]	74.7%			159.9%	110.9%	38.7%		72.3%
NPE ratio (CRB based)[10]	13.3%	16.8%	10.3%	5.7%	18.9%	1.3%		11.0%
NPE coverage ratio[11]	81.7%	73.7%	92.8%	52.7%	54.0%	42.7%		69.8%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 846.8 million presented in Corporate Center contains: EUR 446 million direct online deposits of customers in Company, EUR 281 million deposits of credit institutions and EUR 120 million other financial liabilities at amortised cost.

5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk risk-weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 870.4 million and in total EUR 4,010.7 million.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

12 Specified ratio for the three-month period ended March 31, 2018 has been annualised with the factor 360/90 days, based on the contractual terms of the majority of the underlying contracts.

13 Specified ratio for the three-month period ended March 31, 2018 has been annualised with the factor 365/90 days, based on the contractual terms of the majority of the underlying contracts.

14 Calculated as total net interest income over total average assets. Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million for the three-month period ended March 31, 2018 has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the financial year ended December 31, 2018							
	(in EUR million, unless otherwise indicated) (audited)							
Net banking income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**1.7**	**226.9**
Net interest income[1]	118.6	24.5	94.1	23.0	11.7	8.6	2.6	164.4
o/w regular interest income[2]	121.4	36.5	84.9	27.6	14.2	6.3		169.5
Net fee and commission income	41.0	0.0	41.0	15.1	6.1	1.1	-0.9	62.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.0	70.0
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-7.8	-7.8
Operating income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**63.9**	**289.0**
Operating expenses	-86.9			-21.9	-4.1	-2.3	-72.9	-188.1
Operating result	**72.8**			**16.2**	**13.7**	**7.3**	**-9.0**	**100.9**
Change in CL	0.0	9.5	-9.5	-7.4	3.6	2.4	4.1	2.8
Operating result before tax	**72.8**			**8.8**	**17.3**	**9.7**	**-4.9**	**103.7**
Business Volume								
Loans and receivables[3]	2,048.2	883.6	1,164.6	931.3	611.6	189.6	12.2	3,792.9
o/w gross performing loans	2,060.5	872.7	1,187.8	928.4	588.4	188.8		3,766.1
Financial liabilities at AC	2,756.9		2,756.9	605.4	426.6	616.0	797.7[4]	5,202.5
RWA[5]	1,445.8	561.5	884.2	883.4	652.3	113.9	819.5	3,914.8
Key Ratios								
Net interest margin (NIM)[6]	4.4%	1.8%	6.1%	2.7%	1.4%	1.7%		2.6%
Cost/income ratio[7]	54.4%			57.6%	23.2%	24.1%		82.9%
Cost of risk ratio[8]	0.0%	0.9%	-0.7%	-0.5%	0.4%	1.1%		0.1%
Loan to deposit ratio[9]	74.3%			153.8%	143.4%	30.8%		72.9%
NPE ratio (CRB based)[10]	10.2%	14.3%	7.3%	4.5%	8.9%	1.5%		7.7%
NPE coverage ratio[11]	80.9%	73.6%	91.1%	63.7%	70.1%	42.0%		75.4%

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution)
2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
3 Gross carrying amount of loans and receivables less expected credit loss allowance
4 EUR 797.7 million presented in Corporate Center contains: EUR 360 million direct online deposits of customers in Company, EUR 324 million deposits of credit institutions and EUR 113 million other financial liabilities at amortised cost
5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules. Credit risk risk-weighted assets with application of IFRS 9 transitional rules are for Corporate Center EUR 863.2 million and in total EUR 3,958.5 million.
6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing(i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing divided by the respective average financial liabilities at amortised cost using daily balances.
7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income
8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure
9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost
10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure
11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE)
(Source: Audited Consolidated Financial Statements)

The segment result is reconciled with the profit or loss statement as follows for the financial year 2018:

	(in EUR million) (audited)
Net interest income according to segment report	164.4
Deposit insurance	8.7
Net interest income according to profit or loss statement	**173.2**

(Source: Audited Consolidated Financial Statements)

	(in EUR million) (audited)
Other operating result according to segment report	-7.8
Deposit insurance	-8.7
Sum other operating income and other operating expense according to profit or loss statement	**-16.5**

(Source: Audited Consolidated Financial Statements)

	Retail	thereof Mortgage	thereof Consumer	SME	Large Corporates	Public Finance	Corporate Center	Total Bank
	For the financial year ended December 31, 2017* (in EUR million, unless otherwise indicated) (audited)							
Net banking income	**141.2**	**30.0**	**111.2**	**38.5**	**21.0**	**16.6**	**-1.8**	**215.5**
Net interest income[1]	103.2	30.0	73.1	24.2	14.5	15.4	-0.2	157.0
o/w regular interest income[2]	116.4	44.0	72.4	26.0	14.7	15.1		172.1
Net fee and commission income	38.1	0.0	38.1	14.3	6.5	1.2	-1.6	58.5
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	9.7	9.7
Other operating result	0.0	0.0	0.0	0.0	2.3	0.0	-0.5	1.8
Operating income	**141.2**	**30.0**	**111.2**	**38.5**	**23.3**	**16.6**	**7.4**	**227.0**
Operating expenses	-89.4			-21.8	-4.3	-2.7	-71.9	-190.1
Operating result	**51.8**			**16.7**	**19.0**	**13.9**	**-64.5**	**36.9**
Change in CL	21.5			-1.1	-37.0	1.5	0.0	-15.1
Operating result before tax	**73.3**			**15.5**	**-18.0**	**15.4**	**-64.5**	**21.8**
Business Volume								
Loans and receivables[3]	2,078.2	1,048.0	1,030.2	825.0	524.1	276.1	53.8	3,757.2
o/w gross performing loans	2,026.7	998.9	1,027.8	791.2	469.1	275.1		3,562.0
Financial liabilities at AC	2,770.8		2,770.8	572.3	434.9	703.1	1,040.1[4]	5,521.2
RWA[5]	1,485.2	692.1	793.1	857.6	568.2	180.3	968.5	4,059.6
Key Ratios								
Net interest margin (NIM)[6]	4.1%	2.0%	6.0%	3.2%	2.2%	2.6%		2.3%
Cost/income ratio[7]	63.3%			56.7%	20.2%	16.0%		88.2%
Cost of risk ratio[8]	0.9%			-0.1%	-4.7%	0.5%		-0.3%
Loan to deposit ratio[9]	75.0%			144.2%	120.5%	39.3%		68.1%
NPE ratio (CRB based)[10]	14.1%	18.5%	10.0%	6.7%	19.0%	1.4%		11.6%
NPE coverage ratio[11]	78.0%	71.6%	89.2%	50.0%	53.3%	48.4%		67.0%

* All figures and ratios presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution).

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 EUR 1,040.1 million presented in Corporate Center contains: EUR 409 million direct online deposits of customers in Company, EUR 342 million deposits of credit institutions, EUR 190 million Tier 2 and EUR 99 million other financial liabilities at amortised cost.

5 Includes only credit risk-weighted assets.

6 Net interest margin on segment level is calculated as the sum of interest income (without unwinding from impaired loans) including funds transfer pricing divided by the respective average gross performing loans using daily balances plus the interest expenses including funds transfer pricing (i.e. based on funds transfer prices defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates) divided by the respective average financial liabilities at amortised cost using daily balances.

7 The cost/income ratio is calculated based on operating expenses divided by net banking income which represents net interest income and net fee and commission income.

8 The cost of risk ratio is calculated based on the credit loss expenses on financial assets divided by the credit risk bearing exposure.

9 The loan to deposit ratio is calculated based on loans and receivables divided by financial liabilities at amortised cost.

10 Calculated based on the non-performing exposure (NPE) divided by the credit bearing risk exposure.

11 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE).

(Source: Audited Consolidated Financial Statements).

The segment result is reconciled with the profit or loss statement as follows for the financial year 2017 (all figures presented in the following tables are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.):

	(in EUR million) (audited)
Net interest income according to segment report	157.0
Deposit insurance	8.3
Net interest income according to profit or loss statement	**165.3**

(Source: Audited Consolidated Financial Statements)

	(in EUR million) (audited)
Other operating result according to segment report	1.8
Deposit insurance	-8.3
Sum other operating income and other operating expense according to profit or loss statement	**-6.6**

(Source: Audited Consolidated Financial Statements)

11.4.3 Summary of Key Financials and Key Performance Indicators for Addiko Group – Adjusted

Key financials and key performance indicators - adjusted

	For the three-month period ended March, 31		For the financial year ended December 31,		
	2019	**2018**	**2018**	**2017**	**2016**
Selected adjusted profit or loss items	(in EUR million, unless otherwise indicated) (unaudited)				
Adjusted net Banking income	60.4	55.7	239.1	231.1	208.9
Adjusted net interest income	44.9	42.2	176.7	172.6	154.2
Adjusted net fee and commission income	15.6	13.5	62.4	58.5	54.7
Adjusted net result on financial instruments	3.3	9.5	9.0	5.1	6.5
Adjusted other operating result	-6.7	-6.4	-18.2	-19.2	-29.0
Adjusted operating expenses	-47.4	-46.5	-186.9	-193.0	-200.8
Adjusted operating result before change in credit loss expense	9.6	12.3	**43.0**	**24.0**	**-14.4**
Adjusted credit loss expenses on financial assets	3.4	9.0	2.3	11.3	2.6
Adjusted operating result before tax	12.9	21.3	**45.4**	**35.3**	**-11.7**
Adjusted tax on income*	-4.5	-7.9	-14.5	-9.3	-2.8
Adjusted result after tax	8.5	13.3	**30.9**	**25.9**	**-14.6**
Key Ratio					
Adjusted net interest income/total average assets[1]	3.0%	2.7%	2.8%	2.5%	2.1%
Adjusted cost of risk ratio[2]	0.1%	0.2%	0.0%	0.2%	0.1%
Adjusted cost/income ratio[3]	78.5%	83.6%	78.1%	83.5%	96.1%
Adjusted return on average equity[4]	4.1%	6.4%	3.6%	2.8%	n.a.
Return on average tangible equity (RoTE)[5]	4.2%	6.6%	3.7%	2.9%	n.a.

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The adjusted net interest income of EUR 42.2 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

2 Calculated based on adjusted credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

3 Calculated as the sum of adjusted personnel expenses, adjusted other administrative expenses and adjusted depreciation and amortization divided by the sum of adjusted net interest income and adjusted net fee and commission income for the specified year.

4 Based on the adjusted result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The adjusted result after tax of EUR 13.3 million and EUR 8.5 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The adjusted result after tax of EUR 13.3 million and EUR 8.5 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

6 Annualised with the factor 365/90 days.(Source: Company information)

Following Addiko Group's acquisition by the Existing Shareholder in 2015 Addiko Group decided to commence future business operations under the new Addiko Bank brand, which was followed by major restructuring and rightsizing efforts, particularly in the financial year 2016 but also continuing into 2017. The restructuring and rightsizing sought to establish a lean, efficient and integrated organization and had significant impact on Addiko Group's historical reported earnings.

Addiko Group adjusted historical earnings in order to show its earnings base generated with its current business model and organizational structure. The adjusted results show sustainable and comparable earnings, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

For a detailed discussion of adjusted items, see "*11.6 Adjusted Results*".

Return on tangible equity @ 14.1% CET1 ratio

The return on tangible equity @ 14.1% CET1 ratio amounts to 5.5% for the three-month period ended March 31, 2019. This is based on the adjusted result before tax of EUR 12.9 million multiplied by the factor 365/90 days for simple annualisation, the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 828.0 million as of March 31, 2019) less any intangibles (EUR 31.2 million as of March 31, 2019), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 156.7 million as of March 31, 2019; the amount as of March 31, 2018 is calculated as the difference between EUR 805.3 million CET1 capital and the total RWAs in the amount of EUR 4,599.8 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

The return on tangible equity @ 14.1% CET1 ratio amounts to 4.2% (2.6%) for the financial year 2018 (for the financial year 2017). This is based on the adjusted result before tax of EUR 45.4 million (EUR 35.3 million) for the financial year 2018 (for the financial year 2017), the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 859.5 million and EUR 844.0 million as of December 31, 2018 and 2017, respectively) less any intangibles (EUR 30.3 million and EUR 21.8 million as of December 31, 2018 and 2017, respectively), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 162.0 million and EUR 39.2 million as of December 31, 2018 and 2017, respectively; the amount as of December 31, 2018 is calculated as the difference between EUR 802.8 million CET1 capital and the total RWAs in the amount of EUR 4,545.0 million multiplied with the target CET1 ratio of 14.1%; the amount as of December 31, 2017 is calculated as the difference between EUR 695.3 million CET1 capital and the total RWAs in the amount of EUR 4,653.1 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

11.5 Results of Operations

11.5.1 Definition of Certain Profit and Loss Line Items

Net interest income

Net interest income comprises interest income and expenses from instruments measured at fair value through profit (FVTPL) and loss as well as instruments measured at fair value through other comprehensive income (FVTOCI) and at amortized costs (AC).

Interest income consists primarily of interest income from loans and receivables, fixed income securities, variable rate securities and assets held for trading. Furthermore, regular income from equity investments, shares as well as fees and commissions similar to interest income are shown in this item. Interest income and interest expense also include amortization of premiums and discounts on securities and loans and origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument that are integral part of effective interest rate using the effective interest rate method and the amortization of day one profit or loss (i.e., the difference between fair value and transaction price). For financial instruments that are not credit-impaired (Stage 1 and Stage 2), effective interest rate is applied to the gross carrying amount. For financial instruments that are credit-impaired (Stage 3), effective interest rate is applied to the amortised costs. Also, the interest proportion of interest-earning derivatives, separated into income and expenses, is recognized in interest income and expense. Cash payments of suspended interest from impaired customers were recognised as interest income for the financial years 2016 and 2017, in accordance with IAS 39. After adoption of IFRS 9, cash payments from impaired customers are recognised as reduction of the credit risk exposure.

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis by applying the effective interest rate to the amortised costs of a financial liability

Net fee and commission income

This item consists mainly of income from and expenses for payment transfers, fees from the lending business that are not integral part of effective interest rate (mainly loan processing and loan account management fees) and the securities and custody business. Fees earned from the provision of services over a period of time are accrued over that period. Fees earned from providing transaction services are recognised upon completion of the underlying transaction.

Net result on financial instruments

This item consists mainly of the valuations and sales gains or losses on investments, sales gains and losses from financial assets and issued securities and the results from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this line item.

Other operating result

Other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property. In addition, other operating result encompasses expenses for other taxes, income from the release of other provisions and the reimbursement of expenses to customers. At the consolidated Addiko Group level, the line item other operating result includes, in accordance with IFRS, certain regulatory charges (bank levy, the contributions to the DGS and to the Single Resolution Fund). These regulatory charges are listed as a separate line item at the segment level and are, therefore, not included in the line item other operating result at the segment level. These regulatory charges are also not included in the line item operating expenses for Addiko Group.

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments.

Personnel expenses

Personnel expenses comprise wages and salaries, social security, voluntary social expenses, other tax expenses depending on the amount of wages/ salaries, expenses for retirement benefits, expenses for severance payments, variable payments, other personnel expenses as well as income from release of other employee provisions.

Other administrative expenses

Other administrative expenses represent personnel and other administrative expenses accrued in the reporting period.

Depreciation and amortization

This item consists mainly of depreciation of property, plant, equipment and investment properties as well as amortization of software and other intangible assets and customer relationships.

Credit loss expenses on financial assets

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet.

After adoption of IFRS 9, the suspended interest is reflected in change in expected credit losses for the financial year 2018. For the previous financial years 2016 and 2017, cash payments of suspended interest from impaired customers were included in the interest income.

Taxes on income

Taxes on income consist of current income taxes and deferred income taxes.

11.5.2 Comparison of the three-month period ended March 31, 2019, and the three-month period ended March 31, 2018 for Addiko Group

Profit and loss statement	**For the three-month period ended March 31, 2019**	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)	
Interest income calculated using the effective interest method	51.5	51.0
Other interest income	0.9	1.6
Interest expense	-7.5	-14.0
Net interest income	**44.9**	**38.6**
Fee and commission income	18.7	16.8
Fee and commission expense	-3.1	-3.3
Net fee and commission income	**15.6**	**13.5**
Net result on financial instruments	3.3	70.5
Other operating income	2.6	1.8
Other operating expenses	-8.0	-8.2
Operating income	**58.3**	**116.2**
Personnel expenses	-24.8	-24.4
Other administrative expenses	-19.0	-19.3
Depreciation and amortization	-4.5	-2.7
Operating expenses	**-48.3**	**-46.3**
Operating result before change in credit loss expense	**10.0**	**69.9**
Credit loss expenses on financial assets	3.7	10.9
Operating result before tax	**13.7**	**80.8**
Taxes on income	-3.6	-4.6
Result after tax	**10.1**	**76.2**
Selected Performance Indicators		
Net interest income/total average assets[1]	3.0%	2.5%
Cost/income ratio[2]	80.0%	88.9%
Cost of risk ratio[3]	0.1%	0.2%
Return on average equity[4]	4.8%	36.8%
Return on average tangible equity (RoTE)[5]	5.0%	37.8%

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The net interest income of EUR 38.6 million and EUR 44.9 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

2 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.

3 Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

4 Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The result after tax of EUR 76.2 million and EUR 10.1 million for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

11.5.2.1 Comparison of the three-month period ended March 31, 2019, and the three-month period ended March 31, 2018 for Addiko Group

Net interest income for Addiko Group

Net interest income increased from EUR 38.6 million in the three-month period ended March 31, 2018, by EUR 6.3 million, or 16.2%, to EUR 44.9 million in the three-month period ended March 31, 2019. This was primarily due to a decrease in interest expense from EUR -14.0 million in the three-month period ended March 31, 2018, by EUR 6.5 million, to EUR -7.5 million in the three-month period ended March 31, 2019. In particular, interest expenses for customer deposits (shown as interest expense of financial liabilities measured at amortised cost) decreased from EUR -7.6 million in the three-month period ended March 31, 2018, by EUR 3.0 million, to EUR -4.6 million in the three-month period ended March 31, 2019, mainly due to a shift from higher yield term deposits to lower yield current deposits, and interest expense of EUR 3.6 million for the waived Tier 2 capital (please refer to "*11.3.14 Tier 2 waiver*") for the three-month period ended March 31, 2018, which cease to exist in the three-month period ended March 31, 2019. Interest income remained almost stable decreasing from EUR 52.6 million in the three-month period ended March 31, 2018, by EUR 0.2 million, to EUR 52.3 million in the three-month period ended March 31, 2019.

Net fee and commission income for Addiko Group

Net fee and commission income increased from EUR 13.5 million in the three-month period ended March 31, 2018, by EUR 2.0 million, or 15.1%, to EUR 15.6 million in the three-month period ended March 31, 2019. This was primarily due to the increase of fee and commission income from EUR 16.8 million in the three-month period ended March 31, 2018, by EUR 1.9 million, to EUR 18.7 million in the three-month period ended March 31, 2019, which was mainly driven by income from bancassurance (increase from EUR 0.4 million in the three-month period ended March 31, 2018, by EUR 0.9 million, to EUR 1.3 million in the three-month period ended March 31, 2019), FX & dynamic currency conversion (***DCC***) (increase from EUR 1.8 million in the three-month period ended March 31, 2018, by EUR 0.5 million, to EUR 2.3 million in the three-month period ended March 31, 2019) and transactions (increase from EUR 4.8 million in the three-month period ended March 31, 2018, by EUR 0.4 million, to EUR 5.2 million in the three-month period ended March 31, 2019). Fee and commission expense remained almost stable decreasing from EUR -3.3 million in the three-month period ended March 31, 2018, by EUR 0.2 million to EUR -3.1 million in the three-month period ended March 31, 2019.

Net result on financial instruments for Addiko Group

Net result on financial instruments decreased from EUR 70.5 million in the three-month period ended March 31, 2018, by EUR 67.3 million, to EUR 3.3 million in the three-month period ended March 31, 2019. The significant decrease compared to the three-month period ended March 31, 2018, was primarily due to the waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver"). The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the first quarter of 2018. In addition, net result on financial assets at fair value through other comprehensive income decreased from EUR 8.5 million in the three-month period ended March 31, 2018, by EUR 4.8 million, to EUR 3.7 million in the three-month period ended March 31, 2019, mainly reflecting a weaker income from bond sales.

Other operating result for Addiko Group

Other operating result increased from EUR -6.4 million in the three-month period ended March 31, 2018, by EUR 1.0 million, to EUR -5.4 million in the three-month period ended March 31, 2019. This was primarily due to an increase in release of provisions for legal cases (increase from EUR 0.2 million in the three-month period ended March 31, 2018, by EUR 1.5 million, to EUR 1.7 million in the three-month period ended March 31, 2019) and a decrease of expenses for the recovery and resolution fund (increase from EUR -2.3 million in the three-month period ended March 31, 2018, by EUR 0.7 million, to EUR -1.6 million in the three-month period ended March 31, 2019). This was partly compensated by an increase in expenses for the allocation of provisions for legal cases (increase from EUR -0.7 million in the three-month period ended March 31, 2018, by EUR 0.6 million, to EUR -1.3 million in the three-month period ended March 31, 2019) and by the decrease in income from reversal of impairment on non-financial assets (increase from EUR 0.4 million in the three-month period ended March 31, 2018, by EUR 0.4 million, to EUR 0.0 million in the three-month period ended March 31, 2019).

Personnel expenses for Addiko Group

Personnel expenses increased from EUR -24.4 million in the three-month period ended March 31, 2018, by EUR 0.5 million, or 2.0%, to EUR -24.8 million in the three-month period ended March 31, 2019. This was primarily due to a release in provision for variable payments in the three-month period ended March 31, 2018, which was then omitted in the three-month period ended March 31, 2019.

Other administrative expenses for Addiko Group

Other administrative expenses decreased from EUR -19.3 million in the three-month period ended March 31, 2018, by EUR 0.2 million, or 1.2%, to EUR -19.0 million in the three-month period ended March 31, 2019. This was primarily driven by IT expenses, which increased from EUR -7.3 million in the three-month period ended March 31, 2018, by EUR 1.3 million, to EUR -8.6 million in the three-month period ended March 31, 2019 and premises expenses, which decreased from EUR -4.6 million in the three-month period ended March 31, 2018, by EUR 1.4 million, to EUR -3.2 million in the three-month period ended March 31, 2019. In addition, the three-month period ended March 31, 2018 was positively affected by a release of provision for onerous contracts in the amount of EUR 0.9 million.

Depreciation and amortization for Addiko Group

Depreciation and amortization increased from EUR -2.7 million in the three-month period ended March 31, 2018, by EUR 1.8 million, to EUR -4.5 million in the three-month period ended March 31, 2019. This was primarily due to depreciation in the amount of EUR 1.8 million resulting from the recognition of right of use assets at the date of initial application of IFRS 16 Leases.

Credit loss expenses on financial assets for Addiko Group

Change in credit loss expenses on financial assets decreased from EUR 10.9 million (i.e. net release) in the three-month period ended March 31, 2018, by EUR 7.2 million, to EUR 3.7 million (i.e. net release) in the three-month period ended March 31, 2019. The positive result in the three-month period ended March 31, 2019 was influenced by repayments and re-migrations to a lower risk portfolio in the non-focus area Mortgage Business and Large Corporates Segment. This effect was offset by allocations within the Consumer Business.

Tax on income for Addiko Group

Tax on income decreased from EUR -4.6 million in the three-month period ended March 31, 2018, by EUR 1.0 million, or 21.2%, to EUR -3.6 million in the three-month period ended March 31, 2019. This was primarily due to less current tax income recognised in the three-month period ended March 31, 2019 (EUR -0.7 million) compared to the three-month period ended March 31, 2018 (EUR -4.3 million).

11.5.2.2 Comparison of the three-month periods ended March 31, 2019 and 2018 for the Retail Segment

	For the three-month period ended March 31,	
	2019	**2018**
	(in EUR million) (unaudited)	
Income Statement		
Net interest income	31.2	27.7
o/w regular interest income	30.6	29.7
Net fee and commission income	10.3	9.1
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**41.5**	**36.8**
Operating expenses	-22.2	-21.9
Operating result	**19.3**	**15.0**
Credit loss expenses on financial assets	-1.5	4.4
Result before tax	**17.8**	**19.3**

(Source: Company information)

Net interest income for Addiko Group's Retail Segment

Net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income increased from EUR 27.7 million in the three-month period ended March 31, 2018, by EUR 3.5 million, or 12.8%, to EUR 31.2 million in the three-month period ended March 31, 2019. This was primarily driven by the net interest income from the Consumer Business, which increased from EUR 21.4 million by EUR 3.7 million, or 17.3% to EUR 25.2 million mainly reflecting a volume increase of gross performing loans of 14.3% (from EUR 1,075.7 million as of March 31, 2018 to EUR 1,229.1 million as of March 31, 2019). The positive effect from the growing Consumer Business was slightly offset by the decrease of net interest income in the non-focus Mortgage Business from EUR 6.2 million, by EUR 0.2 million

to EUR 6.1 million resulting from the planned run-down in line with Addiko Group's business strategy focusing primarily on consumer lending and payments.

The gross yield on gross performing loans from the Consumer Business remained on a high level, but decreased slightly from 7.7% (EUR 20.1 million regular interest income for the three-month period ended March 31, 2018 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 1,027.8 million and EUR 1,075.7 million gross performing loans as of December 31, 2017 and March 31, 2018, respectively) in the three-month period ended March 31, 2018 to 7.5% (EUR 22.5 million regular interest income for the three-month period ended March 31, 2019 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 1,187.8 million and EUR 1,229.1 million gross performing loans as of December 31, 2018 and March 31, 2019, respectively) in the three-month period ended March 31, 2019. The reduction of the gross yield on gross performing loans is driven by new pricing of new loans issued, which was influenced by specific campaigns (e.g. "Red Friday") as well as regulatory and legislative changes in Croatia and Serbia.

Net fee and commission income for Addiko Group's Retail Segment

Net fee and commission income increased from EUR 9.1 million in the three-month period ended March 31, 2018, by EUR 1.2 million, or 12.7%, to EUR 10.3 million in the three-month period ended March 31, 2019. This was primarily due to improving income from FX & DCC, which increased from EUR 0.8 million in the three-month period ended March 31, 2018 to EUR 1.3 million in the three-month period ended March 31, 2019, and from bancassurance, which increased from EUR 0.4 million in the three-month period ended March 31, 2018 to EUR 1.3 million in the three-month period ended March 31, 2019.

Operating expenses for Addiko Group's Retail Segment

Operating expenses increased from EUR -21.9 million in the three-month period ended March 31, 2018, by EUR 0.4 million, or 1.6%, to EUR -22.2 million in the three-month period ended March 31, 2019. This was primarily due to an increase of personnel expenses in Slovenia reflecting an increase in headcount and due to expenses for a marketing campaign in Bosnia & Herzegovina.

Credit loss expenses on financial assets for Addiko Group's Retail Segment

Change in credit loss expenses on financial assets decreased from EUR 4.4 million in the three-month period ended March 31, 2018, by EUR 5.9 million, to EUR -1.5 million in the three-month period ended March 31, 2019.

The change in credit loss expenses on financial assets in the Mortgage Business decreased from EUR 6.8 million in the three-month period ended March 31, 2018, by EUR 3.9 million to EUR 3.0 million in the three-month period ended March 31, 2019. The releases in the three-month period ended March 31, 2018 were driven by a debt sale in Croatia. The releases in the three-month period ended March 31, 2019 decreased as a result of the runoff of the Mortgage Business, resulting in fewer opportunities for further releases.

The change in credit loss expenses on financial assets in the Consumer Business decreased from EUR -2.5 million in the three-month period ended March 31, 2018, by EUR 2.0 million to EUR -4.5 million in the three-month period ended March 31, 2019. This was primarily driven by the expansion of the Consumer Business, which resulted in an expected increase in cost of risk in the three-month period ended March 31, 2019, as loans disbursed in prior periods further matured. In addition, cost of risk was negatively affected by the re-categorising of the higher risk sub-segment to Stage 2 due to an extended period of credit bureau suspension in Croatia.

11.5.2.3 Comparison of the three-month periods ended March 31, 2019 and 2018 for the SME Business Segment

	For the three-month period ended March 31,	
	2019	**2018**
	(in EUR million) (unaudited)	
Income Statement		
Net interest income	5.5	5.8
o/w regular interest income	7.0	6.6
Net fee and commission income	4.0	3.3
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**9.5**	**9.1**
Operating expenses	-5.8	-5.6
Operating result	**3.7**	**3.5**
Credit loss expenses on financial assets	2.1	2.2
Result before tax	**5.8**	**5.7**

(Source: Company information)

Net interest income for Addiko Group's Retail Segment

Net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income decreased from EUR 5.8 million in the three-month period ended March 31, 2018, by EUR 0.3 million, or 4.9%, to EUR 5.5 million in the three-month period ended March 31, 2019. This was primarily due to the internal funds transfer pricing. By contrast, regular interest income increased from EUR 6.6 million in the three-month period ended March 31, 2018 to EUR 7.0 million in the three-month period ended March 31, 2019, reflecting an increase in gross performing loans of 19.9% (from EUR 827.1 million as of March 31, 2018 to EUR 991.5 million as of March 31, 2019). The gross yield on gross performing loans decreased from 3.3% (EUR 6.6 million regular interest income for the three-month period ended March 31, 2018 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 791.2 million and EUR 827.1 million gross performing loans as of December 31, 2017 and March 31, 2018, respectively) in the three-month period ended March 31, 2018 to 2.9% (EUR 7.0 million regular interest income for the three-month period ended March 31, 2019 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 928.4 million and EUR 991.5 million gross performing loans as of December 31, 2018 and March 31, 2019, respectively) in the three-month period ended March 31, 2019. The gross yield decreased mainly due to lower yields achieved on new business with a strong focus on disciplined underwriting standards.

Net fee and commission income for Addiko Group's SME Business Segment

Net fee and commission income increased from EUR 3.3 million in the three-month period ended March 31, 2018, by EUR 0.7 million, or 22.4%, to EUR 4.0 million in the three-month period ended March 31, 2019. This was primarily due to an increase of fee and commission income from transactions (EUR 1.8 million in the three-month period ended March 31, 2018 to EUR 2.0 million in the three-month period ended March 31, 2019) and FX & DCC (EUR 0.5 million in the three-month period ended March 31, 2018 to EUR 0.8 million in the three-month period ended March 31, 2019).

Operating expenses for Addiko Group's SME Business Segment

Operating expenses increased from EUR -5.6 million in the three-month period ended March 31, 2018, by EUR 0.2 million, or 2.9%, to EUR -5.8 million in the three-month period ended March 31, 2019. This was primarily due to an increase in IT costs for software support and maintenance in Croatia and higher operating costs for the data center and leasing of software in Serbia.

Credit loss expenses on financial assets for Addiko Group's SME Business Segment

Change in credit loss expenses on financial assets decreased from EUR 2.2 million (i.e. net release) in the three-month period ended March 31, 2018, by EUR 0.2 million, or 7.2%, to EUR 2.1 million (i.e. net release) in the three-month period ended March 31, 2019. In both the three-month period ended March 31, 2018 and three-month period ended March 31, 2019, net releases resulted from debt settlements and unexpected repayments mainly by clients (categorised as Stage 3) in Croatia and Slovenia.

11.5.2.4 Comparison of the three-month periods ended March 31, 2019 and 2018 for the Large Corporates Segment

	For the three-month period ended March 31,	
	2019	**2018**
	(in EUR million (unaudited)	
Income Statement		
Net interest income	2.8	2.8
o/w regular interest income	3.7	3.2
Net fee and commission income	1.4	1.5
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**4.2**	4.3
Operating expenses	-1.1	-1.2
Operating result	**3.1**	3.1
Credit loss expenses on financial assets	1.6	2.6
Result before tax	**4.7**	**5.7**

(Source: Company information)

Net interest income for Addiko Group's Large Corporates Segment

Net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income remained almost unchanged at EUR 2.8 million for the three-month period ended March 31, 2019 as compared to three-month period ended March 31, 2018. Gross performing loans increased by 20.6% to EUR 580.2 million as

of March 31, 2019 as compared to March 31, 2018 (EUR 481.1 million). The increase in gross performing loans was mainly driven by new financing of existing clients in line with Addiko Group's business strategy. By contrast, the gross yield on gross performing loans decreased from 2.8% (EUR 3.2 million regular interest income for the three-month period ended March 31, 2018 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 469.1 million and EUR 481.1 million gross performing loans as of December 31, 2017 and March 31, 2018, respectively) in the three-month period ended March 31, 2018 to 2.6% (EUR 3.7 million regular interest income for the three-month period ended March 31, 2019 multiplied with the factor 365/90 days for annualisation over the simple average of EUR 588.4 million and EUR 580.2 million gross performing loans as of December 31, 2018 and March 31, 2019, respectively) in the three-month period ended March 31, 2019.

Net fee and commission income for Addiko Group's Large Corporates Segment

Net fee and commission income decreased from EUR 1.5 million in the three-month period ended March 31, 2018, by EUR 0.1 million, or 7.4%, to EUR 1.4 million in the three-month period ended March 31, 2019. This was mainly driven by a decrease in fee and commission income from FX & DCC, which decreased from EUR 0.3 million in the three-month period ended March 31, 2018 to EUR 0.1 million in the three-month period ended March 31, 2019.

Operating expenses for Addiko Group's Large Corporates Segment

Operating expenses decreased from EUR -1.2 million for the three-month period ended March 31, 2018, by EUR 0.1 million, to EUR -1.1 million for the three-month period ended March 31, 2019.

Credit loss expenses on financial assets for Addiko Group's Large Corporates Segment

Change in credit loss expenses on financial assets decreased from EUR 2.6 million (i.e. net release) in the three-month period ended March 31, 2018, by EUR 0.9 million, or 36.8%, to EUR 1.6 million (i.e. net release) in the three-month period ended March 31, 2019. The net releases realised in the three-month period ended March 31, 2019, were due to successful restructuring of one former NPE client in Serbia, which recovered to performing status after repaying more than 50% of its outstanding debt.

11.5.2.5 Comparison of the three-month periods ended March 31, 2019 and 2018 for the Public Finance Segment

	For the three-month period ended March 31,	
	2019	**2018**
	(in EUR million) **(unaudited)**	
Income Statement		
Net interest income	1.7	2.7
o/w regular interest income	1.4	1.8
Net fee and commission income	0.3	0.2
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**2.1**	**2.9**
Operating expenses	-0.6	-0.7
Operating result	**1.5**	**2.2**
Credit loss expenses on financial assets	0.2	1.3
Result before tax	**1.6**	**3.5**

(Source: Company information)

Net interest income for Addiko Group's Public Finance Segment

Net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income decreased from EUR 2.7 million in the three-month period ended March 31, 2018, by EUR 0.9 million, or 35.2%, to EUR 1.7 million in the three-month period ended March 31, 2019. This was primarily due to a decrease of gross performing loan volume by 23.4% to EUR 193.9 million as of March 31, 2019 as compared to March 31, 2018 (EUR 253.2 million), which reflected Addiko Group's business strategy of providing Public Finance lending on a selected basis only.

Net fee and commission income for Addiko Group's Public Finance Segment

Net fee and commission income increased from EUR 0.2 million in the three-month period ended March 31, 2018, by EUR 0.1 million, or 28.6%, to EUR 0.3 million in the three-month period ended March 31, 2019. This was primarily due to an increase in fee and commission income resulting from transactions (from EUR 0.2 million in the three-month period ended March 31, 2018 to EUR 0.3 million in the three-month period ended March 31, 2019). In line with its business strategy, Addiko Group focused on maintaining existing deposit volumes from Public Finance and providing account keeping services to such clients.

Operating expenses for Addiko Group's Public Finance Segment

Operating expenses decreased from EUR -0.7 million for the three-month period ended March 31, 2019, by EUR 0.1 million, to EUR -0.6 million for the three-month period ended March 31, 2019.

Credit loss expenses on financial assets for Addiko Group's Public Finance Segment

Change in credit loss expenses on financial assets decreased from EUR 1.3 million (i.e. net release) in the three-month period ended March 31, 2018, by EUR 1.1 million, to EUR 0.2 million (i.e. net release) in the three-month period ended March 31, 2019. The net releases realised in the three-month period ended March 31, 2018, were primarily driven by two larger Stage 3 clients in Serbia (both legacy exposures). In contrast, lower net releases realised in the three-month period ended March 31, 2019, reflect overall exposure reduction in the Public Finance Segment.

11.5.2.6 Comparison of the three-month periods ended March 31, 2019 and 2018 for the Corporate Center Segment

	For the three-month period ended March 31,	
	2019	**2018**
	(in EUR million) **(unaudited)**	
Income Statement		
Net interest income	3.6	-0.4
o/w regular interest income	5.0	5.0
Net fee and commission income	-0.4	-0.6
Net result on financial instruments	3.3	70.5
Other operating result	-5.4	-6.4
Operating income	**1.1**	**63.1**
Operating expenses	-18.7	-17.0
Operating result	**-17.6**	**46.1**
Credit loss expenses on financial assets	1.3	0.5
Result before tax	**-16.3**	**46.6**

(Source: Company information)

Net interest income for Addiko Group's Corporate Center Segment

Net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income increased from EUR -0.4 million in the three-month period ended March 31, 2018, by EUR 4.0 million, to EUR 3.6 million in the three-month period ended March 31, 2019. This was primarily a result of the waived Tier 2 instruments in the first quarter of 2018 (please refer to section 11.3.14 "Tier 2 waiver"), which had an interest expense of EUR 3.6 million in the three-month period ended March 31, 2018.

Net fee and commission income for Addiko Group's Corporate Center Segment

Net fee and commission income increased from EUR -0.6 million in the three-month period ended March 31, 2018, by EUR 0.2 million, or 31.5%, to EUR -0.4 million in the three-month period ended March 31, 2019.

Net result on financial instruments for Addiko Group's Corporate Center Segment

Net result on financial instruments decreased from EUR 70.5 million in the three-month period ended March 31, 2018, by EUR 67.3 million, to EUR 3.3 million in the three-month period ended March 31, 2019. The significant decrease compared to the three-month period ended March 31, 2018, was primarily due to the waiver of both Tier 2 capital tranches by the shareholder in the first quarter of 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver"). The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the first quarter of 2018. In addition, income from bonds sales was weaker in the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018.

Other operating result for Addiko Group's Corporate Center Segment

Other operating result increased from EUR -6.4 million in the three-month period ended March 31, 2018, by EUR 1.0 million, to EUR -5.4 million in the three-month period ended March 31, 2019. This was primarily due to an increase in release of provisions for legal cases (increase from EUR 0.2 million in the three-month period ended March 31, 2018, by EUR 1.5 million, to EUR 1.7 million in the three-month period ended March 31, 2019) and a decrease of expenses for the recovery and resolution fund (increase from EUR -2.3 million in the three-month period ended March 31, 2018, by EUR 0.7 million, to EUR -1.6 million in the three-month period ended March 31, 2019). This was partly compensated by an increase in expenses for the allocation of provisions for legal cases (increase from EUR -0.7 million in the three-month period ended March 31, 2018, by EUR 0.6 million, to EUR -1.3 million in the three-month period ended March 31, 2019) and by the decrease in

income from reversal of impairment on non-financial assets (increase from EUR 0.4 million in the three-month period ended March 31, 2018, by EUR 0.4 million, to EUR 0.0 million in the three-month period ended March 31, 2019).

Operating expenses for Addiko Group's Corporate Center Segment

Operating expenses increased from EUR -17.0 million in the three-month period ended March 31, 2018, by EUR 1.7 million, or 10.1%, to EUR -18.7 million in the three-month period ended March 31, 2019. The lower operating expenses in the three-month period ended March 31, 2018 were primarily due to releases of provisions. Operating expenses include all headquarter and back-office costs for Addiko Group's countries of operation as well as the holding that have not been allocated to the business segments.

Credit loss expenses on financial assets for Addiko Group's Corporate Center Segment

Credit loss expenses on financial assets increased from EUR 0.5 million in the three-month period ended March 31, 2018, by EUR 0.9 million, to EUR 1.3 million in the three-month period ended March 31, 2019. The credit risk exposure in the Corporate Center relates mainly to financial institutions, and the net releases were due to the decrease of credit risk exposure. The decrease in the three-month period ended March 31, 2019 was mainly driven by the reduction of credit risk exposure towards the national bank in Bosnia & Herzegovina.

11.5.3 Comparison of the Financial Year ended December 31, 2018 and the Financial Year ended 2017

Profit and loss statement*	For the financial year ended December 31, 2018	2017
	(in EUR million, unless otherwise indicated) (audited)	
Interest income calculated using the effective interest method	209.6	226.0[1]
Other interest income	4.2	8.3[2]
Interest expense	-40.7	-68.9[3]
Net interest income	**173.2**	**165.3**
Fee and commission income	76.5	71.3[4]
Fee and commission expense	-14.1	-12.8[4]
Net fee and commission income	**62.4**	**58.5**
Net result on financial instruments	70.0	9.7
Other operating income	19.1	27.4[5]
Other operating expenses	-35.7	-34.0[5]
Operating income	**289.0**	**226.9**
Personnel expenses	-99.4	-97.4
Other administrative expenses	-78.0	-80.9
Depreciation and amortization	-10.7	-11.7
Operating expenses	**-188.1**	**-190.1**
Operating result before change in credit loss expense	**100.9**	**36.9**
Credit loss expenses on financial assets	2.8	-15.1
Operating result before tax	**103.7**	**21.8**
Taxes on income	0.5	19.9
Result after tax	**104.2**	**41.6**
Selected Performance Indicators		
Net interest income/total average assets[6]	2.7%	2.4%[11]
Cost/income ratio[7]	79.9%	84.9%[11]
Cost of risk ratio[8]	0.1%	-0.3%[11]
Return on average equity[9]	12.2%[11]	4.5%[11]
Return on average tangible equity (RoTE)[10]	12.6%[11]	4.6%[11]

* The line item structure of the table presented follows that of the consolidated statement of comprehensive income in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Interest income calculated using the effective interest method comprises interest income from available-for-sale financial assets, loans and receivables, held-to-maturity investments and derivatives – hedge accounting, interest rate risk as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

2 Other interest income comprises interest income from financial assets held for trading, other assets and dividend income as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 Numbers taken from the notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

4 Numbers taken from the notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.

5 Numbers follow the presentation in the notes to the Audited Consolidated Financial Statements as of and for the financial year 2018. As of and for the financial year 2018 the presentation of other operating result was changed to gross presentation of other operating income and other operating expenses, including the comparative figures. The new presentation improves the understanding of Addiko Group's financial performance.

6 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets.

7 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for the financial year and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.

8 Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

9 Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year.
10 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts.
11 Unaudited Company information.
(Source: Audited Consolidated Financial Statements)

11.5.3.1 Comparison of the Financial Year ended December 31, 2018, and the Financial Year ended December 31, 2017 for Addiko Group

Net interest income for Addiko Group

Net interest income increased from EUR 165.3 million in the financial year 2017 by EUR 7.9 million, or 4.8%, to EUR 173.2 million in the financial year 2018. This was due to a decrease in interest expense from EUR -68.9 million in the financial year 2017 by EUR 28.2 million to EUR -40.7 million in the financial year 2018, which outweighed the decrease in overall interest income calculated based on the effective interest method as well as other interest income from, together, EUR 234.2 million in the financial year 2017 by EUR 20.4 million to EUR 213.8 million in the financial year 2018.

Most significant driver for the interest income decrease in the financial year 2018 compared to the financial year 2017 was the transition from IAS 39 to IFRS 9, where the recording of suspended income from non-performing exposure has moved from the interest income to the credit loss expenses on financial assets. This suspended income was EUR 10.3 million for the financial year 2017. Other one-off effects included in the interest income for the financial year 2017 were the dividend income from Addiko Invest d.d., Zagreb EUR 1.3 million and the interest income from Hypo Alpe-Adria-Leasing d.o.o., Zagreb EUR 0.7 million, which has been disposed and will no further contribute to Addiko Group's interest income. The residual decrease amount between the financial year 2017 and 2018 can be explained partly driven by lower interest income from trading derivatives, which decreased from EUR 6.1 million in the financial year 2017, by EUR 2.5 million, to EUR 3.6 million in the financial year 2018 as well as by lower yields in both focus and non-focus business at fairly stable loans and receivables, which remained at approximately EUR 3.8 billion.

Interest expense decreased from EUR -68.9 million in the financial year 2017 by EUR 28.2 million to EUR -40.7 million in the financial year 2018. This was primarily due to the decrease in interest expenses for the Tier 2 waiver, which decreased from EUR -19.3 million in the financial year 2017 by EUR 15.7 million to EUR -3.6 million in the financial year 2018. Both Tier 2 capital tranches were waived by the creditor in the first quarter of 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver"). In addition, interest expenses for customer deposits decreased from EUR -42.7 million in the financial year 2017 by EUR 9.2 million to EUR -33.4 million in the financial year 2018. This was primarily driven by a decrease in average interest yield on customer deposits, which decreased from 0.91% in the financial year 2017 to 0.68% in the financial year 2018. This, in turn, was due to an increase in lower yield current accounts, which increased from EUR 2.1 billion as of December 31, 2017 to EUR 2.4 billion as of December 31, 2018, and a decrease in higher yield term deposits, which decreased from EUR 2.7 billion as of December 31, 2017 to EUR 2.4 billion as of December 31, 2018. Also the yield for the direct online deposits collected in Austria and Germany decreased from 1.57% in the financial year 2017 to 0.83% in the financial year 2018.

The following table presents the interest expense by type:

	For the financial year ended December 31	
	2018	2017
	(in EUR million) (audited, unless otherwise indicated)	
Deposits of customers	33.4	42.7
o/w customer deposits – network	30.3[3]	38.1[3]
o/w direct online deposits[1]	3.2[3]	4.6[3]
Deposits of credit institutions	1.0	2.4
Tier 2 capital	3.6	19.3
Other financial liabilities[2]	2.7[3]	4.6[3]
Total	**40.7**	**68.9**

1 Relates to deposits collected over the online platform in Austria and Germany.
2 Relates mainly to debt securities issued (certificates of deposits) and HETA financing lines 2017.
3 Unaudited Company information.
(Source: Audited Consolidated Financial Statements and Company information)

Net fee and commission income for Addiko Group

Net fee and commission income increased from EUR 58.5 million in the financial year 2017 by EUR 3.9 million, or 6.7%, to EUR 62.4 million in the financial year 2018.

Fee and commission income increased from EUR 71.3 million in the financial year 2017 by EUR 5.3 million, or 7.4% to EUR 76.5 million in the financial year 2018. This was primarily due to increased fee and commission income in customer foreign exchange transactions from EUR 8.9 million in the financial year 2017 by EUR 2.1 million to EUR 11.0 million in the financial year 2018, in bancassurance sales from EUR 1.3 million in the financial year 2017 by EUR 1.9 million to EUR 3.2

million in the financial year 2018, and in accounts & packages from EUR 15.8 million in the financial year 2017 by EUR 1.2 million to EUR 17.0 million in the financial year 2018.

Fee and commission expense increased from EUR -12.8 million in the financial year 2017 by EUR -1.3 million, or 10.7% to EUR -14.1 million in the financial year 2018. The primary drivers for this were an increase in expenses for cards services, which grew from EUR -4.6 million in the financial year 2017 by EUR -1.7 million to EUR -6.3 million in the financial year 2018, and customer promotions from EUR 0.0 million in the financial year 2017 by EUR -0.6 million to EUR -0.6 million in the financial year 2018.

The following table presents the fee and commission income and expenses for the 2017 and 2018 financial years:

Net fee and commission income*	For the financial year ended December 31, 2018	2017
	(in EUR million) (audited)	
Transactions	21.1	21.2
Accounts and packages	17.0	15.8
Cards	13.3	13.0
FX & DCC	11.0	8.9
Securities	2.0	2.3
Bancassurance	3.2	1.3
Loans	2.9	3.1
Trade Finance	4.2	4.0
Other	1.7	1.6
Fee and commission income	**76.5**	**71.2**
Cards	-6.3	-4.6
Transactions	-4.3	-4.5
Clients incentives	-0.6	0.0
Securities	-0.5	-0.5
Accounts and packages	-0.2	-0.4
Bancassurance	-0.2	-0.3
Other	-1.9	-2.5
Fee and commission expense	**-14.1**	**-12.8**
Net fee and commission income	**62.4**	**58.5**

* The line item structure of the table presented follows that of the net fee and commission income table in note 64 (segment reporting) of the Audited Consolidated Financial Statements as of and for the financial year 2018.

(Source: Audited Consolidated Financial Statements)

Net result on financial instruments for Addiko Group

Net result on financial instruments increased from EUR 9.7 million in the financial year 2017 by EUR 60.3 million to EUR 70.0 million in the financial year 2018. This was primarily due to the waiver of both Tier 2 capital tranches by the shareholder in the first quarter of 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver"). The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the financial year 2018.

Other operating result for Addiko Group

Other operating result decreased from EUR -6.5 million in the financial year 2017 by EUR 10.0 million to EUR -16.5 million in the financial year 2018. This was due to the decrease in other operating income from EUR 27.4 million in the financial year 2017 by EUR 8.3 million to EUR 19.1 million in the financial year 2018 and the increase in other operating expenses from EUR -34.0 million in the financial year 2017 by EUR -1.7 million to EUR -35.7 million in the financial year 2018.

The decrease in other operating income was primarily driven by decreases in releases of provisions for legal cases (from EUR 16.2 million in the financial year 2017 by EUR 5.0 million to EUR 11.2 million in the financial year 2018), in income from operating lease assets (from EUR 3.1 million in the financial year 2017 by EUR 3.1 million to EUR 0.0 million in the financial year 2018) and in income from assets classified as held for sale and disposal groups (from EUR 2.7 million in the financial year 2017 by EUR 2.5 million to EUR 0.2 million in the financial year 2018).

The release of provisions for legal cases in the financial year 2018 includes a release of legal provisions for successful settlement of lengthy court cases in the amount of EUR 3.8 million (EUR 9.7 million in the financial year 2017). Furthermore, this item includes the positive impact from the updated assessment of risks in connection with customer protection claims in the countries in which the Group operates.

The decreases in income from operating lease assets and in income from assets classified as held for sale and disposal groups reflect the advanced wind down and deconsolidation of the Croatian leasing entity and consequently lower income from operating leasing assets as well as the positive effect from deconsolidation included in the financial year 2017.

The increase in other operating expenses was mainly driven by higher restructuring expenses, which increased from EUR -1.4 million in the financial year 2017 by EUR -1.4 million to EUR -2.8 million in the financial year 2018. The restructuring expenses related to an ongoing restructuring plan in one of Addiko Group's entities as well as to restructuring due to outsourcing activities.

The following table presents the other operating income and other operating expenses for the financial years 2017 and 2018:

Other operating income and other operating expenses[1]	For the financial year ended December 31, 2018	2017
	(in EUR million) (audited)	
Release of provisions for legal cases	11.2	16.2
Gains from sale of non-financial assets	1.4	0.0
Income from operating lease assets	0.0	3.1
Income from assets classified as held for sale and disposal groups	0.2	2.7
Reversal of impairment on non-financial assets	0.6	0.0
Other income	5.7	5.4
Other operating income	**19.1**	**27.4**
Expense incurred in earning the operating lease assets income	0.0	-0.2
Restructuring expenses	-2.8	-1.4
Allocation of provisions for legal cases	-5.6	-6.7
Impairment on non-financial assets	-5.6	-6.1
Resolution fund	-2.4	-2.3
Deposit guarantee	-8.8	-8.4
Banking levies and other taxes	-3.8	-2.9
Expense from assets classified as held for sale and disposal groups	0.0	-1.1
Other expenses	-6.8	-4.8
Other operating expenses	**-35.7**	**-34.0**
Total	**-16.5**	**-6.5**

1 The presentation of other operating income and other operating expenses was changed to gross presentation of other operating income and other operating expenses in the Audited Consolidated Financial Statements of Addiko Group for 2018, compared to the Audited Consolidated Financial Statements of Addiko Group for 2017. Comparative figures changed accordingly. The new presentation improves the understanding of the Addiko Group's financial performance.

(Source: Audited Consolidated Financial Statements)

Personnel expenses for Addiko Group

Personnel expenses increased from EUR -97.4 million in the financial year 2017 by EUR -2.0 million, or 2.0%, to EUR -99.4 million in the financial year 2018. This was primarily due to income from release of other employee provisions, which decreased from EUR 2.5 million in the financial year 2017 by EUR 2.1 million to EUR 0.4 million in the financial year 2018. Wages and salaries, social security and variable payments remained fairly stable at approx. EUR 94 million while the number of FTEs decreased slightly from 2,953 as of December 31, 2017 to 2,933 as of December 31, 2018.

Other administrative expenses for Addiko Group

Other administrative expenses decreased from EUR -80.9 million in the financial year 2017 by EUR 2.9 million, or -3.6%, to EUR -78.0 million in the financial year 2018. This was primarily a result of the ongoing cost improvement initiatives, despite additional investments that were made to grow the business and to enhance Addiko Group's digital capabilities. In this context, IT expenses decreased from EUR -32.5 million in the financial year 2017 by EUR 2.6 million to EUR -29.9 million in the financial year 2018 and premises expenses (rent and other building expenses) from EUR -18.8 million in the financial year 2017 by EUR 1.0 million to EUR -17.8 million in the financial year 2018. By contrast legal and advisory costs, mainly for capital market readiness, increased from EUR -7.9 million in the financial year 2017 by EUR -2.8 million to EUR -10.7 million in the financial year 2018. The presentation of other administrative expenses was changed in the Audited Consolidated Financial Statements of Addiko Group for 2018, compared to the Audited Consolidated Financial Statements of Addiko Group for 2017. Comparative figures changed accordingly. The new presentation improves the understanding of the Addiko Group's financial performance.

Depreciation and amortization for Addiko Group

Depreciation and amortization decreased from EUR -11.7 million in the financial year 2017 by EUR 1.0 million, or -8.9%, to EUR -10.7 million in the financial year 2018. This was primarily due to decrease in depreciation on internally used equipment, which decreased from EUR -3.8 million in the financial year 2017 by EUR 0.7 million to EUR -3.1 million in the financial year 2018.

Credit loss expenses on financial assets for Addiko Group

Change in credit loss expenses on financial assets decreased from EUR -15.1 million in the financial year 2017 by EUR 17.9 million to EUR 2.8 million in the financial year 2018. This was primarily due to successfully executed restructuring measures of larger individual customers in the Large Corporates Segment, where the change in credit loss expenses on financial assets decreased from EUR -37.0 million in the financial year 2017 by EUR 40.6 million to EUR 3.6 million in the financial year 2018. This was partially offset by an increase in credit loss expenses on financial assets in the Retail Segment, which increased from EUR 21.5 million in the financial year 2017 by EUR -21.5 million to EUR 0.0 million in the financial year 2018.

Tax on income for Addiko Group

Tax on income decreased from EUR 19.9 million (i.e. tax refund) in the financial year 2017 by EUR -19.3 million to EUR 0.5 million (i.e. tax refund) in the financial year 2018. This was primarily due to less deferred tax income recognized in the financial year 2017 (EUR 22.0 million) compared to the financial year 2018 (EUR 4.7 million). For further information on deferred tax please refer to *"11.3.12 Income taxes, deferred taxes and tax losses carried forward"*.

11.5.3.2 Comparison of the Financial Years ended December 31, 2018 and 2017 for the Retail Segment

	For the financial year ended December 31,	
	2018	**2017***
	(in EUR million) (audited)	
Income Statement		
Net interest income[1]	118.6	103.2
o/w regular interest income[2]	121.4	116.4
Net fee and commission income	41.0	38.1
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**159.7**	**141.2**
Operating expenses	-86.9	-89.4
Operating result	**72.8**	**51.8**
Change in credit loss expenses	0.0	21.5
Operating result before tax	**72.8**	**73.3**

* The audited figures for the financial year 2017 are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

(Source: Audited Consolidated Financial Statements)

Net interest income for Addiko Group's Retail Segment

The net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income of the Retail Segment increased from EUR 103.2 million in the financial year 2017 by EUR 15.5 million, or 15.0%, to EUR 118.6 million in the financial year 2018. This is primarily driven by the net interest income from the Consumer Business, which increased from EUR 73.1 million by EUR 21.0 million, or 28.7% to EUR 94.1 million mainly due to new disbursements reflected in a volume increase of 15.6%. The positive effect from the growing Consumer Business was partly off-set by the decrease of net interest income in the non-focus Mortgage Business from EUR 30.0 million, by EUR 5.5 million, or 18.5%, to EUR 24.5 million resulting from its planned run-down. Both developments underline Addiko Group's new business strategy focusing primarily on consumer products such as cash loans, which more than compensates for the negative impact from a no further actively marketed Mortgage Business. Further positive effects relate to reduced interest expenses due to an optimized liability structure through pricing adjustments of high interest deposits.

The interest income yield from Consumer Business remained on high level, but decreased from 8.0% (EUR 72.4 million interest income over the simple average of EUR 774.0 million and EUR 1,027.8 million gross performing loans as of December 31, 2016 and 2017, respectively) in the financial year 2017 to 7.7% (EUR 84.9 million regular interest income over simple average of EUR 1,027.8 million and EUR 1,187.8 gross performing loans as of December 31, 2017 and 2018, respectively) in the financial year 2018. Interest income from Mortgage Business decreased from EUR 44.0 million in the financial year 2017 to EUR 36.5 million in the financial year 2018, with interest income yield decreasing from 4.1% (based on the simple average of EUR 1,163.1 million and EUR 998.9 million gross performing loans as of December 31, 2016 and 2017, respectively) in the financial years 2017 to 3.9% (based on the simple average of EUR 998.9 million and EUR 872.7 million gross performing loans as of December 31, 2017 and 2018, respectively) in the financial years 2018.

Net fee and commission income for Addiko Group's Retail Segment

Net fee and commission income increased from EUR 38.1 million in the financial year 2017 by EUR 2.9 million, or 7.8%, to EUR 41.0 million in the financial year 2018. This was primarily due to improving sales of accounting packages, payment services and bancassurance. Especially net fee and commission income relating to bancassurance increased from EUR 1.1 million by EUR 1.9 million to EUR 3.0 million in the financial year 2018 as a result of a successful roll-out of new bancassurance products in the context of a new strategic partnership.

Operating expenses for Addiko Group's Retail Segment

Operating expenses decreased from EUR -89.4 million in the financial year 2017 by EUR 2.5 million, or 2.8%, to EUR -86.9 million in the financial year 2018 also reflecting Addiko Group's rightsizing approach improving its cost structure by reducing average FTEs as well as improving efficiency.

Credit loss expenses on financial assets for Addiko Group's Retail Segment

Change in credit loss expenses on financial assets decreased from EUR 21.5 million in the financial year 2017 by EUR 21.5 million, to EUR 0.0 million in the financial year 2018. Change in credit loss expenses for the financial year 2018 comprised EUR -9.5 million for Consumer Business and EUR 9.5 million releases for the Mortgage Business resulting in almost zero credit loss expenses for financial assets in the financial year 2018. The overall reduction relates mainly to significantly lower allocations of provisions to the Consumer Business, which were off-set by releases from the mortgage and micro business.

11.5.3.3 Comparison of the Financial Years ended December 31, 2018 and 2017 for the SME Business Segment

	For the financial year ended December 31,	
	2018	**2017***
	(in EUR million) (audited)	
Income Statement		
Net interest income[1]	23.0	24.2
o/w regular interest income[2]	27.6	26.0
Net fee and commission income	15.1	14.3
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**38.1**	**38.5**
Operating expenses	-21.9	-21.8
Operating result	**16.2**	**16.7**
Change in credit loss expenses on financial assets	-7.4	-1.1
Operating result before tax	**8.8**	**15.5**

* The audited figures for the financial year 2017 are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

(Source: Audited Consolidated Financial Statements)

Net interest income for Addiko Group's SME Business Segment

The net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income decreased from EUR 24.2 million in the financial year 2017 by EUR 1.2 million, or 4.9%, to EUR 23.0 million in the financial year 2018. This reflects reduced margins on new business and higher negative net effects from funds transfer pricing. The regular interest income without effects form funds transfer pricing increased from EUR 26.0 million in the financial year 2017, by EUR 1.6 million, to EUR 27.6 million in the financial year 2018. The interest income yield reduced thereby from 3.6% (based on simple average of EUR 646.4 million and EUR 791.2 gross performing loans as of December 31, 2016 and 2017, respectively) in the financial year 2017 to 3.2% (based on simple average of EUR 791.2 million and EUR 928.4 gross performing loans as of December 31, 2017 and 2018, respectively) in the financial year 2018.

Net fee and commission income for Addiko Group's SME Business Segment

Net fee and commission income increased from EUR 14.3 million in the financial year 2017 by EUR 0.8 million, or 5.6%, to EUR 15.1 million in the financial year 2018 primarily due to the growth in the SME business resulting from new fee models and new product packages, which promote increased payments activity through Addiko Group's accounts. These changes are reflected in increased fee and commission income from transactions increasing from EUR 7.7 million, by EUR 0.4 million, to EUR 8.1 million as well as income from customer foreign exchange transactions increasing from EUR 2.0 million, by EUR 0.5 million, to EUR 2.4 million in the financial year 2018. The positive development is to be supplemented by a new digital customer platform and enhanced digital services, which are expected to increase commission income from account keeping services and trade finance.

Operating expenses for Addiko Group's SME Business Segment

Although the volume of gross performing loans increased by 17.3% in the financial year 2018, operating expenses remained stable with a slight increase from EUR -21.8 million in the financial year 2017 by EUR 0.1 million, or 0.5%, to EUR -21.9 million in the financial year 2018. This primarily reflects the group-wide strict cost monitoring and -management, which includes FTE reductions and further improvements in the cost structure.

Credit loss expenses on financial assets for Addiko Group's SME Business Segment

Change in credit loss expenses on financial assets increased from EUR -1.1 million in the financial year 2017 by EUR 6.3 million to EUR -7.4 million in the financial year 2018. The increase was primarily driven by additional allocations in Croatia due to the entry of one group of borrowers into default.

11.5.3.4 Comparison of the Financial Years ended December 31, 2018 and 2017 for the Large Corporates Segment

	For the financial year ended December 31,	
	2018	**2017***
	(in EUR million) (audited)	
Income Statement		
Net interest income[1]	11.7	14.5
o/w regular interest income[2]	14.2	14.7
Net fee and commission income	6.1	6.5
Net result on financial instruments	0.0	0.0
Other operating result	0.0	2.3
Operating income	**17.8**	**23.3**
Operating expenses	-4.1	-4.3
Operating result	**13.7**	**19.0**
Change in credit loss expenses on financial assets	3.6	-37.0
Operating result before tax	**17.3**	**-18.0**

* The audited figures for the financial year 2017 are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

(Source: Audited Consolidated Financial Statements)

Net interest income for Addiko Group's Large Corporates Segment

The net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income decreased from EUR 14.5 million in the financial year 2017 by EUR 2.8 million, or 19.6%, to EUR 11.7 million in the financial year 2018. The reduction primarily relates to decreased margins in the new business volume, which lead to a growth in corresponding loans and advances of 16.7%. This effect off-sets the decrease in interest expenses from a decreasing deposit volume. The overall development reflects Addiko Group's business strategy for the non-focus Large Corporate Segment, which foresees a continuous business only for selected clients with favorable risk reward matrices.

Net fee and commission income for Addiko Group's Large Corporates Segment

Net fee and commission income decreased from EUR 6.5 million in the financial year 2017, by EUR 0.4 million, or 5.8%, to EUR 6.1 million in the financial year 2018. This was primarily driven by the reduction of commission income related to foreign exchange transactions, which decreased from EUR 1.3 million in the financial year 2017, by EUR 0.2 million, to EUR 1.1 million in the financial year 2018, as well as by increased fee and commission expenses, which increased from EUR -0.8 million in the financial year 2017, by EUR -0.2 million, to EUR -1.0 million in the financial year 2018.

Net result on financial instruments for Addiko Group's Large Corporates Segment

The net result on financial instruments remained unchanged at EUR 0.0 million for the financial year 2018.

Other operating result for Addiko Group's Large Corporates Segment

Other operating result decreased from EUR 2.3 million in the financial year 2017 by EUR 2.3 million to EUR 0.0 million in the financial year 2018. The EUR 2.3 million for the financial year 2017 related to a release of provisions for one legal case in Serbia.

Operating expenses for Addiko Group's Large Corporates Segment

Although the volume of gross performing loans increased by 25.4% in the financial year 2018, operating expenses slightly decreased from EUR -4.3 million in the financial year 2017 by EUR 0.1 million, or 3.2%, to EUR -4.1 million in the financial year 2018. This primarily reflects the group-wide strict cost monitoring and -management, which includes FTE reductions and further improvements in the cost structure.

Credit loss expenses on financial assets for Addiko Group's Large Corporates Segment

Change in credit loss expenses on financial assets decreased from EUR -37.0 million in the financial year 2017 by EUR 40.6 million, or more than 100.0%, to EUR 3.6 million in the financial year 2018 which relates to larger recoveries from the NPE portfolio in Slovenia and Serbia and reflects Addiko Group's successfully executed restructuring measures.

11.5.3.5 Comparison of the Financial Years ended December 31, 2018 and 2017 for the Public Finance Segment

	For the financial year ended December 31,	
	2018	**2017***
	(in EUR million) (audited)	
Income Statement		
Net interest income[1]	8.6	15.4
o/w regular interest income[2]	6.3	15.1
Net fee and commission income	1.1	1.2
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**9.7**	**16.6**
Operating expenses	-2.3	-2.7
Operating result	**7.3**	**13.9**
Change in credit loss expenses on financial assets	2.4	1.5
Operating result before tax	**9.7**	**15.4**

* The audited figures for the financial year 2017 are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

(Source: Audited Consolidated Financial Statements)

Net interest income for Addiko Group's Public Finance Segment

The net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income decreased from EUR 15.4 million in the financial year 2017 by EUR 6.8 million, or 44.3%, to EUR 8.6 million in the financial year 2018. This was primarily due to the decrease in lending activities in the non-focus Public Finance Segment resulting in the overall volume reduction in line with the bank's new business strategy.

Net fee and commission income for Addiko Group's Public Finance Segment

Net fee and commission income slightly decreased from EUR 1.2 million in the financial year 2017 by EUR 0.1 million, to EUR 1.1 million in the financial year 2018. This was primarily driven by the reduction in commission income from transactions and trade finance products.

Net result on financial instruments for Addiko Group's Public Finance Segment

The net result on financial instruments remained unchanged at EUR 0.0 million for the financial year 2018.

Other operating result for Addiko Group's Public Finance Segment

The other operating result remained unchanged at EUR 0.0 million for the financial year 2018.

Operating expenses for Addiko Group's Public Finance Segment

Operating expenses decreased from EUR -2.7 million in the financial year 2017 by EUR 0.3 million, or 12.4%, to EUR -2.3 million in the financial year 2018 resulting from both, the strategic portfolio reduction as well as a strong focus on increased efficiency and an improved cost structure.

Credit loss expenses on financial assets for Addiko Group's Public Finance Segment

Change in credit loss expenses on financial assets increased from EUR 1.5 million in the financial year 2017 by EUR 0.9 million, or 61.2%, to EUR 2.4 million in the financial year 2018. This relates to releases resulting primarily from the decreased lending business volume.

11.5.3.6 Comparison of the Financial Years ended December 31, 2018 and 2017 for the Corporate Center Segment

	For the financial year ended December 31,	
	2018	**2017***
	(in EUR million) (audited)	
Income Statement		
Net interest income[1]	2.6	-0.2
Net fee and commission income	-0.9	-1.6
Net result on financial instruments	70.0	9.7
Other operating result	-7.8	-0.5
Operating income	**63.9**	**7.4**
Operating expenses	-72.9	-71.9
Operating result	**-9.0**	**-64.5**
Change in credit loss expenses on financial assets	4.1	0.0
Operating result before tax	**-4.9**	**-64.5**

* The audited figures for the financial year 2017 are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

(Source: Audited Consolidated Financial Statements)

Net interest income for Addiko Group's Corporate Center Segment

The net interest income is calculated based on funds transfer prices for all interest bearing assets and liabilities. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

Net interest income increased from EUR -0.2 million in the financial year 2017 by EUR 2.8 million to EUR 2.6 million in the financial year 2018. The effect mainly refers to no longer payable interest expenses related to the waived Tier 2 capital, which decreased from EUR -19.3 million in the financial year 2017 by EUR -15.7 million to EUR -3.6 million in the financial year 2018. This impact was enhanced by the positive contribution of the group wide bond portfolio for the financial year 2018.

Net fee and commission income for Addiko Group's Corporate Center Segment

Net fee and commission income increased from EUR -1.6 million in the financial year 2017 by EUR 0.7 million to EUR -0.9 million in the financial year 2018. This was primarily due to lower commission expenses related to treasury transactions.

Net result on financial instruments for Addiko Group's Corporate Center Segment

Net result on financial instruments increased from EUR 9.7 million in the financial year 2017 by EUR 60.2 million to EUR 70.0 million in the financial year 2018. The impact mainly reflects the EUR 61.0 million income related to the shareholder's debt waiver on March 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver"). The amount is the difference between the carrying amount of EUR 190.0 million and its fair value of EUR 128.7 million, which was recognized as a direct capital contribution.

Other operating result for Addiko Group's Corporate Center Segment

Other operating result decreased from EUR -0.5 million in the financial year 2017 by EUR 7.3 million to EUR -7.8 million in the financial year 2018. The decrease is primarily driven by the reduction of releases relating to provisions for legal cases from EUR 16.2 million by EUR 5.0 million to EUR 11.2 million in the financial year 2018. The releases reflect the successful settlement of lengthy court cases. Operating results further include regulatory charges to the Single Resolution Fund, bank levies and supervisory charges as well as impairments on non-financial assets. These items slightly increased in the financial year 2018 from a total EUR -19.8 million by EUR 0.8 million to EUR 20.6 million.

Operating expenses for Addiko Group's Corporate Center Segment

Operating expenses only slightly increased from EUR -71.9 million in the financial year 2017 by EUR 1.0 million, or 1.3%, to EUR -72.9 million in the financial year 2018. This development was primarily driven by extraordinary expenses for capital market readiness (EUR 2.6 million) partially compensated by lower operating expenses due to the bank's strict cost management.

Credit loss expenses on financial assets for Addiko Group's Corporate Center Segment

Change in credit loss expenses on financial assets increased from EUR 0.0 million in the financial year 2017 by EUR 4.1 million to EUR 4.1 million in the financial year 2018. This movement mainly relates to releases of provisions regarding high credit risk exposures towards national banks in Bosnia & Herzegovina. The higher credit risk exposure towards these national banks reflect credit risk parameters such as political instability of the region. During the financial year 2018 this credit risk exposure significantly decreased leading to releases of related provisions. Further releases relate to a modelling buffer after the adjustment of the corresponding models to longer time series.

11.5.4 Comparison of the Financial Year ended December 31, 2017 , and the Financial Year ended 2016

Profit and loss statement*	For the financial year ended December 31, 2017	2016
	(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)	
Interest income calculated using the effective interest method	226.0[1]	232.2[1]
Other interest income	8.3[2]	6.0[2]
Interest expense	-68.9[3]	-79.4[3]
Net interest income	**165.3**	**158.8**
Fee and commission income	71.3[4]	62.0[5]
Fee and commission expense	-12.8[4]	-12.0[5]
Net fee and commission income	**58.5**	**50.0**
Net result on financial instruments	9.7	20.3[6]
Other operating income	27.4[7]	29.6[3]
Other operating expenses	-34.0[7]	-71.7[3]
Operating income	**226.9**	**187.0**
Personnel expenses	-97.4	-99.8
Other administrative expenses	-80.9	-93.1
Depreciation and amortization	-11.7	-19.5
Operating expenses	**-190.1**	**-212.4**
Operating result before change in credit loss expense	**36.9**	**-25.4**
Credit loss expenses on financial assets	-15.1	4.4
Operating result before tax	**21.8**	**-21.0**
Taxes on income	19.9	-2.9
Result after tax	**41.6**	**-23.9**
Selected Performance Indicators		
Net interest income/total average assets[8]	2.4%	2.2%[9, 14]
Cost/income ratio[10]	84.9%[10]	101.8%[10, 14]
Cost of risk ratio[11]	-0.3%	0.1%[14]
Return on average equity[12]	4.5%[14]	n.a.[14]
Return on average tangible equity (RoTE)[13]	4.6%[14]	n.a.[14]

* The line item structure of the table presented follows that of the consolidated statement of comprehensive income in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Interest income calculated using the effective interest method comprises interest income from available-for-sale financial assets, loans and receivables, held-to-maturity investments and derivatives – hedge accounting, interest rate risk as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

2 Other interest income comprises interest income from financial assets held for trading, other assets and dividend income as disclosed in the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

4 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.

5 Fee and commission income and fee and commission expense were not presented as separate line items in the Audited Consolidated Financial Statements as of and for the financial year 2016. Numbers taken from the accounting records as of and for the financial year 2016 (unaudited).

6 Net result on financial instruments was not presented as a separate line item in the Audited Consolidated Financial Statements as of and for the financial year 2016. As of and for the financial year 2016, the position is calculated on the basis of the Audited Consolidated Financial Statements positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L".

7 Numbers follow the presentation in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018. As of and for the financial year 2018 the presentation of other operating result was changed to gross presentation of other operating income and other operating expenses, including the comparative figures. The new presentation improves the understanding of Addiko Group's financial performance.

8 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets.

9 Net interest income/total average assets for the financial year 2016 was taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

10 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements for

the financial years 2016 and 2017 where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.

[11] Calculated based on total credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

[12] Based on the result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year.

[13] Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts.

[14] Unaudited Company information.

(Source: Audited Consolidated Financial Statements and Company information)

11.5.4.1 Comparison of the Financial Year ended December 31, 2017, and the Financial Year ended December 31, 2016 for Addiko Group

Net interest income for Addiko Group

Net interest income increased from EUR 158.8 million in the financial year 2016 by EUR 6.5 million, or 4.1%, to EUR 165.3 million in the financial year 2017. This was primarily due to lower interest rates for customer deposits. Compared to the prior-year period, the net interest margin increased by 23 basis points to 240 basis points, reflecting Addiko Group's focus on risk-adjusted pricing and on optimizing its liability structure. The margin increase was achieved after absorbing EUR 12.4 million higher interest expenses on Addiko Group's additional Tier 2 capital of EUR 130 million issued in February 2017 (total Tier 2 capital interest expenses increased to EUR 19.3 million, compared to EUR 6.9 million in 2016).

Interest income decreased from EUR 238.2 million in the financial year 2016 by EUR 4.0 million to EUR 234.2 million in the financial year 2017, mainly driven by lower interest income on loans and receivables of EUR 3.7 million. The lower interest income was mainly due to strategic reduction of the non-focus portfolio, where the gross performing loans reduced from EUR 2,129.8 million as of December 31, 2016, by EUR -386.8 million, or -18%, to EUR 1,743.0 million as of December 31, 2017, and the corresponding interest income reduced from EUR 95.8 million for the financial year 2016, by EUR 22.0 million, or -23%, to EUR 73.8 million for the financial year 2017. The decrease in overall interest income was partly offset by the increase in the Consumer Business, where the gross performing loans increased from EUR 774.0 million as of December 31, 2016, by EUR 253.9 million, or 33%, to EUR 1,027.8 million as of December 31, 2017, and the corresponding interest income increased from EUR 50.7 million in the financial year 2016, by EUR 21.6 million, or 43%, to EUR 72.4 million in the financial year 2017.

Interest income includes income of EUR 9.5 million (2016: EUR 10.5 million) from unwinding of the present value of future cash flows expected from non-performing loans in accordance with the IAS39 accounting methodology applied to determine loan loss provisions and commission income similar to interest.

Interest expenses decreased from EUR 79.4 million in the financial year 2016 by EUR 10.5 million to EUR 68.9 million in the financial year 2017. The lower interest expenses were mainly driven by reduced expenses on deposits, which decreased from EUR 54.2 million in the financial year 2016 by EUR 9.2 million to EUR 45.0 million in the financial year 2017. This was possible due to the shift from term to overnight deposits, which increased from 40% of total customer deposits as of December 31, 2016 to 43% as of December 31, 2017. Addiko Group repaid the funding from the previous owner in the first quarter of the financial year 2017. The interest expense for the previous owner funding was EUR 8.5 million for the financial year 2016. In addition, interest expenses on derivatives (comprise derivatives - trading and derivatives - hedge accounting, interest rate risk) decreased by EUR 4.7 million and on other liabilities decreased by EUR 3.4 million.

Addiko Bank AG increased its Tier 2 capital from EUR 60.0 million by EUR 130.0 million to EUR 190.0 million in February 2017, which increased Tier 2 interest expenses to EUR 19.3 million (2016: EUR 6.9 million). Interest expenses on Tier 2 capital are reported within interest expenses from financial liabilities measured at amortized costs. The EUR 60.0 million tranche issued in 2016 had an annual interest rate of 14.0% and was due for repayment on March 10, 2026. The EUR 130.0 million Tier 2 tranche issued in February 2017 had an annual interest rate of 10.0% with a maturity on February 27, 2027. Both Tier 2 capital tranches were waived by the creditor in the first quarter of 2018 (for further information please refer to section 11.3.14 "Tier 2 waiver").

The following table presents the interest expense by type:

	For the financial year ended December 31,	
	2017	2016
	(in EUR million) (audited, unless otherwise indicated)	
Deposits of customers	42.7	50.4
o/w customer deposits – network	38.1[3]	50.2[3]
o/w direct online deposits[1]	4.6[3]	0.2[3]
Deposits of credit institutions	2.4	3.9
Tier 2 capital	19.3	6.9
Other financial liabilities[2]	4.6[3]	18.3[3]
Total	**68.9**	**79.4**

[1] Relates to deposits collected over the online platform in Austria and Germany
[2] Relates mainly to debt securities issued (certificates of deposits) and HETA financing lines
[3] Unaudited Company information
(Source: Audited Consolidated Financial Statements and Company information)

Net fee and commission income for Addiko Group

Net fee and commission income increased from EUR 50.0 million in the financial year 2016 by EUR 8.5 million, or 17.0%, to EUR 58.5 million in the financial year 2017. This was primarily due to higher product and customer focus increasing the transaction income and fee income from current account maintenance fees, increased sales performance supported by new functionalities (e.g., dynamic currency conversion implemented across the whole ATM network as a successful conclusion of the outsourcing of all ATMs to a strategic partner). Payment services are the main contributor to net fee and commission income, which increased from EUR 41.1 million in the financial year 2016 by EUR 8.2 million to EUR 49.2 million in the financial year 2017. Net fee and commission income from lending business increased by EUR 0.1 million, from custody decreased by EUR 1.3 million and from other activities increased by EUR 1.5 million.

Fee and commission income increased from EUR 62.0 million in the financial year 2016 by EUR 9.3 million, or 14.9% to EUR 71.3 million in the financial year 2017, mainly due to the above mentioned payment business. Other drivers are newly introduced accounts products in the Retail business as well as credit cards, foreign exchange transactions (e.g. cash transfers, ATM withdrawals in currencies) and bancassurance.

Fee and commission expense increased from EUR -12.0 million in the financial year 2016 by EUR -0.8 million, or 6.4% to EUR -12.8 million in the financial year 2017. The fee and commission expense mainly relates to credit cards and payment transactions business, which is being driven by the focus business Consumer Business and SME Business Segment.

Gains and losses on financial assets and liabilities for Addiko Group

Gains and losses on financial assets and liabilities decreased from EUR 20.3 million in the financial year 2016 by EUR 10.6 million, or 52.2%, to EUR 9.7 million in the financial year 2017. The result for 2017 was primarily due to gains on the sale of bonds (EUR 8.5 million), gains on FX trading/ FX derivatives (EUR 17.1 million), gains on interest rate derivatives and instruments (EUR 9.0 million) and losses from exchange differences on trading activities (EUR -24.1 million). In the corresponding period 2016, the overall positive result was mainly driven by FX trading/ FX derivatives (EUR 13.6 million), losses on interest rate derivatives and instruments (EUR -4.4 million) and income from the sale of VISA shares held as equity investments for trading (EUR 8.5 million).

Other operating result for Addiko Group

Other operating result increased from EUR -42.1 million in the financial year 2016 by EUR 35.5 million, or 84.5%, to EUR -6.5 million in the financial year 2017.

The variation in the result between 2016 and 2017 was mainly influenced by additions and releases to provisions and expenses for threatened and actual legal disputes in which Addiko Group is the defendant (passive legal cases), by income in connection with the CHF conversion losses in Croatia and by reduced income and expenditures as further discussed below.

Net charges to provisions and expenses for passive legal cases amounted to EUR -37.0 million in the financial year 2016, improving in 2017 by EUR 46.5 million to EUR 9.5 million net income in the financial year 2017. Results from provisions and expenses for passive legal cases in 2017 contains income from the release of provisions for potential legal risks in connection with existing customer claims in the amount of EUR 16.2 million. The income was partially offset by a charge of EUR 6.7 million for pending legal cases (for further details please refer to 10.3.7.1 “Passive legal cases”).

Impairment or reversal of impairment on non-financial assets increased from EUR -8.9 million in the financial year 2016 by EUR 2.8 million to EUR -6.1 million in the financial year 2017. According to Addiko Group’s new business strategy, Addiko Group seeks to exit from all non-core activities and concentrate on the pure banking business. As a part of this strategy, Addiko Group started to review all owned real estate assets, with the purpose of identifying which assets could be disposed of in the short-term. Once the selection process was completed, updated appraisals were ordered for all relevant properties. By

comparing the carrying amount of the assets for sale with the fair value less cost to sell specified in the updated appraisals, a need for impairment in the amount of EUR -4.3 million was identified and recognized in the consolidated financial statements. In the financial year 2016, the main reasons for the recognition of impairment were the relocation of the Bosnia & Herzegovina headquarters from Mostar to Sarajevo as well as the outsourcing of IT services in Croatia.

Banking levies and other taxes, which decreased from EUR -5.7 million in the financial year 2016 by EUR 2.5 million to EUR -3.2 million in the financial year 2017, include a one-time payment for the stability fee in connection with the Austrian banking tax in the amount of EUR 3.6 million in financial year 2016. Please refer to section 11.3.10 for further information. In the financial year 2018, Addiko Group harmonized the booking entries for bank levies and other regulatory charges across its network banks. Thus the overview shown in section 11.3.10 “Regulatory environment” deviates from the bank levies and regulatory charges shown in the Audited Consolidated Financial Statements of Addiko Group for the financial years 2016 and 2017.

Other changes in the other operating result relates to results from operating lease assets, which decreased by EUR 3.4 million (EUR 6.3 million and EUR 2.9 million for the financial years 2016 and 2017, respectively), to restructuring expenses and income, which increased by EUR 4.1 million (EUR -5.5 million and EUR -1.4 million for the financial years 2016 and 2017, respectively), to the resolution fund, which decreased by EUR 0.5 million (EUR -1.6 million and EUR -2.1 million for the financial years 2016 and 2017, respectively), to the deposit guarantee, which increased by EUR 1.1 million (EUR -9.0 million and EUR -7.9 million for the financial years 2016 and 2017, respectively) and other, which decreased by EUR 17.8 million (EUR 19.5 million and EUR 1.7 million for the financial years 2016 and 2017, respectively) mainly due to releases from CHF conversion cases in Croatia in the amount of EUR 12.9 million in the financial year 2016 (EUR 0.0 million in the financial year 2017) as well as disposal of assets classified as held for sale (IFRS 5) in the amount of EUR 3.7 million in the financial year 2016 (EUR 1.6 million in the financial year 2017).

Personnel expenses for Addiko Group

Personnel expenses slightly decreased from EUR -99.8 million in the financial year 2016 by EUR 2.4 million, or 2.4%, to EUR -97.4 million in the financial year 2017 mainly as a result of the decrease of average FTEs from 3,318 in the financial year 2016 to 3,052 in the financial year 2017 due to several efficiency and right-sizing programs, which were completed in the financial year 2017.

Other administrative expenses for Addiko Group

The below table sets forth Addiko Group’s other administrative expenses for the years ended December 31, 2017 and 2018:

	For the financial year ended December 31,			
	2017	**2016**	**Δ**	**Δ%**
	(in EUR million)		**(in EUR million, unless otherwise indicated)**	
	(audited)		**(unaudited)**	
Rent and other building expenses	16.2	21.0	-4.8	-23%
IT expense (other)	28.5	28.7	-0.2	-1%
Office costs	1.3	1.5	-0.2	-13%
Advertising costs	7.8	4.9	2.9	60%
Communication expenses (phone, fax, internet etc.)	6.7	6.2	0.5	9%
Legal and advisory costs	9.3	14.6	-5.3	-36%
Other administrative expenses	11.1	16.3	-5.2	-32%
Total administrative expenses	**80.9**	**93.1**	**-12.2**	**-13%**

(Source: Audited Consolidated Financial Statements and Company information)

Total administrative expenses decreased from EUR -93.1 million in the financial year 2016 by EUR 12.2 million, or 13.1%, to EUR -80.9 million in the financial year 2017. This was primarily due to legal and advisory costs, which decreased by EUR 5.3 million, or 36.3%. Advisory costs in the financial year 2016 include costs in the amount of EUR 3.1 million for lawyers and related court costs in the context of CHF conversion laws approved in 2015 by Croatia and Montenegro (consumer protection acts). In addition, other administrative expenses decreased by EUR 5.2 million, or 31.9%, compared to the financial year 2016. Premises expenses (rent and other building expenses) decreased from EUR -21.0 million in the financial year 2016 by EUR 4.8 million, or 22.9%, to EUR -16.2 million in the financial year 2017. This decrease was partially offset by an increase in advertising costs of EUR 2.9 million compared to the financial year 2016, reflecting marketing inactivity during the first half of financial year 2016 due to preparation of re-branding campaign initiated in July 2016.

Rent and other building expenses decreased by EUR 4.8 million to EUR -16.2 million in the financial year 2017 reflecting space optimization (reduction in surplus office space by app. 7.400 m2 in 2017). Due to the re-branding process preparation (introduction of the Addiko brand) initiated in July 2016 the advertising activity in the financial year 2016 was lower compared to the financial year 2017. As a result, the improved activity increased the advertising costs by EUR 2.9 million in the financial year 2017. The legal and advisory costs decreased by EUR 5.3 million (or 36%) in the financial year 2017,

mainly as a result of one-off expense in the amount of EUR 3.1 million recognized in the financial year 2016 for CHF conversion laws approved in 2015 by Croatia and Montenegro (consumer protection acts). Other administrative expenses reduced by EUR 5.2 million reflecting disciplined and firm cost management as well as monitoring and implementing new operating model.

Depreciation and amortization for Addiko Group

Depreciation and amortization decreased from EUR -19.5 million in the financial year 2016 by EUR 7.8 million, or 39.9%, to EUR -11.7 million in the financial year 2017. This was primarily due to Addiko Group's strategy to focus on its core business and therefore reduce its leasing business, leading to lower depreciation and amortization expenses for tangible assets, which decreased from EUR -14.7 million in the financial year 2016 by EUR 8.7 million, or 59.2%, to EUR -6.0 million in the financial year 2017.

Credit loss expenses on financial assets for Addiko Group

Impairment or reversal on loans and receivables changed from EUR 4.4 million in the financial year 2016 down to EUR -15.1 million in the financial year 2017. This was primarily the result of an increase in risk provisions of EUR 75.2 million, or 76.0%, from EUR -99.0 million in the financial year 2016 due to the financial difficulties of a large Croatian corporate debtor of Addiko Group. A borrower of this size does not exist anymore in the Large Corporates Segment. This negative impact was partially offset by the release of risk provisions due to strong collection and recovery activities as well as the sale of non-performing portfolios of the Retail Segment. Additionally, individually material provision amounts were allocated for fraud cases in the retail underwriting process in Montenegro and Slovenia during the first half of 2017.

The increase in risk provision was offset primarily by releases in the Retail Segment relating to CHF-converted loans in Croatia as well as by settlement agreements and debt sales (especially by Addiko Group's Croatian, Serbian and Bosnian entities). As a result, reversals increased from EUR 125.8 million in the financial year 2016 by EUR 26.8 million, or 21.3%, to EUR 152.6 million in the financial year 2017.

Tax on income for Addiko Group

Tax on income changed from EUR -2.9 million in the financial year 2016 by EUR 22.8 million, resulting in a benefit of EUR 19.9 million in the financial year 2017. This change was mainly due to a deferred tax, which amounted to EUR 22.0 million in the financial year 2017 (2016: EUR -1.3 million). Tax effects from the change in recognition of DTA on tax loss carry-forwards and temporary differences in accordance with IAS 12 increased from EUR 1.4 million in the financial year 2016 by EUR 20.4 million to EUR 21.8 million in the financial year 2017. The recoverability of a DTA due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. At the end of the financial year 2017, Addiko Group recognized DTA on existing tax loss carry-forwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences. The recognition was based on the successful turnaround process initiated by the new ownership, which led Addiko Group back to a stronger market presence and better financial results by implementing a new business strategy, raising the efficiency of operations and the quality of its service. For more detail on tax on income and tax assets please refer to "*11.3.12 Income taxes, deferred taxes and tax losses carried forward*" above.

11.5.4.2 Comparison of the Financial Year ended December 31, 2017, and the Financial Year ended December 31, 2016 for Addiko Group's segments

Since the current segment definition took place in 2018, segmental comparables are not fully available for the financial year ended December 31, 2016. The below tables depict the comparable performing loan volumes and the interest income for the financial years ended at December 31, 2016 and at December 31, 2017:

	Gross performing loans* for the financial year ended December 31,		Interest income* for the financial year ended December 31,		Interest rate for the financial year ended December 31,	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
			(in EUR million)			
	(audited, unless otherwise indicated)		(audited, unless otherwise indicated)		(unaudited)	
Consumer Business	1,027.8	774.0[3]	72.4	50.7[3]	8.0%[2]	6.6%[1]
SME Business Segment....................	791.2	646.4[3]	26.0	27.3[3]	3.6%[2]	4.2%[1]
Focus area	**1,819.0**	**1,420.3[3]**	**98.4**	**78.0[3]**	**6.1%[2]**	**5.5%[1]**
Mortgage Business ...	998.9	1,163.1[3]	44.0	54.7[3]	4.1%[2]	4.7%[1]
Large Corporates Segment....................	469.1	457.4[3]	14.7	17.6[3]	3.2%[2]	3.9%[1]
Public Finance Segment....................	275.1	509.3[3]	15.1	23.5[3]	3.9%[2]	4.6%[1]
Non-focus area........	**1,743.0**	**2,129.8[3]**	**73.8**	**95.8[3]**	**3.8%[2]**	**4.5%[1]**
Total gross performing loans	**3,562.0**	**3,550.1[3]**	**172.1**	**173.8[3]**	**4.8%[2]**	**4.9%[1]**

* Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

[1] Calculated based on gross performing loans at December, 31 2016 and not on average gross performing loans for the financial year 2016, because gross performing loans at December 31, 2015 were not available for the current segment structure

[2] Calculated based on simple average of gross performing loans at beginning and at end of period for the respective year

3 Unaudited Company information

(Source: Audited Consolidated Financial Statements and Company information)

Gross performing loan development

Total performing loans in the Focus area increased from EUR 1,420.3 million as of December 31, 2016 by EUR 398.7 million, or 28.1%, to EUR 1,819.0 million as of December 31, 2017, thereby confirming Addiko's shift in strategy to set the focus on unsecured lending to consumers and SME.

Total performing loans in the Non-focus area decreased from EUR 2,129.8 million as of December 31, 2016 by EUR 386.8 million, or 18.2%, to EUR 1,743.0 million as of December 31, 2017. The decrease is in line with Addiko's strategy to reduce exposure in mortgage lending, large corporate clients and to the public sector.

Interest income development

Total Interest income in the Focus area increased from EUR 78.0 million as of December 31, 2016 by EUR 20.3 million, or 26.1%, to EUR 98.4 million as of December 31, 2017. This was mainly driven by the increase in outstanding loan volume.

Total interest income in Non-focus area decreased from EUR 95.8 million as of December 31, 2016 by EUR 22.0 million, or 23.0%, to EUR 73.8 million as of December 31, 2017. This was mainly driven by the decrease in outstanding loan volume in Non-focus area.

11.6 Adjusted Results

11.6.1 Overview

Addiko Group has chosen to focus new lending business activities predominately on the Retail Segment's non-mortgage business and the SME Business Segment (its "focus areas"), while the legacy business of the Large Corporates Segment, the Public Finance Segment and the Retail Segment's Mortgage Business (its "non-focus areas") entered into previously continues to be steered and managed to maturity. Consequently, Addiko Group believes that a more insightful assessment of its performance can be obtained by making certain adjustments to its reported results in order to show historical earnings generated by Addiko Group's current business model and organizational structure.

The adjusted consolidated income statement data presented below constitutes an alternative performance measure and should not be considered in isolation of, as a substitute for, or superior to, the financial information prepared in accordance with IFRS, and should be read in conjunction with Addiko Group's Consolidated Financial Statements included in this Prospectus. Use of alternative performance measures, such as the adjusted consolidated income statement data presented below, is subject to inherent limitations because they do not include all the expenses that must be included under IFRS and because they involve the exercise of judgment of which revenue and expense items should properly be excluded from the alternative performance measure. Investors are cautioned therefore not to place undue reliance on such alternative performance measures.

The adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model. No hypothetical or opportunistic adjustments were made to the reported results, i.e. adjustments were only made if an underlying record in Addiko Group's accounting system was booked.

11.6.1.1 Primary underlying drivers for the adjustment of the results

Implementation of the operating model

An integral part of Addiko Group's transformation process was a systematic review of the entire organization at all levels, with the goal of implementing a new operating model. Addiko Groups' former business model was restructured in two waves (wave 1 in 2015, wave 2 in 2016 and 2017) and focused on headcount optimization (mainly resulting in staff costs related to redundancy payments) and IT outsourcing. In 2016, a major deal was concluded with a global provider for IT infrastructure services. Costs incurred (e.g. redundancy pay, asset write off charges, closure costs, onerous contract costs) in connection with these restructuring waves were adjusted.

Sale and wind-down of non-core business activities

In line with its strategy to focus on its core banking business, Addiko Group decided to exit non-core business activities such as leasing and asset management. Following the sale of the Slovenian leasing and asset management business in 2016, the sale of the Croatian asset management entity was completed in the third quarter of the financial year 2017. Winding-down of the leasing portfolios in Croatia (a significant part of the portfolio was sold in the fourth quarter of the financial year 2017) and in Bosnia & Herzegovina significantly decreased total assets, leading to the exclusion of both entities from the scope of consolidation. Income and expenses from activities no longer carried out by Addiko Group were therefore adjusted.

Swiss Franc loan conversion (Croatia, Montenegro and Bosnia & Herzegovina)

Addiko Group was affected by the retroactive laws implemented in Croatia and Montenegro in 2015 in connection with CHF loan conversion relating to Addiko Group's past lending indexed in Swiss Franc. In 2016, the effects of the Swiss Franc loan conversion primarily affected Addiko Group's business in Bosnia & Herzegovina, where Addiko Group made voluntary offers to its private individual clients with outstanding Swiss Franc loans.

Expenses incurred in connection with the implementation of the CHF loan conversion legislation in Croatia and Montenegro (mandatory) and in Bosnia & Herzegovina (voluntary) were normalized. This also applies to income from the release of provisions set up in prior years, which were no longer required.

In general foreign exchange (FX) gains and losses arising from changes in legislation were normalized.

Settlement of passive legal cases

Costs incurred in setting up provisions for the settlement of passive legal disputes with customers originated pre-acquisition of Addiko Group by Advent and EBRD, for which reps & warranty coverage under the Share Purchase Agreement between HETA and Advent/EBRD was waived in connection with the HETA settlement agreement, were also adjusted. This also applies to income from the release of provisions set up in prior years, which were no longer required.

Tier 2 capital provided by the current shareholder

Interest paid on the Tier 2 capital provided by Addiko Group's parent in the financial years 2016 and 2017 and prematurely waived by the parent without compensation in 2018 was adjusted, reflecting Addiko Group's present pure core equity capital structure. All income received and expenses incurred in connection with the Tier 2 capital issuances and the Tier 2 waivers were adjusted.

11.6.1.2 Types of adjustments for the adjusted results

In context of the adjustment of its results Addiko Group differentiates the following types of adjustments:

(i) *Non-operating/non-recurring income and expenses*

Income and expenditure which is either non-recurring or is not relating to the current operating business model (non-operating) are eliminated from reporting results (e.g. gains/losses arising from legislative changes; restructuring measures; resolution of historical litigation).

(ii) *Structural changes & income/expenses relating to other periods*

In order to reflect structural and organizational changes, income and expense from (i) activities no longer carried out (e.g. the leasing businesses activities were terminated) or (ii) newly acquired business activities by Addiko Group are removed or added to the reported result in order to reflect Addiko Group's current business model.

Income/expenses relating to other periods are adjusted to reflect a consistent classification of income and expense over time (e.g. charges to provisions in one period, which were subsequently released in other periods, are eliminated).

(iii) *Re-classifications*

Re-classifications relate to adjustments that are driven by a changed presentation of reported income and expense in the periods under review. E.g. a regulatory change resulted in decrease of net commission income. Reported income and expense is adjusted for as if the current regulatory change was in place in all periods under review.

11.6.2 Comparison of reported and adjusted results of the three-month periods ended March 31, 2019 and 2018 for Addiko Group

	Adjusted for the three-month period ended March 31,		Aggregate adjustments		Reported for the three-month period ended March 31,	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)		(in EUR million, unless otherwise indicated) (unaudited)		(in EUR million, unless otherwise indicated) (unaudited)	
Income Statement						
Interest income	52.3	52.6	-	-	52.3	52.6
Interest expense	-7.5	-10.4	-	3.6	-7.5	-14.0
Net interest income	**44.9**	**42.2**	**-**	**3.6**	**44.9**	**38.6**
Net fee and commission income	15.6	13.5	-	-	15.6	13.5
Net result on financial instruments	3.3	9.5	-	-61.0	3.3	70.5
Other operating result	-6.7	-6.4	-1.3	-	-5.4	-6.4
Operating income	**57.0**	**58.8**	**-1.3**	**-57.4**	**58.3**	**116.2**
Operating expenses	-47.4	-46.5	0.9	-0.2	-48.3	-46.3
Operating result	**9.6**	**12.3**	**-0.4**	**-57.6**	**10.0**	**69.9**
Credit loss expenses on financial assets	3.4	9.0	-0.3	-1.9	3.7	10.9
Result before tax	**12.9**	**21.3**	**-0.7**	**-59.5**	**13.7**	**80.8**
Tax on income*	-4.5*	-7.9*	-0.9	-3.4	-3.6	-4.6
Result after tax	**8.5**	**13.3**	**-1.6**	**-62.9**	**10.1**	**76.2**
Key ratios						
Net interest income/total average assets[1]	3.0%	2.7%	0.0%	0.2%	3.0%	2.5%
Cost of risk ratio[2]	0.1%	0.2%	-0.0%	-0.0%	0.1%	0.2%
Cost/income ratio[3]	78.5%	83.6%	-1.5%	-5.3%	80.0%	88.9%
Return on average equity[4]	4.1%	6.4%	-0.8%	-30.3%	4.8%	36.8%
Return on average tangible equity (RoTE)[5]	4.2%	6.6%	-0.8%	-31.2%	5.0%	37.8%

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets. The specified (adjusted/reported) net interest income for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

2 Calculated based on total (adjusted) credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial period.

3 Calculated as the sum of (adjusted) personnel expenses, (adjusted) other administrative expenses and (adjusted) depreciation and amortization divided by the sum of (adjusted) net interest income and (adjusted) net fee and commission income.

4 Based on the (adjusted) result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified period. The specified (adjusted/reported) result after tax for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified period. The average amounts have been calculated as the simple average of the beginning and end of period total amounts. The specified (adjusted/reported) result after tax for the three-month period ended March 31, 2018 and 2019, respectively, has been multiplied by the factor 365/90 days for simple annualisation, regardless the contractual terms of the majority of the underlying contracts.

(Source: Company information)

Return on tangible equity @ 14.1% CET1 ratio

The return on tangible equity @ 14.1% CET1 ratio amounts to 5.5% for the three-month period ended March 31, 2019. This is based on the adjusted result before tax of EUR 12.9 million multiplied by the factor 365/90 days for simple annualisation, the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS

equity (EUR 828.0 million as of March 31, 2019) less any intangibles (EUR 31.2 million as of March 31, 2019), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 156.7 million as of March 31, 2019; the amount as of March 31, 2018 is calculated as the difference between EUR 805.3 million CET1 capital and the total RWAs in the amount of EUR 4,599.8 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

11.6.2.1 Adjustments made to reported results of the three-month periods ended March 31, 2019 and 2018 for Addiko Group

Adjustments to interest income

	for the three-month period ended March 31,	
	2019	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported interest income	**52.3**	**52.6**
No adjustments to reported interest income	-	-
Adjusted interest income	**52.3**	**52.6**

(Source: Company information)

Adjustments to interest expense

	for the three-month period ended March 31,	
	2019	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported interest expense	**-7.5**	**-14.0**
Elimination of interest expense on Tier 2 capital provided by the shareholder, to reflect current and revised capital structure following the conversion of Tier 2 into equity in March 2018.	-	3.6
Adjusted interest expense	**-7.5**	**10.4**

(Source: Company information)

Adjustments to net fee and commission income

	for the three-month period ended March 31,	
	2019	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported net fee and commission income	**15.6**	**13.5**
No adjustments to reported net fee and commission income.	-	-
Adjusted net fee and commission income	**15.6**	**13.5**

(Source: Company information)

Adjustments to net result on financial instruments

	for the three-month period ended March 31,	
	2019	**2018**
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported net result on financial instruments	**3.3**	**70.5**
In March 2018, Addiko Group's shareholder agreed to perform a waiver of their entire Tier 2 capital in the amount of EUR 190 million. The waiver resulted in a positive income of EUR 61 million (difference between carrying amount and fair value of the Tier 2 instruments) which is adjusted herein.	-	-61.0
Adjusted net result on financial instruments	**3.3**	**9.5**

(Source: Company information)

Adjustments to other operating result

	for the three-month period ended March 31,	
	2019	2018
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported other operating result	**-5.4**	**-6.4**
Elimination of releases of provisions for passive legal cases following active settlement strategy and re-assessment of expected claims. Total provisions initially booked in the financial year 2016 (EUR 19.5 million)	-1.3	-
Adjusted other operating result	**-6.7**	**-6.4**

(Source: Company information)

Adjustments to operating expenses

	for the three-month period ended March 31,	
	2019	2018
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported operating expenses	**-48.3**	**-46.3**
Elimination of costs of preparing the Tier 2 waiver contract.	-	0.1
Elimination of releases of provisions for onerous contracts (including rental contracts of bank branches and local HQ): Each quarter Addiko conducts assessment whether contracts are renegotiated or branches turn to be profitable again which would lead to a release of the booked provision.	-	-0.5
Advisory costs regarding capital market readiness.	0.9	0.2
Adjusted operating expenses	**-47.4**	**-46.5**

(Source: Company information)

Adjustments to credit loss expenses on financial assets

	for the three-month period ended March 31,	
	2019	2018
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported credit loss expenses on financial assets	**3.7**	**10.9**
Elimination of loan loss provisioning for Large Corporate clients, which have been identified to be outside target profile.	-0.3	-1.9
Adjusted credit loss expenses on financial assets	**3.4**	**9.0**

(Source: Company information)

Adjustments to tax on income

	for the three-month period ended March 31,	
	2019	2018
	(in EUR million, unless otherwise indicated) (unaudited)	
Reported tax on income	**-3.6**	**-4.6**
Elimination of the positive DTA ramp up effect, which resulted from previous taxable losses and can only be utilised for a maximum timeframe of 5 years.	-0.9	-3.4
Adjusted tax on income[1]	**-4.5**	**-7.9**

1 Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

(Source: Company information)

11.6.3 *Comparison of reported and adjusted results of the Financial Years ended December 31, 2018, 2017 and 2016 for Addiko Group*

	Adjusted for the financial year ended December 31,			Aggregate adjustments			Reported for the financial year ended December 31,		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
	(in EUR million, unless otherwise indicated) (unaudited)			(in EUR million, unless otherwise indicated) (unaudited)			(in EUR million, unless otherwise indicated) (audited, unless otherwise indicated)		
Income Statement									
Interest income	213.8	221.8	226.7	-	-12.4	-11.4	213.8	234.2	238.2
Interest expense	-37.1	-49.2	-72.5	3.6	19.7	6.9	-40.7	-68.9	-79.4
Net interest income	**176.7**	**172.6**	**154.2**	**3.6**	**7.3**	**-4.6**	**173.2**	**165.3**	**158.8**
Net fee and commission income	62.4	58.5	54.7	-	0.0	4.8	62.4	58.5	50.0
Net result on financial instruments	9.0	5.1	6.5	-61.0	-4.6	-13.9	70.0	9.7	20.3
Other operating result	-18.2	-19.2	-29.0	-1.7	-12.7	13.1	-16.5	-6.5	-42.1
Operating income	**229.9**	**217.0**	**186.4**	**-59.1**	**-10.0**	**-0.6**	**289.0**	**226.9**	**187.0**
Operating expenses	-186.9	-193.0	-200.8	1.2	-2.9	11.7	-188.1	-190.1	-212.4
Operating result	**43.0**	**24.0**	**-14.4**	**-57.9**	**-13.0**	**11.1**	**100.9**	**36.9**	**-25.4**
Credit loss expenses on financial assets	2.3	11.3	2.6	-0.5	26.4	-1.8	2.8	-15.1	4.4
Result before tax	**45.4**	**35.3**	**-11.7**	**-58.3**	**13.5**	**9.3**	**103.7**	**21.8**	**-21.0**
Tax on income*	-14.5	-9.3	-2.8	-15.0	-29.2	0.1	0.5	19.9	-2.9
Result after tax	**30.9**	**25.9**	**-14.6**	**-73.3**	**-15.7**	**9.4**	**104.2**	**41.6**	**-23.9**
Key ratios									
Net interest income/total average assets[1]	2.8%	2.5%	2.1%	0.1%	0.1%	-0.1%	2.7%	2.4%	2.2%[7]
Cost of risk ratio[2]	0.0%	0.2%	0.1%	-0.1%	0.5%	0.0%	0.1%	-0.3%	0.1%[7]
Cost/income ratio[3]	78.1%	83.5%	96.1%	-1.8%	-1.4%	-5.7%	79.9%	84.9[6]	101.8%[6,7]
Return on average equity[4]	3.6%	2.8%	n.a.	-8.6%	-1.7%	n.a.	12.2%[7]	4.5%[7]	n.a.[7]
Return on average tangible equity (RoTE)[5]	3.7%	2.9%	n.a.	-8.9%	-1.7%	n.a.	12.6%[7]	4.6%[7]	n.a.[7]

* Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

1 Total average assets have been calculated as simple average of the beginning of period total assets and end of period total assets.

2 Calculated based on total (adjusted) credit loss expenses on financial assets and the credit bearing risk exposure as of and for the specified financial year.

3 Calculated as the sum of (adjusted) personnel expenses, (adjusted) other administrative expenses and (adjusted) depreciation and amortization divided by the sum of (adjusted) net interest income and (adjusted) net fee and commission income.

4 Based on the (adjusted) result after tax divided by total average shareholder's equity (average calculated as simple average of shareholder's equity at the beginning and at the end of the period) for the specified year.

5 Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts.

6 The cost income ratio in the Audited Consolidated Financial Statements for the financial years 2016 and 2017 was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income. This deviates from the above methodology in footnote 3.

7 Unaudited Company information.

(Source: Audited Consolidated Financial Statements and Company information)

Return on tangible equity @ 14.1% CET1 ratio

The return on tangible equity @ 14.1% CET1 ratio amounts to 4.2% (2.6%) for the financial year 2018 (for the financial year 2017). This is based on the adjusted result before tax of EUR 45.4 million (EUR 35.3 million) for the financial year 2018 (for the financial year 2017), the after tax expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets (the coupon is based on guidance received based on the market environment as of May, 2019) and a long-term theoretical tax rate of 21% (i.e. not reflecting any impact from DTAs). The tangible equity @ 14.1% CET1 ratio is defined as Addiko Group's IFRS equity (EUR 859.5 million and EUR 844.0 million as of December 31, 2018 and 2017, respectively) less any intangibles (EUR 30.3 million and EUR 21.8 million as of December 31, 2018 and 2017, respectively), less expenses for a theoretical Tier 2 instrument in the amount of 2% of the total risk weighted assets and less any excess regulatory CET1 capital above the target CET1 ratio of 14.1% (EUR 162.0 million and EUR 39.2 million as of December 31, 2018 and 2017, respectively; the amount as of December 31, 2018 is calculated as the difference between EUR 802.8 million CET1 capital and the total RWAs in the amount of EUR 4,545.0 million multiplied with the target CET1 ratio of 14.1%; the amount as of December 31, 2017 is calculated as the difference between EUR 695.3 million CET1 capital and the total RWAs in the amount of EUR 4,653.1 million multiplied with the target CET1 ratio of 14.1%). The average of the tangible equity @ 14.1% CET1 ratio is calculated based on beginning and end of period amounts.

11.6.3.1 Adjustments made to reported results of the Financial Years ended December 31, 2018, 2017 and 2016 for Addiko Group

The following tables present all adjustments per profit and loss item. Adjustments with a positive sign represent elimination of an expense item while adjustments with a negative sign represent elimination of an income item.

Adjustments to interest income

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported interest income	**213.8**[1]	**234.2**[1]	**238.2**[1]
Addiko strategically decided in 2016 to exit from non-core business activities like leasing and asset management, resulting in the divestment of Addiko Invest d.d., Zagreb (Croatian investment management subsidiary) and the sale of a significant part of the leasing portfolio of the Croatian leasing entity Hypo Alpe-Adria-Leasing d.o.o., Zagreb in the financial year 2017. Addiko Invest d.d., Zagreb was excluded from the scope of consolidation in the financial year 2017 due to insignificance. Hypo Alpe-Adria-Leasing d.o.o., Zagreb was also excluded from the scope of consolidation as the sale of a significant part of the portfolio of leasing activities was completed at the end of the financial year 2017.Therefore, interest income from both entities has been adjusted accordingly for the financial year 2016.	-	-	-2.0
Adjustment relates to dividend income (EUR 1.3 million) paid in March, 2017 from Addiko Invest d.d., Zagreb, which was divested in the financial year 2017	-	-1.3	-
Beginning January 1, 2018 IAS 39 has been replaced by IFRS 9. Under IFRS9, all interest payments received from impaired customers are recognized as reduction of the credit risk exposure, and effectively recorded within the credit loss expenses on financial assets. Under IAS 39, interest receipts from impaired customers were recognized as interest income in the financial years 2016 and 2017	-	-10.3	-11.2
Adjustment of income from Hypo Alpe-Adria-Leasing d.o.o., Zagreb, reflecting the portfolio sale in the financial year 2017.	-	-0.7	-
The consolidation bookings for the Addiko Bank d.d. Zagreb are adjusted for the sale of Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb	-	-	1.8
Adjusted interest income	**213.8**	**221.8**	**226.7**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

Adjustments to interest expenses

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported interest expenses	**-40.7**[1]	**-68.9**[1]	**-79.4**[1]
Elimination of interest expenses until October 2017 from Hypo Alpe-Adria-Leasing d.o.o., Zagreb (incl. the reversal of depreciation booked in Addiko Group) reflecting its divestment in the financial year 2017	-	0.4	1.7
Elimination of interest expense on Tier 2 capital provided by the shareholder, to reflect current and revised capital structure following the conversion of Tier 2 into equity in March 2018.	3.6	19.3	6.9
The consolidation bookings for the Addiko Bank d.d. Zagreb are adjusted for the sale of Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb	-	-	-1.8
Adjusted interest expenses	**-37.1**	**-49.2**	**-72.5**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

Adjustments to net fee and commission income

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported net fee and commission income	**62.4[1]**	**58.5[1]**	**50.0[1]**
Addiko Group identified in December 2017 that some countries had not charged fees on FX conversion services separately, but had included them in the trading result. The IFRS group manual was adjusted in the financial year 17, clarifying that the fee implicit in the bid/ask spread should be reported as component of the net fee and commission income.	-	-	5.7
Elimination of net commission income effects in the amount of EUR 0.9 million as well as consolidation bookings (EUR 6.2 thousand) relating to Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb, reflecting the divestments in Q3 and Q4 of the financial year 2017, respectively.	-	0.0	-0.9
Adjusted fee and commission income	**62.4**	**58.5**	**54.7**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

Net result on financial instruments

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported net result on financial instruments	**70.0[1]**	**9.7[1]**	**20.3[1]**
Reclassification of customer related FX conversion fees from trading result to the net fee and commission income (see corresponding adjustment in net fee and commission income above)	-	-	-5.7
Elimination of income and expenses (incl. the reversal of depreciation booked in Addiko Group) from Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb, reflecting the divestments in Q3 and Q4 of the financial year 2017, respectively.	-	-0.1	0.0
Elimination of expenses relating to divestment in 100%-owned Hypo Alpe-Adria-Leasing d.o.o. Banja Luka in December 2016, in context of the strategic decision to exit its leasing activities. Liquidation of Hypo Alpe-Adria-Leasing d.o.o. Banja Luka was initiated in September 2017	-	-	0.3
Elimination of Extraordinary gain of EUR 8.5 million from sale of Visa shares.	-	-	-8.5
Elimination of gains from bond sales in Addiko Company to generate liquidity for the repayment of HETA funding and an extraordinary dividend.	-	-4.6	-
In March 2018, Addiko Group's shareholder agreed to perform a waiver of their entire Tier 2 capital in the amount of EUR 190 million. The waiver resulted in a positive income of EUR 61 million (difference between carrying amount and fair value of the Tier 2 instruments) which is adjusted herein	-61.0	-	-
Adjusted net results on financial instruments	**9.0**	**5.1**	**6.5**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

Adjustments to other operating result (year by year)

Adjustments to other operating result	2018	2017	2016
	for the financial year ended December 31, (in EUR million) (unaudited, unless otherwise indicated)		
Reported other operating result	**-16.5[1]**	**-6.5[1]**	**-42.1[1]**
Elimination of EUR 0.4 million net income realized through the sale of Addiko Invest d.d., Zagreb in Q3 of the financial year 2017 (EUR 1.8 million sales income; - EUR 1.4 million deconsolidation effect in Q1 of the financial year 2017).	-	-0.4	-
Adjusted release of provisions for expected losses in the mandatory conversion of CHF loans to EUR (EUR 13.6 million in Addiko Bank d.d., Zagreb and EUR 1.1 million in Addiko Bank a.d., Podgorica). The provisions were originally set up in the financial year 2015 in the amount of EUR 211.4 million in Addiko Bank d.d., Zagreb and EUR 11.3 million in Addiko Bank a.d., Podgorica.	-	-	-14.0
Elimination of a one-time payment amounting to EUR 3.6 million required under the newly introduced Austrian banking tax law (Stabilitätsabgabe).	-	-	3.6
Adjustment of additional impairments of non-core real estate. To focus on the core banking business, Addiko Group decided to dispose off non-core real estate (acquired before the financial year 2016). In this context, a real estate review revealed additional impairment needs relating to additional costs (fees, taxes) connected to potential sales.	-	3.2	-
Adjustment of gains relating to the transfer of its NPE portfolio to HETA (Brush transaction) on March 3, 2016 as part of the sales agreement with HETA.	-	-	-0.2
Elimination of the deconsolidation impact from Hypo Alpe-Adria-Leasing d.o.o., Zagreb, reflecting divestments in in Q4 of the financial year 2017.	-	-1.0	-
Elimination of income and expenses (incl. the reversal of depreciation booked in Addiko Group) from Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb, reflecting the divestments in Q3 and Q4 of the financial year 2017.	-	-3,1	-5.7
Adjustment of impairments of assets and investment property relating to the new fair value estimations during their reclassification to 'available for sale' in accordance with IFRS 5 (all assets acquired before 2016).	-	0.5	-
Adjustment of impairments from soft- and hardware that became redundant following the outsourcing to Hewlett Packard.	-	-	4.1
Adjustment of the partial releases of provisions, which relate to expected losses in connection with the CHF conversion law in Montenegro, booked in the financial year 2015 by Addiko Bank a.d., Podgorica..	-	-0.5	-
In November 2012, the tax authorities initiated a tax inspection regarding corporate income tax for the periods 2007 to 2011 ('thin cap'). HETA was required to pay EUR 19.6 million and recharged 16.9% of this to Hypo Alpe-Adria-Leasing d.o.o., Ljubljana (proportionate to the assets transferred). HETA successfully complaint against this tax assessment and received a refund of EUR 9.9 million of which Addiko Group received EUR 1.6 million (16.90%) adjusted herein.	-	-1.6	-
Adjustment of the compensation for damages for lost profits relating to a lost legal case against a plaintiff in the amount of EUR 9.7 million and statutory default interests. The final settlement amounted to EUR 10.6 million (in the financial year 2015 a provision was recorded on group level amounting to EUR 4.0 million. Based on payment to the plaintiff provision was released in the financial year 2016).	-	-	10.6
Elimination of releases of provisions for passive legal cases following active settlement strategy and re-assessment of expected claims. Total provisions initially booked in the financial year 2016 (EUR 19.5 million).	-3.7	-9.9	-
Adjustment of provisions booked locally for expected costs in context of the sale of Addiko Invest d.d., Zagreb (EUR 0.1 million) and Hypo Alpe-Adria-Leasing d.o.o., Zagreb (EUR 2.8 million).	-	-	2.9
Adjustment of provisions booked at Addiko Company for legacy passive legal cases in Addiko Group, as Addiko Group adopted an active settlement strategy. Ongoing process, as not all settlements have been already concluded.	-	-	19.7
Elimination of charges to provisions for severance payments following the implementation of a new operating model, the outsourcing of certain functions (transaction banking, client and account administration, credit processing) and resulting necessary restructuring.	-	-	2.0
Adjustments of provisions booked by Addiko Bank d.d. Zagreb in the financial year 2016 for the clean-up of legacy legal cases. EUR 6.5 million of the amount are attributable to four passive legal cases. This led to the releases of corresponding provisions on Group level.	-	-	7.6
Elimination of releases of provisions (EUR 11.0 million) for legacy passive legal cases in Addiko Bank a.d., Sarajevo and Addiko Bank d.d., Zagreb in the financial year 2016 due to separate provision recognition in entities (provisions initially booked at Group level in the financial year 2015).	-	-	-11.0
Adjustment of costs for headcount reductions, in context of implementing a new operating model, which were not covered by the restructuring provision recognized at year-end of the financial year 2015.	-	-	0.2
Adjustments relating to salaries for employees considered as redundant according to layoff program in context of implementing a new operating model.	-	-	2.1
Eliminations of the provision charge for expected costs in context of the implementation of a new operating model.	-	-	1.0
Adjustment relating to divestments in Addiko Bank d.d., Ljubljana in context of the strategic decision to exit investment business activities.	-	-	-0.6
Elimination of deconsolidation effects from Hypo Alpe-Adria-Invest d.o.o., Mostar (EUR -0.3 million in the financial year 2016) and Hypo Alpe-Adria-Leasing d.o.o. Banja Luka (EUR 0.5 million in the financial year 2016) in context of the Bank's strategic decision to exit its investment business activities. Both entities were deconsolidated in the financial year 2016 due to immateriality and sold in March 2018 respectively liquidated starting financial year 2017.	-	-	0.2
Elimination of charges to provisions in Addiko Group for expected costs relating to the sale of Hypo Alpe-Adria-Leasing d.o.o., Zagreb.	-	-	2.5

Adjustments to other operating result	**for the financial year ended December 31,**		
	2018	**2017**	**2016**
Elimination of full releases of provisions that were booked in the financial year 2015 for expected costs from the disposal of Hypo Alpe-Adria-Leasing d.o.o., Ljubljana. During the financial year 2016, in context of the transaction, Addiko Group was able to negotiate a price reflecting the current carrying amount of the leasing portfolio, which lead to the release.	-	-	-11.7
Elimination of releases from provisions for expected costs from the 'thin cap' tax inspection relating to Hypo Alpe-Adria-Leasing d.o.o., Ljubljana reflecting its sale in the financial year 2017.	-	-	-0.7
The consolidation bookings for Addiko Bank d.d. Zagreb are adjusted for the sale of Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb	-	-	0.4
Write-off of receivables related to costs in context of Brush services to HETA (EUR 75 thousand).	-	0.1	-
Adjustment of provision bookings in the financial year 2018 relating to court proceedings in Croatia and Montenegro to receive compensation in context of CHF conversion laws approved in the financial year 2015 (consumer protection acts).	2.0	-	-
Adjusted other operating result	**-18.2**	**-19.2**	**-29.0**

1 Audited information.
(Source: Audited Consolidated Financial Statements and Company information)

Adjustments to operating expenses

	for the financial year ended December 31,		
	2018	**2017**	**2016**
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported operating expenses	**-188.1**[1]	**-190.1**[1]	**-212.4**[1]
Elimination of advisory costs for strategic projects (EUR 0.5 million) and reimbursement of fees and expenses (EUR 0.3 million) relating to the settlement of funding and disputes with HETA and compliance matters	-	-	0.9
Elimination of advisory costs for the support in context of the five-year planning, exit readiness and review of half-year consolidated financial statements.	-	0.5	-
Adjustment for advisory costs regarding the final settlement with previous owner HETA	-	0.1	-
Elimination of bonus accrual charged in the financial year 2016 but not used and released in the financial year 2017.	-	-	1.8
Adjustment relating to provision bookings in the financial year 2016 relating to court proceedings in Croatia and Montenegro to receive compensation in context of CHF conversion laws approved in 2015 (consumer protection acts).	-	-	3.1
Elimination of costs of preparing the Tier 2 waiver contracts.	0.2	-	-
Advisory costs regarding capital market readiness	-	0.2	-
Elimination of expenses from Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb reflecting divestments in Q3 and Q4 of the financial year 2017.	-	0.5	6.8
In June 2016, 11 employees left the Bank. Actual severance payments exceeded provisions. Severance for four employees directly booked as operating expense (EUR 47 thousand).	-	-	0.0
Adjustment of project costs for capital market readiness (preparation of the IPO)	2.6	0.0	-
Elimination of the release of accruals relating to two invoices from HETA for consulting services regarding the implementation of a rating tool. Reclassified from other result to OPEX in Q3 2017.	-	-0.6	-
Adjustment relating to the release of prior year bonus accruals in the financial year 2017 that were not required to be paid out.	-	-1.8	-
Elimination of releases of provisions for onerous contracts (including rental contracts of bank branches and local HQ): Each quarter Addiko conducts assessment whether contracts are renegotiated or branches turn to be profitable again which would lead to a release of the booked provision.	-1.5	-1.8	-0.5
The consolidation bookings for Addiko Bank d.d. Zagreb are adjusted for the sale of Addiko Invest d.d., Zagreb and Hypo Alpe-Adria-Leasing d.o.o., Zagreb	-	-	-0.4
Adjusted operating expenses	**-186.9**	**-193.0**	**-200.8**

[1] Audited information
(Source: Audited Consolidated Financial Statements and Company information)

Credit loss expenses on financial assets

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported credit loss expenses on financial assets	**2.8**[1]	**-15.1**[1]	**4.4**[1]
Beginning January 1, 2018 IAS 39 has been replaced by IFRS 9. Under IFRS9, all interest payments received from impaired customers are recognized as reduction of the credit risk exposure, and effectively recorded within LLP. Under IAS 39 in the financial year 2016 and the financial year 2017, interest receipts from impaired customers were recognized as interest income.	-	10.3	11.2
Elimination of loan loss provisioning for Large Corporate clients, which have been identified to be outside target profile.	0.3	32.3	-11.8
Elimination of PnL effects until from Hypo Alpe-Adria-Leasing d.o.o., Zagreb (incl. Reversal of depreciation) booked in Group reflecting the divestment in the financial year 2017	-	-0.5	0.5
Elimination of gains from Addiko Group's sale of Retail NPE from its legacy business in order to reduce the overall NPE. These Retail NPE sales were outside the normal auction process of Retail loans >90 dpd.	-0.8	-15.7	-1.7
Adjusted credit loss expenses on financial assets	**2.3**	**11.3**	**2.6**

[1] Audited information

(Source: Audited Consolidated Financial Statements and Company information)

Tax on income

	for the financial year ended December 31,		
	2018	2017	2016
	(in EUR million) (unaudited, unless otherwise indicated)		
Reported taxes on income	**0.5**[1]	**19.9**[1]	**-2.9**[1]
Elimination of tax expenses from Addiko Invest d.d., Zagreb due to sale in Q3 of the financial year 2017.	-	-	0.1
Elimination of the positive DTA ramp up effect, which resulted from previous taxable losses and can only be utilised for a maximum timeframe of 5 years.	-15.0	-21.8	-
Usage of theoretical DTAs capitalised (i.e. utilisation of available tax loss carried forward) for the financial year 2017	-	-7.4	-[2]
Adjusted taxes on income[3]	**-14.5**	**-9.3**	**-2.8**

1 Audited information

2 Usage of theoretical DTAs capitalised (i.e. utilisation of available tax loss carried forward) for the financial year 2016 has not been considered as an adjustment, because recognition of DTA and thus the calculation of the DTA effects on the profit and loss statement has started from the financial year 2017 onwards. If the same methodology would be applied to the financial year 2016, then the usage of theoretical DTAs capitalised would amount to EUR -2.6 million.

3 Only tax adjustments with direct impact on tax on income were taken into account. Other possible (theoretical) adjustments due to the other miscellaneous adjustments to the profit and loss statement were not taken into account, given the differences in taxes due in Addiko Group's various countries of operation.

(Source: Audited Consolidated Financial Statements and Company information)

11.7 Financial Position

In the following section, Addiko Group describes its financial position and the changes in its financial position. The table below presents assets, equity and liabilities as of March 31, 2019 and as of December 31, 2018, 2017 and 2016.

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)		(in EUR million) (audited)	
Statement of Financial Position*				
Assets				
Cash reserves	777.5	1,002.9	1,285.9	1,878.2
Financial assets held for trading	24.7	24.3	19.8	17.4
Loans and receivables	3,879.2	3,792.9	3,757.2	3,779.9
Loans and advances to credit institutions	14.4	5.6	65.3	49.4
Loans and advances to customers	3,864.9	3,787.3	3,691.9	3,730.5
Investment securities	1,253.3	1,184.6	1,276.8[1]	1,391.9[1]
Derivatives – Hedge accounting	0.0	0.0	0.1	0.1
Tangible assets	87.6	57.7	57.3	70.4
Property, plant & equipment	85.5	55.7	55.3[2]	67.9[2]
Investment properties	2.0	2.0	2.0[2]	2.5[2]

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)		(in EUR million) (audited)	
Intangible assets	31.2	30.3	21.8	17.3
Tax assets	24.0	28.3	22.3	2.6
Current tax assets	1.7	1.7	1.6	2.6
Deferred tax assets	22.3	26.6	20.6	0.0
Other assets	25.3	25.5	24.8	18.9
Non-current assets and disposal groups classified as held for sale	5.5	5.7	19.5	39.3
Total assets	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**
Equity and liabilities				
Financial liabilities at fair value through profit or loss	0.0	0.0	0.0	25.0
Financial liabilities held for trading	3.6	2.1	1.8	9.1
Financial liabilities measured at amortized cost	5,187.9	5,202.5	5,521.2	6,040.4
Deposits from credit institutions	272.8	324.4	341.6	316.0
Deposits from customers	4,855.5	4,836.7	4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital	1.1	1.1	198.5	73.5[3]
Other financial liabilities	58.5	40.3	47.3	1,215.3[3]
Derivatives – hedge accounting	0.0	0.0	0.0	6.9
Provisions	59.7	62.0	83.3	107.8
Tax liabilities	1.1	1.0	1.3	1.4
Current tax liabilities	1.0	0.9	0.9	1.0
Deferred tax liabilities	0.2	0.1	0.5	0.5
Other liabilities	28.1	25.1	33.8	28.1
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	2.7
Equity	828.0	859.5	844.0	994.7
thereof attributable to equity holders of parent	828.0	859.5	844.0	994.7
Total equity and liabilities	**6,108.4**	**6,152.1**	**6,485.5**	**7,216.1**

* The line item structure of the table presented follows that of the consolidated statement of financial position in the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 The line item "Investment securities" was introduced in the Audited Consolidated Financial Statements as of and for the financial year 2018, due to introduction of IFRS 9. The position includes also the IAS 39 positions "available-for-sale financial assets "and "Held-to-maturity investments" as presented in the Audited Consolidated Financial Statements for the financial years 2016 and 2017.

2 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the specified financial year.

3 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

(Source: Audited Consolidated Financial Statements)

11.7.1 Total Assets

11.7.1.1 Comparison of financial position as of March 31, 2019 and as of December 31, 2018

Total assets decreased from EUR 6,152.1 million as of December 31, 2018, by EUR 43.8 million, or 0.7%, to EUR 6,108.4 million as of March 31, 2019. This was primarily due to the decrease in cash balances at central banks, which was partly offset by an increase in loans and advances to customers as well as investment securities. Tangible assets increased due to the implementation of IFRS 16 - Leases, leading to the recognition of a right of use asset in the amount of EUR 29.8 million.

Cash reserves decreased from EUR 1,002.9 million as of December 31, 2018, by EUR 225.3 million, or 22.5%, to EUR 777.5 million as of March 31, 2019. This was primarily due to the shift from cash to loans and receivables and investment securities as well as the payment of the dividend for the financial year 2018 in the amount of EUR 50.0 million. The regulatory required minimum reserves included in the cash balances at central banks decreased from EUR 316.5 million as of December 31, 2018 by EUR 39.8 million to 276.7 million as of March 31, 2019.

Apart from the regulatory required minimum reserve, all cash balances in all subsidiaries were unencumbered as of March 31, 2019.

Financial assets held for trading remained almost stable, increasing slightly from EUR 24.3 million as of December 31, 2018 by EUR 0.4 million to EUR 24.7 million as of March 31, 2019.

Loans and receivables increased from EUR 3,792.9 million as of December 31, 2018, by EUR 86.4 million, or 2.3%, to EUR 3,879.2 million as of March 31, 2019. Specifically, loans and advances to credit institutions increased from EUR 5.6 million as of December 31, 2018, by EUR 8.8 million, to EUR 14.4 million as of March 31, 2019 and loans and advances to customers increased from EUR 3,787.3 million as of December 31, 2018, by EUR 77.6 million, or 2.0%, to EUR 3,864.9 million as of March 31, 2019. This was primarily due to the increase in disbursements in the Consumer Business and SME Business Segment, which was partly offset by the decrease in the Mortgage Business in line with Addiko Group's business strategy.

Investment securities increased from EUR 1,184.6 million as of December 31, 2018, by EUR 68.7 million, or 5.8%, to EUR 1,253.3 million as of March 31, 2019. This was primarily due to investments in debt securities issued by governments, which increased from EUR 799.7 million as of December 31, 2018, by EUR 29.9 million, to EUR 829.6 million as of March 31, 2019, as well as investments in debt securities issued by other financial corporations, which increased from EUR 27.1 million as of December 31, 2018, by EUR 28.2 million, to EUR 55.3 million as of March 31, 2019.

Addiko Group's security portfolios mostly comprise securities from governments and corporate/financial institution issuers in EU countries. In Serbia, Addiko Group holds most of its liquidity portfolio in Republic of Serbia government bonds in local currency and some USD. Significant encumbrances of portfolios only applied to ABS, which participated in the targeted longer-term refinancing operations of the ECB with lending volume of EUR 173.0 million in the financial year 2016. In this context, EUR 193.3 million (market value) of the securities portfolio as of March 31, 2019 was encumbered. Additional encumbered portfolios included only small amounts of fixed income securities in the Company as of March 31, 2019. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tangible assets increased from EUR 57.7 million as of December 31, 2018, by EUR 29.8 million, or 51.7%, to EUR 87.6 million as of March 31, 2019. This was primarily due to the implementation of IFRS 16 - Leases, leading to the recognition of right of use assets in the amount of EUR 29.8 million as of March 31, 2019.

Intangible assets increased slightly from EUR 30.3 million as of December 31, 2018, by EUR 0.9 million, or 3.1%, to EUR 31.2 million as of March 31, 2019. This was driven by further development of e-banking applications and investments to enhance digital capabilities.

Tax assets decreased from EUR 28.3 million as of December 31, 2018, by EUR 4.3 million, or 15.1%, to EUR 24.0 million as of March 31, 2019. Of this amount, current tax assets remained stable at EUR 1.7 million and DTA decreased from EUR 26.6 million as of December 31, 2018 by EUR 4.3 million, or 16.1%, to EUR 22.3 million as of March 31, 2019. This was primarily a result of the utilisation of deferred tax assets on tax losses carried forward.

Other assets decreased slightly from EUR 25.5 million as of December 31, 2018, by EUR 0.2 million to EUR 25.3 million as of March 31, 2019.

Non-current assets and disposal groups classified as held for sale slightly decreased from EUR 5.7 million as of December 31, 2018, by EUR 0.2 million to EUR 5.5 million as of March 31, 2019.

11.7.1.2 Comparison of financial position as of December 31, 2018 and as of December 31, 2017

Total assets decreased from EUR 6,485.5 million as of December 31, 2017 by EUR -333.4 million, or -5.1%, to EUR 6,152.1 million as of December 31, 2018. This was primarily due to the decrease in excess liquidity in the form of cash reserves and investment securities, which was partly offset by increased loans and advances to customers.

Cash reserves decreased from EUR 1,285.9 million as of December 31, 2017 by EUR -283.0 million, or -22.0%, to EUR 1,002.9 million as of December 31, 2018. This was primarily due to the reduction of cash balances at central banks and other demand deposits, which decreased from EUR 964.5 million and EUR 222.8 million as of December 31, 2017 by EUR -177.3 million and EUR -112.3 million to EUR 787.2 million and EUR 110.5 million as of December 31, 2018, respectively. The regulatory required minimum reserves included in the cash balances at central banks increased from EUR 300.4 million as of December 31, 2017 by EUR 16.1 million to 316.5 million as of December 31, 2018.

Apart from the regulatory required minimum reserve, all cash balances in all subsidiaries have been unencumbered by December 31, 2018.

Investment securities comprise assets at fair value through other comprehensive income (FVTOCI) and mandatory at fair value through profit and loss (FVTPL) in the financial year 2018. The comparable investment securities in the financial year 2017 were recorded under available-for-sale financial assets and held-to-maturity investments. The investment securities decreased from EUR 1,276.8 million as of December 31, 2017 by EUR -92.2 million, or -7.2%, to EUR 1,184.6 million as of December 31, 2018. This was primarily driven by liquidity management.

Addiko Group's security portfolios mostly comprise securities from governments and corporate/financial institution issuers in EU countries. Addiko Serbia holds most of its liquidity portfolio in Republic of Serbia government bonds in local currency and some USD. Significant encumbrances of portfolios only applied to ABS, which participated in the targeted longer-term refinancing operations with the ECB in the financial year 2016. In this context, EUR 177.9 million (market value) of the securities portfolio as of December 31, 2018 was encumbered. Additional encumbered portfolios only applied to small amounts of fixed income securities in Addiko Holding as of December 31, 2018. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Loans and receivables increased from EUR 3,757.2 million as of December 31, 2017 by EUR 35.7 million, or 0.9%, to EUR 3,792.9 million as of December 31, 2018. Of this amount, loans and advances to credit institutions decreased from EUR 65.3

million as of December 31, 2017 by EUR -59.7 million, or -91.4%, to EUR 5.6 million as of December 31, 2018 and loans and advances to customers increased from EUR 3,691.9 million as of December 31, 2017 by EUR 95.4 million, or 2.6%, to EUR 3,787.3 million as of December 31, 2018. This was primarily due to the increase in the Consumer Business and SME Business Segment as well as Large Corporates Segment, which was partly offset by the planned decrease in Mortgage Business and the Public Finance Segment.

Derivatives – Hedge accounting decreased from EUR 0.1 million as of December 31, 2017 by EUR -0.1 million to EUR 0.0 million as of December 31, 2018.

Tangible assets increased slightly from EUR 57.3 million as of December 31, 2017 by EUR 0.4 million, or 0.7%, to EUR 57.7 million as of December 31, 2018.

Intangible assets increased from EUR 21.8 million as of December 31, 2017 by EUR 8.4 million, or 38.7%, to EUR 30.3 million as of December 31, 2018, mainly driven by purchased software which increased from EUR 21.3 million as of December 31, 2017 by EUR 8.2 million to EUR 29.5 million as of December 31, 2018.

Tax assets increased from EUR 22.3 million as of December 31, 2017 by EUR 6.0 million, or 27.2%, to EUR 28.3 million as of December 31, 2018. Of this amount, current tax assets increased from EUR 1.6 million as of December 31, 2017 by EUR 0.1 million, or 6.4%, to EUR 1.7 million as of December 31, 2018 and DTA increased from EUR 20.6 million as of December 31, 2017 by EUR 5.9 million, or 28.8%, to EUR 26.6 million as of December 31, 2018. This was primarily due to the recognized deferred tax expenses in profit and loss and in the other comprehensive income of EUR 4.7 million and EUR 2.4 million in the financial year 2018, respectively.

Other assets increased from EUR 24.8 million as of December 31, 2017 by EUR 0.7 million, or 2.7%, to EUR 25.5 million as of December 31, 2018. This was driven by the increase in prepayments and accrued income, which increased from EUR 8.4 million as of December 31, 2017, by EUR 5.4 million, to EUR 13.8 as of December 31, 2018, by the increase in inventories, which increased from EUR 4.8 million as of December 31, 2017, by EUR 0.6 million, to EUR 5.4 as of December 31, 2018, and by the decrease in other remaining assets, which decreased from EUR 11.6 million as of December 31, 2017, by EUR -5.3 million, to EUR 6.3 as of December 31, 2018.

Non-current assets and disposal groups classified as held for sale decreased from EUR 19.5 million as of December 31, 2017 by EUR -13.8 million, or -70.8%, to EUR 5.7 million as of December 31, 2018. This was primarily due to the successful disposal of non-performing loans and receivables in Croatia and Serbia at the end of the financial year 2018. Consequently, the loans and receivables classified as held for sale decreased from EUR 13.0 million as of December 31, 2017, by EUR -12.9 million, to EUR 0.1 million as of December 31, 2018.

11.7.1.3 Comparison of financial position as of December 31, 2017 and as of December 31, 2016

Total assets decreased from EUR 7,216.1 million as of December 31, 2016 by EUR 730.6 million, or 10.1%, to EUR 6,485.5 million as of December 31, 2017. This was primarily due to the repayment of refinancing lines to the former owner in the amount of EUR 973.9 million as well as the reduction in the available-for-sale portfolio in the amount of EUR 75.0 million and the leasing portfolio in a total amount of EUR 37.4 million.

Cash, cash balances at central banks and other demand deposits decreased from EUR 1,878.2 million as of December 31, 2016 by EUR 592.4 million, or 31.5%, to EUR 1,285.9 million as of December 31, 2017. This was primarily due to the early repayment of refinancing lines to the previous shareholder in the amount of EUR 973.9 million, which was executed in the first quarter of 2017 as part of the general settlement with HETA. The minimum reserve held and daily due was EUR 300.4 million at December 31, 2017 (EUR 296.2 million at December 31, 2016).

Apart from the regulatory required minimum reserve, all cash balances in all subsidiaries have been unencumbered by December 31, 2017.

Financial assets held for trading increased from EUR 17.4 million as of December 31, 2016 by EUR 2.4 million, or 13.9%, to EUR 19.8 million as of December 31, 2017. Derivatives increased from EUR 3.7 million in the financial year 2016 by EUR 10.8 million, or more than 100%, to EUR 14.5 million in the financial year 2017. This was partially offset by a decrease in debt securities of EUR 8.3 million, or 60.6%, from EUR 13.7 million in the financial year 2016.

Available-for-sale financial assets decreased from EUR 1,309.3 million as of December 31, 2016 by EUR 75.0 million, or 5.7%, to EUR 1,234.3 million as of December 31, 2017. This was primarily the result of a decrease in debt securities from EUR 1,291.6 million in the financial year 2016 by EUR 79.6 million, or 6.2%, to EUR 1,212.0 in the financial year 2017. Of this amount, debt securities issued by credit institutions decreased by EUR 88.7 million, or 22.1%, and those issued by non-financial corporations decreased by EUR 40.4 million, or 48.9%. The impact was, however, partly offset by an increase of EUR 42.4 million, or 5.4%, in debt securities issued by general governments and of EUR 7.1 million, or 38.2%, in debt securities issued by other financial corporations.

Addiko Group's security portfolios mostly comprise securities from governments and corporate/financial institution issuers in EU countries. Addiko Serbia holds most of its liquidity portfolio in Republic of Serbia government bonds in local currency

and some USD. Significant encumbrances of portfolios only applied to ABS, which participated in the targeted longer-term refinancing operations with the ECB in the financial year 2016. In this context, EUR 158.4 million (market value) of the securities portfolio per December 31, 2017 was encumbered. Additional encumbered portfolios only applied to small amounts of fixed income securities in Addiko Holding and Addiko Bosnia & Herzegovina as of December 31, 2017. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Loans and receivables decreased from EUR 3,779.9 million as of December 31, 2016 by EUR 22.7 million, or 0.6%, to EUR 3,757.2 million as of December 31, 2017. Of this amount, loans and advances to credit institutions increased from EUR 49.4 million as of December 31, 2016 by EUR 15.9 million, or 32.2%, to EUR 65.3 million as of December 31, 2017 and loans and advances to customers decreased from EUR 3,730.5 million as of December 31, 2016 by EUR 38.6 million, or 1.0%, to EUR 3,691.9 million as of December 31, 2017. Thereof, loans and advances to general governments decreased by EUR 193.5 million, which was partially offset by an increase in loans and advances to non-financial corporations of EUR 56.6 million, or 4.1%, and to households of EUR 89.8 million, or 4.5%.

Held-to-maturity investments decreased from EUR 82.6 million as of December 31, 2016 by EUR 40.1, or 48.5%, to EUR 42.5 million as of December 31, 2017. This was due to a decrease in debt securities issued by general governments from EUR 78.8 million as of December 31, 2016 by EUR 40.2 million, or 51.0% to EUR 38.6 million in the financial year 2017 mainly driven by ordinary maturity of the securities and partial sales.

Derivatives – Hedge accounting remained unchanged at EUR 0.1 million as of December 31, 2017.

Tangible assets decreased from EUR 70.4 million as of December 31, 2016 by EUR 13.1 million, or 18.7%, to EUR 57.3 million as of December 31, 2017. This was due to a decrease in property plant and equipment from EUR 67.9 million in the financial year 2016 by EUR 12.6 million, or 18.6%, to EUR 55.3 million in the financial year 2017 as well as a decrease in investment properties of EUR 0.5 million from EUR 2.5 million in the financial year 2016. These decreases resulted primarily from Addiko Group's decision to focus on the banking business and, consequently, to initiate the sale of non-core assets (real estate assets), which triggered the reclassification of certain assets as non-current assets and disposal groups classified as held for sale.

Intangible assets increased from EUR 17.3 million as of December 31, 2016 by EUR 4.5 million, or 26.1%, to EUR 21.8 million as of December 31, 2017. This was mainly driven by an increase of EUR 4.2 million, or 24.6%, in purchased software, primarily due to the introduction of new digital applications (please refer to *11.3.11*).

Tax assets increased from EUR 2.6 million as of December 31, 2016 by EUR 19.7 million, or more than 100%, to EUR 22.3 million as of December 31, 2017. Of this amount, current tax assets decreased from EUR 2.6 million as of December 31, 2016 by EUR 1.0 million, or 38.5%, to EUR 1.6 million as of December 31, 2017 and DTA increased from EUR 0.0 million as of December 31, 2016 to EUR 20.6 million as of December 31, 2017, mainly due to the recognition of DTA on existing tax loss carry-forwards and temporary differences.

Other assets increased from EUR 18.9 million as of December 31, 2016 by EUR 5.9 million, or 31.3%, to EUR 24.8 million as of December 31, 2017. This was primarily due to an increase in pre-payments and accrued income of EUR 5.3 million compared to the financial year 2016.

Non-current assets and disposal groups classified as held for sale decreased from EUR 39.3 million as of December 31, 2016 by EUR 19.8 million, or 50.4%, to EUR 19.5 million as of December 31, 2017. At the end of the financial year 2016, this position included the Croatian leasing portfolio in the amount of EUR 37.4 million. The decrease related to the wind down process for this portfolio by the new reclassification of EUR 13.0 million in non-performing loans and EUR 5.2 million in non-core real estate assets, which, as part of Addiko Group's efforts to dispose of non-core assets, were actively marketed as of the beginning of the financial year 2017. The active marketed non-core assets included real estate assets, which were assessed to be sellable (approx. 60 properties). The project for active marketing of these assets started in 2017 and was separated into two waves, where the first wave included properties that could be sold in the near future and the second wave included properties that could be sold after fulfilling certain prerequisites.

11.7.2 Total Equity and Liabilities

11.7.2.1 Comparison of financial position as of March 31, 2019 and as of December 31, 2018

Total equity and liabilities decreased from EUR 6,152.1 million as of December 31, 2018 by EUR 43.8 million, or 0.7%, to EUR 6,108.4 million as of March 31, 2019. This was primarily due to the dividend distribution in the amount of EUR 50.0 million, which reduced the equity.

Financial liabilities held for trading increased slightly from EUR 2.1 million as of December 31, 2018 by EUR 1.5 million to EUR 3.6 million as of March 31, 2019.

Financial liabilities measured at amortized cost decreased from EUR 5,202.5 million as of December 31, 2018 by EUR 14.6 million, or 0.3%, to EUR 5,187.9 million as of March 31, 2019. Specifically, deposits of credit institutions decreased from EUR 324.4 million as of December 31, 2018 by EUR 51.7 million, or 15.9%, to EUR 272.8 million as of March 31, 2019, deposits of customers increased slightly from EUR 4,836.7 million as of December 31, 2018 by EUR 18.8 million, or 0.4%, to EUR 4,855.5 million as of March 31, 2019, issued bonds, subordinated and supplementary capital remained stable at EUR 1.1 million as of March 31, 2019 and other financial liabilities increased from EUR 40.3 million as of December 31, 2018 by EUR 18.2 million, or 45.1%, to EUR 58.5 million as of March 31, 2019.

Provisions decreased from EUR 62.0 million as of December 31, 2018 by EUR 2.3 million to EUR 59.7 million as of March 31, 2019. This was primarily driven by releases of provisions for legal risks in connection with the settlement of some long-lasting court cases as well as reductions of provisions for loan commitments and guarantees granted.

Tax liabilities increased slightly from EUR 1.0 million as of December 31, 2018 by EUR 0.1 million to EUR 1.1 million as of March 31, 2019. Of this amount, current tax liabilities increased from EUR 0.9 million as of December 31, 2018 by EUR 0.1 million to EUR 1.0 million as of March 31, 2019 and deferred tax liabilities (***DTL***) increased from EUR 0.1 million as of December 31, 2018 to EUR 0.2 million as of March 31, 2019.

Other liabilities increased from EUR 25.1 million as of December 31, 2018 by EUR 3.0 million to EUR 28.1 million as of March 31, 2019.

Equity decreased from EUR 859.5 million as of December 31, 2018 by EUR 31.4 million, or 3.7%, to EUR 828.0 million as of March 31, 2019. Equity attributable to equity holders of parent decreased from EUR 859.5 million as of December 31, 2018 by EUR 31.4 million, or 3.7%, to EUR 828.0 million as of March 31, 2019. This was primarily due to a dividend payment in the amount of EUR 50.0 million. The impact from the total comprehensive income includes profit in the amount of EUR 10.1 million as well as changes in other comprehensive income in the amount of EUR 8.5 million for the three-month period ended March 31, 2019.

11.7.2.2 Comparison of financial position as of December 31, 2018 and as of December 31, 2017

Total equity and liabilities decreased from EUR 6,485.5 million as of December 31, 2017 by EUR -333.4 million, or -5.1%, to EUR 6,152.1 million as of December 31, 2018. This was primarily due to decrease in financial liabilities measured at amortized cost, which decreased from EUR 5,521.2 million as of December 31, 2017, by EUR -318.7 million, to EUR 5,202.5 million as of December 31, 2018.

Financial liabilities held for trading increased slightly from EUR 1.8 million as of December 31, 2017 by EUR 0.3 million, to EUR 2.1 million as of December 31, 2018.

Financial liabilities measured at amortized cost decreased from EUR 5,521.2 million as of December 31, 2017 by EUR -318.7 million, or -5.8%, to EUR 5,202.5 million as of December 31, 2018. Of this amount, deposits of credit institutions decreased from EUR 341.6 million as of December 31, 2017 by EUR -17.2 million, or -5.0%, to EUR 324.4 million as of December 31, 2018, deposits of customers decreased from EUR 4,933.8 million as of December 31, 2017 by EUR -97.1 million, or -2.0%, to EUR 4,836.7 million as of December 31, 2018, issued bonds, subordinated and supplementary capital decreased from EUR 198.5 million as of December 31, 2017 by EUR -197.4 million, or -99.5%, to EUR 1.1 million as of December 31, 2018 and other financial liabilities decreased from EUR 47.3 million as of December 31, 2017 by EUR -7.0 million, or -14.7%, to EUR 40.3 million as of December 31, 2018. This was primarily due to the waived Tier 2 capital which was reflected with EUR 196.9 million as of December 31, 2017 and consequently reduced to EUR 0.0 million as of December 31, 2018. In addition, the direct online deposits collected in the Austria and Germany reduced from EUR 409.3 million as of December 31, 2017, by EUR -48.9 million, or -12.0%, to EUR 360.4 million as of December 31, 2018, mainly as a result of Addiko Group's liquidity management.

Provisions decreased from EUR 83.3 million as of December 31, 2017 by EUR -21.4 million, or -25.7%, to EUR 62.0 million as of December 31, 2018. This was primarily driven by the decrease of pending legal disputes and tax litigations from EUR 45.5 million as of December 31, 2017, by EUR -15.4 million, to EUR 30.1 million as of December 31, 2018.

Tax liabilities decreased from EUR 1.3 million as of December 31, 2017 by EUR -0.3 million, or -25.2%, to EUR 1.0 million as of December 31, 2018. Of this amount, current tax liabilities remained unchanged at EUR 0.9 million as of December 31, 2018 and DTL decreased from EUR 0.5 million as of December 31, 2017 by EUR -0.4 million, or -72.8%, to EUR 0.1 million as of December 31, 2018.

Other liabilities decreased from EUR 33.8 million as of December 31, 2017 by EUR -8.7 million, or -25.9%, to EUR 25.1 million as of December 31, 2018. The decrease is mainly due to EUR 6.1 million direct customer deposits that were due and therefore booked on a transitional account within the other liabilities at the reporting date December 31, 2017.

Equity increased from EUR 844.0 million as of December 31, 2017 by EUR 15.4 million, or 1.8%, to EUR 859.5 million as of December 31, 2018. Equity attributable to equity holders of parent increased from EUR 844.0 million as of December 31, 2017 by EUR 15.4 million, or 1.8%, to EUR 859.5 million as of December 31, 2018. With the purpose of strengthening the capital position of Addiko Group, the shareholder AI Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire

provided Tier 2 capital in amount of EUR 190.0 million, with the fair value of the instruments, net of direct attributable costs (EUR 0.3 million), of EUR 128.7 million being recognized as a direct capital contribution. The remaining amount from the Tier 2 waiver of EUR 61.0 million was recognized within the annual result after tax of EUR 104.2 million. Other effects driving the equity were the dividend payout of EUR 170.0 million for the financial year 2017 as well as other comprehensive income effects of EUR -15.0 million for fair value changes and foreign exchange movements.

11.7.2.3 Comparison of financial position as of December 31, 2017 and as of December 31, 2016

Total equity and liabilities decreased from EUR 7,216.1 million as of December 31, 2016 by EUR 730.6 million, or 10.1%, to EUR 6,485.5 million as of December 31, 2017, mainly driven by a decrease in financial liabilities measured at amortized cost of EUR 519.2 million, or 8.6%, and in equity of EUR 150.7 million, or 15.2%, compared to the financial year 2016.

Financial liabilities held for trading decreased from EUR 9.1 million as of December 31, 2016, by EUR 7.3 million, or 80.7%, to EUR 1.8 million as of December 31, 2017. This was primarily due to the reduction of the derivatives portfolio.

Financial liabilities designated at fair value through profit or loss decreased from EUR 25.0 million as of December 31, 2016 by EUR 25.0 million to EUR 0.0 million as of December 31, 2017. At the end of the financial year 2016, the position financial liabilities designated at fair value through profit or loss included financial liabilities toward the previous shareholder, which were repaid in total during the settlement process in the first quarter of 2017.

Financial liabilities measured at amortized cost decreased from EUR 6,040.4 million as of December 31, 2016 by EUR 519.2 million, or 8.6%, to EUR 5,521.2 million as of December 31, 2017. Of this amount, deposits of credit institutions increased from EUR 316.0 million as of December 31, 2016 by EUR 25.6 million, or 8.1%, to EUR 341.6 million as of December 31, 2017, deposits of customers increased from EUR 4,435.6 million as of December 31, 2016 by EUR 498.2 million, or 11.2%, to EUR 4,933.8 million as of December 31, 2017, issued bonds, subordinated and supplementary capital increased from EUR 73.5 million as of December 31, 2016 by EUR 125.0 million, or 170.1%, to EUR 198.5 million as of December 31, 2017 and other financial liabilities decreased from EUR 1,215.3 million as of December 31, 2016 by EUR 1,168.0 million, or 96.1%, to EUR 47.3 million as of December 31, 2017.

Hence, the change in financial liabilities measured at amortized cost primarily resulted from a decrease of EUR 1,168.0 million in other financial liabilities, which was mainly due to the early repayment of financing lines to HETA in the amount of EUR 973.9, originally maturing at the end of 2022. The early repayment was completed in the course of the final settlement with HETA in February 2017. See also "*11.3.13 Settlements with HETA ASSET RESOLUTION AG*". This decrease in other financial liabilities was partly offset by an increase of EUR 498.2 million in customer deposits due to increased direct deposit collection in Austria and Germany.

Derivatives – Hedge accounting decreased from EUR 6.9 million as of December 31, 2016 by EUR 6.9 million to EUR 0.0 million as of December 31, 2017. Moderate interest rate risk position of Addiko Group does not require material hedging activities. As of December 31, 2018 Addiko Group does not apply hedge accounting as amount of outstanding interest rate derivatives is non-material.

Provisions decreased from EUR 107.8 million as of December 31, 2016 by EUR 24.5 million, or 22.7%, to EUR 83.3 million as of December 31, 2017. This was predominantly due to the decrease in provisions for pending legal disputes and tax litigation of EUR 18.5 million, or 28.9%, from EUR 64.0 million in the financial year 2016. The decrease is mainly driven by a release of provisions for potential legal risks in connection with existing customer claims. Compared to the financial year 2016, the number of pending passive legal disputes decreased by seven cases to three, mainly due to the implementation of an active settlement approach.

Tax liabilities decreased from EUR 1.4 million as of December 31, 2016 by EUR 0.1 million, or 7.1%, to EUR 1.3 million as of December 31, 2017. This movement was due to a decrease in current tax liabilities from EUR 1.0 million as of December 31, 2016 by EUR 0.1 million, or 8.9%, to EUR 0.9 million as of December 31, 2017, while DTL remained unchanged at EUR 0.5 million as of December 31, 2017. The decrease in current tax liabilities relates to the Slovenian subsidiary. Due to existing taxable losses, no current taxes are to be paid in the other countries.

Other liabilities increased from EUR 28.1 million as of December 31, 2016 by EUR 5.7 million, or 20.5%, to EUR 33.8 million as of December 31, 2017. The increase was primarily due to EUR 6.1 million direct customer deposits that were due and therefore booked on a transitional account within the other liabilities at the reporting date December 31, 2017.

Liabilities included in disposal groups classified as held for sale decreased from EUR 2.7 million as of December 31, 2016 by EUR 2.7 million to EUR 0.0 million as of December 31, 2017. This was primarily due to the deconsolidation of companies initially classified as held for sale under IFRS 5. Due to the sale of a significant part of the leasing portfolio of the Croatian leasing entity Hypo Alpe-Adria-Leasing d.o.o., Zagreb at the end of financial year 2017 the Croatian leasing entity was deconsolidated. Therefore the related liabilities are no more shown in the balance sheet as of December 31, 2017. The deconsolidation resulted in a positive impact in the profit and loss statement in the amount of EUR 1.0 million.

Equity decreased from EUR 994.7 million as of December 31, 2016 by EUR 150.7 million, or 15.2%, to EUR 844.0 million as of December 31, 2017. Equity attributable to equity holders of parent decreased from EUR 994.7 million as of December

31, 2016 by EUR 150.7 million, or 15.2%, to EUR 844.0 million as of December 31, 2017. This was primarily due to a decrease in cumulative results and other reserves of EUR 370.3 million, or 55.5%, resulting from a dividend payment in the amount of EUR 430.0 million of which EUR 130.0 million were returned by the sole shareholder of Addiko Group in the form of supplementary capital. This decrease was partly offset by an increase in capital reserves of EUR 201.6 million, or 60.0%, from EUR 336.2 million in the financial year 2016 related to a capital contribution by Addiko Group's parent company in the amount of EUR 219.8 million. This contribution was the result of a settlement of warranty claims of Al Lake (Luxembourg) S.à r.l. against Addiko Group's former parent company.

11.8 Liquidity and Capitalization

11.8.1 Overview

Funding of Addiko Group relies primarily on customer deposits and wholesale markets and to a much lesser extent on medium term supranational funding. Short-term interbank funding is only used for intraday liquidity management and is not part of the strategic liquidity planning. Currently, Addiko Group has no issued debt securities outstanding. While Addiko Group has the required licenses to issue debt securities, Addiko Group's current level of liquidity makes this additional funding source unnecessary at present. Retail deposits (approximately two thirds of all deposits) are the core part of Addiko Group's funding strategy and are expected to continue to be the primary source of funding in the coming years. Customer deposits amounted to EUR 4.9 billion (EUR 3.1 billion in retail (households) and EUR 1.7 billion non-retail), EUR 4.8 billion (EUR 3.0 billion in retail (households) and EUR 1.8 billion non-retail), EUR 4.9 billion (EUR 3.1 billion in retail (households) and EUR 1.8 billion non-retail) and EUR 4.4 billion (EUR 2.8 billion in retail (households) and EUR 1.7 billion non-retail) in the three-month period ended March 31, 2019 and the financial years 2018, 2017 and 2016, respectively. Non-retail deposits amount to approximately one third of all deposits and are the second pillar of Addiko Group's funding strategy. Addiko Group expects a moderate growth of these funding sources in the coming years.

For Addiko Group excess liquidity has been of structural relevance in several operating countries. Excess liquidity is especially visible in balance sheets of the entities in Croatia and Bosnia & Herzegovina. To mitigate possible negative effects of excess capital Addiko Group has been developing and partially implementing strategic initiatives such as the early repayment of a EUR 100 million Tier 2 facility by ABC to ABH in May 2017. Further measures comprise the expansion and diversification of the investment portfolios, evaluating further early repayments of refinancing lines (depending on regulatory approval), further optimizing intra group liquidity management and the adjustments of customer deposit prices. Within Addiko Group, liquidity and funding management is executed centrally by Group Balance Sheet Management & Treasury (***GBSM&T***) and the local treasury units. GBSM&T and the local treasury units act within the given regulatory and internal limit framework approved by the Management Board and the local management boards. Addiko Group's market and liquidity risk unit independently verifies that all limits and regulations are respected and, if violations of limits are detected, escalates these to the Management Board. A yearly update of funding plans (on group and local level) is incorporated into the budgeting process by Addiko Group's financial controlling unit and GBSM&T.

As all Addiko Group subsidiaries are self-funded there is no significant mismatch between the lending portfolio and the deposit base:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	**2018**	**2017***	**2016**
	(unaudited)	**(audited)**	**(audited)**	**(unaudited)**
ABC, Croatia	70.0%	66.1%	60.7%	71.0%
ABS, Slovenia	86.3%	86.6%	85.7%	77.3%
ABBL, Republic of Srpska	80.7%	81.8%	96.7%	86.4%
ABSA, Federation of Bosnia & Herzegovina	77.5%	74.5%	70.0%	61.5%
ABSE, Serbia	99.1%	94.0%	89.0%	85.9%
ABM, Montenegro	91.6%	86.8%	85.3%	75.1%
Addiko Group	**74.8%**	**72.9%**	**68.1%**	**62.6%**

* Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018

(Source: Audited Consolidated Financial Statements and Company information)

The following table presents Addiko Group's funding structure:

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (audited, unless otherwise indicated)		
Deposits of customers	4,855.5	4,836.7	4,933.8	4,435.6
o/w customer deposits - network	4,423.0	4,476.3[2]	4,524.5[2]	4,258.9[2]
o/w direct online deposits[1]	432.5	360.4[2]	409.3[2]	176.8[2]
Deposits of credit institutions	272.8	324.4	341.6	316.0
Debt securities issued[3]	1.1	1.1	1.7	6.5[6]
Subordinated and supplementary capital[4]	0.0	0.0	196.9	66.9[6]
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	25.0
Other financial liabilities[5]	58.5	40.3	47.3	1,215.3[6]
Equity	828.0	859.5	844.0	994.7

1 Relates to deposits collected over the online platform in Austria and Germany
2 Unaudited Company information
3 Relate to certificates of deposits issued
4 Supplementary capital mainly comprised Tier 2 capital with a notional amount of EUR 60 million and EUR 190 million in the financial year 2016 and 2017, respectively. The residual EUR 6.9 million relate to accrued interest from the EUR 60 million Tier 2 instrument.
5 Mainly comprise HETA financing lines in the amount of EUR 973.9 million in 2016. Remaining liabilities comprise amounts payable in respect of suspense and transit items, and amounts payable in respect of future settlements of transactions in securities or foreign exchange transactions where payables for transactions are recognized before the payment date.
6 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
(Source: Audited Consolidated Financial Statements and Company information)

11.8.2 Deposits

	Deposits of credit institutions as of March 31,	Deposits of credit institutions as of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (audited)		
Current accounts / overnight deposits	7.9	51.4	32.3	5.8
Deposits with agreed terms	264.8	255.7	309.3	310.2
Repurchase agreements	0.0	17.4	0.0	0.0
Total	**272.8**	**324.4**	**341.6**	**316.0**

(Source: Audited Consolidated Financial Statements and Company information)

	Deposits of customers as of March 31,	Deposits of customers as of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (audited)		
General governments	85.3	86.4	38.3	30.9
Other financial corporations	99.3	112.9	182.0	134.9
Non-financial corporations	646.8	677.3	663.3	672.7
Households	1,673.9	1,554.2	1,230.3	922.6
Current accounts / overnight deposits	**2,505.3**	**2,430.8**	**2,113.9**	**1,761.0**
General governments	172.3	199.8	120.0	118.0
Other financial corporations	175.9	169.7	179.3	155.2
Non-financial corporations	471.6	500.3	609.6	507.9
Households	1,434.5	1,480.6	1,822.6	1,853.1
Deposits with agreed terms	**2,254.3**	**2,350.4**	**2,731.5**	**2,634.1**
General governments	3.3	4.1	7.2	12.6
Other financial corporations	56.8	18.6	8.8	5.7
Non-financial corporations	35.8	32.8	18.3	22.1
Households	0.0	0.0	33.3	0.1
Deposits redeemable at notice	95.9	**55.6**	**67.6**	**40.5**
Repurchase agreements from non-financial corporations [1]	0.0	0.0	20.7	0.0
Total	**4,855.5**	**4,836.7**	**4,933.8**	**4,435.6**

1 Repurchase agreements as of December 31, 2017 included herein in contrast to Audited Consolidated Financial Statements of Addiko Group as of December 31, 2017, which included repurchase agreements in the calculation of total deposits for customers, but did not present the corresponding line item.
(Source: Audited Consolidated Financial Statements and Company information)

Addiko Group has experienced continuous growth of deposits from customers and deposits from credit institutions throughout its network from financial year 2016 to 2018. Total deposits increase from EUR 4,751.6 million as of December 31, 2016 by EUR 409.5 million, or 8.6%, to EUR 5,161.1 million as of December 31, 2018. This increase was primarily driven by an increase in current account/ overnight deposits (increase of EUR 715.4 million between December 31, 2016 and December 31, 2018), which are the least expensive form of deposit funding and driving the average cost of funding down from 1.20% in the financial year 2016 to 0.66% in the financial 2018.

Total deposits primarily comprise customer deposits, which in turn drive the overall development. Customer deposits, which mainly comprise households (62.7%) and non-financial corporations (25.0%) increased from EUR 4,435.6 million as of

December 31, 2016 by EUR 401.1 million, or 9.0%, to EUR 4,836.7 million as of December 31, 2018. This development relates to an overall growth in deposits across all markets as well as the Addiko Group's direct online deposit collection initiated in Austria and Germany in 2016. The direct online deposits amounted to EUR 352.4 million (EUR 248.3 million) in Austria and EUR 80.1 million (EUR 112.1 million) in Germany as of March 31, 2019 (December 31, 2018).

11.8.3 Liquid assets

The below table presents an overview of Addiko Group's assets that can be liquidated within a reasonable time-frame:

	For the three-month period ended March 31,	For the financial years ended December 31,		
	2019	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)		**(in EUR million) (audited)**	
Cash reserves	777.5	1,002.9	1,285.9	1,878.2
Investment securities[1]	1,253.3	1,184.6	1,276.8[1]	1,391.9[1]
Financial assets held for trading	24.7	24.3	19.8	17.4
Total	**2,055.5**	**2,211.8**	**2,582.5**	**3,287.6**

[1] The line item "Investment securities" was introduced in the Audited Consolidated Financial Statements as of and for the financial year 2018, due to introduction of IFRS 9. The position includes also the IAS 39 positions "available-for-sale financial assets "and "held-to-maturity investments" as presented in the Audited Consolidated Financial Statements for the financial years 2016 and 2017.

(Source: Audited Consolidated Financial Statements and Company information)

The liquid assets decreased from EUR 3.3 billion as of December 31, 2016 to EUR 2.6 billion as of December 31, 2017, to EUR 2.2 billion as of December 31, 2018 and to EUR 2.1 billion as of March 31, 2019. The reduction primarily relates to excess cash reserves and reflects the repayment of funding lines from the previous owner in the financial year 2017 as well as reduction of cash balances at central banks and other demand deposits. Overall, Addiko Group maintains strong cash buffers in order to comply with local and Group liquidity requirements.

With regard to its investment portfolios, which comprises investment securities and financial assets held for trading, Addiko Group undertakes a prudent approach to investing excess liquidity focusing on government bonds as well as securities from corporate/financial institution issuers in countries of the European Union. To ensure high levels of liquidity and transparency in the investment portfolio, all investments are "plain vanilla" without any embedded options or other structured features.

The investment portfolio had the following composition as of March 31, 2019 and as of December 31, 2016, 2017 and 2018:

Investment portfolio	For the three-month period ended March 31,	For the financial years ended December 31,		
	2019	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)		**(in EUR million) (audited)**	
Derivatives	4.6	5.0	14.5	3.7
Debt securities (Governments)	20.1	19.3	5.4	13.7
Financial assets held for trading	**24.7**	**24.3**	**19.8**	**17.4**
Debt securities	1,235.1	1,167.2	1,254.5[1]	1,374.2[1]
Government	829.6	799.7	870.5[1]	868.3[1]
Credit institutions	273.3	264.0	312.2[1]	400.9[1]
Other financial corporations	71.6	43.5	25.7[1]	18.6[1]
Non-financial corporations	60.6	60.1	46.0[1]	86.4[1]
Equity instruments	18.2	17.4	22.3[1]	17.7[1]
Investment securities[1]	**1,253.3**	**1,184.6**	**1,276.8[1]**	**1,391.9[1]**
Total	**1,278.0**	**1,208.9**	**1,296.7**	**1,409.4**

[1] The line item "Investment securities" was introduced in the Audited Consolidated Financial Statements as of and for the financial year 2018, due to introduction of IFRS 9. The position includes also the IAS 39 positions "available-for-sale financial assets "and "held-to-maturity investments" as presented in the Audited Consolidated Financial Statements for the financial years 2016 and 2017.

(Source: Audited Consolidated Financial Statements and Company information)

The below table presents the maturities of the investment portfolio (comprises financial assets held for trading and investment securities) as of March 31, 2019 and as of December 31, 2018:

	For the three-month period ended March 31, 2019	For the financial year ended December 31, 2018
	(in EUR million) (unaudited)	(in EUR million) (unaudited)
Intermediate maturity	43.8	27.3
< 3 months	52.1	50.6
3 months to 1 year	87.9	50.3
1 year to 5 years	816.2	871.0
> 5 years	278.0	209.8
TOTAL	**1,278.0**	**1,208.9**

(Source: Company information)

11.8.4 Maturities

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

The following table contains a breakdown of financial assets by remaining period to maturity and a breakdown of the financial liabilities by legal maturity:

Maturities	**For the three-month period ended March 31,**		**For the financial year ended December 31,**					
	2019		**2018**		**2017**		**2016**	
	(in EUR million) (unaudited)		**(in EUR million) (audited)**					
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Due on demand	761	2,666	881	2,259	1,437	1,777	1,783	1,823
Up to 3 months	463	724	508	770	434	900	807	601
3 months to 1 year	631	972	570	1,007	654	1,301	743[1]	1,867
1 -5 years	2,085	724	2,121	726	2,033	786	2,355[1]	1,640
Over 5 years	1,995	106	1,924	444	1,801	760	1,418[1]	152
Total	**5,935**	**5,191**	**6,005**	**5,205**	**6,359**	**5,523**	**7,107**	**6,084**

1 Numbers taken from the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2017.
(Source: Audited Consolidated Financial Statements and Company information)

11.8.5 Credit Ratings

The Company is rated by Moody's. The mandated rating agency is established in the EU and has been registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies.

As of the date of this Prospectus, the Company's credit ratings by Moody's are as follows:

Category	**Rating**
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

(Source: Company information)

11.8.6 Key Regulatory Capital Ratios

Addiko Group comprises the Company and its six banking subsidiaries ABS, ABC, ABSE, ABSA, ABBL and ABM, which form a regulatory banking group (*Kreditinstitutsgruppe*) referred to as "Addiko Group" in this Prospectus. Addiko Group is subject to consolidated supervision by the FMA. Supervision on a consolidated basis at the level of Addiko Group captures capital requirements, limitations on large exposure, liquidity, organizational and risk management requirements and public disclosure obligations.

Addiko Group manages its capital in accordance to own funds as defined by the CRR and the corresponding national regulations (Basel 3 Pillar 1) as well as the economic capital management approach (Basel 3 Pillar 2) related to the Internal Capital Adequacy Assessment Process (***ICAAP***) and their enactment in the national law through the Banking Act. See also *"18 Regulation and Supervision"*.

11.8.6.1 Breakdown of regulatory own funds of Addiko Group

The following table shows the breakdown of regulatory own funds within Addiko Group by applying transitional rules as of December 31, 2016, 2017 and 2018 and as of March 31, 2019:

	Own funds as of March 31,	Own funds as of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (audited, unless otherwise indicated)		
Equity attributable to the parent as at beginning of the year	**859.5**	**844.0**	**994.7**	**752.6**
Impact of adopting IFRS 9	0.0	-32.4	0.0	0.0
Profit or loss after tax for the year	10.1	104.2	41.6	-23.9
Other comprehensive income	8.5	-15.0	18.0	0.4
Dividends paid for the prior year	-50.0	-170.0	-430.0[5]	0.0
Other changes	0.0	128.6	219.8	265.8
Equity attributable to the parent as at end of the year	**828.0**	**859.5**	**844.0**	**994.7**
Dividend for the year	0.0	-50.0	-170.0	-300.0[5]
Tier 2 waiver	0.0	0.0	60.3[3]	0.0
Profit or loss after tax for the period, not recognised in regulatory capital	-10.1	0.0	0.0	0.0
Additional value adjustments	-1.3	-1.2	-4.4[2]	-5.9
Intangible assets (net of related tax liability)	-31.2	-30.3	-21.8[2]	-17.3
DTA[1]	-16.7	-19.0	-12.8[2]	0.0
IFRS 9 transitional rules	36.5	43.8	0.0	0.0
Common Equity Tier 1 (CET 1) capital	**805.3**	**802.8**	**695.3**	**671.4**
Tier 2 capital as at beginning of the year	**0.0**	**100.0**	**60.0**	**0.0**
Additions	0.0	0.0	130.0	60.0
Deductions	0.0	-100.0	-90.0	0.0
Tier 2 capital as at end of the year	**0.0**	**0.0**	**100.0**	**60.0**
Total capital (TC = T1 + T2)	**805.3**	**802.8**	**795.3**	**731.4**
Total risk weighted assets	4,599.8	4,545.0	4,653.1	4,470.8[4]
CET 1 ratio	*17.5%*	*17.7%*	*14.9%*	*15.0%*[4]
TC ratio	*17.5%*	*17.7%*	*17.1%*	*16.4%*[4]

[1] DTA that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met).
[2] Regulatory own funds for the financial year 2017 are presented in the Audited Consolidated Financial Statements of Addiko Group for the financial year 2018.
[3] Unaudited Company information.
[4] Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
[5] EUR 300 million were paid as cash dividend and another EUR 130 million were used by the shareholder to fulfill the Tier 2 loan agreement concluded with the Company February 22, 2017, and then afterwards waived (please refer to section 11.3.14 "Tier 2 waiver" for further information).
(Source: Audited Consolidated Financial Statements and Company information)

The regulatory minimum capital ratios including the regulatory buffers as of December 31, 2016, 2017 and 2018 as well as of March 31, 2019 amounted to:

	Regulatory minimum CET1 ratios as of March 31,	Regulatory minimum CET1 ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement	4.70%	4.70%	2.70%	3.60%
Total SREP Capital Requirement (TSCR)	**9.20%**	**9.20%**	**7.20%**	**8.10%**
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**11.702%**	**11.077%**	**8.451%**	**8.725%**

(Source: Company information)

	Regulatory minimum Tier 1 ratios as of March 31,	Regulatory minimum Tier 1 ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	6.00%	6.00%	6.00%	6.00%
Pillar 2 requirement	4.70%	4.70%	3.70%	4.90%
Total SREP Capital Requirement (TSCR)	**10.70%**	**10.70%**	**9.70%**	10.90%
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**13.202%**	**12.577%**	**10.951%**	**11.525%**

(Source: Company information)

	Regulatory minimum TC ratios as of March 31,	Regulatory minimum TC ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	8.00%	8.00%	8.00%	8.00%
Pillar 2 requirement	4.70%	4.70%	4.90%	6.50%
Total SREP Capital Requirement (TSCR)	**12.70%**	12.70%	**12.90%**	14.50%
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**15.202%**	**14.577%**	**14.151%**	**15.125%**

(Source: Company information)

The CET1 capital of Addiko Group increased during the financial year 2017 by EUR 23.8 million, due to:

- EUR 219.8 million capital contribution by the parent company AI Lake (Luxembourg) S.à r.l., which results from a settlement agreement with the former owner, HETA. In accordance with the settlement, following the repayment of the outstanding funding lines by Addiko Group in the amount of EUR 973.9 million, all current and future claims and rights under the initial purchase contract have been settled.
- a decrease of EUR 130.0 million related to the dividend payments of the financial year 2016 underwritten by the sole shareholder of Addiko Group in the form of supplementary capital.
- a decrease by EUR -68.1 million reflecting the audited result after tax in amount of EUR 41.6 million, less the net amount between the dividends planned to be paid out of EUR 170.0 million and the related capital contribution of EUR 60.3 million from the shareholder resulting from the planned T2 waiver of EUR 90.0 million.
- An increase by EUR 18.0 million of the Other Comprehensive Income due to the increase in the fair value of debt instruments and the positive development of the FX reserves.
- a decrease by EUR -15.8 million in regulatory deduction items, reflecting the recognition during the year of EUR 12.8 million DTA on taxable losses, the increase of EUR 4.5 million of intangible assets and the decrease of other regulatory deduction items in amount of EUR 1.5 million.
- The Tier 2 capital increased during 2017 by EUR 40.0 million, due to the net effect resulting from the new T2 instrument of EUR 130.0 million signed on February 2017 and the impact or the T2 waiver of EUR 90 million signed on February 26, 2018.

The CET1 capital of Addiko Group increased during the financial year 2018 by EUR 107.5 million, due to:

- a capital contribution of EUR 68.4 million by the parent company AI Lake (Luxembourg) S.à r.l. by way of a waiver in the amount of EUR 100.0 million of the existing Tier 2 supplementary capital, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement and thus included in the regulatory capital as part of the audited year end result;
- a net impact of EUR 11.2 million from the implementation of IFRS 9 under consideration of the transitional capital rules published by the EU on December 21, 2017;
- an increase in regulatory deduction items in the amount of EUR 11.4 million in connection with an increase in investments in intangible assets (EUR 8.4 million), an increase in DTA on existing taxable losses (EUR 6.2 million) and a decrease in other regulatory value adjustment items (EUR 3.2 million);
- a decrease by EUR -15.1 million of the other comprehensive income mainly due to the disposal of debt instruments and recognition in profit and loss of the corresponding capital reserves and negative changes in market values, partially compensated by an increase of the foreign currency reserves;
- the inclusion of the audited year end result of EUR 104.2 million, net of EUR 50.0 million in dividends.

Compared to the CET1 capital, the Total Capital increased only by EUR 7.5 million in the financial year 2018 mainly due to the waiver in amount of EUR 100.0 million of the existing Tier 2 supplementary capital being partially recognized in the income statement and thus not immediately included in the regulatory capital of Addiko Group.

The CET1 capital of Addiko Group increased in the three-month period ended March 31, 2019 by EUR 2.5 million due to:

- an increase of EUR 8.5 million in other comprehensive income mainly due to the positive development of market values of debt instruments, partially compensated by a decrease of the foreign currency reserves;
- a negative impact of EUR -7.3 million in connection with the application of the IFRS 9 transitional capital rules, which prescribe that, beginning January 1, 2019, the portion of the initial ECL which can be added back will decrease from 95% to 85% (EUR -4.7 million). In addition, the IFRS 9 amount which can be added back to capital decreased as compared with the beginning of the year following the dynamic component and the related development of Stage 1 and Stage 2 ECL in the first quarter (EUR -2.6 million);

- a decrease in regulatory deduction items in the amount of EUR 1.3 million as net impact of an increase in investments in intangible assets (EUR -0.9 million), a decrease in deferred tax assets on existing taxable losses (EUR 2.3 million) and an increase of other regulatory value adjustment items (EUR -0.1 million);
- in accordance with CRR requirements Art. 26 (2), the interim profit for the three-month period ended March 31, 2019 in the amount of EUR 10.1 million was not included in the calculation for such financial period.

11.8.6.2 Breakdown of own funds of Addiko Group's subsidiaries

Breakdown of own funds of Addiko Group's subsidiaries based on IFRS equity

The below table presents the own funds of Addiko Group's subsidiaries based on the group IFRS equity for each individual country:

	IFRS equity as of March 31,	IFRS equity as of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (unaudited, unless otherwise indicated)		
ABC, Croatia	385.5	385.2	382.4	355.0
ABS, Slovenia	155.7	160.5	140.0	122.4
ABBL, Republic of Srpska	79.3	78.2	80.0	74.3
ABSA, Federation of Bosnia & Herzegovina	107.9	105.4	109.8	105.6
ABSE, Serbia	183.8	182.1	186.1	168.4
ABM, Montenegro	22.5	21.6	23.0	23.0
Company	740.7	775.4	744.1	803.0
Consolidation	-847.3	-849.1	-821.3	-657.1
Addiko Group	**828.0**	**859.5**[1]	**844.0**[1]	**994.7**[1]

1 Audited information.
(Source: Company information)

Breakdown of own funds of Addiko Group's subsidiaries based on local GAAP

The below table presents the own funds of Addiko Group's subsidiaries based on the local capital requirements of each individual country.

	Local own funds (regulatory capital) as of March 31, 2019 (in EUR million) (unaudited)						
	ABC, Croatia	ABS, Slovenia	ABBL, Republic of Srpska	ABSA, Federation of Bosnia & Herzegovina	ABSE, Serbia	ABM, Montenegro	Company
Capital	344.2	90.0	78.3	51.3	148.6	125.1	195.0
Share premium	-	18.8	-	-	25.7	-	-
Other equity	-	-	-	-	-	-0.5	-
Accumulated other comprehensive income	10.5	2.1	0.5	0.3	-	-	-
Retained earnings	8.4	53.0	-31.8	40.8	4.9	-102.8	7.2
Revaluation reserves	-	-	1.1	-	1.6	-	-
Other reserves	18.6	-	31.4	12.8	-	-	518.7
Profit or loss attributable to owners of the parent	11.1	4.5	0.3	1.6	3.2	-	18.1
CET1 capital before regulatory adjustments	**392.8**	**168.4**	**79.8**	**106.9**	**184.0**	**21.7**	**739.0**
Total regulatory corrections	-38.3	-21.0	-8.4	-17.4	-14.3	-2.3	-24.9
Common equity Tier 1 (CET1) capital	**354.5**	**147.4**	**71.4**	**89.5**	**169.7**	**19.4**	**714.1**
Additional Tier 1	-	-	-	-	-	-	-
Tier 2	62.3	15.0	3.4	-	9.9	5.5	-
Total regulatory capital	**416.8**	**162.4**	**74.8**	**89.5**	**179.6**	**24.9**	**714.1**
Total risk weighted assets	1,647.3	1,087.0	334.0	338.4	651.2	186.3	1,245.5
CET 1 ratio	21.5%	13.6%	21.4%	26.5%	26.1%	10.4%	57.3%
Tier 1 ratio	21.5%	13.6%	21.4%	26.5%	26.1%	10.4%	57.3%
Total capital ratio	25.3%	14.9%	22.4%	26.5%	27.6%	13.4%	57.3%

(Source: Company information)

	Regulatory minimum ratios for local own funds as of March 31, 2019 (in EUR million) (unaudited)						
	ABC, Croatia	**ABS, Slovenia**	**ABBL, Republic of Srpska**	**ABSA, Federation of Bosnia & Herzegovina**	**ABSE, Serbia**	**ABM, Montenegro**	**Company**
Minimum required CET 1 ratio	13.7%	11.8%	9.3%	9.3%	11.5%	n.a.	11.7%
Minimum required Tier 1 ratio	15.2%	11.8%	11.5%	11.5%	13.6%	n.a.	13.2%
Minimum required TC ratio	17.2%	13.8%	14.5%	14.5%	16.4%	10.0%	15.2%

(Source: Company information)

	Local own funds (regulatory capital) as of December 31, 2018 (in EUR million) (unaudited)						
	ABC, Croatia	**ABS, Slovenia**	**ABBL, Republic of Srpska**	**ABSA, Federation of Bosnia & Herzegovina**	**ABSE, Serbia**	**ABM, Montenegro**	**Company**
Capital	345.2	90.0	78.3	51.3	148.2	125.1	195.0
Share premium	-	18.8	-	-	25.6	-	-
Other equity	-	-	-	-	-	-0.2	-
Accumulated other comprehensive income	5.0	2.0	0.0	-0.5	-	-	-
Retained earnings	-0.9	25.7	-33.5	36.3	-5.3	-102.8	7.2
Revaluation reserves	-	-	1.1	-	1.6	-	-
Other reserves	18.6	-	31.4	12.8	-	-	518.7
Profit or loss attributable to owners of the parent	9.3	37.2	1.7	4.5	12.0	-	-
CET1 capital before regulatory adjustments	**377.2**	**173.8**	**79.0**	**104.4**	**182.1**	**22.1**	**720.9**
Total regulatory corrections	-18.9	-35.3	-8.1	-16.0	-80.9	-2.6	-6.7
Common equity Tier 1 (CET1) capital	**358.4**	**138.5**	**70.8**	**88.4**	**101.2**	**19.5**	**714.2**
Additional Tier 1	-	-	-	-	-	-	-
Tier 2	69.3	15.0	3.3	-	11.5	5.5	-
Total regulatory capital	**427.7**	**153.5**	**74.1**	**88.4**	**112.7**	**25.0**	**714.2**
Total risk weighted assets	1,570.0	1,028.4	302.4	323.9	611.3	178.5	1,240.0
CET 1 ratio	22.8%	13.5%	23.4%	27.3%	16.6%	10.9%	57.6%
Tier 1 ratio	22.8%	13.5%	23.4%	27.3%	16.6%	10.9%	57.6%
Total capital ratio	27.2%	14.9%	24.5%	27.3%	18.4%	14.0%	57.6%

(Source: Company information)

ABC, Croatia, ABS, Slovenia, and ABSE, Serbia paid to the Company a dividend of EUR 13.8 million, EUR 10.0 million and EUR 1.7 million for the financial year 2018. The other subsidiaries paid no dividend to the Company for the financial year 2018.

	Regulatory minimum ratios for local own funds as of December 31, 2018 (in EUR million) (unaudited)						
	ABC, Croatia	**ABS, Slovenia**	**ABBL, Republic of Srpska**	**ABSA, Federation of Bosnia & Herzegovina**	**ABSE, Serbia**	**ABM, Montenegro**	**Company**
Minimum required CET 1 ratio	12.0%	10.7%	9.3%	9.3%	11.5%	n/a	11.1%
Minimum required Tier 1 ratio	14.1%	12.3%	11.5%	11.5%	13.6%	n/a	12.6%
Minimum required TC ratio	17.0%	13.1%	14.5%	14.5%	16.4%	10.0%	14.6%

(Source: Company information)

	Local own funds (regulatory capital) as of December 31, 2017 (in EUR million) (unaudited)						
	ABC, Croatia	ABS, Slovenia	ABBL, Republic of Srpska	ABSA, Federation of Bosnia & Herzegovin a	ABE, Serbia	ABM, Montenegro	Company
Capital	343.9	90.0	78.3	51.3	147.9	125.1	5.0
Share premium	-	18.8	-	-	25.6	-	-
Other equity	-	-	-	-	-	-	-
Accumulated other comprehensive income	9.0	0.3	-0.0	1.4	-	-	-
Retained earnings	-	12.9	-35.8	-15.3	0.2	-106.9	-
Revaluation reserves	-	-	1.1	-	1.5	-	-
Other reserves	0.7	-	31.6	68.2	-	2.7	628.0
Profit or loss attributable to owners of the parent	30.9	19.0	2.3	2.7	10.9	-	-
CET1 capital before regulatory adjustments	**384.5**	**141.0**	**77.5**	**108.4**	**186.1**	**20.9**	**633.0**
Total regulatory corrections	-67.0	-12.2	-37.3	-73.5	-82.7	-3.0	-5.7
Common equity Tier 1 (CET1) capital	**317.6**	**128.8**	**40.2**	**34.9**	**103.3**	**17.8**	**627.3**
Additional Tier 1	-	-	-	-	-	-	-
Tier 2	123.0	17.5	3.1	5.3	17.4	5.5	100.0
Total regulatory capital	**440.5**	**146.3**	**43.3**	**40.2**	**120.8**	**23.3**	**727.3**
Total risk weighted assets	1,582.6	938.8	295.1	305.6	553.0	176.7	1,401.8
CET 1 ratio	20.1%	13.7%	13.6%	11.4%	18.7%	10.1%	44.7%
Tier 1 ratio	20.1%	13.7%	13.6%	11.4%	18.7%	10.1%	44.7%
Total capital ratio	27.8%	15.6%	14.7%	13.2%	21.8%	13.2%	51.9%

(Source: Company information)

ABC, Croatia, ABS, Slovenia, and ABSE, Serbia paid to the Company a dividend of EUR 13.8 million, EUR 7.0 million and EUR 6.2 million for the financial year 2017. The other subsidiaries paid no dividend to the Company for the financial year 2017.

	Local own funds (regulatory capital) as of December 31, 2016 (in EUR million) (unaudited)						
	ABC, Croatia	ABS, Slovenia	ABBL, Republic of Srpska	ABSA, Federation of Bosnia & Herzegovin a	ABE, Serbia	ABM, Montenegro	Company
Capital	660.5	90.0	78.3	51.3	141.9	125.1	5.0
Share premium	7.9	18.8	-	4.0	34.9	-	-
Other equity	-	-	-	-	-	-	-
Accumulated other comprehensive income	3.3	-0.1	-0.0	0.7	1.4	-	-
Retained earnings	-354.8	-	-31.2	-	-	-106.9	-
Revaluation reserves	-	-	1.2	-	-	-	-
Other reserves	16.8	-	31.6	68.2	-	2.6	489.0
Profit or loss attributable to owners of the parent	7.9	12.9	-4.6	-19.2	-9.7	-	-
CET1 capital before regulatory adjustments	**341.5**	**121.6**	**75.2**	**105.0**	**168.4**	**20.8**	**494.0**
Total regulatory corrections	-24.2	-15.3	-34.6	-69.5	-75.3	-2.8	-5.0
Common equity Tier 1 (CET1) capital	**317.3**	**106.3**	**40.6**	**35.5**	**93.1**	**18.0**	**488.9**
Additional Tier 1	-	-	-	-	-	-	-
Tier 2	169.4	21.7	3.4	3.7	22.7	5.5	60.0
Total regulatory capital	**486.8**	**127.9**	**43.9**	**39.2**	**115.8**	**23.5**	**548.9**
Total risk weighted assets	1,654.3	817.8	269.5	244.7	502.9	152.6	1,389.6
CET 1 ratio	19.2%	13.0%	15.1%	14.5%	18.5%	11.8%	35.2%
Tier 1 ratio	19.2%	13.0%	15.1%	14.5%	18.5%	11.8%	35.2%
Total capital ratio	29.4%	15.6%	16.3%	16.0%	23.0%	15.4%	39.5%

(Source: Company information)

The subsidiaries paid no dividend to the Company for the financial year 2016.

11.8.7 Key Regulatory Leverage Ratios

The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk based supplementary measure to the bank capital adequacy. The leverage calculation uses Tier 1 as the numerator, and the denominator is the total credit risk exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the credit risk exposures from individual derivatives, credit risk exposures from transactions of security funding and other off-balance sheet items are especially pointed out.

The leverage ratio for Addiko Group, calculated in accordance with CRD IV, was 12.4% at March 31, 2019, up from 12.2% at December 31, 2018 and 10.4% at December 31, 2017.

For further information on leverage ratio calculation refer to "*16 Risk Management*".

11.8.8 Key Regulatory Liquidity Ratios

Liquidity coverage ratio (LCR)

The LCR was developed and introduced in` accordance with CRR and specified with the supplement Commission Delegated Regulation (EU) 2015/61. The LCR is expressed as the percentage of liquid assets divided by the net liquidity outflow (30 day stress) and set at a minimum of 100%, which indicates that a credit institution holds sufficient liquid assets to meet its net liquidity outflows during a 30-day stress period. During such a period, a credit institution should be able to quickly convert its liquid assets into cash without recourse to central bank liquidity or public funds.

	For the three-month period ended March 31,	**For the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**
	(unaudited)		**(unaudited)**	
LCR..	158%	150%	185%	269%

(Source: Company information)

Net stable funding ratio (NSFR)

The NSFR was also developed and introduced in accordance with CRR which foresees it as a long-term liquidity ratio. Currently, there is no regulatory minimum ratio prescribed. However, a future minimum ratio of 100% is expected, as proposed in the legislative proposal published by the European Commission on November 23, 2016. Currently, compromise proposals are under tripartite discussion between EU Commission, EU Parliament and EU Council.

Therefore, for the NSFR ratios presented above, the calculations were performed based on the NSFR template and Basel III: the NSFR paper from October 2014.

	For the three-month period ended March 31,	**For the financial year ended December 31,**		
	2019	**2018**	**2017**	**2016**
	(unaudited)		**(unaudited)**	
Net stable funding ratio...........	100%	102%	101%	104%

(Source: Company information)

11.9 Cash Flows

The following table shows selected data from the consolidated statement of cash flows of Addiko Group for the three-month period ended March 31, 2019 and 2018 and the financial years ended December 31, 2018, 2017 and 2016:

Cash Flow	**For the three-month period ended March 31,**		**For the financial years ended December 31,**		
	2019	**2018**	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)			**(in EUR million) (audited)**	
Cash and cash equivalents at end of previous period..	**1,002.9**	**1,285.9**	**1,285.9**	**1,878.2**	**1,319.0**
Cash flows from operating activities..................	-171.0	43.6	-93.6	-206.5	454.1
Cash flows from investing activities...................	-3.7	-3.9	-21.1	31.9	104.6
Cash flows from financing activities..................	-50.0	-170.0	-170.0	-430.0	0.0
Effect of exchange rate changes........................	-0.7	0.5	1.6	12.2	0.5
Cash and cash equivalents at end of period....	**777.5**	**1,156.1**	**1,002.9**	**1,285.9**	**1,878.2**

(Source: Audited Consolidated Financial Statements and Company information)

Cash and Cash Equivalents

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

As of March 31, 2019, cash and cash equivalents amounted to EUR 777.5 million, a decrease of EUR 378.6 million, or 32.7%, from EUR 1,156.1 million as of March 31, 2018, primarily due to the shift from cash into loans and receivables and investment securities as well as the payment of the dividend for the financial year 2018 in the amount of EUR 50.0 million.

As of December 31, 2018, cash and cash equivalents amounted to EUR 1,002.9 million, a decrease of EUR -283.0 million, or -22.0%, from EUR 1,285.9 million as of December 31, 2017, primarily due to the dividend payment of EUR 170 million for the financial year 2017 and due to cash outflows from operating activities. As of December 31, 2017, cash and cash equivalents amounted to EUR 1,285.9 million, a decrease of EUR 592.4 million, or 31.5%, from EUR 1,878.2 million as of December 31, 2016, primarily driven by cash outflows from financing activities relating to a dividend payment of EUR 430.0 million for the financial year 2016.

Cash Flows from Operating Activities

The cash flow from operating activities of the Addiko Group contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers, and debt securities issued. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

For the three-month period ended March 31, 2019, net cash from operating activities amounted to EUR -171.0 million, a decrease of EUR 214.6 million, from EUR 43.6 million for the three-month period ended March 31, 2018.

For the financial year 2018, net cash from operating activities amounted to EUR -93.6 million, an increase of by EUR 112.9 million from EUR -206.5 million for the financial year 2017, primarily due to less outflows from financial liabilities measured at amortized cost, which decreased from EUR -230.0 million in the financial year 2017 by EUR 141.3 million to EUR -88.7 million in the financial year 2018, and due to less interest paid, which decreased from EUR -70.7 million in the financial year 2017 by EUR 30.4 million to EUR -40.3 million in the financial year 2018. This was partly offset by the increased outflows from loans and advances to credit institution and customers, which increased from EUR -202.3 million in the financial year 2017 by EUR 80.1 million to EUR -282.4 million in the financial year 2018.

For the financial year 2017, net cash from operating activities amounted to EUR -206.5 million a decrease by EUR 660.6 million from EUR 454.1 million for the financial year 2016. The decrease in cash flows from operating activities for the financial year 2017 is primarily driven by the net increase of outstanding loans to customers leading to a cash outflow of EUR 202.3 million. The cash flows from operating activities of EUR 485.5 million for the financial year 2016 mainly related to the reduction of CHF loans in Croatia following the regional conversion law as well as brush transactions where NPE loan portfolios were transferred to HETA as part of Addiko Group's strategic turnaround.

Additional cash outflows relate to financial liabilities measured at amortized cost, which amounted to EUR 230.0 million and related to various effects incl. the repayment of financing lines to HETA in the amount of EUR 973.9 million, which was offset by an increase in deposits to customers (EUR 498.2 million) and credit institutions (EUR 25.6 million) as well as an increase in Tier 2 refinancing (EUR 130.0 million).

The above described outflows were further offset by cash inflows of EUR 90.8 million from financial assets mainly driven by the sale of bonds from credit institutions and non-financial entities compared to the outflow of EUR 43.9 million in 2016. Impacts from outflows are further mitigated by the reduced cash outflow from provisions amounting to EUR 22.6 million in 2017 compared to EUR 216.7 million in 2016, which were primarily related to provisions utilized in context of CHF conversion litigations in the financial year 2016.

Cash Flows Used in Investing Activities

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity in-vestments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries made for the acquisition of subsidiaries.

For the three-month period ended March 31, 2019, cash flows used in investing activities amounted to EUR -3.7 million, an increase of EUR 0.2 million from EUR -3.9 million for the three-month period ended March 31, 2018.

For the financial year 2018, cash flows used in investing activities amounted to EUR -21.1 million, a decrease of EUR 53.0 million, from EUR 31.9 million for the financial year 2017, mainly due to the fact that financial investments and participations in the amount EUR 40.1 million were sold in financial year 2017 whereas in the financial year 2018 there were no such activities.

For the financial year 2017, cash flows used in investing activities amounted to EUR 31.9 million, a decrease of EUR 72.7 million, or 69.5%, from EUR 104.6 million for the financial year 2016. Cash flows from investing activities are primarily driven by the decreased sales proceeds of financial investments from EUR 84.5 million in the financial year 2016 to EUR 40.1 million in 2017, which relate to debt securities classified as held to maturity. Further drivers summarized in other changes comprise mainly changes in property, plant and equipment, which lead to a decrease in cash inflows from EUR 30.4 million in the financial year 2016 to EUR 11.4 million in 2017.

Cash Flows from Financing Activities

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

For the three-month period ended March 31, 2019, cash flows from financing activities amounted to EUR -50.0 million, an increase of EUR 120.0 million from EUR -170.0 million for the three-month period ended March 31, 2018, primarily due to the distribution of a lower dividend of EUR 50.0 million for the financial year 2018.

For the financial year 2018, cash flows from financing activities amounted to EUR -170.0 million, an increase of EUR 260.0 million, from EUR -430.0 million for the financial year 2017, primarily due to distribution of a smaller dividend of EUR 170.0 million in financial year 2017. For the financial year 2017, cash flows from financing activities amounted to EUR -430.0 million, a decrease of EUR 430.0 million, from EUR 0.0 million for the financial year 2016, which relates to the distribution of a dividend in the amount of EUR 430.0 million in financial year 2017 compared to EUR 0.0 million due to Addiko Group's financial situation in financial year 2016.

11.9.1 Investments

Due to the nature of the banking business, capital expenditures on property, plant and equipment, investment properties and intangible assets are of minor significance for Addiko Group. Main expenditures relate to investments in IT related assets such as software. Main driver regarding the decrease in investments relates to Addiko Group project to dispose non-core assets.

The following table shows Addiko Group's investments in property, plant and equipment, in investment properties as well as in intangible assets for the financial years ended December 31, 2018, 2017, and 2016 and the three-month period ended March 31, 2019.

	Tangible and intangible assets as of March 31,	Tangible and intangible assets as of December 31,		
	2019	**2018**	**2017**	**2016**
	(in EUR million) (unaudited)	**(in EUR million) (audited)**		
Land and buildings				
Gross acquisition costs	99.2	98.6	96.9	109.3[1]
Cumulative depreciation	-55.1	-54.8	-52.6	-54.2[1]
Net carrying amount	**44.1**	**43.9**	**44.3**	**55.1**
Equipment - internally used[2]				
Gross acquisition costs	87.0	87.2	90.2	94.2[1]
Cumulative depreciation	-75.3	-75.3	-79.2	-81.4[1]
Net carrying amount	**11.7**	**11.9**	**11.0**	**12.8**
Right of use assets				
Gross	31.6	-	-	-
Cumulative depreciation	-1.8	-	-	-
Net carrying amount	**29.8**	-	-	-
Investment properties				
Gross acquisition costs	4.3	4.3	4.3	5.3
Cumulative depreciation	-2.2	-2.2	-2.3	-2.8
Net carrying amount	**2.0**	**2.1**	**2.0**	**2.6**
Intangible assets				
Gross acquisition costs	123.1	120.7	103.5	93.4[1]
Cumulative depreciation	-91.9	-90.4	-81.6	-76.1[1]
Net carrying amount	**31.3**	**30.3**	**21.8**	**17.3**
Total				
Gross acquisition costs	345.2	310.8	294.9	302.3[1]
Cumulative depreciation	-226.4	-222.8	-215.7	-214.6[1]
Net carrying amount	**118.8**	**88.0**	**79.1**	**87.8**

1 Figures as of December 2016 have been revised in the Audited Consolidated Financial Statements of Addiko Group 2017, because fully depreciated/ amortized tangible and intangible assets were shown as disposal in the asset table although they were still in use by the Company. In 2017, it was decided to show them in the asset table as well as in the cumulative amortization/depreciation table starting from January 1, 2016.

2 Comprises "Equipment - operating lease" as presented in the Audited Consolidated Financial Statements of Addiko Group 2017 and 2016

(Source: Audited Consolidated Financial Statements and Company information)

As of March 31, 2019 the tangible and intangible assets amounted to EUR 118.8 million, an increase of EUR 30.8 million, or 35.0%, from EUR 88.0 million as of December 31, 2018. The increase was primarily due to the implementation of IFRS 16 - Leases, leading to the recognition of right of use assets in the amount of EUR 29.8 million as of March 31, 2019.

Net carrying amount of land and buildings, equipment - internally used, investment property and intangible assets amounted to EUR 88.0 million as of December 31, 2018, an increase of EUR 8.9 million, or 11.3%, from EUR 79.1 million as of December 31, 2017, which in turn is a decrease of EUR -8.7 million, or -9.9%, from EUR 87.8 million as of December 31, 2016. This was primarily driven by land and buildings, which decreased from EUR 55.1 million as of December 31, 2016, by EUR 11.2 million, to EUR 43.9 million as of December 31, 2018, and by intangible assets, which increased from EUR 17.3 million as of December 31, 2016, by EUR 13.0 million, to EUR 30.3 million as of December 31, 2018.

The decrease in gross land and buildings between December 31, 2016 and 2018 was mainly driven by the reclassification of properties to non-current assets as held for sale. The reclassification relates to Addiko Group's decision to focus on the banking business and the resulting sales process of mainly non-core assets in Croatia, Serbia and Bosnia & Herzegovina.

Gross equipment - internally used decreased by EUR -7.0 million (-7.4%) between December 31, 2016 and 2018 mainly due to sales of equipment in the subsidiaries ABSE, ABC, ABS and ABBL. This was partly offset by additions of new equipment and foreign exchange effects.

Gross investment properties decreased by EUR 1.0 million in the financial year 2017, primarily driven by a reclassification to non-current assets held for sale.

Gross intangible assets increased by EUR 27.3 million between December 31, 2016 and 2018, primarily driven by investments in software required for the digitalization strategy.

11.9.2 Principal Committed Investments

The following table shows Addiko Group's investments (exceeding EUR 100,000) that have been approved by the Management Board of the Company but have not yet been completely implemented:

Business/ entity	Description	Committed amount in EUR thousand, including any applicable value added tax
ABC, Croatia	Relocation of Zadar branch	256
ABSE, Serbia	Relocation and operation of a branch in Belgrade	118
Addiko Group IT	Acceptance of the offer for PAM system	208
Company	Early warning system and monitoring tool	221
Company	IT cost optimization project	390

(Source: Company information)

11.10 Contractual Obligations

Contingent liabilities and other liabilities not included in the statement of financial position

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)		(in EUR million) (audited)	
Loan commitments, granted	564.2	600.6	512.3	465.7
Financial guarantees, given	238.0	192.5	135.6[1]	132.6
Other commitments, given[3]	173.6	171.5	171.9[2]	167.9
Total	**975.8**	**964.7**	**819.9**	**766.3**

1 Financial guarantees, given are presented as "contingent liabilities from financial guarantees" in the Audited Consolidated Financial Statements 2017.
2 Other commitments, given are presented as "contingent liabilities from other commitments" in the Audited Consolidated Financial Statements 2017.
3 The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.
(Source: Audited Consolidated Financial Statements and Company information)

Loan commitments, granted amounted to EUR 564.2 million as of March 31, 2019, a decrease of EUR 36.4 million, or 6.1%, from EUR 600.6 million as of December 31, 2018, which in turn is an increase of EUR 134.9 million, or 29.0%, from EUR 465.7 million as of December 31, 2016. Financial guarantees, given amounted to EUR 238.0 million as of March 31, 2019, an increase of EUR 45.5 million, or 23.6%, from EUR 192.5 million as of December 31, 2018, which in turn increased by EUR 59.9 million, or 45.2%, from EUR 132.6 million as of December 31, 2016. Both, loan commitments, granted and financial guarantees, given, increased in the period under review mainly due to the focus on trade finance in SME Business Segment (e.g. guarantees, letters of credit) and the increase of lending business in SME Business Segment and Large Corporates Segment, where it is common to provide liquidity facilities (overdrafts, revolving loans) beside the standard term loans. The irrevocable loan commitments granted amounted to EUR 414.4 million as of March 31, 2019.

Other commitments, given amounted to EUR 173.6 million as of March 31, 2019, an increase of EUR 2.1 million, or 1.2%, from EUR 171.5 million as of December 31, 2018, which in turn increased by EUR 3.6 million, or 2.1%, from EUR 167.9 million as of December 31, 2016. Other commitments, given include mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

11.11 Critical Accounting Estimates and Policies

11.11.1 Use of estimates and assumptions/material uncertainties in relation to estimates

The consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. Estimates and assumptions are based on historical experience and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

(i) Credit risk provisions

The Addiko Group regularly assesses the recoverability of its problematic loans and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions.

(ii) Fair value of financial instruments

For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models.

(iii) DTA

DTA on losses carried forward are only recognized when future tax profits that allow utilization appear highly likely. These estimates are made on tax plans which are based on the respective 5 years business plans, whereas the recognition is based on the shorter between the business plan period and the individual expire data of the existing taxable losses.

(iv) Provisions

Setting up provisions is also based on judgments. A decision has to be made on the extent to which Addiko Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows.

(iv) Defined benefit obligations

Addiko Group maintains both defined contribution and defined benefit plans. Defined contribution plans do not require a provision, since a fixed contribution is paid to an external provider. Defined benefit obligations relate to pension commitments and severance obligations. These schemes are unfunded, i.e. all of the funds required for coverage remain within Addiko Group.

(iv) Leases

Starting January 1, 2019 IFRS 16 "Leases" will replace the previous standard IAS 17 “Leases”. Based on the new standard requirements assessments will have to be performed in relation to the exercise of lease renewal options, which would have an impact on the amount recognised as “right-of-use” assets.

11.11.2 Loan loss provisions

Until December 31, 2017 loan loss provisions were recognised and measured using the criteria with IAS 39. On January 1, 2018 it was superseded by IFRS 9 Financial instruments. As IFRS 9 is not applied retrospectively the comparative period is still under the regime of IAS 39. For critical accounting estimates and policies under IFRS 9 please refer to chapter 11.11.6 “IFRS 9”. For critical accounting estimates and policies under IAS 39 please read below:

Default risks in the lending business are included in the category loans and receivables through the recognition of specific provisions and portfolio provisions for impairment losses and/or by recognizing provisions for obligations not included in the statement of financial position.

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, taking pledged collateral into account.

Specific provisions for impairment losses are either calculated individually or based on a collective estimate (rules-based approach). For major customers, the expected future cash flows are individually estimated by the risk manager. A customer is considered major if the total receivable, defined as the sum of all receivables (both those included in the statement of financial position and those not included), exceeds an established materiality threshold. Otherwise, the customer is not considered significant and a rules-based approach is used to calculate the specific provision for impairment losses.

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognized as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognized if the present value of the agreed cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses applied by Addiko Group companies, receivables are grouped into homogeneous portfolios with comparable risk properties and the business not included in the statement of financial position is also taken into account.

Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses performed by Addiko Group, receivables are grouped into homogeneous portfolios with comparable risk properties, whereas subsidiary specific data is also taken into account. For the purpose of obtaining a uniform and transparent approach, the portfolio provision assessment is done centrally, at Addiko Group level, for all Addiko Group entities.

In addition to the credit risk exposure determining the portfolio provisions for impairment losses, the following parameters are also taken into account:

- The time elapsed between the occurrence and identification of the loss event (loss identification periods)
- The probability of default
- The loss given default

Basically, the Addiko Group assumes the following loss identification periods (known as LIP factors) for the determination of portfolio provisions for impairment losses after taking into account the customer segment and volume: 0.1 for banks and governments, 0.5 for corporate and retail customers. If local conditions demand, more conservative LIP factors (up to 1) can be applied.

Specific provisions for credit risk exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis. Such individually insignificant loans are grouped according to similar credit risk characteristics and impaired accordingly. Since the end of 2016, the assessment of collective impairment for specific provisions has been performed at the level of Addiko Group for all Addiko Group subsidiaries. These credit risk exposures are impaired based on loss given default, which differs depending on the subsidiary and the segment.

Probabilities of default for the retail portfolio are determined by the realized historical default rates per subsidiary and segment. Probabilities of default for the non-retail portfolio are determined by the results of the respective rating models. For the non-retail portfolio, scaling factors for probabilities of default of the rating models are applied if there are significant differences between the realized historical default rates and the credit risk exposure-weighted probabilities of default of the rating models (per subsidiary and segment).

The realized historical default rates are determined by semi-annual averaging of realized one-year default rates calculated monthly. A default event is counted insofar as at least one default has occurred within a year according to the internal definition of default.

The realized historical default rates are recalculated/validated at least once a year. Should there be a need for changes, the parameters in the model are adjusted.

The loss given default rates are estimated per customer segment. To maintain consistency, these factors are also applied to determine impairment in the collective impaired model of the Addiko Group.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognized are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the expected loss and also based on the probability of default specific to each subsidiary and segment and the loss given default.

11.11.3 Methods for determining the fair value of financial instruments

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

11.11.4 Hedge accounting

In accordance with IFRS 9.7.2.21 Addiko Group elected, as a policy choice permitted, to continue to apply hedge accounting requirements in accordance with IAS 39. Under IAS 39 underlying transactions (usually receivables, securities and liabilities) can be subject to different measurement principles than hedging transactions (derivatives) which always belong to the category “at fair value through profit or loss”. With the application of hedge accounting according to IAS 39, changes in value arising from changes in the market price of the underlying transaction are compensated through profit or loss by concluding an opposing hedging transaction.

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period, derivatives must be monitored continuously to ensure that they are effectively compensating for changes in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80.0% to 125.0%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

The Addiko Group only uses fair value hedges for hedge accounting. These serve to hedge changes in the market values of assets and liabilities (underlying transactions). The risks to be hedged are the interest risk and the foreign currency risk. If the hedging relationship is 100% effective, the measurement effects of the underlying transaction offset those of the hedging transaction and there is no effect on profit or loss. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognized in the result from hedge accounting as part of the position “gains and losses on financial assets and liabilities”.

11.11.5 Income taxes and deferred taxes

Current and deferred income taxes assets and liabilities are jointly reported in the statement of financial position under “tax assets” and “tax liabilities”. Current income taxes are determined according to the tax law regulations of the respective countries.

DTA and DTL are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A DTL shall be recognized if the reversal of taxable temporary differences will lead to an effective tax burden. DTA are recognized for taxable temporary differences that result in a tax credit when recovered. DTA and DTL have been offset as required by IAS 12. If there is a series of losses in the recent past, the more stringent criterions for recognizing DTA according to IAS 12 have to be considered. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Tax rate changes are taken into account in the determination of deferred taxes insofar as they are known at the time the consolidated financial statements are prepared. In accordance with IAS 12, non-current deferred taxes are not discounted. DTA are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be sufficiently available. This assessment is generally based on business plans as agreed by the Management Board.

The recoverability of a DTA due to tax losses carried forward and taxable temporary differences is re-viewed at the end of each reporting period.

Establishment and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income (e.g. re-measurement reserve for available-for-sale financial instruments).

11.11.6 IFRS 9

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018 replacing IAS 39. For further information on Addiko Group's IFRS 9 implementation, please refer to "*11.3.15 IFRS 9 impact*".

Classification, recognition and measurement of financial assets and financial liabilities

IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (***FVOCI***) and fair value through profit or loss (***FVTPL***). The existing categories according to IAS 39 – held-to-maturity, loans and receivables and available-for-sale - no longer exist.The classification into one of the categories under IFRS 9 is based on contractual cash flows as well as the entity's business model for managing the financial instrument ("business model assessment").

Business model assessment

In 2017 the Addiko Group made an assessment of business models for all segments and set up documentation comprising policies and objectives for the relevant portfolio and their implementation e.g.whether management´s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets.

Contractual cash flow characteristics

In accordance with IFRS 9 cash flows are assessed on whether they are solely payments of principal and interest (***SPPI***). Therefore, Addiko Group considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria. This includes the assessment of contractual terms including contingent events that would change the amount and timing of contractual cash flows, leverage features, prepayment and extension terms, terms that limit Addiko Group's claim to cash flows from specified assets and features that modify consideration for the time value of money. Based on the entity's business model and the contractual cash flow characteristics IFRS 9 defines the following principal classification categories:

- A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (***SPPI criteria***).
- A financial asset is measured at FVOCI if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at FVTPL. Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

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

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

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (***ECL***) model. The ECL is defined as the difference between the cash flows that are due to Addiko Group in accordance with the contractual terms of a financial instrument and the cash flows that Addiko Group expects to receive (considering probabilities of default and expected recoveries). This requires considerable judgment over how changes in economic factors affect ECLs, which is considered on a probability-weighted basis.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting

date. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition.

The impairment in accordance with IFRS 9 requires management judgements, estimates and assumptions, particularly in the following areas:

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

Measurement of ECL's

ECLs are probability-weighted estimates of credit losses and are measured as follows in accordance with IFRS 9:

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

For calculating ECLs Addiko Group uses the term structures of following variables:

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

While PDs are partially based on statistical models as described below, the risk parameters (LGD, CCF) are leveraging on regulatory values and/or expert assessment. They are adjusted to reflect forward-looking information as described below.

Definition of default

Under IFRS 9, Addiko Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Addiko Group in full, without recourse by Addiko Group to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to Addiko Group. Addiko Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, Addiko Group considers qualitative and quantitative indicators, based on data developed internally and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, for determining the development of credit risk (i.e. risk of default) of a financial instrument subsequent to initial recognition, Addiko Group established a framework that incorporates both quantitative and qualitative information including reasonable, relevant and supportable information that is available without undue cost or effort, including analyses based on Addiko Group's historical experience, expert credit assessment and forward-looking information. The criteria for determining whether credit risk has increased significantly vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9.

In order to identify whether a significant increase in credit risk has occurred for an exposure Addiko Group primarily compares the 12-month PD as at reporting date to the 12-month PD estimated on initial recognition of the exposure. Addiko Group also uses credit risk grades based on the PD of the exposure and experienced credit judgement. Each exposure is allocated to a credit risk grade on initial recognition based on available borrower information. Regular monitoring may lead to subsequent changes in credit risk grades. The underlying PD is defined using qualitative and quantitative factors based on the characteristics of the exposure and the underlying borrower.

Credit risk grades are a primary input for determining the term structure of the exposure PD. Addiko Group collects performance and default information on its credit risk exposures by jurisdiction, type of product and borrower as well as by credit risk grading, also including information purchased from external credit reference agencies. Furthermore, Addiko Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and

their expected changes over the course of time. The analysis considers effects of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of other factors (e.g. forbearance experience) affecting the PD. For most exposures, key macroeconomic indicators include inter alia GDP growth and unemployment rate.

In certain instances, using its expert credit judgement and relevant historical experience, Addiko Group may determine that an exposure has undergone a significant increase in credit risk if indicated by qualitative factors without a timely indication from the corresponding quantitative analysis. As a backstop, as required by IFRS 9, Addiko Group presumptively assumes that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Addiko Group monitors the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews in order to determine whether

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

Forward-looking information

Under IFRS 9, Addiko Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its calculation of ECLs. In this context Addiko Group identifies and documents key drivers of credit risk for each portfolio of financial instruments, using an analysis of historical data and estimating relationships between macro-economic variables and credit risk. Drivers include inter alia unemployment rates and GDP forecasts. The analysis is also used to develop predicted relationships between the key indicators and default rates on various portfolios of financial assets. Based on this information Addiko Group determines a "base case" view of the future direction of relevant economic variables and a representative range of further possible forecast scenarios considering the relative probabilities of each outcome. The base case represents the most-likely outcome and is aligned with Addiko Group's strategic planning and budgeting. Addiko Group also carries out stress tests on a regular basis simulating extreme shocks to calibrate its determination of these other representative scenarios.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for derecognition of financial assets and financial liabilities without substantive amendments. However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. In accordance with IFRS 9, Addiko Group recalculates the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognizing any resulting adjustments as a modification gain or loss in profit or loss.

Hedge Accounting

IFRS 9 also introduced a new general hedge accounting model aligning hedge accounting more closely with operational risk management. Mayor changes include a revised effectiveness test as a requirement for the use of hedge accounting, the prohibition of voluntary terminations of hedge relationships as well as rules for rebalancing of hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical.

Impacts on capital planning

Addiko has elected to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; plus
- any subsequent increase in expected credit losses in the non-credit-impaired booked thereafter.

Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs. While the adoption of these transitional capital rules has a negligible impact on CET1 capital in 2018, they would mitigate the impact on capital in adverse economic conditions.

Impacts from initial application and transition

IFRS 9 affects the classification and measurement of Addiko Group's financial instruments held as of January 1, 2018:

- based on assessments undertaken to date, the major part of the loan portfolio classified as loans and advances according to IAS 39 was still measured at amortized costs according to IFRS 9;
- financial assets held for trading continued to be measured at FVTPL;
- Addiko Group classified most debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities are measured at FVTOCI;
- for the majority of the equity instruments that were classified as available for sale under IAS 39, the Addiko Group exercised the option to irrevocable designate these at FVTOCI;
- held-to-maturity investments measured at amortized cost under IAS 39 were measured at FVTOCI according to IFRS 9.

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

As Addiko Group continues to apply the existing hedge accounting model in IAS 39 no major impacts on the consolidated financial statements of the Addiko Group occurred regarding new regulations of IFRS 9.

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impacts from initial application of IFRS 9 in the opening equity as of January 1, 2018. Addiko Group does not restate comparative figures and presented the one-off effects in the opening retained earnings amounting to EUR -32.4 million comprising a reduction of EUR -40.7 million related to impairment requirements, an increase of EUR 9.3 million related to classification and measurement requirements, other than impairment and a reduction of EUR -1.0 million related to deferred tax impacts.

Changes in accounting policies resulting from the adoption of IFRS 9 were generally applied retrospectively, except as described below. Addiko Group took advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were generally recognized in retained earnings and reserves as of January 1, 2018.

11.11.7 Investment book value

Addiko Group classifies debt securities as either the banking book or trading book depending on the purpose of their acquisition and the intended manner of their disposal. The main objective of securities placed in the banking book is to collect contractual cash flows, while the purpose of trading book securities is to generate profits resulting from the difference between the purchase price and selling price as well as the placement of excess liquidity from the short-term (operative) liquidity point of view in treasury. The positions of the trading book have to be traded with an intended holding period, which is below one year. Furthermore, it must be granted that the whole position can be closed within one day. If this is not provided, then investment is classified under the banking book.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, Addiko Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and the duration of the portfolio. The framework for managing the banking book securities is the Policy for managing debt securities in the banking book, which clearly defines the objectives and characteristics of the associated portfolio.

In accordance to IFRS 9 investments in the banking book are generally accounted as financial assets at amortised costs or financial assets at fair value through other comprehensive income while investments in the trading book are always accounted as financial assets at fair value through profit or loss (for more detailed description regarding these classifications please see "*11.3.15 IFRS 9 impact*").

11.12 Certain Definitions of Key Financials, Key Performance Indicators and Key Line Items

11.12.1.1 Non-regulatory Key Financials and Key Performance Indicators

The following non-regulatory key financials and key performance indicators refer to Addiko Group and/or any of its segments. Any figures referring to Addiko Group are figures of the Company consolidated in accordance with the consolidation provisions of IFRS (unless otherwise indicated). These metrics are used by management to track the financial performance of Addiko Group, but are not defined or used by financial regulators to monitor its business.

Net banking income: Net banking income is the total of the line items net interest income and net fee and commission income and demonstrate Addiko Group's ability to generate revenue in its core banking activities.

Net interest income: Net interest income is defined as the line item interest income plus the line item dividend income minus the line item interest expense.

Regular interest income: Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

Net fee and commission income: Net fee and commission income is defined as the line item fee and commission income minus the line item fee and commission expense.

Operating income: Operating income is the total of net interest income, net fee and commission income, gains and losses on financial assets and liabilities and other operating result.

Operating expenses: Operating expenses are the total of personnel expenses, other administrative expenses and depreciation and amortization.

Total risk costs: In Addiko, total risk cost signifies net of booked and released provisions (impacting P/L) for credit risk loses.

Profit before tax: Profit before tax reflects all income earned regardless of source. It is the result of subtracting the operating expenses and risk cost from all income earned. Corporate income tax is not deducted.

Result after tax: Result after tax is the result after tax as presented in the Audited Consolidated Financial Statements that is attributable to the equity holders of the parent.

Cost of risk ratio: Calculated based on total credit loss expenses on financial assets divided by the credit bearing risk exposure.

Cost/income ratio: Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income.

IFRS equity: IFRS equity represent equity as set out in the consolidated financial statements in accordance with IFRS and shows the equity attributable to the owners of the parent of the Company including non-controlling interest in some of Addiko Group's subsidiaries.

Return on equity: The return on equity is calculated by dividing result after tax by the average amount of the IFRS equity, determined as the simple average of beginning of period amount and the end of period amount.

Return on Average Tangible Equity (RoTE): Based on the result after tax divided by total average shareholder's equity excluding intangible assets for the specified year. The average amounts have been calculated as the simple average of the beginning and end of period total amounts.

NPE: Non-performing loans (***NPE***) at Addiko Group are in-line with EBAs definition of non-performing exposures.

NPE ratio: NPE ratio is defined as non-performing loans divided by credit risk bearing exposure. It is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management.

NPE coverage ratio: The NPE coverage ratio is calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.

Customer deposits: Customer deposits include deposits of retail, business and institutional customers.

Customer loan to deposit ratio: The customer loan to deposit ratio is calculated as loans and receivables to customers (i.e. excluding central banks and other credit institutions) divided by deposits of customers.

Loan to deposit ratio: The loan to deposit ratio is calculated as total loans and receivables divided by total deposits of customers.

11.12.1.2 Regulatory Key Financials and Key Performance Indicators

The following regulatory key financials and key performance indicators refer to Addiko Group and/or any of its segments. Any figures referring to Addiko Group are figures consolidated in accordance with the respective consolidation provisions of the CRR.

Risk-weighted assets: Risk-weighted assets are on-balance and off-balance positions, which shall be risk weighted according to (EU) Nr 575/2013.

CET1 capital: Common Equity Tier 1 (***CET1***) capital is a CRR regulatory figure. CET1 capital is defined by the CRR and represents the highest quality of capital. It, therefore, only comprises capital instruments including capital reserves that are available to Addiko Group for unrestricted and immediate use to cover risks or losses as soon as they occur. Hence, a higher

CET1 capital results normally in a higher resilience against such risks or losses. In respect of interim accounts, specific items have to be deducted in accordance to CRR from CET1, including IFRS 9 phase-in.

CET1 ratio: Common Equity Tier 1 (CET1) ratio is calculated by dividing CET1 capital by the amount of risk-weighted assets. The CET1 ratio is one of the most important regulatory metrics and demonstrates a bank's financial strength by providing a measure for how well a bank can withstand financial stress. Addiko Group consistently monitors the CET1 ratio to ensure compliance with regulatory minimum requirements and management buffers.

Total capital: Total capital is a regulatory metric similar to CET1 capital but which extends the eligible capital for this purpose to include other instruments (e.g., AT1 and T2 instruments) not falling within the strict CET1 definition. In respect of interim accounts, total capital does not include interim profit.

Total capital ratio: The total capital ratio reflects all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR.

Leverage ratio: Leverage ratio is the ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV.

Liquidity coverage ratio (LCR): The LCR is calculated by dividing the amount of high quality liquid assets by the net cash outflows (calculation according to CRR) of consolidated Addiko Group. The LCR is a regulatory metric that ensures that Addiko Group maintains adequate levels of liquidity, i.e. sufficient high quality liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, Addiko Group shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days.

Net stable funding ratio (NSFR): The NSFR is calculated by dividing the total available stable funding (as defined under the CRR) by the total required stable funding (as defined under the CRR) of consolidated Addiko Group. The NSFR is a regulatory metric that aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. In keeping with this, Addiko Group shall maintain a stable funding structure.

12 Selected Bank Statistical and Other Data

The tables below set forth selected statistical information of Addiko Group. The information below is derived from Addiko Group's consolidated financial information and from internal records and is unaudited unless indicated otherwise. The information should be read together with the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2018, 2017, and 2016 and the respective related notes included therein, which are contained in this Prospectus. See also "*11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*" and "*10 Selected Financial and Business Information*".

Certain figures in this section have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be precise arithmetic sums or percentages of the figures that precede them. In addition, certain percentages in this section have been calculated using rounded figures.

12.1 Average Balance Sheets

The following table presents Addiko Group's average balance sheet and net interest income for the periods specified. The average balances are calculated in general based upon month-end balances. The average yield is the net interest income and expense for the period weighted by the average balance.

12.1.1 Average Balance Sheet and Interest and Similar Income

	For the financial year ended December 31,								
	2018			2017			2016		
(in EUR million) (unaudited, unless otherwise indicated)	Average book value[1]	Interest income	Average yield	Average book value[1]	Interest income	Average yield	Average book value[1]	Interest income	Average yield
ASSETS									
Customer Loans	3,740	189.2[3]	5.06%	3,711	206.0[3]	5.55%	3,943	209.8[3]	5.32%
Loans to Credit Institutions	35	0.4[3]	1.21%	57	0.4[3]	0.68%	78	0.5[3]	0.65%
Total Loans	**3,775**	**189.7**	**5.02%**	**3,769**	**206.4**	**5.48%**	**4,021**	**210.3**	**5.23%**
Bonds	1,232	17.9[3]	1.45%	1,324	18.5[3]	1.40%	1,355	18.8[3]	1.38%
Derivatives	10	3.6[3]	n.a.	9	6.3[3]	n.a.	7	7.4[3]	n.a.
Cash at central banks and other demand deposits	1,043	0.5[3]	0.05%	1,486	0.8[3]	0.06%	1,491	0.7[3]	0.05%
Total Interest Earning Assets	**6,059**	**211.7**	**3.49%**	**6,588**	**232.1**	**3.52%**	**6,875**	**237.1**	**3.45%**
Total Non-Interest Earning Assets[2]	260	0.4[3]	n.a.	263	2.1[3]	n.a.	441	1.0[3]	n.a.
TOTAL ASSETS	**6,319**	**212.1**	**3.36%**	**6,851**	**234.2**	**3.42%**	**7,316**	**238.2**	**3.26%**
Negative interest from financial liabilities		1.7[3]			0.0[3]			0.0	
TOTAL Interest Income		**213.8**[3]			**234.2**[3]			**238.2**[3]	

1 The average value is composed of the closing value of the previous year and the closing balance of the current year.
2 Includes dividend from equity investments recognised under interest income as well as interest from other assets
3 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.1.2 Average Balance Sheet and Interest Expense

	For the financial year ended December 31,								
	2018			2017			2016		
(in EUR million) (unaudited, unless otherwise indicated)	Average Book Value[1]	Interest Expense	Average Yield	Average Book Value[1]	Interest Expense	Average Yield	Average Book Value[1]	Interest Expense	Average Yield
LIABILITIES									
Customer Deposits	4,885	-33.4[2]	-0.68%	4,685	-42.7[2]	-0.91%	4,189	-50.4[2]	-1.20%
Deposits at Credit Institutions and central banks	333	-1.0[2]	-0.29%	329	-2.4[2]	-0.72%	334	-3.9[2]	-1.16%
Derivatives	2	-0.9[2]	n.a.	9	-2.2[2]	n.a.	31	-6.9[2]	n.a.
Other financial liabilities	144	-3.7[2]	-2.57%	780	-19.8[2]	-2.53%	1,638	-16.6	-1.02%
TOTAL	**5,364**	**-39.0**	**-0.73%**	**5,802**	**-67.0**	**-1.15%**	**6,193**	**-77.8**	**-1.26%**

	For the financial year ended December 31,								
	2018			2017			2016		
INTEREST BEARING LIABILITIES									
Non-Interest Bearing Liabilities	103	0.0	n.a.	129	0.0	n.a.	249	0.0	**n.a.**
TOTAL LIABILITIES	**5,467**	**-39.0**	**n.a.**	**5,931**	**-67.0**	**n.a.**	**6,442**	**-77.8**	**n.a.**
Total Equity	852	0.0	n.a.	919	0.0	n.a.	874	0.0	**n.a.**
TOTAL LIABILITIES and EQUITY	**6,319**	**-39.0**	**n.a.**	**6,851**	**-67.0**	**n.a.**	**7,316**	**-77.8**	**n.a.**
Negative interest from loans and advances................		-1.7[2]			-1.9[2]			-1.6	
TOTAL Interest Expense		**-40.7**[2]			**-68.9**[2]			**-79.4**[2]	

1 The average value is composed of the closing value of the previous year and the closing balance of the current year.
2 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.1.3 Average Yield on Interest Earning Assets

	For the financial year ended December 31,		
(in EUR million) **(unaudited unless otherwise indicated)**	**2018**	**2017**	**2016**
Interest Income..	213.8[2]	234.2[2]	238.2[2]
Interest Expense	-40.7[2]	-68.9[2]	-79.4[2]
Net Interest Income...	**173.2**[2]	**165.3**[2]	**158.8**[2]
Total Average Interest Earning Assets[1] **.................**	**6,059**	**6,588**	**6,875**
Average Yield on Interest Earning Assets	**2.86%**	**2.51%**	**2.31%**

1 The average value is composed of the closing value of the previous year and the closing balance of the current year.
2 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.1.4 Analysis of Changes in Interest Income and Interest Expense

The following table presents an analysis of changes in interest income as well as interest expense between the periods specified. In the following table, the changes in net interest income between periods have been reflected as attributed either to average balance or rate changes. For purposes of this table, volume related changes are calculated by multiplying the change in average balances between the two periods by the average interest rate of the older period, and the remaining net change in interest income is attributed to changes in interest rates.

	2018 over 2017			**2017 over 2016**		
(in EUR million)	**Net change**	**Volume related change**	**Rate related change**	**Net change**	**Volume related change**	**Rate related change**
INTEREST INCOME						
Customer Loans	-16.8	1.6	-18.4	-3.7	-12.3	8.6
Loans to Credit Institutions	0.0	-0.1	0.2	-0.1	-0.1	0.0
Bonds	-0.6	-1.3	0.7	-0.2	-0.4	0.2
Cash at central banks and other demand deposits	-0.3	-0.3	-0.1	0.1	0.0	0.1
Total Interest Earning Assets (excluding Derivatives)	**-17.7**	**-0.1**	**-17.6**	**-3.9**	**-12.9**	**9.0**
Derivatives	-2.7	n.a.	n.a.	-1.1	n.a.	n.a.
Other non-interest bearing (e.g. dividends) and negative interest....................................	0.0	n.a.	n.a.	1.0	n.a.	n.a.
TOTAL INTEREST INCOME................	**-20.4**	**n.a.**	**n.a.**	**-4.0**	**n.a.**	**n.a.**
INTEREST EXPENSE						
Customer Deposits	9.2	-1.8	11.1	7.7	-6.0	13.6
Deposits by Credit Institutions	1.4	0.0	1.4	1.5	0.1	1.5
Other Financial Liabilities...........................	16.1	16.1	-0.1	-3.1	8.7	-11.8
Total Interest Bearing Liabilities (excluding Derivatives)	**26.7**	**14.3**	**12.4**	**6.1**	**2.8**	**3.3**
Derivatives	1.3	n.a.	n.a.	4.7	n.a.	n.a.
Other non-interest bearing and negative interest...	0.2	n.a.	n.a.	-0.3	n.a.	n.a.
TOTAL INTEREST EXPENSE	**28.2**	**n.a.**	**n.a.**	**10.5**	**n.a.**	**n.a.**

(Source: Company information)

12.2 Investment Portfolio

12.2.1 Book Value of Investment Portfolio

The book value of Addiko Group's investment portfolio (comprises debt securities reported as investment securities or financial assets held for trading in the Audited Consolidated Financial Statements of Addiko Group as of December 31, 2018 as well as financial assets held for trading, available for sale financial assets or held to maturity investments in the Audited Consolidated Financial Statements of Addiko Group as of December 31, 2017 and 2016) was as follows as of the dates specified.

	For the financial year ended December 31,		
(in EUR million) **(audited)**[1]	**2018**	**2017**	**2016**
BONDS[2]			
General governments	819.0	875.9	882.0
Credit institutions	264.0	312.2	400.9
Other financial corporations	43.5	25.7	18.6
Non-financial corporations	60.1	46.1	86.5
TOTAL	**1,186.6**	**1,259.9**	**1,388.0**

1 Based on Notes 38 and 40 of the Audited Consolidated Financial Statements of Addiko Group 2018, Notes 35, 36 and 38 of the Audited Consolidated Financial Statements of Addiko Group 2017 and Notes 38, 39 and 41 of the Audited Consolidated Financial Statements of Addiko Group 2016.

2 There are no issuers for which the aggregated book value of the securities exceeds 10% of shareholders' equity.

(Source: Audited Consolidated Financial Statements)

12.2.2 Investment Maturity Analysis

The following table shows the book value and weighted average yield per maturity range for the investment portfolio as of December 31, 2018.

	For the financial year ended December 31, 2018					
Book value *(in EUR million)* (unaudited, unless otherwise indicated)	**thereof: due on demand**	**up to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**> 5 years**	**Total**
BONDS						
General governments	7.1	28.8	34.7	595.3	153.0	819.0[1]
Credit institutions	20.0	0.3	7.0	196.1	40.7	264.0[1]
Other financial corporations	0.0	16.4	4.3	22.8	0.0	43.5[1]
Non-financial corporations	0.0	0.8	1.5	55.8	2.0	60.1[1]
TOTAL	**27.0**	**46.4**	**47.5**	**870.0**	**195.6**	**1,186.6**[1]

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.3 Loan Portfolio

12.3.1 Loan Portfolio by Industry

The following table presents an analysis of Addiko Group's loan portfolio by industry as of the dates specified.

	For the financial year ended December 31,		
(in EUR million) **(unaudited, unless otherwise indicated)**	**2018**	**2017**	**2016**
CUSTOMER LOANS			
Private individuals secured	1,139.3	969.4	1,285.0
Private individuals unsecured	926.2	1,095.2	688.9
Private individuals leasing	0.0	0.9	1.8
Non-financial corporations secured	987.5	886.2	925.1
Non-financial corporations unsecured	571.0	560.4	463.7
Non-financial corporations leasing	0.0	1.3	2.5
Other financial corporations secured	17.7	29.6	21.5
Other financial corporations unsecured	19.5	12.0	10.2
Other financial corporations leasing	0.0	0.0	0.0
Public sector and government	126.0	136.9	331.7
TOTAL CUSTOMER LOANS	**3,787.3**[1]	**3,691.9**[1]	**3,730.5**[1]
LOANS TO CREDIT			

INSTITUTIONS			
Credit institutions	5.6	58.6	25.1
Central banks	0.0	6.7	24.3
TOTAL LOANS TO CREDIT INSTITUTIONS	**5.6[1]**	**65.3[1]**	**49.4[1]**
TOTAL BOOK VALUE	**3,792.9[1]**	**3,757.2[1]**	**3,779.9[1]**

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.3.2 Loan Maturities to Changes in Interest Rates Analysis

The following table presents an analysis of maturities of Addiko Group's loan portfolio as of December 31, 2018.

	For the financial year ended December 31, 2018					
(in EUR million)	**thereof: due on demand**	**up to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**> 5 years**	**Total**
CUSTOMER LOANS						
Private individuals secured	23.0	9.8	43.9	246.9	815.7	1,139.3
Private individuals unsecured	76.4	21.2	71.1	321.7	435.8	926.2
Private individuals leasing	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations secured	20.0	46.6	149.1	475.4	296.4	987.5
Non-financial corporations unsecured	41.4	60.6	227.3	137.1	104.6	571.0
Non-financial corporations leasing	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations secured	0.0	0.2	2.4	4.4	10.6	17.7
Other financial corporations unsecured	2.5	8.9	5.3	2.9	0.0	19.5
Other financial corporations leasing	0.0	0.0	0.0	0.0	0.0	0.0
Public sector and government	2.3	5.3	12.4	54.9	51.1	126.0
TOTAL CUSTOMER LOANS	**165.5**	**152.6**	**511.6**	**1,243.4**	**1,714.2**	**3,787.3[1]**
LOANS TO CREDIT INSTITUTIONS						
Credit institutions	1.5	4.0	0.0	0.0	0.0	5.6
Central banks	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LOANS TO CREDIT INSTITUTIONS	**1.5**	**4.0**	**0.0**	**0.0**	**0.0**	**5.6[1]**
TOTAL BOOK VALUE	**167.0[1]**	**156.7[1]**	**511.6[1]**	**1,243.4[1]**	**1,714.2[1]**	**3,792.9[1]**

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

The following table presents an analysis of the interest rates for loans in Addiko Group's loan portfolio with residual maturities of more than one year from December 31, 2018.

(in EUR million) (unaudited, unless otherwise indicated)	**For the financial year ended December 31, 2018** **Book Value**
Customer loans	
Fixed interest rate	1,472.5
Variable interest rate	2,308.8
Other interest bearing (e.g. for structured interest products)	0.2
Other non-interest bearing (e.g. for trade receivables)	5.7
TOTAL	**3,787.3[1]**
Loans to credit institutions	
Fixed interest rate	3.7
Variable interest rate	0.0
Other interest bearing (e.g. for structured interest products)	0.6
Other non-interest bearing (e.g. for trade receivables)	1.2
TOTAL	**5.6[1]**
TOTAL LOANS	**3,792.9[1]**

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.3.3 Risk Elements

12.3.3.1 Defaulted and Restructured Loans

The following table presents the loans accounted for as defaulted and other NPEs (in or outside Austria) as of the dates specified. Addiko Group defines "restructured loans" as those exposures where Addiko Group has extended forbearance measures because of the debtor facing financial difficulties.

Credit risk exposure as of December 31,

(in EUR million) (unaudited, unless otherwise indicated)	2018	2017	2016
Loans accounted for on a non-accrual basis[1]			
Customer Loans – Large Corporates Segment	81.0[4]	150.0[4]	142.2[4]
Customer Loans – SME Business Segment	70.7[4]	87.5[4]	125.2[4]
Customer Loans – Retail Mortgage Business	145.2[4]	224.5[4,5]	314.3
Customer Loans – Retail Consumer Business	103.6[4]	128.2[4,5]	165.3
Customer Loans – Public Finance Segment	3.4[4]	4.3[4]	5.7[4]
Loans to credit institutions	0.0[4]	11.1[4]	8.2[4]
TOTAL	**403.8[4]**	**605.6[4]**	**760.8[4]**
Restructured Loans – Performing[2]			
Customer Loans – Large Corporates Segment	13.1	8.5	13.4
Customer Loans – SME Business Segment	8.9	12.6	17.1
Customer Loans – Retail Mortgage Business	12.7	9.4	21.1
Customer Loans – Retail Consumer Business	5.8	4.8	10.3
Customer Loans – Public Finance Segment	0.0	3.0	4.0
Loans to credit institutions	0.0	0.0	0.0
TOTAL	**40.5**	**38.3**	**66.1**
Restructured Loans – Defaulted[3]			
Customer Loans – Large Corporates Segment	21.5	54.5	90.7
Customer Loans – SME Business Segment	31.3	38.8	64.7
Customer Loans – Retail Mortgage Business	12.5	15.7	25.3
Customer Loans – Retail Consumer Business	11.0	14.8	22.0
Customer Loans – Public Finance Segment	2.8	3.7	4.2
Loans to credit institutions	0.0	0.0	0.0
TOTAL	**79.0**	**127.5**	**207.0**

[1] Comprises defaulted loans (according to CRR)

[2] Comprises all loans where restructuring was done but are at observation point not in default

[3] Comprises all loans where restructuring was done but are at observation point in default

[4] Audited information

[5] Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

(Source: Audited Consolidated Financial Statements and Company information)

12.3.3.2 Interest Income from Non-Accrual and Restructured Loans

The following table shows the approximate effect on interest revenue of defaulted and restructured loans. It shows the gross interest income that would have been recorded during 2018, if those loans had been current in accordance with their original terms and had been outstanding throughout 2018 or since their origination or acquisition, if Addiko Group only held them for part of 2018. It also shows the amount of interest income on those loans that was included in net interest income for 2018.

(in EUR million) (unaudited)	As of December 31, 2018
Gross amount of interest that would have been recorded at original rate	23.5
Less interest, net of reversals, recognized in interest revenue	6.9
Total Reduction of interest revenue	16.7

(Source: Company information)

12.3.3.3 Potential Problem Loans

The following table presents the volume and number of customers of potential problem loans. Potential problem loans are loans that are not classified as loans accounted for on a non-accrual basis, accruing loans which are contractually past due 90 days or restructured loans. These loans are considered potential problem loans as there is known information about possible credit problems causing Addiko Group to have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may result in classifying the loans as loans accounted for on a non-accrual basis, accruing loans which are contractually past due 90 days or restructured loans.

	Credit risk exposure as of December 31,		
(in EUR million) (unaudited)	2018	2017	2016
NOT IMPAIRED WATCH			
0 dpd	212.3	217.1	276.9
1-30 dpd	36.3	31.3	16.8
31-60 dpd	7.0	7.0	8.2
61-90 dpd	4.0	3.9	3.7
TOTAL	**259.5**	**259.3**	**305.6**
IMPAIRED WATCH			
0 dpd	0.0	0.6	0.0
1-30 dpd	0.0	0.0	0.0
31-60 dpd	0.0	0.0	0.0
61-90 dpd	0.0	0.0	0.0
TOTAL	**0.0**	**0.6**	**0.0**

TOTAL WATCH			
0 dpd	212.3	217.7	276.9
1-30 dpd	36.3	31.3	16.8
31-60 dpd	7.0	7.0	8.2
61-90 dpd	4.0	3.9	3.7
TOTAL	**259.6**	**259.9**	**305.6**

(Source: Company information)

12.3.3.4 Foreign Outstandings

The following table presents the cross-border outstandings to borrowers by "country of risk". Addiko Group defines "cross-border outstandings" as loans, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets with the country of risk outside the countries where Addiko Group operates (outside Austria, Slovenia, Croatia, Bosnia & Herzegovina, Serbia and Montenegro). Outstandings comprise nominal, accrued interest, unamortized premium/discount and arrears. As of December 31, 2018, there were no outstandings that exceeded 1% of total assets in any country facing debt restructuring or liquidity problems at that time that Addiko Group expected would materially impact the country's ability to service its private or public sector obligations.

	Credit risk exposure as of December 31,			**Of which NPE as of December 31,**
(in EUR million) **(unaudited)**	**2018**	**2017**	**2016**	**2018**
United States	94.1	108.3	118.7	0.0
United Kingdom	75.8	109.9	63.5	0.0
Romania	75.1	0.0	0.0	0.0
Poland	73.5	0.0	0.0	0.0
France	64.8	53.7	55.2	0.0
Spain	58.6	24.4	15.1	0.0
Italy	57.6	13.6	9.0	0.0
Germany	56.6	121.1	113.4	0.0
Bulgaria	52.9	0.0	0.0	0.0
Hungary	47.7	0.0	0.0	0.0
Netherlands	29.8	24.9	35.2	0.0
Czech Republic	14.4	0.0	0.0	0.0
Slovakia	9.9	0.0	0.0	0.0
Switzerland	9.4	17.6	21.2	0.0
Belgium	6.8	33.6	1.8	0.0
Sweden	4.8	5.0	9.5	0.0
Australia	3.5	0.5	3.6	0.0
Canada	1.5	12.8	16.2	0.0
Norway	0.6	9.6	9.5	0.0
Denmark	0.5	0.5	0.5	0.0
Japan	0.0	0.0	0.1	0.0
North Macedonia	0.0	0.0	0.0	0.0
Other Countries	0.0	0.0	13.7	0.0
Corporate Center	**738.0**	**535.4**	**486.1**	**0.0**
United States	6.5	29.4	48.0	0.0
Marshall Islands	2.5	2.5	2.8	2.5
Germany	0.6	10.3	20.1	0.0
Russian Federation	0.6	0.8	1.0	0.6
Switzerland	0.6	0.5	0.6	0.5
Poland	0.3	71.0	71.2	0.0
France	0.2	11.1	13.6	0.0
Italy	0.2	45.5	34.1	0.0
Belgium	0.1	0.0	0.0	0.0
Luxembourg	0.1	0.0	0.0	0.0
United Kingdom	0.1	0.2	0.3	0.0
Greece	0.1	0.1	0.1	0.0
Norway	0.1	0.1	14.1	0.1
Netherlands	0.1	0.1	11.3	0.0
Australia	0.1	0.1	0.1	0.0
Canada	0.0	0.1	0.1	0.0
North Macedonia	0.0	0.1	0.1	0.0
Slovakia	0.0	0.0	0.0	0.0
Sweden	0.0	0.0	0.1	0.0
Spain	0.0	50.2	36.3	0.0
Cyprus	0.0	0.0	0.3	0.0
Hungary	0.0	21.3	29.7	0.0
Pakistan	0.0	0.0	0.0	0.0
Bulgaria	0.0	49.7	41.2	0.0
United Arab Emirates	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	0.0
Ukraine	0.0	0.0	0.0	0.0
Other Countries	0.0	82.5	79.4	0.0

Other Segments (Retail Segment, SME Business Segment, Large Corporates Segment, Public Finance Segment)	**12.3**	**375.5**	**404.4**	**3.7**

(Source: Company information)

12.3.3.5 Loan Concentrations by business sector

The below table presents the loan concentrations by business sector.

	Credit risk exposure as of December 31,		
(in EUR million) (audited)	**2018**	**2017**	**2016**
Private	1,849.0	1,883.8	1,955.3
Financial services	1,340.2	1,732.0	2,358.9
Public sector	981.5	1,103.0	1,239.5
Industry	967.5	755.3	859.8
Trade and commerce	753.7	668.8	570
Services	533.8	541.7	518.2
Real estate business	88.9	99.8	87.4
Tourism	106.4	87.6	84.6
Agriculture	75.5	73.6	98.0
Other	539.1	552.5	537.0
Total	**7,235.7**	**7,498.1**	**8,308.7**

(Source: Audited Consolidated Financial Statements)

12.3.3.6 Loan Concentrations – Top Performing and Non-Performing Loans

The below table presents the loan concentrations by top performing loans:

(in EUR million) (unaudited, unless otherwise indicated)	**Country**	**Industry**	**Credit risk exposure as of December 31, 2018**
Performing Loan 1	Croatia	Public entities	38.2
Performing Loan 2	Croatia	Construction industry	30.0
Performing Loan 3	Slovenia	Transport and Logistics	29.7
Performing Loan 4	Slovenia	Tourism	25.9
Performing Loan 5	Croatia	Metal industry and mechanical engineering	24.4
Performing Loan 6	Slovenia	Other financial services	23.3
Performing Loan 7	Serbia	Other financial services	21.9
Performing Loan 8	Serbia	Tourism	21.0
Performing Loan 9	Croatia	Retail and wholesale trade	18.2
Performing Loan 10	Croatia	Transport and Logistics	17.5
Performing Loan 11	Slovenia	Construction industry	17.3
Performing Loan 12	Slovenia	Service	16.4
Performing Loan 13	Croatia	Service	15.9
Performing Loan 14	Slovenia	Food and allied business	15.9
Performing Loan 15	Slovenia	Retail and wholesale trade	15.6
Performing Loan 16	Slovenia	Other financial services	15.4
Performing Loan 17	Slovenia	Service	14.5
Performing Loan 18	Slovenia	Real estate business	14.4
Performing Loan 19	Slovenia	Automobile	14.0
Performing Loan 20	Serbia	Construction industry	14.0
Top 20 performing loans			403.7
Total Addiko Group performing loans			6,831.9[1]
Share of top 20 performing loans in total Addiko Group PL			5.9%

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

The below table presents the loan concentrations by top non-performing loans:

(in EUR million) (unaudited, unless otherwise indicated)	**Country**	**Industry**	**Credit risk exposure as of December 31, 2018**
NPE 1	Croatia	Service	47.1[1]
NPE 2	Serbia	Real estate business	7.0
NPE 3	Serbia	Other financial services	6.0
NPE 4	Croatia	Construction industry	6.0
NPE 5	Serbia	Real estate business	4.8
NPE 6	Bosnia & Herzegovina	Service	4.7
NPE 7	Slovenia	Metal industry and mechanical engineering	3.8

(in EUR million) (unaudited, unless otherwise indicated)	Country	Industry	Credit risk exposure as of December 31, 2018
NPE 8	Slovenia	Energy	2.3
NPE 9	Slovenia	Retail and wholesale trade	2.3
NPE 10	Croatia	Tourism	2.2
Top 10 NPE			**86.2**
Total Group NPE			403.8[2]
Share of Top 10 NPE in Total Group NPE			21.4%

1 Reduction to EUR 19.6 million, of which EUR 27.4 million related to debt-equity swap as of the beginning of April 2019. Taking into account this transaction, the NPE ratio at the end of March 2019 would *ceteris paribus* decrease from 5.5% to approximately 5.1%. In addition, on May 7, 2019, Addiko Bank d.d., Croatia concluded a contract for the disposal of this exposure for a price above current carrying amount.

2 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

12.4 Summary of Loan Loss Experience

12.4.1 Analysis of the Allowance for Losses on Financial Assets

The following table presents a breakdown of the movements in Addiko Group's allowances for losses on financial assets for the periods specified. This information is audited except as noted below.

(in EUR million) (audited, unless otherwise indicated)	For the Financial Year 2018	2017	2016
Balance at the beginning of the period	**-430.1**	**-547.9**	**-643.2**
IFRS 9 adjustments	**-83.7**	-	-
Foreign exchange – differences	-2.1[1]	6.3	-2.7
Allocations	-200.1[1]	-174.1	-99.0
Releases	168.5[1]	152.6	125.8
Utilization	30.5[1]	78.4	59.7
Changes to consolidated Group	0.0[1]	0.0	-1.2
Unwinding	-16.7[1]	9.5	10.5
Other	137.7[1]	45.1	2.2
Balance at the end of the period	**-395.9**	**-430.1**	**-547.9**
IFRS 5 financial assets and reconciliation	-0.4	-17.8	-1.2
Balance at the end of the period including IFRS 5 financial assets and reconciliation	**-396.2**	**-447.9**	**-549.1**

1 Unaudited Company information

(Source: Audited Consolidated Financial Statements and Company information)

12.4.2 Allocation of the Allowance for Losses on Financial Assets

The following tables present Addiko Group's allowance for losses on financial assets by segment, ECL stage, and coverage as of the date specified:

(in EUR million)

(audited, unless otherwise indicated)	Risk provision and collateral coverage as of December 31, 2018					
Segment	**Credit risk exposure**	**Stage 3 provision**	**Stage 1 & 2 provision**	**Collateral**	**Risk provision coverage**	**Risk provision and collateral coverage**
Large Corporates Segment	81.0	56.8	-	28.0	70.1%	104.6%
SME Business Segment	70.7	45.0	-	48.3	63.7%	132.0%
Mortgage Business	145.2	106.8	-	86.8	73.6%	133.4%
Consumer Business	103.6	94.4	-	18.2	91.1%	108.7%
Public Finance Segment	3.4	1.4	-	2.2	42.0%	108.4%
Other	0.0	0.0	-	0.0	0.0%	0.0%
Non-Performing	**403.8**	**304.4**	-	**183.5**	**75.4%**	**120.8%**
Large Corporates Segment	826.0	-	16.0[1]	294.8[1]	1.9%[1]	37.6%[1]
SME Business Segment	1,488.7	-	13.2[1]	543.6[1]	0.9%[1]	37.4%[1]
Mortgage Business	870.5	-	25.5[1]	678.2[1]	2.9%[1]	80.8%[1]
Consumer Business	1,311.3	-	31.6[1]	54.7[1]	2.4%[1]	6.6%[1]
Public Finance Segment	219.8	-	1.3[1]	82.0[1]	0.6%[1]	37.9%[1]
Other	2,115.5	-	4.1[1]	1.1[1]	0.2%[1]	0.2%[1]
Performing	**6,831.9**	-	**91.8**	**1,654.3**[1]	**1.3%**[1]	**25.6%**[1]
TOTAL	**7,235.7**	**304.4**	**91.8**	**1,837.9**	**5.5%**[1]	**30.9%**[1]

1 Unaudited Company information

(Source: Audited Consolidated Financial Statements and Company information)

(in EUR million) (audited, unless otherwise indicated)	Risk provision and collateral coverage as of December 31, 2017					
Segment	**Credit risk exposure**	**Single risk provision**	**Portfolio risk provision**	**Collateral**	**Risk provision coverage**	**Risk provision and collateral coverage**
Large Corporates Segment	150.0	80.0	-	67.3	53.3%	98.2%
SME Business Segment	87.5	43.7	-	63.2	50.0%	122.2%
Mortgage Business	224.5[1]	160.8[1]	-	124.8[1]	71.6%[1]	127.2%[1]
Consumer Business	128.2[1]	114.3[1]	-	28.6[1]	89.2%[1]	111.5%[1]
Public Finance Segment	4.3	2.1	-	2.7	48.4%	112.0%
Other	11.1	4.6	-	2.5	41.8%	64.2%
Non-Performing	**605.7**	**405.5**	-	**289.2**	**67.0%**	**114.7%**
Large Corporates Segment	670.3	-	5.2[2]	235.5[2]	0.8%[2]	35.9%[2]
SME Business Segment	1,217.9	-	12.4[2]	536.1[2]	1.0%[2]	45.0%[2]
Mortgage Business	991.1[1]	-	8.9[2]	737.6[2]	0.9%[2]	75.3%[2]
Consumer Business	1,157.2[1]	-	13.5[2]	69.5[2]	1.2%[2]	7.2%[2]
Public Finance Segment	1,205.5	-	1.6[2]	105.3[2]	0.1%[2]	8.9%[2]
Other	1,650.4	-	0.8[2]	5.8[2]	0.0%[2]	0.4%[2]
Performing	**6,892.4**	-	**42.4**	**1,689.7**[2]	**0.6%**[2]	**25.1%**[2]
TOTAL	**7,498.1**	**405.5**	**42.4**	**1,978.9**	**6.0%**[2]	**32.4%**[2]

1 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
2 Unaudited Company information

(Source: Audited Consolidated Financial Statements and Company information)

(in EUR million) (audited, unless otherwise indicated)	Risk provision and collateral coverage as of December 31, 2016					
Segment	**Credit risk exposure**	**Single risk provision**	**Portfolio risk provision**	**Collateral**	**Risk provision coverage**	**Risk provision and collateral coverage**
Large Corporates Segment	142.2	66.3	-	83.6[1]	46.6%	105.5%[1]
SME Business Segment	125.2	58.1	-	87.3[1]	46.4%	116.2%[1]
Mortgage Business	314.3[2]	240.0[2]	-	187.9[2]	76.4%[2]	136.1%[2]
Consumer Business	165.3[2]	144.2[2]	-	61.8[2]	87.2%[2]	124.6%[2]
Public Finance Segment	5.7	2.8	-	3.3[1]	48.0%	105.3%[1]
Other	8.1	2.3	-	2.5[1]	28.4%	58.9%[1]
Non-Performing	**760.8**	**513.6**	-	**426.4**[1]	**67.5%**	**123.6%**[1]
Large Corporates Segment	751.8	-	5.3[2]	254.4[2]	0.7%[2]	34.5%[2]
SME Business Segment	1,005.5	-	8.9[2]	484.5[2]	0.9%[2]	49.1%[2]
Mortgage Business	1,147.7[2]	-	9.4[2]	822.7[2]	0.8%[2]	72.5%[2]
Consumer Business	919.5[2]	-	10.0[2]	111.4[2]	1.0%[2]	13.2%[2]
Public Finance Segment	1,447.1	-	1.8[2]	246.0[2]	0.1%[2]	17.1%[2]
Other	2,276.4	-	0.2[2]	2.9[2]	0.0%[2]	0.2%[2]
Performing	**7,548.0**	-	**35.5**[1]	**1,921.9**[2]	**0.5%**[2]	**25.9%**[2]
TOTAL	**8,308.8**	**513.6**	**35.5**[1]	**2,348.3**[1]	**6.6%**[2]	**34.9%**[2]

1 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
2 Unaudited Company information

(Source: Audited Consolidated Financial Statements and Company information)

12.5 Deposits

Addiko Group partially funds itself through interest-earning deposits. The following tables set forth information regarding Addiko Group's average deposit base for the periods specified. The average balances are calculated in general based upon month-end balances.

Current accounts include all deposits against which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal or telephone or preauthorized transfers for the purpose of making payments to third persons or others.

Term deposits are accounts offered to corporate clients for fixed terms, generally ranging from three to twelve months, with some term deposits as long as two years. Customers have no option to unilaterally withdraw funds from a term deposit before the end of the deposit period. Other deposits include deposits redeemable at notice and repurchase agreements.

	For the financial year ended December 31,								
	2018			2017			2016		
(in EUR million) (unaudited)	**Average Book Value**[1]	**Average Rate**	**% of Total**	**Average Book Value**[1]	**Average Rate**	**% of Total**	**Average Book Value**[1]	**Average Rate**	**% of Total**

Deposits of customers									
Current Accounts	2,272	-0.11%	43.5%	1,937	-0.15%	38.6%	1,517	-0.21%	33.5%
Deposits with agreed terms	2,541	-1.12%	48.7%	2,683	-1.41%	53.5%	2,606	-1.75%	57.6%
Other deposits	72	-3.61%	1.4%	64	-3.11%	1.3%	52	-2.95%	1.2%
TOTAL DEPOSITS OF CUSTOMERS.......	**4,885**	**-0.68%**	**93.6%**	**4,685**	**-0.91%**	**93.4%**	**4,175**	**-1.21%**	**92.3%**
Deposits of credit institutions									
Current Accounts	42	-0.15%	0.8%	19	-0.98%	0.4%	9	-2.05%	0.2%
Deposits with agreed terms.............................	282	-0.30%	5.4%	310	-0.15%	6.2%	325	-0.31%	7.2%
Other deposits	9	-0.20%	0.2%	0	0.00%	0.0%	14	-19.57%	0.3%
TOTAL DEPOSITS OF CREDIT INSTITUTIONS..........	**333**	**-0.29%**	**6.4%**	**329**	**-0.72%**	**6.6%**	**348**	**-1.12%**	**7.7%**
TOTAL DEPOSITS....	**5,218**	**-0.66%**	**100.0%**	**5,014**	**-0.90%**	**100.0%**	**4,523**	**-1.20%**	**100.0%**

[1] The average value is composed of the closing value of the previous year and the closing balance of the current year.

(Source: Company information)

12.6 Risk Weighted Assets per Segment

(in EUR million) (audited, unless otherwise indicated)	**Risk weighted assets as of December 31,**			
	2018 (fully loaded)	**2018 (phase-in)**	**2017**	**2016**
Credit risk RWA				
Consumer Business	884.2	884.2	793.1	Data is not available for 2016
Mortgage Business	561.5	561.5	692.1	
Retail Segment.................................	**1,445.8**	**1,445.8**	**1,485.2**	
SME Business Segment......................	883.4	883.4	857.6	
Large Corporates Segment	652.3	652.3	568.2	
Public Finance Segment	113.9	113.9	180.3	
Corporate Center	819.5	863.2	968.5	
Total credit risk RWA	**3,914.8**	**3,958.5**	**4,059.6**	**3,918.3**[1]
Market risk RWA.............................	**173.2**	**173.2**	**176.3**	**128.2**[1]
Operational risk RWA.....................	**407.9**	**407.9**	**408.4**	**416.8**
Credit Valuation Adjustment..........	**5.4**	**5.4**	**8.7**	**7.5**
Total RWA..	**4,501.3**	**4,545.0**	**4,653.0**	**4,470.8**[1]

[1] Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.

(Source: Audited Consolidated Financial Statements and Company information)

12.7 Return on Equity and Return on Total Assets

(unaudited)	**As of December 31,**		
	2018	**2017**	**2016**
Return on total assets[1]	1.6%	0.6%	n.a.[3]
RoE[2]..	12.2%	4.5%	n.a.[3]
Total dividends (in EUR million)..	50.0	170.0	430.0
Total dividends as percentage of result after tax......................	48%	n.a.[4]	n.a.[4]
Equity to assets ratio	14.0%	13.0%	13.8%

[1] Equal to result after tax divided by the average total assets (based on beginning and end of the period amount).

[2] Equal to result after tax divided by the average equity (based on beginning and end of the period amount).

[3] Negative result after tax in the financial year 2016, thus number not meaningful

[4] Not meaningful for the financial years 2016 and 2017 because dividend payment was not based on net income but rather on the optimization of the capitalization

(Source: Company information)

13 Market and Competitive Environment

13.1 Macroeconomic Overview

Addiko Group is a consumer & SME specialist bank in CSEE headquartered and regulated in Vienna, Austria. Addiko Group operates through six regional banks in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro and provides services to approximately one million customers through a well-dispersed network of 197 branches as of March 31, 2019, across the region as well as digital channels leading to the macro-economic development and banking sector environment being relevant for the financial performance of Addiko Group.

Although the five countries in which Addiko Group conducts business are being viewed as a region, there are specific economic characteristics and differences with this region. The population per country ranges from 0.6 million in Montenegro to 7.0 million in Serbia (source: wiiw Report). The underlying economies differ in size with nominal GDP in 2017 ranging from EUR 4.3 billion in Montenegro to EUR 49.0 billion in Croatia (source: wiiw Report).

Overall, CSEE countries demonstrated stable and increasing performance in 2017 with GDP growth ranging from 2.0% in Serbia to 4.9% in Slovenia in a stable price environment with inflation rates ranging from 1.2% in Bosnia-Herzegovina to 3.0% in Serbia (source: wiiw Report). Furthermore, there are characteristics which apply to a majority of CSEE countries. Debt levels – both public and private – are on average below Eurozone levels (source: wiiw Report). Public debt to GDP levels range from 36.2% in Bosnia & Herzegovina to 77.8% in Croatia as per year-end 2017 (source: wiiw Report).

Several CSEE countries have become a regular issuer of government bonds improving the visibility of the region in financial markets. In this context, rating agencies are covering CSEE countries on a regular basis and issued sovereign credit ratings ranging from Baa1 / A+ (Moody’s / S&P) for Slovenia to B3 / B (Moody’s / S&P) for Bosnia & Herzegovina.

13.1.1 Levels of EU Integration and National Currencies

Although the five countries in which Addiko Group conducts business are being viewed as a region, there are significant differences relating to levels of integration into the EU and in regards to currency regimes. There are various stages of integration into the EU across CSEE countries. Slovenia and Croatia are EU member countries since 2004 and 2013 respectively with Slovenia having introduced the euro as its currency in 2007 and Croatia expected to join the Eurozone replacing its national currency, the Kuna (***HRK***). Montenegro and Serbia are EU candidate countries since 2010 and 2012 respectively with Montenegro using the euro since 2002 without being a Eurozone member (having adopted the Deutsche Mark as currency in 1999) and Serbia having the Serbian Dinar as currency (***RSD***). Bosnia & Herzegovina has been recognised by the EU as a "potential candidate country" for accession since the decision of the European Council in Thessaloniki in 2003 and is on the current agenda for future enlargement. However, Bosnia & Herzegovina has faced serious internal constitutional problems since its application for EU membership, hindering progress. The official currency is the convertible mark (***BAM***) with a fixed exchange rate to the euro. The table below summarizes the macroeconomic statistics discussed above.

2017	**Slovenia**	**Croatia**	**Bosnia & Herzegovina**	**Serbia**	**Montenegro**
Population (millions)	2.1	4.2	3.5	7.0	0.6
GDP (EUR billions)	43.0	49.0	16.0	39.2	4.3
GDP / Capita (EUR at PPP)	25,500	18,500	9,300	11,700	13,900
Real GDP Growth	4.9%	2.9%	3.1%	2.0%	4.7%
Average Inflation	1.4%	1.3%	1.2%	3.0%	2.8%
Public Debt / GDP	74.1%	77.8%	36.2%	57.9%	61.1%
Credit rating (Moody's / S&P)	Baal / A+	Ba2 / BBB-	B3 / B	Ba3 / BB	B1 / B+
Status-EU Accession	Member	Member	Potential Candidate	Candidate	Candidate
Currency	EUR	HRK	BAM (EUR peg)	RSD'	EUR

(Source: wiiw Report, rating reports)

13.2 Growth Outlook per Country

Slovenia

The Slovenian economy is expected to continue to strengthen and show 3.2% GDP growth in 2019, with underlying factors being solid export growth, private consumption and investments (source: wiiw Report). Export growth is set to continue on increased diversification and competitiveness gains as Slovenia keeps shifting to higher value production, improving in terms of medium / high tech goods share in total exports, with contained labor costs despite tighter labor market. According to record capacity utilization and rising hiring prospects, investment outlook remains strong, additionally supported by high retained profits, fiscal expansion and EU funding acceleration. Private consumption is expected to grow 2.2% in 2019 based on rising employment and wages, alongside household credit growth. Downside risks to forecasted GDP course are mostly

related to slower than expected Eurozone growth, further escalation of US-China trade conflicts and an Italian recession, while positive surprises on global growth, fiscal easing and stronger rebound in public investments might act in the opposite direction. Inflation in Slovenia is expected to be at 2.0% in 2019, as increased private consumption and tighter labor markets will counterbalance downward pressures of price competition from retail discounters and online sales channels (source: wiiw Report). Public debt is set to decline further based on GDP growth prospects, expected budget surplus and continued interest rate savings (source: wiiw Report).

Croatia

GDP growth in Croatia is expected to be 2.6% in 2019 driven by tax reductions, growth of tourism, stronger disposable income and private consumption, capital expenditures based on EU funding and retained profits (source: wiiw Report). Despite slightly deteriorating economic expectations and further emigration, steady disposable income growth alongside solid job creation and retail credit re-leveraging will continue to support private consumption going forth. Economic activity should increase following the Agrokor related debt resolution and there should be stronger EU funding, corporate re-leveraging and record profits, plus equipment capital expenditures in response to competitiveness gains and policy-led optimism. The risks to this scenario are mostly related to Eurozone slowdown, financial market volatility, corporate de-leveraging, competition from the Mediterranean tourist destinations and in the medium term labor shortages given the emigration of the young and population aging. Upside risks involve another tourism overshooting, EU funding, rating upgrades and fiscal easing ahead of 2019-20 elections (source: wiiw Report). Inflation in 2019 is expected to be at 2.0% as accelerating wage pressures combined with foreign tourists' demand will partly be offset by faltering oil prices and VAT cuts on certain food and alimentary goods, but the risks are more on the downside due to export-related goods prices and lower tourist prices in the event of more severe Eurozone slowdown and international competition (source: wiiw Report). Public debt is expected to decline further owing to solid nominal GDP growth, stable primary surplus and lower risk premium (source: wiiw Report).

Serbia

GDP growth in Serbia is expected to be 3.4% in 2019 driven by strong domestic demand, further export market share gains, fiscal easing and favourable financing conditions (source: wiiw Report). Despite external concerns, investment is one of the key drivers on manufacturing foreign direct investment (***FDI***), state-sponsored EUR 2.5 billion railway/road construction and energy infrastructure projects, real estate development, high firms' profits, cheap funding and corporate tax cuts in 2019. Strong export growth is also set to continue on hefty capacity expansion in tradable sectors and agriculture, which despite strong import demand will see less negative net trade contribution compared to 2018. Private consumption will see robust growth supported by faster disposable income gains on higher wages and pensions, soaring remittances, employment gains and re-leveraging. Possible upside risks are mostly related to more meaningful fiscal stimulus, tax cuts, ever stronger FDIs, restructuring and privatization of state-owned enterprises, alongside progress on EU accession and infrastructure capital expenditures. Meanwhile, downside risks involve lower EU demand, public capital expenditures under-execution, negative European movement sentiment and stronger monetary tightening by the National Bank of Serbia (source: wiiw Report). Inflation in 2019 is expected to be 2.7% with tightening labor markets and stronger than expected administered price hikes being offset by the steady RSD development and a regular agricultural season (source: wiiw Report). Public debt remains on declining path thanks to expected strong nominal growth, solid primary surplus, cheaper debt service and stronger RSD.

Bosnia & Herzegovina

GDP growth in Bosnia & Herzegovina is forecasted at 2.5% in 2019 driven by stronger private consumption and infrastructure investments, while export growth potential also strengthened (source: wiiw Report). Private consumption remains the main driver owing to steady wage and employment growth, higher remittances, re-leveraging and higher tourism inflows. While solid EU demand, removal of (processed) food export bans for EU markets and higher energy capacity will likely boost exports, the net trade contribution will most likely be negative given strong domestic demand. The end of current political stalemate will bring about faster investments, boosting the economy through a EUR 700 million EBRD investment programme to invest in road infrastructure in Bosnia & Herzegovina until 2020, agreed in a memorandum of understanding between the government of Bosnia & Herzegovina and the EBRD, stronger budget support upon fuel excise duty and road toll hikes and stronger FDIs in energy capacity (Tuzla Thermal Power Plant EUR 900 million, Thermal Power Plant Ugljevik and a few hydro power plants) (source: wiiw Report). The risks to the forecasted economic scenario are mostly on the downside, related to political uncertainty and stalling or even reversal of reforms, plus protracted external demand weakness. Expected inflation in 2019 is 1.9% based on stronger domestic demand and higher wages (source: wiiw Report).

Montenegro

GDP growth in Montenegro is forecasted at 2.5% in 2019 (source: wiiw Report) and will likely be driven by tourism and highway building, electricity exports through the key energy grid linking CSEE region with Italy, and FDIs in tourism, energy generation and aluminium sectors. Despite another record tourist season and narrower goods trade gap, net trade will contribute negatively given strong imports of investment-related equipment. Possible upside risks to this economic scenario include stronger tourist season and strong electricity exports to Italy, construction activity and one-notch rating upgrades amid sharply reduced fiscal and (re)financing risks, EU talks progress and competitiveness gains, GDP growth potential and external position on hefty FDIs. Downside risks mostly stem from unstable external backdrop and higher local contingent liabilities (source: wiiw Report). Inflation in 2019 is forecasted at 2.0% with strong foreign tourist demand-pull pressures

viewed as potentially inflation-enhancing (source: wiiw Report). The following table provides a summary of the GDP growth forecast of each country from 2018 to 2020:

GDP Growth Forecast	2019E	2020E	2021E
Slovenia	3.2	3.0	2.9
Croatia	2.6	2.5	2.5
Serbia	3.4	2.9	2.9
Bosnia & Herzegovina	2.5	2.6	2.7
Montenegro	2.5	2.2	2.0

(Source: wiiw country forecasts as per May 2019)

13.3 Trade and Export Potential

13.3.1 Export to EU15

The Eurozone is the predominant economic partner of the network countries in terms of trade volumes. This strong economic relationship remained stable through economic cycles. Over a ten year time horizon (2008 – 2017), the volume of exports from the network countries to EU15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom) has remained significant with combined value of exports of EUR 20.4 billion in 2008 growing to EUR 31.8 billion in 2017 (source: wiiw Report).

The overall share of exports to the EU15 area out of the countries' total export volume remained stable at 46% between 2008 and 2017 reflecting the structurally strong trading relationship despite the financial crisis starting in 2008. The countries with the highest share of EU15 exports out of total exports in 2017 were Slovenia with a 51% share, Croatia with 43% and Bosnia & Herzegovina with 42% (source: wiiw Report).

13.3.2 Inner-Regional Trade

The network countries demonstrated strong inner-regional trade growth developments during the past years despite being organised in two different trade zones. Slovenia and Croatia are part of the European Union free trade regime in contrast to Bosnia & Herzegovina, Serbia and Montenegro being members of the Central European Free Trade Agreement (CEFTA) promoting free trade among European non-EU countries as preparation for future full EU membership.

Inner-regional trade volumes in the network countries showed strong growth in the recent past. Exports during the three year period between 2014 and 2017 grew in several cases at a double digit growth rates. Exports from Serbia to Croatia grew during this time period at 16.7% compound annual growth rate (***CAGR***), exports from Serbia to Slovenia at 12.2% CAGR, exports from Slovenia to Bosnia & Herzegovina at 11.8% CAGR, exports from Bosnia & Herzegovina to Slovenia at 11.7% CAGR and exports from Bosnia & Herzegovina to Serbia at 11.0% CAGR (source: wiiw Report).

In terms of absolute bilateral trade volumes in 2017, the pair Slovenia / Croatia showed highest bilateral trade volumes with EUR 3.9 billion followed by Croatia / Bosnia & Herzegovina with EUR 2.0 billion and Serbia / Bosnia & Herzegovina with EUR 1.8 billion. The largest regional exporters to other network countries in 2017 were Slovenia with an export volume of EUR 4.8 billion, followed by Croatia with EUR 3.7 billion and Serbia EUR 3.0 billion. The largest regional importers from other network countries in 2017 were Bosnia & Herzegovina with an import volume of EUR 3.7 billion, followed by Croatia with EUR 3.6 billion and Slovenia with EUR 2.5 billion (source: wiiw Report). The following table provides of summary of bilateral trade between the countries in the region:

	Bilateral Trade (2017A, EUR in million)	Slovenia	Croatia	Serbia	B&H	Montenegro	Total
Exports	Slovenia		2,415	1,175	1,052	121	4,763
	Croatia	1,507		674	1,390	174	3,745
	Serbia	500	548		1,212	726	2,986
	B&H	498	656	559		180	1,893
	Montenegro	20	3	66	47		136
	Total	**2,525**	**3,622**	**2,474**	**3,701**	**1,201**	**13,523**

(Source: wiiw Report)

13.4 Regional FDI Developments

Continued growth of FDI flows into the network countries is expected to have transforming effects on the underlying economies. Sustainable FDI attraction is one of the main preconditions for significant export capacity expansion in an individual country. For example, Croatian-based FDI companies have increased their share in overall exports above 40%, compared to 30% in 2002 (source: wiiw Report). FDI activities are furthermore leading to local SMEs being integrated into global value chains with positive effects on exports going forward.

The main drivers of FDI in the network countries include low labor cost, low taxes, accelerated development of energy and travel infrastructure, improvement in business climate and improved medium-term growth prospects. The latest return on assets (***ROA***) in the sector of non-financial corporate assets is only 2.0%, compared to 3.8% in broader CEE region (source: wiiw Report).

The main FDI disruptors involve uncertain legal frameworks, inflexible labor laws, fairly low participation in local labor markets, fluid economic policies, and political issues. Competitive advantages in the network countries mainly lie in tourism, information and communication technologies, pharmaceutical industry, medical services, metal processing, food processing.

The network countries should continue to attract investment as it shares the fate of the overall CEE region becoming the workshop and one of the new holiday destinations of Europe. Competitiveness driven by low wages and EU membership providing a strong institutional anchor for safeguarding foreign investments make a compelling offering.

As per year-end 2017, the total inward FDI stock (defined as equity investment plus reinvested earnings plus debt instruments) in the network countries were as follows: Serbia EUR 31.3 billion, Croatia EUR 27.8 billion, Slovenia EUR 13.7 billion, Bosnia & Herzegovina EUR 6.9 billion and Montenegro EUR 4.5 billion.

The geographical proximity to the Eurozone is also a clear advantage, but the network countries stand out versus other developing markets in connection with human talent and high productivity. To keep the current growth rate sustainable, these countries will have to accelerate reforms, especially those related to education and the labor market.

In particular, efforts to improve labor force participation and raise educational standards will be required to counterbalance risks such as labor costs converge towards EU averages.

13.5 Private Consumption

Private consumption is expected to remain a strong pillar of economic activity also based on its high share in GDP across the region, particularly in Serbia, Montenegro and Bosnia & Herzegovina. Consumption might be supported by potential real wage growth based on upcoming shortage of skilled labor force and the low inflation environment. Private consumption in 2017 as percentage of GDP in the network countries amounted to 78% in Bosnia & Herzegovina, 75% in Montenegro, 70% in Serbia, 56% in Croatia and 51% in Slovenia.

The credit cycle is expanding providing further stimulus to growth, albeit to a different extent in different countries. Moreover, demand appears to be much higher from households than firms, indicating that the impact is likely to be more visible on the private consumption side rather than investment with loans to households growing in Montenegro by 10.4%, Serbia by 9.0% and Bosnia & Herzegovina by 7.2% (as per June 2018, year-on-year change) (source: wiiw Report).

Private consumption long-term growth outlook remains stronger than for the EU average. Household consumption is mainly driven by improving labor markets (i.e. increasing employment rates), faster wage growth compared to the EU average, strong re-leveraging and consumer credit convergence prospects, further development of the tourist industry and strong non-resident workers' remittances inflow.

13.6 The Market for Unsecured Lending in CSEE

Structurally low demand for mortgage debt

Network countries show a high rate of homeownership compared to European standards which, in combination with ongoing emigration, limits the demand for mortgage loans. In 2017, the rate of homeownership amounts to 91% in Croatia, 83% in Serbia and 76% in Slovenia compared to 64% in Germany, 62% in the UK and 58% in France.

The limited demand for mortgage debt in the network countries is reflected in the ratio of mortgage debt to GDP compared to Western European countries. In 2018, the ratio of mortgage debt to GDP in Croatia amounted to 14% followed by Slovenia with 13%, Montenegro with 8%, Serbia with 8% and Bosnia & Herzegovina with 5%. Western European countries show higher mortgage debt to GDP ratios, e.g. 66% in the UK, 46% in France and 30% in Germany.

Household indebtedness in CSEE

A relevant measure in analysing consumer lending markets is personal indebtedness expressed as household debt (both secured and unsecured lending) as percentage of personal disposable income (PDI). This measure enables comparisons among countries with differentiating levels of economic development. The household debt to PDI ratio is also being used as indicator for growth potential or levels of market saturation. Although household indebtedness in network countries has converged over the past years, there is still a significant gap towards levels of Western European countries. As per 2018, Slovenia had the highest household debt to GDP ratio among the network countries with 38%, followed by Croatia and Montenegro with 37%, Bosnia & Herzegovina with 35% and Serbia with 27%. In 2018, Western European economies show significantly higher household debt to GDP ratios with the United Kingdom, France and Germany having ratios of 117%, 88% and 61%.

Levels of household indebtedness tend to increase with macroeconomic progress of the underlying countries. Therefore, it is expected that households in the network countries have significant scope to take on more consumer credit.

Shift to unsecured lending

The market for unsecured lending in the network countries has demonstrated sustainable growth over the last years. Unsecured loans in the network countries grew at a compound annual growth rate of 4.4% between 2011 and 2018 compared to secured lending growing at 0.1% CAGR during the same time period.

This growth trend has been driven by various factors including the macroeconomic growth of the network countries following the global financial crisis, interest rates decreases based on market development and higher competition, high ratio of homeownership compared to Western European markets which enables consumer to increase unsecured borrowing and the increasing availability of unsecured credit. As a result, the unsecured lending market in the network countries is expected to continue to grow in 2019.

Despite the unsecured nature of cash loans, creditworthiness of borrowers is not perceived as a major issue in the network countries based on several characteristics including low level of mortgage debt making unsecured loans more affordable for consumers and increasing personal disposable income enabling consumers to service outstanding debt. In Serbia, cash loans show the lowest NP ratio of any category at 3.8%. With banks in the region looking to increase lending to households and consumer demand for lending also growing, this form of lending is set to continue on an upward trend.

13.7 The Banking Market in CSEE

As per year-end 2017, Serbia and Croatia had the highest number of banks in the region – 28 and 25 respectively, however the banking sector of the latter is significantly more concentrated – the share of the top 5 banks in assets in Croatia was 73.5% compared to 54.9% in Serbia. Bosnia & Herzegovina stands out as a country with the lowest concentration of the banking sector with the top 5 banks having a 53.6% share in assets (source: wiiw Report).

Banking sectors of all CSEE countries recorded profits in 2017 as further reduced funding costs compensated lower interest income. As a result, banking sectors in CSEE showed positive returns on equity and assets with Serbia and Slovenia delivering the highest returns on equity. Bank capitalization is adequate in all CSEE countries with Croatia having a capital adequacy ratios of 23.8%, which is one of the highest in the EU, followed by Serbia with 19.7% (source: wiiw Report).

Croatia has the largest banking sector network countries with total assets with EUR 52.6 billion followed by Slovenia with EUR 37.9 billion and Serbia with EUR 28.4 billion.

In terms of mobile banking penetration in CSEE based on mobile banking users as a proportion of total banking users, Slovenia is leading with a ratio of 7.7% followed by Croatia with 6.7%, Serbia with 6.5%, Bosnia & Herzegovina with 2.0% and Montenegro with 1.4% (source: IMF, as of 2016).

In terms of asset quality, the banking sector in Montenegro has a leading position in the region with a reported non-performing loan ratio of 7.3% followed by Slovenia with 8.4% (note: defined as non-performing loans as percentage of total loans) (source: wiiw Report).

Given still relatively high levels of NPE in Croatia, Bosnia & Herzegovina and Serbia, banks are likely to further write off bad debt, which will have a dampening effect on the assets growth (source: wiiw Report).

In 2019, the Central Bank of Montenegro took regulatory actions against two local banks. On January 4, 2019, bankruptcy proceedings were initiated against Invest Banka Montenegro AD Podgorica and on January 24, 2019, the moratorium of Atlas Banka AD Podgorica was prolonged for additional 90 days. The following table provides an overview of the banking sector in each country in the region:

Overview Banking Sectors in CSEE (2017)

Country	Number of Banks	ROE (%)	ROA (%)	CAR (%)	NPE as % of Total Loans	Average Assets per Bank (EUR in million)	Total Assets (EUR in million)	Share in Assets of the Top 5 Banks
Bosnia & Herzegovina	23	4.2	0.1	14.0	10.0	682	15,692	53.6
Croatia	25	6.1	1.1	23.8	11.4	2,104	52,599	73.5
Montenegro	15	n/a	n/a	12.3	7.3	279	4,182	60.8
Serbia	28	10.5	2.1	19.7	9.9	1,016	28,440	54.9
Slovenia	15	9.6	1.2	12.5	8.4	2,530	37,946	60.6

(Source: wiiw Report)

13.7.1 Top 5 Banks per Country

Slovenia

One characteristic of the Slovenian banking sector is the relatively large size of NLB - Nova Ljubljanska Banka with total assets of EUR 8.7 billion translating into a market share of 23.0% as per year-end 2017. NLB is a formerly State owned bank which was successfully listed on the Ljubljana Stock Exchange on November 14, 2018. Post IPO, the Republic of Slovenia remains a 41% shareholder. The second largest bank in Slovenia, Nova Kreditna Banka Maribor (NKBM), was acquired by Apollo and the European Bank for Reconstruction and Development (EBRD) in 2015 in a privatization process. NKBM had total assets of EUR 4.9 billion translating into a market share of 12.9% as per year-end 2017. The third largest bank, Abanka, is 100% owned by the Republic of Slovenia. Abanka had total assets of EUR 3.6 billion translating into a market share of 9.6% as per year-end 2017. The fourth largest bank in Slovenia is SKB Banka (part of the Société Générale Group) with total assets of EUR 3.0 billion translating into a market share of 7.9% as per year-end 2017. The fifth largest bank as per year-end 2017 was Unicredit Banka Slovenija (part of Unicredit Group) with total assets of EUR 2.7 billion translating into a market share of 7.1% (source: wiiw Report). The following table provides an overview of five largest banks in Slovenia in comparison to Addiko Bank d.d.:

Overview Largest Banks in Slovenia (2017A)

Rank	Bank	Total Assets (EUR in million)	Market Share (%)	Total Capital Ratio (%)
1	NLB - Nova Ljubljanska Bank a d.d.	8,713	23.0	21.8
2	Nova Kredit n a Bank a Maribor d.d.	4,914	12.9	19.8
3	Abanka d.d.	3,656	9.6	24.3
4	SKB Banka d.d.	2,991	7.9	13.2
5	Unicredit Banka Slovenija d.d.	2,706	7.1	17.4
-	-	-	-	-
10	Addiko Bank d.d	1,538	4.1	15.6
	Total (all banks)	37,946	100.0	

(Source: wiiw Report and Consolidated Financial Statements)

Croatia

The largest 5 banks in Croatia are foreign-owned. The largest two Croatian banks are subsidiaries of Italian banking groups. As per year-end 2017, Zagrebacka Banka (part of Unicredit Group) and Privredna banka Zagreb (part of Intesa Group) had total assets of EUR 13.8 billion and EUR 10.2 billion translating into market shares of 25.6% and 19.0%. The third and fourth largest Croatian banks are subsidiaries of Austrian banking groups. As per year-end 2017, Erste & Steiermärkische Bank (part of Erste Group) and Raiffeisenbank Austria (part of Raiffeisen International Group) had total assets of EUR 7.7 billion and EUR 4.2 billion translating into market shares of 14.3% and 7.9%. As per year-end 2017, Splitska banka was ranked fifth in terms of size with total assets of EUR 3.6 billion translating into a market share of 6.7%. Splitska banka, formerly part of the Société Générale Group, has been acquired by OTP Group in 2018 and merged into its local subsidiary OTP Banka Hrvatska on December 1, 2018 (source: wiiw Report). The following table provides an overview of five largest banks in Croatia in comparison to Addiko Bank d.d.:

Overview Largest Banks in Croatia (2017A)

Rank	Bank	Total Assets (EUR in million)	Market Share (%)	Total Capital Ratio (%)
1	Zagrebacka banka d.d	13,735	25.6	28.1
2	Privredna banka Zagreb d.d.	10,199	19.0	25.4
3	Erste & Steiermärkische Bank d.d	7,689	14.3	22.4
4	Raiffeisenbank Austria d.d.	4,218	7.9	22.5
5	Splitska banka d.d.	3,614	6.7	21.2
6	Addiko Bank d.d.	2,849	5.3	27.8
	Total (all banks)	**53,663**	**100.0**	

(Source: wiiw Report and Consolidated Financial Statements)

Serbia

The largest bank in Serbia is Banca Intesa (part of Intesa Group) with total assets of EUR4.8 billion translating into a market share of 16.8% as per year-end 2017. The second largest bank is Komercijalna banka with total assets of EUR 3.12 billion and a market share of 11.0% as per year-end 2017. Komercijalna banka is listed at the Belgrade Stock Exchange with the Republic of Serbia being the largest shareholder owning 41.75% followed by a consortium consisting of the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and Swedfund owning 41.48%. The Republic of Serbia is expected to initiate a privatisation process in 2019. Unicredit Bank Srbija (part of Unicredit Group) is the third largest bank in Serbia with total assets of EUR 3.1 billion and a market share of 10.8% followed by Societe Generale banka Srbija (part of Société Générale Group) with total assets of EUR 2.4 billion and a market share of 8.5%. On December 11, 2018, Société Générale announced the sale of its Serbian entity to OTP Group subject to regulatory and market control approvals. Raiffeisen banka (part of Raiffeisen International Group) is ranked fifth in terms of size with total assets of EUR 2.2 billion and a market share of 7.9% as per

year-end 2017 (source: wiiw Report). The following table provides an overview of five largest banks in Serbia in comparison to Addiko Bank a.d.:

Overview Largest Banks in Serbia (2017 A)

Rank	Bank	Total Assets (EUR in million)	Market Share (%)	Total Capital Ratio (%)
1	Banca Intesa a.d.	4,768	16.8	21.1
2	Komercijalna banka a.d.	3,116	11.0	17.1
3	Unicredit Bank Srbija a.d.	3,062	10.8	19.1
4	Société Générale banka Srbija a.d	2,431	8.5	14.0
5	Raiffeisen banka a.d	2,234	7.9	21.7
-	-	-	-	-
13	Addiko Bank a.d.	794	2.8	21.8
	Total (all banks)	**28,440**	**100.0**	

(Source: wiiw Report and Consolidated Financial Statements)

Bosnia & Herzegovina

The banking market in Bosnia & Herzegovina is characterized by the existence of two bank regulators according to the internal organisation of the state. The banking regulator for the entity Federation of Bosnia & Herzegovina (***FBiH***) is based in Sarajevo and the banking regulator responsible for the Republic of Srpska (***RS***) is based in Banja Luka. Although being based in one entity allows for operating in the other, a few international banks decided to have banking presences in both entities.

In terms of size, Unicredit Group is the market leader in Bosnia & Herzegovina being present with two local banking institutions having total assets of EUR 2.7 billion (FBiH) and EUR 0.8 billion (RS) translating into a combined countrywide market shares of 24.6% as per year-end 2017. The second largest bank in Bosnia & Herzegovina is Raiffeisen Bank, being the only banking subsidiary of Raiffeisen International Group in Bosnia & Herzegovina, with total assets of EUR 2.1 billion and a market share of 15.2% as per year-end 2017. Nova Banka, a local bank with a private shareholder base, had total assets of EUR 0.960 billion and a market share of 6.9% as per year-end 2017 followed by Intesa Saopaolo (part of Intesa Group) with assets of EUR 0.958 billion and a market share of 6.9% (source: wiiw Report). The following table provides an overview of the five largest banks in Bosnia & Herzegovina in comparison to Addiko Bank d.d., Sarajevo and Addiko Bank a.d., Banja Luka:

Overview Largest Banks in Bosnia & Herzegovina (2017 A)

Rank	Bank	Total Assets (EUR in million)	Market Share (%)	CAR (%)
1	UniCredit Bank d.d. Mostar, FBiH	2,680	19.2	16.4
2	Raiffeisen Bank BH d.d., FBiH	2,121	15.2	15.0
3	Nova Banka a.d., RS	960	6.9	13.9
4	Intesa Sanpaolo banka d.d., FBiH	958	6.9	14.2
5	UniCredit bank a.d., RS	757	5.4	19.1
-	-	-	-	-
12	Addiko Bank d.d., FBiH	457	3.3	13.2
14	Addiko Bank a.d., RS	363	2.6	14.6
	Total (all banks)	**13,936**	**100.0**	

(Source: wiiw Report and Consolidated Financial Statements)

Montenegro

In terms of size, CKB (part of OTP Group) is the market leader in Montenegro with total assets of EUR 0.61 billion and a market share of 14.7% as per year-end 2017. The second largest bank, Hipotekarna banka, is a local bank with total assets of EUR 0.50 billion followed by Erste Bank, Societe Generale and NLB with total assets of EUR 0.49 billion, EUR 0.48 billion and EUR 0.46 billion respectively (source: wiiw Report). The following table provides an overview of five largest banks in Montenegro in comparison to Addiko Bank AD Podgorica:

Overview Largest Banks in Montenegro (2017 A)

Rank	Bank	Total Assets (EUR in million)	Market Share (%)	Total Capital Ratio (%)
1	CKB - OTP Group	615	14.7	16.7
2	Hipotekarna banka AD Podgorica	495	11.8	9.1
3	ERSTE Bank AD Podgorica	491	11.7	13.7
4	Societe Generale banka Montenegro AD	483	11.6	12.5
5	NLB Banka AD Podgorica	460	11.0	15.2
-	-	-	-	-
7	Addiko Bank AD Podgorica	264	6.3	13.2
	Total (all banks)	4,182	100.0	

(Source: wiiw Report and Consolidated Financial Statements)

13.7.2 *Market Positioning of Addiko Group in CSEE*

Consumer Lending Market

The consumer lending market in the region is expected to strengthen going forward underpinned by solid trends in consumer demand and overall economic improvements. One further characteristic is the below EU average use of banking services by customers and the low mobile banking penetration. The market is dominated by subsidiaries of international universal banks or local banks with limited regional reach.

Given the state of the market and its participants, market share gains going forward are likely to be driven by players with simple business models and digital capabilities.

SME Financing Market

SMEs play a significant role in the underlying economies of the markets with Addiko presence. This importance is underpinned by the high number of SMEs (40 – 70 SMEs per 1,000 habitants per country) reflecting the high degree of entrepreneurship in the region. The ongoing generation change at shareholder level – founding period of many SMEs are mid/late 1990s – is expected to further drive trends and banking needs. So far, banks in the region have not introduced latest digitalisation standards and product offerings to SME sector. The SME segment is less competitive than other client segments in the region as it requires specialized product offerings and focus.

Business Models and Product Offering of Addiko in CSEE

The majority of competing banks in CSEE operate as universal banks with diversified business models offering a wide range of products and services to public, corporate and retail clients in order to gain size and market share. The CSEE subsidiaries of larger banking groups predominantly adopt business models and product offerings developed for operations in wider CEE. Single market banks generally shape their product offering according to the position and competitive situation in the home market.

The business strategy of Addiko being a financial institution in CSEE focused on consumer lending and SME banking is reflected by the product offering. Addiko has been developing new product offering in its market segments intending to position as the first-mover in product creation and electronic- / mobile-banking.

Addiko is strongly increasing its consumer loan business with a target market share of 8 – 10% across all countries within its geographical reach. The sizes of consumer loan markets with Addiko presence differ mainly based on purchasing power and economic development. As of December 2018, the market for consumer loans in Croatia had a size of EUR 9.4 billion (Addiko market share in 2018: 5.2%), followed by Serbia with EUR 5.3 billion (Addiko market share in 2018: 3.7%), Slovenia with EUR 4.1 billion (Addiko market share in 2018: 8.1%), Bosnia & Herzegovina with EUR 3.8 billion (Addiko market share in 2018: 6.8%) and Montenegro with EUR 0.9 billion (Addiko market share in 2018: 13.6%) (source: Company information). Addiko is expanding at rates above its market share in its countries measured with flow market share (new business in the period between January and December 2018). Furthermore, the increasing digitalization in the region should further benefit the business model of Addiko.

The product proposition of Addiko in the SME segment is to complement established capabilities through digital transformation. This includes automated underwriting decisions for simple loans, digital features for distinctive propositions, development of self service capabilities for SME clients and a KPI driven relationship management and acquisition system. The product strategy in the SME segment is to focus on higher margin lower ticket size loan and expand transaction banking and trade finance activities. SME clients are defined as businesses with less than EUR 40 million in annual revenues (source: Company information). Addiko focuses on SME clients focusing on cash flow generating real economy operations (i.e. trade, production, agriculture). 150 relationship managers serve 12,000 SME clients across CSEE (source: Company information). This targeted business model results in strong expansion with gross performing loans to SME clients increasing from EUR 646 million as of December 31, 2016 to EUR 928 million as of December 31, 2018 (20% CAGR) (source: Company information).

14 Bank Restructuring and Transformation

14.1 Bank Restructuring Overview

The predecessors of the Company underwent a significant restructuring beginning in 2009 while under the ownership of the Austrian state, allowing the privatization of Addiko Group via acquisition by Advent International (about 80%) and European Bank for Reconstruction and Development (EBRD) (about 20%) in July 2015.

This restructuring process included the following key steps that allowed Addiko Group to remain a standalone banking group under new ownership:

- A fully-licensed bank holding company was set up in Austria that included all requisite governance bodies and employees necessary for the fulfillment of regulatory requirements and for the steering of local banking and leasing subsidiaries in SEE.
- Thereafter, the troubled and predominately non-performing assets of the local banking subsidiaries in SEE were carved out in order to establish the standalone viability of each local banking subsidiary.
- Efforts were made to minimize the negative impact of so called "behavioral measures" issued by the European Commission as a consequence of the forbidden Austrian state aid received by HAA, which was ultimately waived upon the signing of the respective agreements for re-privatization in December 2014.
- Then, a significant number of new customer deposits were accepted, enabling local subsidiaries to improve self-funding capabilities while returning outstanding senior refinancing funds to the Austrian bank holding.

14.2 Historical Developments Leading to Restructuring

14.2.1 Landeshypotheken-Anstalt

The Company developed from an affiliate of HAA, the parent company of Hypo Alpe Adria Group (***HAA Group***). The predecessor of HAA Group was founded in 1896 as the Landes-Hypothekenanstalt by the federal state of Carinthia. HAA Group's business was historically focused on financing public institutions, providing commercial housing finance and issuing of mortgage-backed bonds (*Hypothekenpfandbriefe*) as well as municipal bonds (*Kommunalschuldverschreibungen*). The product portfolio was expanded in the following decades.

14.2.2 Hypo Alpe Adria Group

Since 1982, HAA Group acted as a full service bank. With a view to leveraging the market dynamics in SEE, HAA Group acquired banking subsidiaries in Croatia, Bosnia & Herzegovina and Serbia. Furthermore, HAA Group established strategic subsidiaries in Slovenia and Montenegro. The markets were entered through leasing businesses, which were expanded in a second step by further banking activities. HAA Group expanded further from 2002 onwards, backed by the statutory deficiency guarantee of the federal state of Carinthia, with a focus on risky and large-scale financings especially in real estate and tourism projects.

14.2.3 Acquisition by BayernLB

On May 22, 2007, Bayrische Landesbank (the ***BayernLB***) acquired 50% plus one share of HAA for a purchase price of EUR 1,600,000,000. HAA Group`s expansion strategy came to an end with the outbreak of the global financial crisis in 2007. The volume of newly generated business nearly came to a complete halt in the last quarter of the year 2008, but simultaneously the necessity of risk provisions increased substantially. In December 2008, an ordinary capital increase of EUR 700,000,000 was necessary, which was almost entirely subscribed by BayernLB, and BayernLB's share in HAA increased to more than 67%.

14.2.4 Nationalization of HAA Group

In December 2008, Austria subscribed tier 1 participation capital amounting to EUR 900,000,000 and concluded a framework guarantee agreement (*Rahmengarantievereinbarung*) for a debt issuance program of up to EUR 1,350,000,000. These measures were implemented to protect HAA Group against the implications of a recession of the real economy, in particular in SEE. After further assumptions of liability by Austria and recapitalization measures taken by the federal state of Carinthia, in December 2009, all the shares in HAA were acquired by Austria in the course of an emergency nationalization, against payment of a symbolic purchase price through FIMBAG Finanzmarktbeteiligung Aktiengesellschaft des Bundes (***FIMBAG***).

The state subsidies received by HAA Group before and since the nationalization were classified as state aid by the European Commission and therefore only compliant with EU law for a transitional period of time. For this reason Austria and the European Commission developed a restructuring plan, which included, *inter alia*, a reprivatization of HAA Group's activities in SEE in a timely manner. The restructuring plan of the European Commission (revised draft version of June 29, 2013) provided for a reprivatization of HAA Group's SEE network by June 30, 2015 at the latest. To reach this target, the plan scheduled the transfer of a further credit portfolio amounting to EUR 1,300,000,000, which consisted of non-performing loans, to a wind-down unit (*Abbaueinheit*) of HAA Group for a further reduction of the strategic risks of the business in SEE.

According to the European Commission the reprivatization (in whole or partly) had to take place in an open, transparent and unconditioned sales process to a strategic bidder or alternatively via an initial public offering.

14.2.5 Reprivatisation

In 2015, HETA, on the basis of a power to dispose (*Verfügungsermächtigung*) transferred 100% of the shares in HYPO GROUP ALPE ADRIA AG to Advent International and the European Bank for Reconstruction and Development (EBRD), after FIMBAG had granted authorization.

14.3 Transformation

Key initiatives to implement the transformation

Upon completion of the privatization of Addiko Group in mid-July 2015, Addiko Group completed an extensive repositioning as a "specialist bank" in CSEE with a new brand and a refocused strategy. Such repositioning efforts included the following key initiatives:

New Strategic Business Focus

- A clear strategy was defined focusing on unsecured retail consumer lending and SMEs in the "real" economy. The organization of Addiko Group was refocused around these two key business areas while reducing banking activities regarding mortgages, large corporations and public finance in an effort to improve profitability, growth and stability. The new focus also led to the divestment of non-core portfolios, business areas and participations relating to leasing and asset management.

Active management of NPEs and pending disputes

- A significant de-risking of the balance sheet was completed resulting in a substantial reduction in NPEs and so called passive legal disputes on the basis of a clear litigation resolution approach and strategy.

  This approach includes a case management and settlement aimed at settling long-lasting legacy cases in an expedited and commercial manner supported by dedicated personnel, the implementation of a legal database, a litigation committee and a group-wide litigation policy. The total amount in dispute decreased from more than EUR 1.0 billion at the end of the financial year 2016, to EUR 379.0 million at the end of the financial year 2017 and to EUR 331 million at the end of the financial year 2018. Correspondingly, the provisions for pending legal disputes and tax litigation decreased from EUR 64.0 million as of December 31, 2016, to EUR 45.5 million as of December 31, 2017 and to EUR 30.1 million as of December 31, 2018.

Focus on operational efficiency

- The network productivity was significantly improved (e.g., through a sales force effectiveness program), the organisation was rebranded to Addiko Group and agile and digital competencies were introduced (a digital hub was created with specific new capabilities – e.g., app development, UX/UI design).
- Efficiency was significantly improved, supported by the introduction of a new, innovative operating model including right-sizing of front- and back-office functions, process optimization and digitalization and outsourcing of non-core infrastructure. For further details, see "*15.10 Operating Platform*".
- Various measures were introduced to improve operational efficiency and quality, including a new cost management approach, improved performance management practices and human resource functions, standardized recruitment, investment in hiring, launch of leadership programs and bringing in new talent to strengthen capabilities.
- Ties with the previous owner, HETA, were cut, including through the full repayment of respective senior funding in in the first quarter of the 2017 financial year. However, due to the brush transactions, where NPE loan portfolios were transferred to HETA as part of Addiko Group's strategic turnaround, Addiko Group is still connected to the respective HETA subsidiary in connection with various passive legal proceedings.

Overview of the current structure of Addiko Group

The table below shows the entities that are consolidated in Addiko Group as of March 31, 2019:

Addiko Group Companies	Country	Share in % (direct)
ADDIKO BANK AG (formerly: HYPO GROUP ALPE ADRIA AG, Hypo SEE Holding AG)	Austria	
ADDIKO BANK d.d., Ljubljana	Slovenia	100
ADDIKO BANK d.d., Zagreb	Croatia	100
Addiko Bank d.d., Sarajevo	Bosnia & Herzegovina	99.9985
Addiko Bank a.d., Banja Luka	Bosnia & Herzegovina	99.8631
ADDIKO BANK a.d., BEOGRAD	Serbia	100
ADDIKO BANK AD, Podgorica	Montenegro	100

(Source: Company information)

Financial impact of the transformation and rating

With the turnaround completed in the 2017 financial year, Addiko Group has shown improved financial strength and profitability metrics, growth in its focus areas' revenue, the ability to maintain strict and sustainable cost management supported by simplified processes and enhanced digital capabilities, as well as the ability to generate capital from a well-funded and de-risked and deleveraged balance sheet.

The implementation of Addiko Group's reposition is demonstrated by the increase in Addiko Group's gross performing loans in its focus areas at a CAGR of 22.0% in the period from December 31, 2016 to March 31, 2019 and the reduction of the gross performing loans in its non-focus areas in the same period by 11.4%. Furthermore, the Consumer Business gross performing loans have grown by 22.8% in the period from December 31, 2016 to March 31, 2019 and the SME Business Segment gross performing loans have grown in the same period by 20.9%.

The Company is rated by Moody's, who has assigned the Company, among other ratings, a counterparty risk rating and a bank deposits rating of, in each case, Ba3.

15 Business

15.1 Overview

Addiko Group is a consumer and SME specialist banking group in CSEE. Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of March 31, 2019 approximately 828 thousand customers in CSEE, using a well-dispersed network of 197 branches and modern digital banking channels. Addiko Bank AG manages its subsidiary banks through group-wide strategies, policies and controls and manages Addiko Group's liquidity reserve.

Addiko Group was established in 2015, when the former Hypo Alpe-Adria Bank International AG spun off its CSEE banking subsidiaries to be owned by a newly created Austrian parent bank, which received infrastructure and employees previously working in the CSEE banking subsidiaries. AI Lake (Luxembourg) S.à r.l., indirectly owned by funds advised by Advent International (78.4% of voting rights), a global active private equity investor and the European Bank for Reconstruction and Development (EBRD) (18.5% of voting rights) acquired the Austrian parent bank in 2015 from the former Hypo Alpe-Adria Bank International AG, following a mandatory, non-discriminatory sales process required by the European Commission as a condition for approving the payment of Austrian state aid to the former Hypo Alpe-Adria Bank International AG, with the remaining 3.1% held by the Managers (with the members of the Management Board holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board holding 1.1%). With effect as of June 30, 2016, the Company's name was changed to "Addiko Bank AG".

Following the acquisition, Addiko Group started to reposition itself as a specialist consumer and SME banking group with a focus on growing its Consumer Business and SME lending activities as well as payment services (its "focus areas"), offering unsecured personal loan products for consumers and working capital loans for its SME customers funded largely by retail deposits. Addiko Group's Mortgage Business, public lending and large corporate lending portfolios (its "non-focus areas") have been gradually reduced over time, with repayments by customers exceeding the new business generated in those fields, thereby providing liquidity and capital for the gradual growth in its Consumer Business and SME lending. Any new lending products in non-focus areas are offered on an opportunistic basis only.

Addiko Group delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity". Banking products and services have been standardized, especially in the Retail Segment and the SME Business Segment, to improve efficiency, reduce risks and maintain asset quality, and have, particularly in the Large Corporates Segment, been further tailored to better meet customer needs.

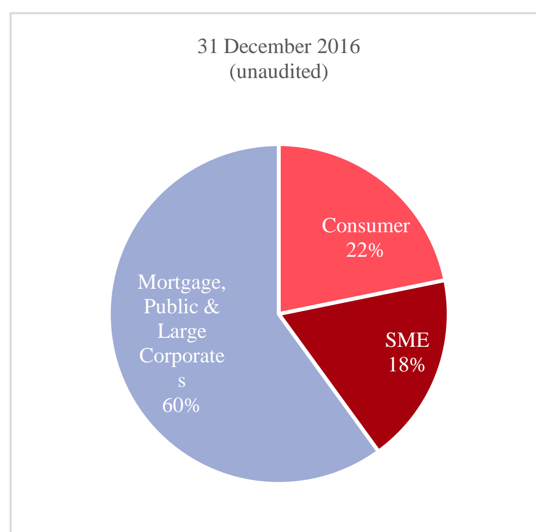
The table below sets out the key financials and key data of Addiko Group for the three-month periods ended March 31, 2019 and 2018 and the financial years ended December 31, 2018, 2017, and 2016:

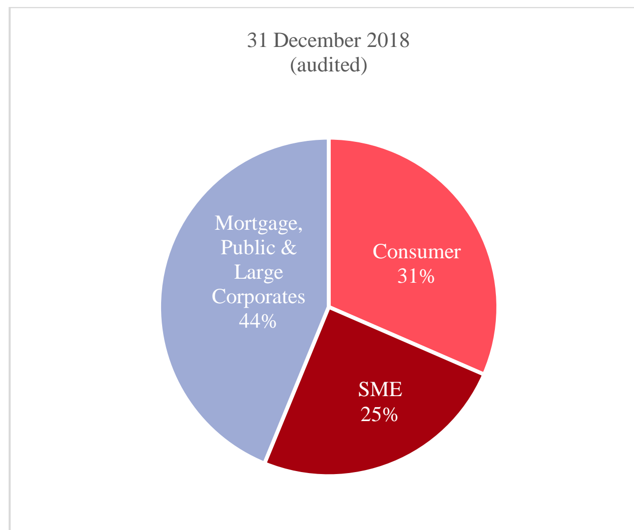
Key financials and key data (in EUR million, unless otherwise indicated)	For the three-month period ended March 31, 2019	2018	For the financial year ended December 31, 2018	2017	2016
	(unaudited)		(audited, unless otherwise indicated)		
Net banking income	60.4	52.1	235.5	223.8	208.7
o/w net interest income	44.9	38.6	173.2	165.3	158.8
o/w net fee and commission income	15.6	13.5	62.4	58.5	50.0
Net result on financial instruments	3.3	70.5	70.0	9.7	20.3[1]
Other operating result	-5.4	-6.4	-16.5	-6.5	-42.1
Operating expenses	-48.3	-46.3	-188.1	-190.1	-212.4
Operating result before change in credit loss expense	10.0	69.9	100.9	36.9	-25.4
Credit loss expenses on financial assets	3.7	10.9	2.8	-15.1	4.4
Tax on income	-3.6	-4.6	0.5	19.9	-2.9
Result after tax	**10.1**	**76.2**	**104.2**	**41.6**	**-23.9**
Loans and advances to customers	3,864.9	3,697.7	3,787.3	3,691.9	3,730.5
o/w gross performing loans	3,841.4	3,593.8	3,766.1	3,562.0	3,550.1[2]
Deposits of customers	4,855.5	4,916.4	4,836.7	4,933.8	4,435.6
Equity	828.0	837.9	859.5	844.0	994.7
Total assets	6,108.4	6,206.0	6,152.1	6,485.5	7,216.1
Total risk-weighted assets	4,599.8	4,594.9	4,545.0	4,653.1	4,470.8[7]
Cost/income ratio[3]	80.0%	88.9%	79.9%	84.9%[3]	101.8%[3]
Customer loan to deposit ratio[6]	79.6%	75.2%	78.3%[2]	74.8%[2]	84.1%[2]
NPE ratio[4]	5.5%	7.8%	5.6%	8.1%	9.2%
NPE coverage ratio[5]	75.8%	69.8%	75.4%	67.0%	67.5%
CET1 ratio	17.5%	16.6%	17.7%	14.9%	15.0%[7]
Total capital ratio	17.5%	16.6%	17.7%	17.1%	16.4%[7]

1 Net result on financial instruments was not presented as a separate line item in the Audited Consolidated Financial Statements as of and for the financial year 2016. As of and for the financial year 2016, the position is calculated on the basis of the Audited Consolidated Financial Statements positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L".
2 Unaudited Company information
3 Calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income and net fee and commission income. This deviates from the cost income ratio methodology applied in the Audited Consolidated Financial Statements of Addiko Group for the financial years 2016 and 2017, where it was calculated as the sum of personnel expenses, other administrative expenses and depreciation and amortization divided by the sum of net interest income, net fee and commission income and other operating income.
4 Calculated based on non-performing exposure (NPE) divided by the total credit risk exposure as of and for the specified financial year.
5 Calculated based on the stage 3 expected credit losses divided by the non-performing exposure (NPE) as of and for the financial year 2018 as well as based on the single risk provisions divided by the non-performing exposure (NPE) as of and for the financial year 2016 and 2017.
6 The customer loan to deposit ratio is calculated as loans and receivables to customers (i.e. excluding central banks and other credit institutions) divided by deposits from customers as of and for the specified financial year.
7 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
(Source: Audited Consolidated Financial Statements and Company information)

The implementation of Addiko Group's repositioning is demonstrated by the increase in Addiko Group's gross performing loans in its focus areas, Consumer Business and SME Business Segment, at a CAGR of 22% in the period from December 31, 2016 to March 31, 2019 and the reduction of the gross performing loans in its non-focus areas in the same period at a CAGR of (11%). Consequently, the share of the gross performing loans in the focus areas increased from 40% as of December 31, 2016, by 18%, to 58% as of March 31, 2019. Furthermore, the Consumer Business gross performing loans have grown by 59% between December 31, 2016 and March 31, 2019, and the SME Business Segment gross performing loans have grown by 53% between December 31, 2016 and March 31, 2019.

The charts below provide details for the development of Addiko Group's living loan portfolio beginning December 31, 2016 and ending December 31, 2019:





(Source: Company information)

The net banking income for Addiko Group's focus areas was EUR 135.2 million in the Consumer Business and EUR 38.1 million in the SME Business Segment for the financial year ended December 31, 2018, while for the financial year ended December 31, 2017, it was EUR 111.2 million in the Consumer Business and EUR 38.5 million in the SME Business Segment. The net banking income of the non-focus areas was EUR 24.5 million in the Mortgage Business, EUR 17.8 million in the Large Corporates Segment and EUR 9.7 million in the Public Finance Segment for the financial year ended December 31, 2018, and EUR 30.0 million in the Mortgage Business, EUR 21.0 million in the Large Corporates Segment and EUR 16.6 million in the Public Finance Segment for the financial year ended December 31, 2017.

As of March 31, 2019, Addiko Group serves approximately 828 thousand (approximately 853 thousand as of December 31, 2018) customers, of which approximately 813 thousand (approximately 838 thousand as of December 31, 2018) customers in the Retail Segment and approximately 13 thousand (approximately 13 thousand as of December 31, 2018) customers in SME Business Segment, with these two segments of Addiko Group comprising EUR 3.1 billion (EUR 3.0 billion as of December 31, 2018) loans and receivables (of which EUR 2.2 billion (EUR 2.1 billion as of December 31, 2018) relate to the focus areas Consumer Business and SME Business Segment, and EUR 0.9 billion (EUR 0.9 billion as of December 31, 2018) relates to the non-focus Mortgage Business), representing 79% (79% as of December 31, 2018) of Addiko Group's total loans and receivables 57% (55% as of December 31, 2018) of Addiko Group's total loans and receivables without the non-focus Mortgage Business). Addiko Group serves approximately one thousand customers in each of the Large Corporates Segment and the Public Finance Segment, with these two non-focus segments of Addiko Group comprising EUR 0.8 billion (EUR 0.8 billion as of December 31, 2018) loans and receivables, representing 21% (21% as of December 31, 2018) of Addiko Group's total loans and receivables. The Corporate Center Segment is an internal segment without product offerings to external customers.

15.2 Competitive Strengths

Addiko Group believes the following primary strengths will be the main drivers that allow it to pursue its strategy:

15.2.1 Well positioned region for convergence of underpenetrated banking sector

Approximately 68% of Addiko Group's assets are located in the EU (Croatia and Slovenia) with the remaining 32% located in EU accession countries. Addiko Group operates in the last EU convergence region in which financial intermediation is low and digital transformation is still nascent. In fact, there is significant potential to develop mobile banking, since the penetration in the region is below 8%, whereas the EU average is around 45%. In addition, the retail lending market in the region is growing faster than in the EU. Addiko Group believes its offering of straightforward banking with enhanced digital capabilities will provide a solid basis for increasing its future business in the region.

Furthermore, GDP per capita in the region is less than EUR 6,000, which is significantly below the EU average of EUR 37,000. Also, the difference between the household debt to GDP ratio in the region and that in the EU is expected to decrease in the years ahead. Addiko Group therefore expects future growth and convergence to drive consumption and borrowing. Consequently, the CSEE market offers attractive opportunities for a specialist bank like Addiko Group that is focusing on consumer and SME lending in the region.

15.2.2 Well-established, pan-regional platform with potential for synergies and operational leverage for future competitiveness

Addiko Group has a powerful combination of in-depth international expertise and local capabilities with a presence in CSEE countries, creating a regional team that provides a lean and efficient platform for pursuing its business strategy. The ability to underwrite a profitable, competitively priced retail or SME loan in a simple, fast and safe way is difficult to emulate and requires great focus and excellent collaboration between the business, risk, IT and operations departments of a bank. This ability is one of the strengths of Addiko Group.

Addiko Group has an efficient operating model with competence centers across the network which allow for the reduction of costs via centralization of services, economies of scale, agility and execution power as well as talent attraction. Economies of scale are achieved by structures as close as possible to that of a single bank. Addiko Group believes that agility and execution power is achieved by reducing the decision layers and having centralized teams of specialists making decisions for the entire group and that talent attraction is achieved by offering jobs with broad responsibility across the region.

15.2.3 Transforming into focused retail and SME specialist

Under the new ownership, Addiko Group's management has operated under international best practices and created systems, a team and a culture to pursue its focused strategy. Addiko Group transformed from a universal bank into a specialist bank for the CSEE region, focusing on consumer lending and SME (defined as "focus areas"), which offer attractive yields. In fact, disbursements in focus areas increased significantly in the 2016, 2017 and 2018 financial years, with a compound annual growth rate of approximately 13%. However, the amounts of the financial years 2016 and 2017 may not be compared to the amount for the financial year 2018, because the calculation methodology of disbursements was harmonised across the subsidiaries in the financial year 2018 and prior years were not adjusted retrospectively.

Addiko Group believes it has a robust financial profile, a solid capital base, a clear strategy and an operating and financial structure designed to achieve its strategic goals. Addiko Group provides straightforward banking, which is also consistently reflected in its communications to customers. Addiko Group has simpler branches, fewer and standardized products and offers its customers easy, quick and efficient interactions. This is important because convenience and standardization are among the most important factors for the customers of the Consumer Business and the SME Business Segment. Convenience is defined by the ease of customers in completing applications and single interactions.

In pursuing its specialist bank strategy with higher risk adjusted yields, Addiko Group decided to build on its team's strengths, which are disciplined risk management, continuous development and validation of scoring and risk modelling, driving business through dashboards and simplicity and convenience of product offering (standardization of products). As a result, gross performing loans for the Consumer Business and the SME Business Segment grew at a compound average rate of 24% and 20%, respectively, from 2016 to 2018.

In addition, Addiko Group's expansion into retail and SME lending is supported by prudent risk management of a solid, well-provisioned portfolio from past business, which it can utilize in a managed way to finance its expansion into retail and SME business. Addiko Group is also among the first to rollout a PSD2 / "Open Banking Standards"-based trial in Croatia, enabling Addiko Group to access customers' e-banking history with other banks (subject to the customers' consent) to allow a better evaluation of the customer's credit worthiness.

15.2.4 Unlocking opportunities in traditional market with innovative digital solutions

Addiko Group has placed the progression to digital banking at the core of its strategy. Addiko Group has implemented technological solutions that have already been thoroughly proven in more developed markets but that are innovative in the CSEE markets and useful to customers there. Addiko Group believes that its focus on digital banking will help it gain market share in its focus areas without having to expand its branch network.

The digital maturity of the markets in which Addiko Group operates is well below the EU average. Addiko Group decided to establish a central digital competence center in Serbia with 20 dedicated FTEs, to focus on transforming its IT infrastructure (i.e. to roll-out of application programming interfaces which allow rapid integration of third-party solutions such as Viber chat banking) to better support its planned digitalization.

While its 197 branches (as of March 31, 2019) provide a good platform to pursue its strategy, with Addiko Group continuing to register a high number of customer visits at branches, Addiko Group also anticipates further digital transformation and activity in the markets in which it operates. Consequently, Addiko Group is continuously introducing new digital features such as Viber chat pay, SME automated loan approvals and virtual branch, in order to create efficiencies and attract new customers. From the financial years 2016 to 2018, it has invested EUR 40.1 million in software and systems, automation of processes, introduction of automated loan application systems for retail customers, with digitalized external checks and scoring steps, all while maintaining its risk profile. The decision time in Serbia was reduced to less than 30 minutes for consumer loans since the launch of the new APS. During the financial year 2018, Addiko Group originated 3.8% of its loans

digitally and, once the loan application system is rolled out across the Group, it expects over 61% of the loan decisions to be automated. In line with its greater emphasis on digital banking, Addiko Group also anticipates that increasing digital intermediation will allow to reduce the overall number of its physical branches to 150 in the coming years. This reduction is expected to decrease personnel, real estate management and other administrative expenses while increasing IT expenses from next year onwards.

15.2.5 Solid balance sheet foundation enabling profit increases

Addiko Group has a solid and well-capitalized balance sheet that can support the expansion of its business in its focus areas of retail and SME lending. Addiko Group operates on strong parameters with respect to funding, risk parameters and capital base which provide Addiko Group with the financial ability to pursue its strategy. In particular, based on loans and receivables from customers and deposits of customers, Addiko Group has a funding surplus of EUR 1.0 billion and a loan to deposit ratio of 78.3%. As of December 31, 2018, Addiko Group also maintained EUR 2.2 billion of liquid assets, including EUR 1.0 billion of cash of which EUR 0.3 billion was deposited with central banks as the minimum regulatory reserve. Significant excess liquidity is also demonstrated by a LCR of 150% as of December 31, 2018. Addiko Group's non-performing loan book is well provisioned with loan loss provision coverage at 75.4% and total coverage (including collateral) at 120.8% as of December 31, 2018.

Over the past two years, Addiko Group was able to decrease its non-performing exposure ratio by 3.6% from 9.2% for the financial year 2016 to 5.6% for the financial year 2018. This is partly due to rigorous scrutiny to risk controls in new business and the active management of the legacy portfolio. The non-performing exposure ratio under the new risk framework (which is based on credit risk exposures at client level in regards to which a credit decision was made post January 1, 2016) stood at 1.4% for the financial year 2018. Furthermore, its CET1 ratio stands at 17.7% as of December 31, 2018, which provides substantial buffers above the minimum requirement. This is despite a prudent risk-weighting.

Additionally, Addiko Group has experienced improved profitability through increases in interest income as a result of its focus on retail and SME customers and strict cost controls. The shift of Addiko Group's business to its focus areas as well as the active management of its cost base and risks has led to positive developments as regards Addiko Group's revenues and expenses. Overall, Addiko Group's healthy and stable balance sheet, improved revenues and cost controls provide a good foundation for the funding of Addiko Group's business ambitions.

15.2.6 Experience and proven management team

Addiko Group's experienced management team is focused on delivering results, enhancing efficiency and operational excellence and improving the banking experience for customers in CSEE. The management team includes members with experience in both the Austrian market as well as in CSEE. All management team members have previously worked at universal banks and recognize the benefits of being a specialist.

15.3 Strategy

Addiko Group's strategy is to differentiate itself from the many universal banks operating in the CSEE region and specialize on daily banking activities for which convenience and speed can command higher margins. Such services consist mainly of transactions requiring low or no advisory support, suitable to standardization and delivery over digital channels.

Addiko Group focuses on its Consumer and SME Businesses. Unsecured lending to consumers, SME lending and payments are its key focus activities. The value proposition across these focus activities is based on convenience (a single interaction whenever possible) and speed (fast enough so the customers do not require alternative solutions), as customers from these groups are more likely to require standardized services for which convenience and speed are more important than advisory services. It also builds on the physical presence of Addiko Group for sales and servicing such customers during the market transition to more digital models.

Payments are of particular importance, as they provide frequent interactions with customers, allowing reliable risk modelling and generation of commission income. Commission income represents a particular focus of Addiko Group as a means of balancing its interest income and establishing a credit risk free income stream. Payments (including card originated payments), account packages and bancassurance represent the main pillars of Addiko Group's commission income development.

Delivering Addiko Group's strategy in a cost effective manner requires a continuous focus on the elimination of inefficiencies, standardization, digitalization and automation of processes underpinning products and services, and balancing of physical and digital distribution. Optimal deployment of capital and coordinating the run-off of the old, productive book with the development of the focus book is given particular attention in the steering of Addiko Group.

15.3.1 Focus on retail and SME lending in CSEE

Addiko Group plans to focus on higher risk adjusted yield businesses as a specialist bank lending to retail and SME customers while decreasing its non-focus businesses. It also plans to focus on attractive markets in CSEE. CSEE markets are underserved and business expansion will be achieved through the convergence with European standards, particularly once digital banking capabilities are expanded in the region. Addiko Group will also seek to capitalize on existing customer relationships and to capture market share in the retail market, with a market share target across the region of approximately 8% to 10%. In addition, Addiko Group will focus on its risk profile and its profitability.

15.3.2 Provide improved customer experience

Addiko Group's strategy also entails placing greater emphasis on improving the customer experience. It plans to accomplish this through greater focus on product simplicity, improved access to and processing of services, faster and better credit decisions, greater convenience for customers, expanded digital offerings and greater standardization of products.

The value proposition of Addiko Group is consistent across its focus areas and built around convenience and speed. Convenience is defined as single interactions to serve customers whenever possible and with minimal, standard documentation required. In payments, it is defined as the simplicity of originating a payment. Speed of execution seeks to ensure that customers are satisfied and do not demand alternative, faster solutions. To deliver the value proposition in its focus areas, Addiko Group focuses on standardizing products and services as well as simplifying and automating processes. A key area of importance is risk management. Through advanced modelling and scoring mechanisms, regular calibration and strict, granular portfolio quality monitoring, Addiko Group is able to deliver the described value proposition while at the same time maintaining its portfolio quality.

Continuously measuring customer satisfaction across all channels, touchpoints and for all customer segments is Addiko Group's core element in driving customer experience improvements. Addiko Group collects customer feedback from both Retail Segment and SME Business Segment customers, both in regards to its brand (through an external research agency, comparing itself with its main competitors) and in regards to customer interactions (through reaching out to customers who have interacted with the branches the day before through a simple and straightforward SMS based survey). The satisfaction and recommendation scores collected give an indication of the likelihood a customer would recommend Addiko Group to their social circle. The results are made available to branch managers to allow them to always be in touch with their customers' feedback and react rapidly in the case of complaints. Moreover, it shows customers that their opinion is important and given priority. Current results show 75% of PI customers in Bosnia & Herzegovina, 66% in Croatia and 64% in Slovenia are promoters of Addiko Group, meaning they are highly likely to recommend the bank to their social circle.

In addition to customer satisfaction, Addiko Group also focuses on employee satisfaction, since it believes that satisfied employees that believe in the brand will subsequently deliver the promised value proposition to customers. Therefore, an internal satisfaction survey is performed every quarter throughout Addiko Group to determine employees' level of happiness.

15.3.3 Ensure efficiency and operational excellence

To achieve greater efficiency and ensure operational excellence, Addiko Group will concentrate its efforts on the following four pillars.

First, Addiko Group will seek to improve its risk management. Building strong competencies in risk management is necessary for properly managing the past portfolio, but even more for future operations. Successful retail and SME lending requires excellent risk evaluation, automation and collection. Moreover, good execution of these tasks will allow a significant reduction of Addiko Group's risk cost. Addiko has invested in expert talent to deliver world-class risk management capabilities.

Second, Addiko Group will pursue more effective cost management. Addiko Group continues to undertake effective cost cutting initiatives, such as the reduction of personnel expenses through reorganization, switching to paperless statements, improving its sourcing and optimizing its marketing strategy. Its strong cost discipline will allow Addiko Group to reduce its operational costs, improve its efficiency and achieve greater returns.

Third, Addiko Group will strive for improvements in its brand awareness. Addiko Group currently has a good level of brand awareness in the countries in which it operates, but will continue to work on expanding awareness of its brand among potential new customers. Addiko Group's rebranding has energized its team and has allowed Addiko Group to anchor its new brand around simple, straightforward banking through essential services, simplicity and efficiency. The brand also authentically mirrors Addiko Group's internal focus and culture. This alignment of communicated and internal focus areas enables faster and more wide-spread brand awareness in the various markets served by Addiko Group. The following table presents the percentage of survey respondents who are aware of the "Addiko" brand as of October 2016, compared to as of December 2018:

Brand awareness	October 2016	March 2019
Croatia	71%	98%
Slovenia	45%	89%
Serbia	29%	87%

(Source: Company information)

Fourth, Addiko Group will aim for even better execution. By motivating and re-energizing the sales force through the implementation of performance standards, the utilization of KPIs and the elimination of secondary and non-focus products, Addiko Group will continue to strive for significant expansion in its retail portfolio and SME lending.

15.3.4 Leveraging Addiko Group's established branch network to attract new customers

Addiko Group operates 197 branches in CSEE (as of March 31, 2019) and serves a total of approximately 828 thousand customers. It is therefore already well-established in the region, giving it the ability to quickly and effectively communicate with a large number of customers and potential customers. As of December 31, 2018, the percentage of Addiko Group's total number of customers (including NPEs, rounded) in each of its countries of operation amounted to 34% in Croatia, 30% Bosnia & Herzegovina, 21% in Serbia, 8% in Slovenia and 6% in Montenegro, with Addiko Bank AG in Austria having online deposit customers only.

In the countries in which Addiko Group operates, customers have been relatively slow to adjust to the digital transformation and cash driven markets. Consequently, bank branches are still registering a high degree of customer visits. By improving the banking experience of its current customers, Addiko Group can expect positive word-of-mouth advertising to potential new customers. In the financial year 2018, 6% of the Retail Segment and SME Business Segment customers were newly acquired by Addiko Group, while 69% of the Retail Segment customers and 73% of the SME Business Segment customers had a business relationship of more than six years with Addiko Group. Addiko Group also utilizes its existing branches to promote its newly implemented digital offerings, while at the same time providing current and potential new customers the reassurance of being able to speak in person to bank representatives.

Addiko Group also plans to achieve a market share in consumer loans of approximately 8-10% across the region. In Slovenia and Montenegro, Addiko Group has already reached its target market share. For the remaining countries, Addiko Group continues its gradual and disciplined rollout. There is ample space to expand until Addiko Group reaches its 10% market share.

15.3.5 Expanding digital capabilities and automation

The development of digital capabilities is an essential pillar for delivering Addiko Group's strategy. Digital enablement of sales and services to target customers allows Addiko Group to deliver increased convenience and speed, generate efficiency leading to cost optimization, and achieve a broader reach than through physical locations, primarily as the markets digital transformation will accelerate.

Addiko Group's digital transformation is centered around the following priorities:

- Servicing customers: implementing competitive, state of the art solutions for internet and mobile banking is central to properly serving customers in the digital space;
- Product readiness: establishing products in a way that is compatible with digital distribution, including calculators and other process elements that are specific to digital distribution so that, once regulations permit, end-to-end digital sales can be activated;
- Customer leads: Addiko Group also focuses on generating customer leads in the digital space;
- Processes: digitizing and automating processes is essential to delivering speed and convenience, while also reducing costs and increasing efficiency;
- Brand: Addiko Group's brand is positively perceived as young, modern and digital, with various features such as the simple, contemporary design, chat-bot feature available to customers, delivery of basic banking services through selected social media platforms and general presence in the social media space strengthening the digital dimension of the brand and digital marketing being a key part of the overall marketing strategy.

To ensure a focus on digital enablement and transformation, Addiko Group established a dedicated digital banking unit (17 FTEs organized as a Group shared service) and conducts several projects to increase the flexibility of the IT infrastructure. Projects targeting digital capabilities are customarily conducted in agile mode, accelerating the delivery of product features and providing a higher quality customer experience and interface.

15.4 Overview of Business Segments

Addiko Group's business is conducted through its five business segments, the Retail Segment, the SME Business Segment, the Large Corporates Segment, the Public Finance Segment and the Corporate Center Segment, which are steered via a harmonized group-wide governance structure. Banking products and services have been standardized, especially in the Retail Segment and the SME Business Segment, and are, particularly in the Large Corporates Segment, further tailored to better meet customer needs. The various banking products currently offered by the segments to Addiko Group's customers are described in more detail in the overview below.

15.4.1 Products Overview

15.4.1.1 Lending Products

Consumer loans

In line with Addiko Group's strategy to focus new lending business activities predominately on the Retail Segment's non-mortgage business, Addiko Group offers unsecured personal loan products for retail customers, with loan amounts ranging from EUR 500 to 40,000 and terms of six to 144 months.

For additional information on the products offered by the Retail Segment and the SME Business Segment, see *"15.5 Retail Segment" and "15.6 SME Business Segment"* below.

Credit cards

Addiko Group offers its customers credit cards that can be used on the internet, at selling points and ATMs at home or abroad. Customers do not need to have a deposit account with Addiko Group in order to apply for a credit card. Addiko Group's credit card products, aside from providing customers with a convenient payment tool that enables them to manage their short-term liquidity needs, also provide valuable insights into customers' financial behavior, enabling Addiko Group to develop propensity and credit risk models to facilitate further product cross-selling with limited risk. Addiko Group earns income on its credit card products from interest charges and various fees such as membership fees, foreign exchange fees, cash withdrawal fees, reminder fees, card replacement fees and interchange fees.

Addiko Group has a customer business agreement with Mastercard (see "*15.18 Material Contracts*") that, among other things, also includes product development and migration support. On the basis of this cooperation, Addiko Group is developing a new Mastercard credit card product, which will offer customers a modern payment instrument with a revolving credit facility and the option to repay card purchases via instalment plans, along with features such as 3D secure emblems, contactless payment and PIN over SMS. Migration of the old portfolio to new Mastercard products is ongoing and the benefits of this will be visible as the process progresses. As is customary with respect to credit card programs, the full credit risk in regards to customer payments remains with Addiko Group.

Overdraft

In relation to its current account offering, Addiko Group offers current account customers overdraft products, an unsecured financial facility tied to the current account that provides the client with a one-off and/or successive use on a revolving basis (each use of a loan reduces the available amount and each payment opens up space for new use) without having to require further approval from Addiko Group. To calculate appropriate overdraft limits, Addiko Group provides an estimate based on customer monthly income and dynamically manages limits based on the amounts paid into the accounts. Generally, Addiko Group charges no commitment fee on undrawn amounts, however, interest is payable in respect of overdrawn amounts, and on certain current accounts a monthly fee is payable once an account has a debit balance. Addiko Group does not offer overdrafts as a pure lending product, since overdraft utilisation is volatile and deteriorations in risk profiles are difficult to detect. Unlike unsecured loans, for which consumers gradually adapt their spending to accommodate monthly instalments, overdrafts do not induce a similar financial discipline with borrowers, making overdraft portfolios more exposed to economic cycles.

Mortgages

Since it no longer focuses on this product category, Addiko Group only offers mortgages on a highly selective basis. The mortgage products currently being sold are residential mortgages with a maximum duration of 30 years and maximum loan to value ratio of 90%. Addiko Group does not offer home equity or buy-to-let mortgage products.

Working capital loans

Working capital loans are short-term loans used to finance the working capital of legal entity and private entrepreneur customers, i.e. to increase turnover and income with a stable cash flow.

Investment loans

Investment loans are long-term loans for financing investment projects, manufacturing, equipment and other permanent working capital. They are offered by Addiko Group to legal entity and private entrepreneur customers.

Revolving loans

Revolving loans are loans in regards to which a bank makes a certain amount of funds available to legal entity and private entrepreneur customers to be used one-time or repeatedly (Addiko Group is obliged to provide such funds at first call). Every withdrawal reduces the available amount of the loan, while each repayment increases the amount available for subsequent use.

15.4.1.2 Deposit products

Customers of Addiko Group can choose between four types of savings products divided into two product groups. Avista deposits include current accounts with packages and savings accounts, while term deposits include saving plans and classic term deposits.

Current accounts and packages

Addiko Group offers stand-alone current accounts as well as account packages, available for PI and legal entity customers. These can receive regular or occasional inflows from home and abroad and can be used to make cash and non-cash payments in domestic and foreign currencies. Current accounts are charged a monthly administration fee and also transaction based fees. Account packages are offered in various levels: for increasingly higher monthly maintenance fees, more services are included, such as debit cards, free of charge ATM cash withdrawals, free of charge payments, SMS notifications, credit cards and overdrafts, and various insurance coverages.

Savings accounts

Savings accounts designed for PI customers combine the flexibility of a current account with a higher interest rate, while having more limited transaction types available to the customer.

Savings plans

Savings plans offer a solution for PI customers with regular, monthly savings needs, rewarding them with a bonus interest rate based on the length of the period during which they regularly increase the savings balance. With a minimum savings amount as low as EUR 10 per month, this product is also suitable for customers with lower amounts of available funds.

Term deposits

Term deposits represent depositing of available cash funds of the client for a defined period of time at certain interest rates. Term deposits are offered in Addiko Group’s branches at maturities generally ranging from 10 days to 5 years. A large majority of term deposits are contracted in local currencies, EUR and USD, other currencies consist a negligible part of Addiko Group’s term deposit balance. Early withdrawals incur a penalty fee.

Interest rates on current accounts, savings accounts and term deposits have been declining in recent years. The average interest rates for term deposits for the years ended December 31, 2018, 2017 and 2016 are set out below:

	For the financial year,		
Average interest rate of term deposits[1]	**2018**	**2017**	**2016**
		(unaudited)	
Term deposits of customers	-1.12%	-1.41%	-1.75%
Term deposits of credit institutions	-0.30%	-0.15%	-0.31%
Total term deposits	**-1.04%**	**-1.28%**	**-1.59%**

1 Calculated based on simple average of term deposits at beginning and at end of period for the respective year
(Source: Company information)

15.4.1.3 Banking Products

Payment services

Addiko Group offers payment accounts covering transactional, deposit and escrow accounts. Payment services provided by Addiko Group include credit transfers (incoming and outgoing), direct debits, FX exchanges, e-invoices, bulk payments (salaries, pensions, etc.), standing orders as well as cheques. To receive services, payment customers can choose between internet banking, mobile banking, web service and branches.

Debit cards

Addiko offers state of the art contactless debit MasterCard products to its customers. Besides offering secure online shopping with Mastercard SecureCode functionality, the card is standing out of the standard debit card products with its design – its

surface is tactile, it is perpendicularly oriented and scented. Customers generally have the option of being issued one debit card for each current account they hold. As of December 31, 2018, Addiko Group had issued approximately 604 thousand debit cards to Private Individuals and approximately 24 thousand debit cards to micro and corporate customers.

15.4.1.4 Guarantees and Letters of Credit

Guarantees

Guarantees are instruments securing fulfillment of payment or performance obligations, representing irrevocable obligations of the guarantor bank to pay to the beneficiary corresponding amounts within defined maximum guarantee amounts, if the beneficiary presents a complying demand for payment supported by other documents as specified in the guarantee, stating in what respect the applicant is in breach of his obligations under the underlying relationship. Bank guarantees are by their nature independent of the underlying relationship and the bank as guarantor is in no way concerned with or bound by such relationship. Guarantees are offered to legal entities and private entrepreneurs.

Letters of credit

A letter of credit is payment and security instrument in international business. A letter of credit represents an irrevocable obligation of the issuing bank to effect payment to the beneficiary upon presentation of documents stipulated by the letter of credit that are in compliance with the terms and conditions of the letter of credit. Letters of credit are by their nature independent of the underlying relationship and involved banks deal only with documents, not with goods, services or performance to which documents may relate. Letters of credit are offered to legal entities and private entrepreneurs.

15.4.1.5 Other Products

Bancassurance

The Retail Segment currently sells payment protection insurance to its customers with consumer loan products. Addiko Group only sells insurance products underwritten and administered by third parties, such as, travel health insurance, unlimited co-payments, accident insurance (and derives income from fees, commissions for referrals and profit-sharing arrangements) and does not underwrite its own insurance products.

Although the Retail Segment offers its payment protection insurance products to its consumer loan customers, it does not make purchasing such payment protection insurance products a condition for obtaining the relevant product. The term of Addiko Group's payment protection insurance products is the same as that of the underlying product.

Addiko also offers various insurance products bundled with current account packages and credit cards, such as home assistance, road assistance, accident, travel and health coverages.

In addition, Addiko Group is currently piloting stand-alone bancassurance products, such as accident, health and unit-linked products, and plans to roll them out across the Group if pilot programs are successful.

Addiko Group's strategic bancassurance partner is UNIQA International AG (***Uniqa***). A memorandum of understanding, which defines and provides the basis for the non-exclusive "preferred partner" bancassurance co-operation, was signed on January 24, 2018.

Documentary collection

Documentary Collection is an instrument for collection of international receivables whereby the seller instructs Addiko Group to deliver presented original documents (commercial and/or financial) to the buyer's business bank, including accurately defined instructions about payment and actions to be taken in case of non-payment. Involved banks act strictly in accordance with the seller's instructions without any responsibility or obligation for payment of presented documents.

Foreign exchange (FX) services

Several types of FX services are provided by Addiko Group to its customers, such as FX spot, FX forward, non-deliverable FX forward and FX swap. With FX spot, customers can purchase foreign currency based on a foreign exchange rate, which depends on the amount of the transaction. With FX forward, customers can purchase foreign currency based on preferential foreign exchange rates at a specified future date. Intended for protection of future monetary flows. With non-deliverable FX forward, there is no exchange of funds on the maturity date, but only the difference between the outright forward foreign exchange rate and reference foreign exchange rate, calculated on the contracted amount, is calculated and paid. FX swap or cross-currency swap is a contract between two counter-parties to exchange amounts in different currencies at agreed exchange rates. It represents two transactions, one of which is an FX spot - purchase (sale), and the other a FX forward - sale (purchase) of foreign currency.

Interest rate swap – IRS / interest rate risk protection

This product is used by purchasers to exchange variable (or fixed) interest rates for fixed (or variable) interest rates during a period longer than a year. It usually includes a principal amount (which is not exchanged, but serves only as basis for calculation) based on which Addiko Group pays to the customer (interest rate swap buyer) a regular variable (or fixed) interest rate, and the customer pays to Addiko Group a regular fixed (or variable) interest rate. This product enables customers to synthetically change loans from one with a variable interest rate (e.g. 3-month EURIBOR plus margin per loan) to one with a fixed interest rate (IRS fixed rate plus margin per loan). The product can even be quoted to follow the relevant loan in full (e.g., with respect to depreciation, calculation intervals, etc.).

Factoring

This product is offered in the form of a short-term financing for all businesses that have high-quality outstanding unsecured receivables. The customer sells to Addiko Group its claim for the goods sold or services performed prior to the maturity of the receivables.

15.4.1.6 New Services

In May 2019, Addiko Group launched a digital loan syndication platform unique in the Croatian and Slovenian market under the brand *Synddiko powered by Addiko Bank*.

The Synddiko platform (***Synddiko***), developed over the last nine months in cooperation with an Austrian based fintech, Finnest, combines modern digital banking and in-depth financial know-how with an innovative customer experience.

Synddiko creates opportunities for both large corporate borrowers and hand-picked institutional investors by providing instant, direct access to quality financial partners, interesting investment opportunities and leading companies in need of financing in the Croatian and Slovenian markets.

Synddiko facilitates Addiko Group's shift from its non-focus area to its focus area, specifically as regards its Large Corporates Segment loans, by creating a marketplace that enables Addiko Group to manage its Large Corporates Segment loan portfolio in a capital- and margin-conscious way. This includes the possibility of:

- attracting new Large Corporates Segment tickets with Addiko Group predominantly playing an arranger role while ensuring that the majority of the initially underwritten financing is sold post-closing on the secondary market via Synddiko; and
- selling-off existing Large Corporates Segment loans in Slovenia and Croatia, serving as an additional tool for smart RWA management.

This enables Addiko Group to manage its new or existing exposure, where legally possible, by releasing capital and liquidity to fund growth in its focus areas.

With Synddiko, Addiko Group will be able to offer institutional investors, many of them not present in the Croatian/Slovenian markets, the ability to participate in syndicated corporate loans where Addiko Group has chosen not to compete on loan pricing, due to its strategy of focusing on consumer and SME lending, while simultaneously benefitting from the generation of loan arrangement fees and transaction banking-related commission income for placements on the Synddiko platform, all over the course of the managed run-down of the non-focus area Large Corporates Segment portfolios.

Synddiko was developed with a focus on simple and straightforward banking. It plays well into Addiko Group's digital strategy of cooperating with fintech companies to keep investments low and using digital capabilities to leverage Addiko Group's existing Large Corporates Segment loan book.

15.5 Retail Segment

15.5.1 Segment Overview

The Retail Segment encompasses Addiko Group's higher margin consumer business activities relating to unsecured lending to Private Individuals, i.e., individual customers not representing a group, company, or organization, and Micro Customers, i.e., private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, deposit taking and the provision of payment services to such customers. Payments are important due to the frequency of interactions with customers, allowing cross-selling activities to be conducted and also ensuring reliable risk profiling of customers. They also support Addiko Group's strategy of establishing a meaningful commission income stream. Through its Retail Segment, Addiko Group continues to selectively provide mortgage loans to Private Individuals, although it does not consider mortgage lending to be a growth area in light of an inferior risk / return profile. While mortgage origination is not a focus area, Addiko

Group nevertheless dedicates appropriate attention and resources to optimally running down its mortgage portfolio. Specifically, while not targeting new-to-bank mortgage customers, retention activities are conducted for existing, performing loans on the basis of customer profitability. Similarly, standard mortgages might be extended on demand to salary deposit customers. Overall, newly written mortgages account for less than 10% of originations within the Retail Segment.

The Addiko Group's Retail Segment serves approximately 780 thousand (805 thousand) Private Individuals and approximately 32 thousand (33 thousand) Micro Customers through a network of 197 branches as of March 31, 2019 (December 31, 2018), and digital channels, such as online banking, mobile banking or chat banking in Viber.

The following table shows certain key financials and key data of the Retail Segment for the 2017 and 2018 financial years:

	For the financial year ended December 31,	
Profit or Loss*	**2018**	**2017**
(in EUR million)	**(audited)**	
Net banking income	159.7	141.2
Net interest income[1]	118.6	103.2
o/w regular interest income[2]	121.4	116.4
Net fee and commission income	41.0	38.1
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**159.7**	**141.2**
Operating expenses	-86.9	-89.4
Operating result	**72.8**	**51.8**
Change in CL	0.0	21.5
Operating result before tax	**72.8**	**73.3**
Business Volume		
Net loans and receivables[3]	2,048.2	2,078.2
o/w gross performing loans	2,060.5	2,026.7
Financial liabilities at amortised cost	2,756.9	2,770.8
Risk-weighted assets[4]	1,445.8	1,485.2

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 Includes only risk-weighted assets for credit risk without application of IFRS 9 transitional rules.

(Source: Audited Consolidated Financial Statements)

With respect to customers, customer numbers decreased from approximately 986 thousand as of December 31, 2016 to approximately 813 thousand as of March 31, 2019, which was mainly driven by the reduction of inactive customers. In regards to active customers (i.e., those customers using Addiko Group's products at least once during the respective period), customer numbers have increased from approximately 422 thousand as of December 31, 2016 to approximately 460 thousand as of March 31, 2019.

The following table shows the number of active and inactive customers of the Retail Segment for the financials years 2018, 2017 and 2016.

Customer numbers Retail Segment	**As of March 31,**	**As of December 31,**		
(in thousand #)	**2019**	**2018**	**2017**	**2016**
Active private individual customers	460	435	433	422
o/w registered mobile app users	130	120	84	58
o/w digital users	182	175	141	104
Passive private individual customers	291	338	437	486
Micro customers[1]	29	30	30	34
Micro customers – Private Individuals	29	31	39	40
NPE customer[s] - Micro	3	4	4	5
Total	**813**	**838**	**943**	**987**

1 Including active and inactive Micro Customers

(Source: Company information)

The tables below provides an overview of the Retail Segment's customer base split by products used, age and years of relationship with Addiko Group for the year ended December 31, 2018:

By number of products used	**1 Product**	**2 Products**	**3 Products**	**>4 Products**
Customers (only PI, not including Micro)	59%	24%	10%	7%

(Source: Company information)

By age	**<20 Years**	**20-30 Years**	**30-40 Years**	**40-60 Years**	**>60 Years**
Customers (only PI, not including Micro)	4%	11%	17%	40%	27%

(Source: Company information)

By years of relationship with Addiko Group	<1 Year	1-3 Years	3-6 Years	>6 Years
Customers (only PI, not including Micro)	6%	14%	11%	69%

(Source: Company information)

The following table presents the fee and commission income and expenses for the Retail Segment for the 2017 and 2018 financial years:

Net fee and commission income* (in EUR million)	For the financial year ended December 31, 2018	2017
	(audited)	
Transactions	9.6	10.2
Accounts and packages	16.2	15.0
Cards	11.7	11.5
FX & DCC	6.9	5.0
Securities	0.0	0.1
Bancassurance	3.2	1.4
Loans	1.2	1.1
Trade Finance	0.1	0.1
Other	1.4	1.3
Fee and commission income	**50.2**	**45.5**
Cards	-5.1	-4.0
Transactions	-2.6	-2.4
Clients incentives	-0.6	0.0
Securities	0.0	0.0
Accounts and packages	0.0	-0.2
Bancassurance	-0.2	-0.3
Other	-0.6	-0.5
Fee and commission expense	**-9.2**	**-7.5**
Net fee and commission income	**41.0**	**38.1**

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements)

The following table presents selected financial and operating information for the Retail Segment, broken down by country, as of and for the 2018 financial year:

Country (in EUR million)	Net banking income	Operating result before tax	Net loans and receivables[1]	Gross performing loans	Financial liabilities at amortised cost	Risk-weighted assets[2]
			(unaudited)			
Croatia	64.1	46.8	778.5	760.3	1,354.1	547.3
Slovenia	31.5	15.7	606.1	618.8	462.9	419.1
Serbia	25.6	4.0	264.0	280.0	355.9	175.9
Bosnia & Herzegovina	29.6	5.4	279.2	280.9	468.8	211.9
Montenegro	8.9	3.1	120.3	120.4	115.2	91.6
Company and consolidation	-	-2.4	-	-	-	-

1 Gross carrying amount of loans and receivables less expected credit loss allowance.
2 Includes only risk-weighted assets for credit risk without application of IFRS 9 transitional rules.
(Source: Company information)

The Retail Segment's objective is to offer simple and straightforward financial services solutions for everyday banking through a mix of branches and digital channels. To respond to customers' digital preferences, the Retail Segment and Addiko Group's IT department jointly manage the group shared service "digital banking", which also provides digital services for all other segments throughout Addiko Group's countries of operation.

In particular, the Retail Segment is responsible for the following tasks: (indicate that Group functions are discussed further below)

- **Sales, Distribution & Customer Experience**: the Retail Segment oversees the branch network, as the main distribution channel, the contact centers and the other alternative sales and service channels. It also coordinates the implementation of the sales force effectiveness and sustainability effort. The team is headed by Addiko Group's head of sales, distribution and customer experience, who is situated in Austria and works with locally based counterparts in each of the countries served by Addiko Group, with the majority of sales management team functions distributed throughout such countries.
- **Product Management**: develops and manages Addiko Group's portfolio of customer products. Addiko Group is targeting a high level of product standardization to achieve synergies and expedite speed of product implementation. This unit also coordinates product management and product development across all countries served by Addiko Group and provides steering with respect to pricing and profitability. Product management is managed out of Austria and works with the local teams in all the relevant countries, with the majority of product teams situated in Croatia.
- **Customer Value Management**: maximizes value from planned customer interactions, executes all direct marketing campaigns to increase customer product penetration and activity levels, develops and manages all communication channels and assures the best utilization of the existing customer base to ensure alignment with overall bank goals.

Moreover, predictive models are used to anticipate customer needs based on behavioral data, next best offer and activity, utilization, activation and churn prevention, plus customer data sourcing is managed for analytical and campaign purposes. The customer value management team is located in Serbia and works with locally based counterparts in each of the countries served by Addiko Group.

- **Micro business**: develops and manages Addiko Group's micro business services for legal entities and entrepreneurs up to EUR 0.5 million annual turnover. This unit coordinates sales models, product management and customer service relating to micro businesses and is managed out of Montenegro.
- **Digital**: develops and manages Addiko Group's digital customer assets, such as e-banking, m-banking, Viber chat banking and public websites. In addition, the unit also develops digital customer acquisition channels and digital marketing solutions. The unit is located in Serbia.

To support its operating model and focus its internal organization on its key strategic business areas, Addiko Group relies on fewer and stronger strategic partnerships than a typical banking group.

The Retail Segment has a strong central governance that ensures consistency of the business model, speeds up the implementation of best practices and maximizes synergies among the subsidiary banks of Addiko Group. Addiko Group's sales, distribution & customer experience department oversees the branch network, as the main distribution channel, the contact centers and the other alternative sales and service channels. Addiko Group's product management department develops and manages Addiko Group's portfolio of consumer products and ensures the optimal level of product standardization and expedited product implementation as well as providing steering with respect to pricing and profitability. Addiko Group's customer value management department maximizes value from customer interactions, executes all direct marketing campaigns, develops and manages direct communication channels and assures the best utilization of the customer base. Addiko Group's marketing department manages branding and marketing campaigns across the entire Addiko Group via one central marketing team.

15.5.2 Key Strategic Objectives

The focus of the Retail Segment is towards unsecured lending and daily banking services, serving Private Individuals and Micro Customers. The customers targeted by the Retail Segment are young to middle-age customers with stable employment in the private or public sector and a good credit history. The average monthly income of Addiko Group customers in each of Addiko Group's countries of operation is close to the national average monthly income for the respective country.

Addiko Group conducts a limited range of services for Micro Customers focus primarily on transactional and current account services, with lending conducted only occasionally, mainly for working capital purposes. For underwriting, Addiko Group utilizes SME standards and, whenever possible, information derived from Micro Customers' transactional activity in Addiko Group bank accounts. The products offered to Micro Customers (mostly account packages, payment cards and basic working capital loans) are based on the standard suite of products of the Retail Segment or SME Business Segment, with minimal adaptations for the purpose of serving this customer group. Addiko Group conducts this marginal activity primarily to generate low cost funding and commission income.

The geographical reach of Addiko Group's business and its homogenous architecture in providing digital channels enables it to drive growth in the Retail Segment throughout CSEE.

Addiko Group aims to build a sustainable, competitive advantage in unsecured lending and providing a superior customer experience in daily banking services. Addiko Group is a specialist of unsecured lending through best in class lending processes, risk management, and innovative new sales channels and approaches. With respect to daily banking, Addiko Group aims to differentiate itself from the competition through superior online and mobile banking services, innovative banking channels, such as Viber, and innovative ways of helping customers manage their daily financial needs, for instance by giving them the ability to utilize various types of payment methods. Additional digital sales and service channels, such as virtual branch in Croatia and mobile-loans in Serbia, are in development and are expected to start pilot programs during the first quarter of the financial year 2019.

The digital transformation of Addiko Group's retail business model represents a key strategic focus. In line with the overall approach to digital of Addiko Group, retail digital transformation addresses four specific areas: servicing customers, product readiness, digitalization of processes and the digital content of the brand.

To support modern servicing of customers, Addiko Group re-launched entirely new internet and mobile banking concepts, based on the latest standards of user interface and user experience. Solutions such as photopay and introduction of chat services are examples of how Addiko Group introduces continuously improving servicing standards.

Addiko Group focuses particularly on selling standardized products (unsecured loans and account packages) over digital channels, in line with specific restrictions/limitations of the individual markets. Products are accessible through digital, allowing simulations where appropriate, end-to-end sales where legally possible, and lead generation. Various marketing techniques are tested and applied in the digital space, either through dedicated digital sales initiatives, or in combination with traditional media communication.

Standardizing, digitizing and automating processes are the key pillars of the consumer lending strategy. A state of the art loan application processing system combined with a credit decision engine has been rolled out in Addiko Group subsidiaries in Serbia, Bosnia & Herzegovina and Montenegro, with Croatia and Slovenia to follow. This allows Addiko Group to standardize underwriting and credit decisions, an essential step for ensuring portfolio quality and applying champion / challenger strategies for the continuous improvement of its risk-reward balance. Also as regards processes, loan offers directly embedded in the mobile bank application and digital access to customers' transactions through other banks represent significant advances of Addiko Group's digital transformation and will be rolled out across all markets as appropriate.

Content delivery through social media, support of regular communication through digital, and implementation of features such as chat pay over Viber, chat bot, branch designs compatible with the digital age – all such features contribute to the strengthening of the digital dimension of Addiko Group's brand.

15.5.3 Key Products

As of December 31, 2018, the Retail Segment served approximately 838 thousand customers with approximately 936 thousand current, savings or deposit accounts. Approximately 280 thousand of these customers are borrowers of Addiko Group (of whom 247 thousand also had a current, savings or deposit account with Addiko Group).

True to its strategic principle of "focusing on the essentials", the Retail Segment offers Private Individuals and micro businesses the following key products:

- Lending products: consumer loans, credit cards, mortgages, overdrafts
- Deposit products: current accounts, savings accounts, savings plans and term deposits
- Banking products: payment services and debit cards
- Other products: Bancassurance

Lending Products

The table below sets out the Retail Segment's net loan portfolio by business as a percentage of the total net loans and receivables and as a percentage of the total gross performing loans of the Retail Segment at March 31, 2019:

As of March 31, 2019	**Percentage of total net loans and receivables**	**Percentage of total gross performing loans**
	(unaudited)	**(unaudited)**
Consumer Business	58.3%	59.2%
Mortgage Business	41.7%	40.8%

(Source: Company information)

The table below sets out the net banking income of the Retail Segment for its retail loan businesses for the year ended December 31, 2018:

As of December 31, 2018	**Net banking income**	**Percentage of total**
	(in EUR million) **(audited)**	
Consumer Business	135.2	84.7%
Mortgage Business	24.5	15.3%

(Source: Audited Consolidated Financial Statements and Company information)

Consumer Loans

The following provides a summary overview of Addiko Group's consumer loan products, including key features of each:

	Consumer Loans		
	Fast Cash Loans	Payroll Loans	Consolidation Loans
Description	Unsecured loan	Unsecured loan for customers with salary deposited in the bank	Personal loan to service outstanding debts through a single monthly repayment
Average ticket size	~ EUR 3.6 thousand	~ EUR 8.0 thousand	~ EUR 18.0 thousand
Approval rates	39%	55%	41%
Interest rate	Min: 7% Max: 15% Fixed	Min: 4% Max: 13% Fixed and variable	Min: 6% Max: 8% Fixed and variable
Maturity	Min: 12 months Max: 60 months	Min: 6 months Max: 120 months	Min: 6 months Max: 144 months
Digital orientation	Yes	Yes	N/A
Offered in all countries	Yes	Yes	Yes

(Source: Company information)

As of March 31, 2019, the Retail Segment's consumer loan portfolio (Consumer Business) totalled EUR 1,229.1 million gross performing loans compared to 1,187.8 million gross performing loans as of December 31, 2018, EUR 1,027.8 million gross performing loans as of December 31, 2017 and EUR 774.0 million gross performing loans as of December 31, 2016. Consumer loans are usually taken by customers for home improvement projects, family emergencies, vacations, car repairs and replacements, or debt consolidation. Overall, approximately 80% of the consumer loans relate to fast cash & payroll loans and approximately 20% to consolidation loans as of December 31, 2018. Consolidation loans are designed to allow the customers to reduce their monthly loan repayments on existing obligations by refinancing them on a longer loan term, typically also with a lower interest rate. Consolidation loans require a transfer of customers' salary to Addiko Group and a refinancing of all existing unsecured obligations with new cash in loan amount of 25% or up to EUR 5,000 (whichever is greater). They are approved based on stable instalment, calculated based on regularly paid instalments from the past 6-12 months as recorded by the respective credit bureau.

Consumer lending is a key focus area of Addiko Group and it aims to differentiate itself from the competition via delivering simplicity and convenience. Wherever legally possible, Addiko Group aims to serve its loan customers within a single 15-minute visit.

To support this strategy, Addiko Group is investing heavily in creating a market-leading lending process with a very high level of automation and digitalization. Addiko Group believes this provides a superior customer experience and a high level of flexibility for sales personnel. The process integrates optical or digital ID reading, printing contracts and other loan documents directly from the application system, automated integration of various data sources and automated disbursements, all of which is designed to allow customers to complete the loan application, contract and disbursement process with a single visit to one of Addiko Group's branches. The lending process is supported by a proprietary application processing system that is integrated with credit bureaus as well as by a high performance credit decision engine. This application processing system also enables Addiko Group to develop different physical and digital distribution channels to deliver services to its target customers, such as express branches, kiosks and virtual branches (i.e., fully digital bank services offering account openings, simple loans etc.). The system has been implemented in Serbia, Bosnia & Herzegovina and Montenegro, while implementation in Croatia and Slovenia is in progress.

Implementing this streamlined application process in Serbia and Bosnia & Herzegovina reduced the time needed by sellers to administer the client requests to less than half the previous amount of time required. Depending on the complexity of the request and whether it is an existing client or a new one, the entire process typically takes five to 15 minutes in these countries. An additional benefit of the streamlined application process was the reduction of the average time to decision from 17 hours to six hours in Serbia and from above 40 hours to below 10 hours in Bosnia & Herzegovina.

In Serbia, by the end of 2018, the percentage of automated decisions reached over 55% and the rework rate was reduced to 10% from above 40% prior to the introduction of the streamlined application process. A similar level of automation and processing efficiency is expected in Addiko Group's other countries of operation once the streamlined application process is implemented there as well.

Credit cards

Addiko Group credit cards are a convenient payment tool that enables customers to manage their short-term liquidity needs and can be used on the internet, at selling points and ATMs at home or abroad. Retail Credit card limits generally range up to EUR 5,000 with fixed or variable interest rates between 8% to 17% and grace period of 10-15-20 days. Addiko Group earns income on its credit card products from interest charges and various fees such as membership fees, foreign exchange fees, cash withdrawal fees, reminder fees, card replacement fees and interchange fees. For Private Individuals the domestic point-of-sale interchange fees in Slovenia, Croatia and Serbia are on the level of the EU regime for debit cards (0.20%) and for

credit cards (0.30%) while in Bosnia & Herzegovina and Montenegro they are up to 1.70% for debit cards and 1.90% for credit cards.

Currently, the card portfolio is a mix of revolving credit cards, charge cards and instalment cards. In order to simplify its product portfolio and infrastructure, Addiko Group has agreed to a strategic partnership with Mastercard and is in the process of consolidating its card portfolio on Mastercard products. After the development and migration process has been completed, Addiko Group will have reduced the number of its debit and credit card products from around 100 to a target of 30 across the Group. Key factors supporting Mastercard as a strategic partner were the demonstrated ability to support Addiko Group as a group as opposed to country-based collaborations, the commitment to expedite the product development and certification process, and the financial support to partially cover the costs of product upgrades. The new Mastercard products will offer customers modern payment instruments with a revolving credit facility and the option to repay card purchases via instalment plans, along with features such as 3D secure emblems, contactless payment and PIN over SMS. By combining instalment and revolving functionalities, the new Mastercard products will allow Addiko Group to consolidate the various credit, instalment and charge card contracts on a single card product for each Addiko Group subsidiary bank.

As of March 31, 2019, Addiko Group had 79 thousand clients owning a credit card. The number of clients owning a credit card amounted to 81 thousand for the year ended December 31, 2018.

Overdraft

Customers that receive their salary on an Addiko Group current account can also qualify for an overdraft product, an unsecured financial facility with a one-off or successive use on a revolving basis. Overdraft limits are dynamically managed based on the income inflow and range from EUR 50 to EUR 5,000 with fixed or variable interest rates between 7% to 29%

Generally, Addiko Group charges no commitment fee on undrawn amounts. However, interest is payable in respect of overdrawn amounts and, on certain current accounts, a monthly fee is payable once an account has a debit balance.

As of March 31, 2019, there were 163 thousand current accounts in Addiko Group's overdraft portfolio, compared to 164 thousand accounts as of December 31, 2018.

Mortgages

Addiko Group offers mortgages on a selective basis, mostly to existing salary customers. The mortgage products currently being sold are residential mortgages with a maximum duration of 30 years and maximum loan to value ratio of 90%. Addiko Group does not offer home equity or buy-to-let mortgage products.

Addiko Group's mortgage loan book consisted of EUR 846.7 million gross performing loans as of March 31, 2019, compared to EUR 872.7 million loans as of December 31, 2018, EUR 998.9 million gross performing loans as of December 31, 2017 and EUR 1,163.1 million gross performing loans as of December 31, 2016.

Deposit Products

Consumers are the focus of Addiko Group's deposit business, as such business tends to have greater stickiness (less fluctuation of customers), lower concentration profiles and lower interest rates compared to the business of the Large Corporates Segment and Public Finance Segment. Addiko Group has focused on simplifying its consumer deposit product structure. This has resulted in significantly fewer products, maturities and currencies offered, and a significantly cleaner portfolio, with legacy products being discontinued. At the same time, profitability has improved due to decreased interest rates with a deposit book that has remained stable.

Customers of Addiko Group can choose between four types of savings products divided into two product groups. Avista deposits include current accounts with packages and savings accounts, while term deposits include savings plans and classic term deposits.

As of March 31, 2019, financial liabilities at amortised costs for the Retail Segment amounted to EUR 2,759.0 million, EUR 2,756.9 million as of December 31, 2018, and EUR 2,770.8 million as of December 31, 2017

Current accounts and packages

Addiko Group's current accounts and account packages enable Private Individuals to receive regular or occasional cash inflows from home and abroad and to make cash and non-cash payments in domestic and foreign currencies. Current accounts are charged a monthly administration fee and also transaction based fees. Account packages focus on attracting regular income depositing and provide convenience through single fee for a range of products. They are offered in various levels: for increasingly higher monthly maintenance fees, more services are included, such as debit cards, free-of-charge ATM cash withdrawals, free of charge payments, SMS notifications, credit cards and overdrafts, and various insurance coverages.

For the Retail Segment's current accounts, monthly maintenance fees ranged from no fee (for students and as a campaign offer) to EUR 3.00 per month in the financial year 2018, while for packages monthly maintenance fees ranged from EUR 2.50 to EUR 14.00 per month in the financial year 2018.

Customers generally have the option of being issued one debit card for each current account they hold. As of December 31, 2018, Addiko Group had issued approximately 604 thousand debit cards (to Private Individuals, excluding Micro Customers). Addiko Group offers state of the art contactless debit Mastercard products to its customers. Besides offering secure online shopping with Mastercard SecureCode functionality, the card also sets itself apart from other card products through its physical design (e.g., surface characteristics, perpendicular orientation and even scent).

Savings accounts

Savings accounts designed for Private Individuals combine the flexibility of a current account with a higher interest rate, while having more limited transaction types available to the customer.

Savings plans

Savings plans offer a solution for Private Individuals customers with regular, monthly savings needs, rewarding them with a bonus interest rate based on the length of the period during which they regularly increase the savings balance. With a minimum savings amount as low as EUR 10 per month, this product is also suitable for customers with lower amounts of available funds.

Term deposits

Term deposits allow customers to deposit available cash funds for a defined period of time at certain interest rates. Term deposits are offered in Addiko Group's branches at maturities generally ranging from 10 days to five years with the current average term deposit maturity being 1.6 months as of December 31, 2018. The vast majority of term deposits are contracted in local currencies, EUR and USD, with other currencies making up a negligible part of Addiko Group's term deposit balance. Early withdrawals incur a penalty fee.

Addiko Group's term deposits for Private Individuals have low concentrations, with the top 10% of term deposit customers making up 52.3% of the overall term deposit volume as of December 31, 2018.

Other Products

Bancassurance

Addiko Group distributes insurance products mostly through branches. Addiko Group's primary bancassurance product is payment protect insurance (*PPI*) and a majority of bancassurance commission income in the financial year 2018 was the PPI product commission income. In total, EUR 3.2 million of fee and commission income from bancassurance was collected by Addiko Group in the financial year 2018. Addiko Group also offers various insurance products bundled with current account packages and credit cards, such as home assistance, road assistance, accident, travel and health coverages.

In addition, Addiko Group is currently in the pilot phase of certain stand-alone bancassurance products, such as accident, health and unit-linked products, and plans to roll those out across the Group if the pilot programs are successful.

Furthermore, Addiko Group has consolidated its bancassurance business with Uniqa to standardise bancassurance across the Group, reduce the number of external interfaces and systems and ensure better field support. A memorandum of understanding establishes the framework, procedures, principles and guidelines with respect to jointly defined bancassurance services to be developed and offered to Addiko Group's customers relating to insurance products tied to lending products, current accounts and cards and risk insurance products. Uniqa products have been launched in all countries during the financial year 2018 and once the Uniqa product rollout is completed, Addiko Group will have reduced the number of 3rd-party insurance providers from around 10 to one, with practically all bancassurance products to be provided by Uniqa. Uniqa was chosen as a strategic partner for the readiness to manage the relationship via a single regional business contact, for their demonstrated ability to govern product development centrally supporting Addiko Group and for their commitment to support Addiko Group with dedicated field support focusing on sales training and quality control.

15.5.4 Retail Distribution

Addiko Group has an extensive retail network comprised of 197 branches as of March 31, 2019 (198 branches as of December 31, 2018) throughout its countries of operation, which include 447 sellers and 458 tellers, with approximately 813 thousand customers served and an average of approximately 4,000 retail customers per branch as of March 31, 2019, with the largest branch serving 15,300 retail customers in Croatia (branch Đakovo). The table below sets out distribution of branches by country:

Country	Branches
Croatia	56
Serbia	38
Slovenia	20
Bosnia & Herzegovina	71
Montenegro	12

(Source: Company information)

Branch locations are predominately located in urban areas with less presence elsewhere. Approximately 50% of its branches are located in towns with populations of 50,000 people.

The Finalta CEE Sales Effectiveness Benchmark Study conducted in 2018 using the 2017 results of both the Serbian and the Croatian Addiko Group entities found that Addiko Group's strong new-to-bank customer acquisition was predominantly driven by high personal loan sales. Both entities registered values of new-to-bank acquisition through the sale of personal loans higher than the market average, with the Croatian entity being above the Central European averages and the Serbian entity above the South Eastern European averages (the markets that Finalta compared each of them to). Another key finding in the study was the high level of the personal loan sales per salesperson in Croatia, which was well above average Central European levels, while savings account sales per sales person in Serbia were well above South Eastern European levels.

Addiko Group branches are responsible for generating approximately 95% of all sales, through both the branch and the bank-at-work channel. Due to the introduction of the bank-at-work acquisition channel, the branches' contribution decreased from 99.6% in 2016 to 95% in 2017 and to 79% at the end of 2018. The rest of the contribution came from the digital channel, which Addiko Group expects to grow to 10% in the short-term and over 20% in the medium term. Most of the current digital contribution comes from unsecured loans generated in a digital channel but completed (disbursed) in the branch network. Both sales and service contributions have steadily shifted in the last three years from branches towards bank-at-work and digital channels.

The Retail Segment gains customers primarily through branches. Alternative sales channels are currently in development and therefore, in the coming years, Addiko Group expects an increased contribution from alternative touchpoints (such as express facilities with fewer FTEs and more self-service multi-functional machines, virtual branches, teams of skilled sellers), digital channels and partnerships with third parties. Addiko Group's branches do not solely rely on walk-in customers but also engage in proactive, external activities. These include micromarketing activities in which branch teams organise small events for their customers (inside or outside the branch) or participate in local events/fairs, thereby increasing Addiko Group's brand visibility in the general public and connecting with current and potential customers.

Outside-the-branch activities also include the bank-at-work channel in which branch team members use mobile equipment to go to the headquarters of corporate companies and public institutions with whom Addiko Group has an agreement to service and address the banking needs of their employees directly at the place of work, with a product offering focusing largely on current account packages, primary accounts and unsecured loans. Employers can thereby offer better employee care at no cost to the employer, with employees receiving the benefit of convenient and straightforward daily banking on-site and the ability to complete a loan application process without having to visit an Addiko Group branch.

The target objective for the bank-at-work channel is a contribution of 20% of total sales. Based on current internal assessments, the best positioned Addiko Group entity in this regard is the one in Serbia, where the project originally started, with a sales contribution of approximately 30% of total sales. The number of bank-at-work arrangements currently in place across Addiko Group is over 1,500, most of which are already being visited by Addiko Group's branch staff.

The ongoing branch optimization consists primarily of migrating branches from rural to urban areas and converting more 'traditional' branches to express branches, which allow fully self-serviced lending, from loan applications processed on-the-spot to loan disbursements, all while operating through simpler, more digitally compatible processes. More customers are to be reached through expanding services such as bank-at-work and continued investment in digital channels.

In addition to express branches, Addiko Group also is testing the kiosk concept (easy relocatable branches), which would be available for short periods of time in places with increased traffic (such as shopping centers).

The Retail Segment also distributes and markets products and services to customers through digital channels. Addiko Group's digital channel sales volume for the year ended December 31, 2018 was 3.8% of sales, as compared to 1.7% for the year ended December 31, 2017 and 0.4% for the year ended December 31, 2016. The new unsecured loans to consumers generated through digital channels increased from EUR 1.9 million for the year ended December 31, 2016, to EUR 9.8 million for the year ended December 31, 2017 and EUR 22 million for the year ended December 31, 2018. Addiko Group's customers are able to conduct digital banking transactions via Addiko Group's digital banking offerings and, as of December 31, 2018, there were approximately 175,000 unique digital users (digital users of either internet banking, mobile banking, or both). In terms of service penetration (number of transactions), 65% of transactions were performed via digital channels for the year ended December 31, 2018 (up 12% from 2016). In addition, non-customers are able to find out details and apply for Addiko Group's consumer products via specific Addiko Group landing pages, which consists of interactive calculators, contact forms and a multichannel acquisition platform / chatbot that performs sales dialog with a focus on the products provided in each particular market. In addition, Addiko Group is using lead magnet campaigns / gamification to attract and inspire the people who are consuming specific content and convert them into customers with advanced mail automation and nurturing mail tactics. For the year ended December 31, 2018, EUR 22 million of unsecured loans to consumers were generated via Addiko Group's digital points (multichannel acquisition platform / chatbot, contact forms and lead magnet campaigns). In the past two financial years, Addiko Group was able to double its digital customer base, while also improving and unifying digital banking for customers of the Retail Segment, SME Business Segment and Large Corporates Segment. In addition, in February 2017, Addiko Group started implementing chat banking on Viber as one of the first banks in the world to include banking services

on the world renowned messaging and voice platform Viber. Addiko Group's digital platforms currently generate 4.2% of Retail Segment sales, but Addiko Group expects them to generate 10% in the short-term and over 20% in the medium term.

Addiko Group's contact center has an essential role in servicing customers, accelerating cross-sell activities, improving customer care programs and digital acquisition. Since mid 2017, Addiko Group has centralised the contact center approach on the Group level, keeping operational activities local, while centrally ensuring a homogeneous and standardised level of service and quality.

The contact center has gradually increased the number of sales related calls (outbound campaigns), now representing approximately 39% of all calls. At the same time, the number of service requests in the contact center has gradually decreased, as digital service capabilities have been developed. The following table presents the development of outbound and inbound calls for the financial years 2016 to 2018:

Outbound vs. inbound calls (in thousand #)	**2018**	**2017**	**2016**
Inbound calls	431	468	437
Outbound calls	279	239	180
Total	**711**	**707**	**617**

(Source: Company information)

In addition, Addiko Group had a network of 560 ATMs as of December 31, 2018. Addiko Group has agreed to outsource its ATM fleet to Asseco and, as a benefit, received upgraded machines and new functionalities. The following table presents the number of ATMs inside and outside of Addiko Group's branches:

ATM inside and outside of Addiko Group's branches (in thousand #)	**2018**
ATMs inside branches	204
ATMs outside branches	356
Total	**560**

(Source: Company information)

Although the bank plans to rely increasingly on the digital channels, it will still count on the branch network contribution to a large extent. Nevertheless, Addiko Group's long-term strategy is to have less physical space and more touchpoints. Addiko Group has reduced the branch footprint more than local competitors in the last few years. Hence, Addiko Group is better positioned as it has already trimmed, while the competition is now merely in the process of doing so. The Finalta CEE Sales Effectiveness Benchmark 2018 Study showed that Addiko Group is operating with a lower number of FTEs per branch as compared to the averages in the local markets and Central European and South Eastern European markets.

The medium-term plan is not to replace traditional branch operations but to integrate them into the digital environment. The virtual branch in Croatia was launched in January 2019, which brings the physical branch into the virtual universe. Addiko Group is taking an important step towards gaining customers' trust regarding the future delivery of the same quality service and security through internet/mobile banking as is provided now in physical branches. The virtual branch (digital bank offering account opening, simple loans etc.) supports the existing transition elements that get customers acquainted with the use of technology in banking: lead-magnet digitally-lead marketing campaigns, express branches, kiosks and the digital corners integrated in the regular branches. Express branches allow fully self-serviced lending, from application to disbursement. The loan application is processed on the spot, with approximately 70% decided automatically on the spot, and the rest of the applications transferred to underwriting. Multiple branches are equipped with a digital corner where customers can conduct self-service activities (similar to those available on internet/mobile banking). Both, the express branch and kiosk concepts, operate with lower numbers of staff and with digital technology which replaces the teller role.

Being an agile organization helps Addiko Group to limit the physical space used by countering with extending the sales force capabilities. This will keep the number of FTEs constant and encourage branch role shifts, allowing the keeping of a limited number of people per branch. Addiko Group's mid-term plan is to increase the sales force, not in the form of physical presence but with extending the types and number of touchpoints. The footprint will slide into a decreasing trend, while the FTE pool will continuously transform towards a higher concentration of sales expertise, with a part of tellers moving to seller's positions, the testing of the universal banker concept, and the forming of so-called 'hunter' teams out of the best sellers to become the tip of the spear for the bank-at-work channel growth.

Addiko Group also experiments with a wide range of innovative marketing concepts and ideas to reach its target customers more effectively. For instance, Addiko Group organized a Group-wide marketing campaign to acquire new current account customers who would transfer their salaries to Addiko Group accounts. During the campaign, prospective customers were offered a reward for trying Addiko Group's services and were promised an additional amount 12 months later should they be dissatisfied and terminate their contract. The campaign allowed Addiko Group to demonstrate its confidence in its own services and resulted in 13,000 customers agreeing to transfer their salaries to an Addiko Group bank account. During the financial year 2018, Addiko introduced the concept of "red days", short one-day promotions featuring a very attractive offer valid only on that day. The objective of these promotions, more than simply to drive volume, is to further differentiate Addiko Group from traditional banks and establish a more retailer-like image. Communication is focused on digital channels, social

media, and branch-based activities. The Group believes these campaigns generated excitement in the branches and positive word-of-mouth, and, as a result, Addiko Group plans to continue these promotions in the future. Addiko Group also recently piloted a member-get-member program in Serbia pursuant to which existing customers were offered rewards for recommending Addiko Group services to their acquaintances. If successful, the program may be rolled out in Addiko Group's other countries of operation as well. In addition to national marketing campaigns, Addiko Group also uses cost-effective, sales-focused digital campaigns, such as raffle promotions and quiz games on social media.

While third parties are not widely used to acquire customers and originate loans (with only about 1% of the annual consumer loan disbursements generated through third parties, such as retailers originating sales finance loans), Addiko Group's standardized products and lending processes as well as its integrated risk decision engine are well suited for third party origination.

15.6 SME Business Segment

15.6.1 Segment Overview

The SME Business Segment focuses on serving customers with an annual turnover ranging from EUR 0.5 million to EUR 40 million. Addiko Group offers a full range of banking products in this focus segment as it provides a higher margin business and also a higher commission income than large corporate banking, project finance and public finance opportunities.

Through the SME Business Segment, Addiko Group seeks to support the "real economy", consisting of manufacturing, production, trade, agriculture and tourism businesses with a proven cash flow producing track record, by offering a full suite of products. The focus is, in particular, on simple, standardised lending products and trade finance services offered to its approximately 12,000 SME clients in the CSEE region. The average ticket size of loans in the SME Business Segment is approximately EUR 234 thousand. All SME clients are served by relationship managers, which are located in 38 SME business centers (co-located within the retail branches) across Addiko Group's countries of operation. In total, there are 123 relationship managers with defined portfolio of existing and target customers and 32 financial analysts assigned to customers with lending products.

The following table provides an overview of Addiko Group's cash flows across the region (% of payment volumes):

Country	within Addiko Group's region	EU (excluding Germany, Italy, Austria)	Germany, Italy, Austria	Rest of world
(unaudited)				
Croatia	18%	23%	45%	14%
Slovenia	7%	26%	58%	9%
Bosnia & Herzegovina	46%	19%	20%	16%
Serbia	18%	30%	27%	25%
Montenegro	51%	18%	22%	9%

(Source: Company information)

The average payment volume per ticket amounts to approximately EUR 16.2 thousand for Addiko Group and to approximately EUR 15.2 thousand and approximately EUR 19.5 thousand for Addiko Group's entities within the EU and outside the EU, respectively.

In particular, the SME Business Segment is responsible for the following tasks:

- **Sales Development:** develops and drives execution of SME strategy, oversees the SME network and supports SME sales activities. The function is located in Austria and works with the local SME teams in all countries.
- **Process & Pricing:** guides all business process changes that involve the SME team. This function actively works across countries to ensure efficiencies and standardisation of business processes (e.g. the credit process) in order to align banking operations with overall business strategy. The function is headed by the head of corporate pricing & processes, who is based in Austria.
- **Customer Experience & Digitalisation:** enhances the experience of Addiko Group's corporate customers by running digital initiatives and activities, such as upgrading the online/mobile banking experience. All activities follow a customer-first approach by focusing on providing a best-in-class customer experience and staying true to Addiko Group's simple and straightforward approach. Located in Austria, the function works closely with the digital banking team as well as possible external partners (e.g. FinTechs).
- **Product Development:** provides analysis and management of the SME Business Segment's product catalogue across all of Addiko Group. This function undertakes market analysis, defining new products and services as well as their implementation; analysis of product applicability to the markets; standardization of the product catalogue; monitoring implementation and results; analysis of trade finance products and services provided through internet banking and

introducing new functionalities for customers; setting up business cases and monitoring profitability of different products. The function is based in Croatia and works across all of Addiko Group's countries of operation.

In 2017, customers of the SME Business Segment were categorized into two customer types in an effort to provide them a more tailored service. The first type of customer is a typical owner/employee of a small company, in many cases the next generation owner of a family-owned business who is responsible for the financial matters of the company. This type of customer is typically tech-savy, judges his/her banking experience based on the speed and convenience of its services and is interested in performing his/her daily banking activities via digital channels (online and/or mobile banking). Addiko Group targets this customer type by adding more self-service capabilities to its online banking channel and by focusing more on the digitalization processes in order to be able to provide such customer with a faster and more convenient banking experience.

The second type of customer is the owner/employee of a medium/large company who is keen on growing his/her business. This type of customer wants his/her bank to proactively provide insights into his/her business performance and advise him/her how to manage and grow his/her company. Typically, this type of customer prefers being served via the branch or in close contact with his/her relationship manager. Digital channels mainly have an informative character, but are hardly used to apply for new banking products or to utilize self-service capabilities. Addiko Group caters to this type of customer by improving processes in the branch so the relationship managers in the network have more time to provide financial advice instead of being occupied with administrative tasks.

The SME Business Segment is divided into a small business sub-segment (i.e., businesses with an annual turnover ranging from EUR 0.5 million to EUR 8 million) and a mid-market sub-segment (i.e., businesses with an annual turnover ranging from EUR 8 million to EUR 40 million). Senior relationship managers are responsible for serving mid-market customers while relationship managers are responsible for serving small business customers. Addiko Group uses the same approach and segmentation criteria in all of its countries of operation, which facilitates the standardisation of processes.

The following table shows certain key financials and key data of the SME Business Segment for the 2017 and 2018 financial years:

	For the financial year ended December 31,	
Profit or Loss*	**2018**	**2017**
(in EUR million)	**(audited)**	**(audited)**
Net banking income	38.1	38.5
Net interest income[1]	23.0	24.2
o/w regular interest income[2]	27.6	26.0
Net fee and commission income	15.1	14.3
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**38.1**	**38.5**
Operating expenses	-21.9	-21.8
Operating result	**16.2**	**16.7**
Change in CL	-7.4	-1.1
Operating result before tax	**8.8**	**15.5**
Business Volume		
Net loans and receivables[3]	931.3	825.0
o/w gross performing loans	928.4	791.2
Financial liabilities at amortised cost	605.4	572.3
Risk-weighted assets[4]	883.4	857.6

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.

3 Gross carrying amount of loans and receivables less expected credit loss allowance.

4 Includes only risk-weighted assets for credit risk without application of IFRS 9 transitional rules.

(Source: Audited Consolidated Financial Statements)

With respect to customers, customer numbers have decreased slightly, but remained stable at approximately 13 thousand between December 31, 2016 and March 31, 2019. In regards to active customers (i.e., those regularly using Addiko Group's products), customer numbers have increased from 9,484 as as of December 31, 2016 to 9,532 as of March 31, 2019.

The following table shows the number of active and inactive customers of the SME Business Segment for the financials years 2018, 2017 and 2016.

Customer numbers SME Segment (#)	As of March 31, 2019	As of December 31, 2018	2017	2016
Small - Active customers	8,167	8,227	7,942	8,244
Small - Passive customers	2,294	2,161	2,207	1,645
Small – NPE customers	901	846	796	1,661
Medium - Active customers	1,365	1,358	1,241	1,240
Medium - Passive customers	206	184	200	176
Medium – NPE customers	122	109	116	219
Total	**13,055**	**12,885**	**12,502**	**13,186**

(Source: Company information)

The following two tables shows active customer distribution based on number of used products and years of relationship with Addiko Group:

As of December 31, 2018	Percentage
1 Product	72.9%
2 Products	14.3%
3 Products	7.0%
4 or more Products	5.8%

(Source: Company information)

As of December 31, 2018	Percentage
< 1 year	5.6%
1-3 years	10.2%
3-6 years	11.7%
> 6 years	72.5%

(Source: Company information)

The following table presents the fee and commission income and expenses for the SME Business Segment for the financial years 2017 and 2018:

Net fee and commission income* (in EUR million)	For the financial year ended December 31, 2018	2017
	(audited)	
Transactions	8.1	7.7
Accounts and packages	0.7	0.7
Cards	1.5	1.4
FX & DCC	2.4	2.0
Securities	0.0	0.1
Bancassurance	0.0	0.0
Loans	1.3	1.5
Trade Finance	2.9	2.7
Other	0.2	0.2
Fee and commission income	**17.1**	**16.2**
Cards	-0.7	-0.6
Transactions	-1.1	-1.1
Clients incentives	0.0	0.0
Securities	0.0	-0.1
Accounts and packages	0.0	0.0
Bancassurance	0.0	0.0
Other	-0.1	0.0
Fee and commission expense	**-2.0**	**-1.9**
Net fee and commission income	**15.1**	**14.3**

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements)

The following table presents selected financial and operating information for the SME Business Segment, broken down by country, as of and for the 2018 financial year:

Country (in EUR million)	Net banking income	Operating result before tax	Net loans and receivables[1]	Gross performing loans	Financial liabilities at amortised cost	Risk-weighted assets[2]
			(unaudited)			
Croatia	16.5	2.3	300.4	295.8	236.3	293.1
Slovenia	8.2	2.4	262.7	264.0	185.2	234.7
Serbia	6.0	0.2	170.2	171.8	76.9	170.1
Bosnia & Herzegovina	5.0	3.5	147.5	145.9	71.6	144.2
Montenegro	2.5	1.3	50.5	50.9	35.4	41.3
Company and consolidation	-	-0.9	-	-	-	-

1 Gross carrying amount of loans and receivables less expected credit loss allowance
2 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules
(Source: Company information)

15.6.2 Key Strategic Objectives

Addiko Group's strategy for its SME Business Segment is to achieve sustainable profitability by becoming the primary bank for its targeted SME customers, which it seeks to accomplish by providing services with a focus on convenience, developing flexible self-service capabilities and efficiently offering products through enhanced digitalization. To support this strategy, Addiko Group is conducting a bank-wide initiative to develop a new platform focusing on digitizing processes that will improve the experience of the SME Business Segment's customers by introducing capabilities that serve their daily requirements and offering features that represent a unique value proposition in the CSEE market. The new e-banking system has already been rolled out in Croatia, Serbia and Bosnia & Herzegovina. The completion of the roll-out of this platform is planned for the second half of the 2019 financial year.

Digital Focus

Over the preceding two financial years, Addiko Group started a major strategic initiative to serve SME customers via digital channels. Beginning in June 2018, Addiko Group banks in Serbia and Slovenia started selling simple loans (loans of up to EUR 250,000 with soft collateral only) and trade finance products (guarantees, letters of credit) via a digital process, allowing customers in these two countries to either apply for such products in one of Addiko Group's SME centers or via a relationship manager, equipped with an iPad, visiting the customer on-site. Customers are then served via a streamlined digital process resulting in an average decision time of less than one day and an average disbursement time of less than three days. Addiko Group is seeking to bring this feature to customers in Croatia in early 2019 and to customers in Montenegro and Bosnia & Herzegovina by the end of 2019. Depending on the success of the initiative, Addiko Group will consider introducing further products and product categories to the digital channels.

Another major strategic initiative involves unifying the e-banking experience across all of Addiko Group's countries of operation. In this respect, Addiko Group introduced a completely revamped e-banking platform in Croatia, Bosnia & Herzegovina and Serbia, with Montenegro to be migrated to this new platform in January 2019 and Slovenia in October 2019. The initiative will seek to complete the migration from a heterogenous landscape of several e-banking providers to one homogenous landscape of providers, making the introduction of new features and upgrades across the entire group far easier and more cost efficient. The new e-banking platform was developed in cooperation with key customers and focuses heavily on convenience and user experience, especially in regards to transactional banking. Moreover, it provides the technical foundation for moving the e-banking distribution channel increasingly away from a pure information gathering channel towards a self-service channel offering digital product applications initiated by the customer.

With enhanced digital services, Addiko Group plans to increase the commission income from account keeping services and trade finance products (i.e. letters of guarantee and letters of credit), while lowering the funding costs by raising current account deposits. Addiko Group has also implemented simple loan products which are approved directly on the digital platform for the SME Business Segment, freeing up sales force capacity for further customer acquisitions.

15.6.3 Key Products

The SME Business Segment offers legal entities the following key products:

- Lending products: working capital loans, revolving loans, investment loans, overdrafts, credit cards, business cards
- Deposit products: transactional accounts, debit cards, sight and term deposits
- Trade Finance Products: guarantees, letters of credit, documentary collection
- Other products: FX spot, FX forward, non-deliverable FX forward, FX swap, interest rate swap – IRS / interest rate risk protection, invoice discounting

In line with Addiko Group's SME strategy, new digitally enabled lending was introduced in mid-2018 in Slovenia and Serbia, providing working capital financing to SME clients with an average single-day credit decision time as well as a time-to-cash of less than three working days. The lending process of this product is highly automated and limited to smaller (up to EUR 250,000) and simple ticket financing. Addiko Bank believes that the positive feedback from its customers has proved that SME clients appreciate fast and simple delivery of financing, which is not yet provided to the same degree by other banks in the local markets. The disbursements through digital channels accounted for 12% of the total SME disbursements in Slovenia and Serbia for the period June to December 2018.

The automated process is also available for simple trade finance products and will be implemented in all of Addiko Group's countries of operation during the 2019 financial year. The automated process will also be further expanded to be available for revolving loans and overdraft products, with an expected roll-out in the first half of 2019.

15.6.3.1 Main Products

The table below sets out the percentage product sales of the SME Business Segment by product category for the year ended December 31, 2018:

As of December 31, 2018	Gross performing loans	Percentage
	(in EUR million) (unaudited, unless otherwise indicated)	(unaudited)
Working Capital loans	316.2	34%
Revolving loans	149.3	16%
Investment loans	377.0	41%
Overdrafts	29.4	3%
Other	56.4	6%
Total	**928.4**[1]	**100%**

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

The table below sets out the net banking income of the SME Business Segment for main SME products for the year ended December 31, 2018:

As of December 31, 2018	Net banking income	Percentage
	(in EUR million) (unaudited, unless otherwise indicated)	(unaudited)
Lending	15.3	40%
Deposit products	6.4	17%
Trade finance products	16.4[1]	43%
Total	**38.1**[2]	**100%**

1 Includes the total net fee and commission income as well as the asset contribution margin from the funds transfer pricing. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Audited information.

(Source: Audited Consolidated Financial Statements and Company information)

15.6.4 SME Distribution

All SME customers are served by their own relationship manager, with relationship managers located in 38 SME business centers across Addiko Group's countries of operation. The role of the relationship managers is not only to sell banking products, but also to serve as a trusted financial advisor to their respective customers and an active partner in the financing decision-making process. Addiko Group branches located in SME business centers offer a full range of products to walk-in customers, while all other Addiko Group branches provide basic account keeping services to all SME customers. SME relationship managers actively visit their current and prospective customers on-site. In fact, a majority of the interactions with SME customers occur outside of the branches at the premises of the customers.

Currently, SME financing is provided exclusively by SME relationship managers. However, in 2019, Addiko Group plans to run a pilot program in Serbia targeting SME customers with simple, digitally-enabled loans through the retail branch network with the purpose of reaching a broader customer base. Depending on the results of the pilot program, implementation of the new SME distribution channel through the retail branch network will be considered in other Addiko Group countries of operation as well.

	As of December 31,		
	2018	2017	2016
	(unaudited, unless otherwise indicated)		
Customers (excl. NPE) (#)	11,930	11,590	11,306
Gross performing loans (EUR in million)	928[1]	791[1]	646
Relationship managers (#)	123	134	193
Customers per relationship manager (#)	97	86	59
Gross performing loans per relationship manager (EUR in million)	7.5	5.9	3.3

1 Audited information.

(Source: Audited Consolidated Financial Statements and Company information)

15.7 Large Corporates Segment

15.7.1 Segment Overview

The Large Corporates Segment comprises Addiko Group's business activities relating to the offering of a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large legal entity customers, i.e. companies with annual turnover of over EUR 40 million.

Addiko Group's strategic decision is to focus on transactions which provide adequate returns rather than delivering pure volume growth in the Large Corporates Segment, given the very competitive environment.

The following table shows certain key financials and key data of the Large Corporates Segment for the 2017 and 2018 financial years:

Profit or Loss* (in EUR million)	For the financial year ended December 31, 2018	2017
	(audited)	
Net banking income	17.8	21.0
Net interest income[1]	11.7	14.5
o/w regular interest income[2]	14.2	14.7
Net fee and commission income	6.1	6.5
Net result on financial instruments	0.0	0.0
Other operating result	0.0	2.3
Operating income	**17.8**	**23.3**
Operating expenses	-4.1	-4.3
Operating result	**13.7**	**19.0**
Change in CL	3.6	-37.0
Operating result before tax	**17.3**	**-18.0**
Business Volume		
Net loans and receivables[3]	611.6	524.1
o/w gross performing loans	588.4	469.1
Financial liabilities at amortised cost	426.6	434.9
Risk-weighted assets[4]	652.3	568.2

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.
2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.
3 Gross carrying amount of loans and receivables less expected credit loss allowance.
4 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules.
(Source: Audited Consolidated Financial Statements)

With respect to customers, customer numbers have decreased from 1,060 as of December 31, 2016 to 929 (963) as of March 31, 2019 (December 31, 2018), while gross performing loans increasing to EUR 580.2 million (EUR 588.4 million) as of March 31, 2019 (December 31, 2018) from EUR 457.4 million as of December 31, 2016.

The following table presents selected financial and operating information for the Large Corporates Segment, broken down by country, as of and for the 2018 financial year:

Country (in EUR million)	Net banking income	Operating result before tax	Net loans and receivables[1]	Gross performing loans	Financial liabilities at amortised cost	Risk-weighted assets[2]
			(unaudited)			
Croatia	9.4	-2.7	196.3	179.3	163.1	218.1
Slovenia	3.7	8.9	174.5	174.1	143.0	193.7
Serbia	2.9	10.4	174.3	168.0	67.4	156.3
Bosnia & Herzegovina	1.6	0.9	59.9	60.5	47.9	69.0
Montenegro	0.2	0.1	6.5	6.6	5.2	8.7
Company and consolidation	-	-0.5	-	-	-	6.5

1 Gross carrying amount of loans and receivables less expected credit loss allowance.
2 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules.
(Source: Company information)

The largest local and international companies are serviced by Addiko Group's centralized and specialized local teams, supported by an experienced group of experts at the headquarters of Addiko Group. Through this structure, Addiko Group aims to provide their clients with a seamless financing service across the entire Addiko Group. The Large Corporates Segment's aim is to deliver its services in a straightforward and efficient manner and provide its customers convenient access to those services.

15.7.2 Key Strategic Objectives

Addiko Group does not seek to grow its lending portfolio, given the very competitive environment, and its risk appetite framework with regards to desired ticket sizes but will, as in the past, continue to serve selected, profitable clients.

15.7.3 Key Products and Breakdown of Portfolio

The Large Corporates Segment offers legal entities with annual gross revenue of more than EUR 40 million the following key products:

- Lending products: working capital loans, revolving loans, investment loans, overdrafts, credit cards
- Deposit products: current accounts and term deposits
- Banking products: payment services and debit cards
- Guarantees and letters of credit: guarantees, letters of credit, documentary collection
- Other products: FX services, interest rate swap – IRS / interest rate risk protection, factoring

The table below sets out the net banking income of the Large Corporates Segment for its main products for the year ended December 31, 2018:

As of December 31, 2018	**Net banking income**	**Percentage**
	(in EUR million) (unaudited, unless otherwise indicated)	**(unaudited)**
Lending	7.6	43%
Deposit products	2.4	13%
Trade finance products	7.8[1]	44%
Total	**17.8[2]**	**100%**

1 Includes the total net fee and commission income as well as the asset contribution margin from the funds transfer pricing. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.
2 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

15.8 Public Finance Segment

15.8.1 Segment Overview

The Public Finance Segment focuses on the participation of Addiko Group in public tenders for the financing requirements of key public institutions in CSEE countries, such as ministries of finance, state enterprises and local municipalities. Addiko Group offers those public institutions a full suite of products, focusing on deposit products and other complementary products to its public finance clients with a clear strategy to run-off the existing lending portfolio.

The number of public finance customers decreased from 1,472 as of December 31, 2016 to 1,056 (1,065) as of March 31, 2019 (December 31, 2018), gross performing loans have decreased to EUR 193.9 million (EUR 188.8 million) as of March 31, 2019 (December 31, 2018) from EUR 509.3 million as of December 31, 2016. The reduction reflects Addiko Group's strategic decision to reduce lending to its Public Finance Segment customers in light of an inferior risk / return profile, whilst maintaining existing deposit volumes and providing account keeping services to its clients focusing on commission income generation from non-credit risk bearing products.

The following table shows certain key financials and key data of the Public Finance Segment for the 2017 and 2018 financial years:

	For the financial year ended December 31,	
Profit or Loss*	**2018**	**2017**
(in EUR million)	**(audited)**	
Net banking income	9.7	16.6
Net interest income[1]	8.6	15.4
o/w regular interest income[2]	6.3	15.1
Net fee and commission income	1.1	1.2
Net result on financial instruments	0.0	0.0
Other operating result	0.0	0.0
Operating income	**9.7**	**16.6**
Operating expenses	-2.3	-2.7
Operating result	**7.3**	**13.9**
Change in CL	2.4	1.5
Operating result before tax	**9.7**	**15.4**

Profit or Loss* (in EUR million)	For the financial year ended December 31, 2018	2017
	(audited)	
Business Volume		
Net loans and receivables[3]	189.6	276.1
o/w gross performing loans	188.8	275.1
Financial liabilities at amortised cost	616.0	703.1
Risk-weighted assets[4]	113.9	180.3

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.
2 Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing.
3 Gross carrying amount of loans and receivables less expected credit loss allowance.
4 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules.
(Source: Audited Consolidated Financial Statements)

The following table presents selected financial and operating information for the Public Finance Segment, broken down by country, as of and for the 2018 financial year:

Country (in EUR million)	Net banking income	Operating result before tax	Net loans and receivables[1]	Gross performing loans	Financial liabilities at amortised cost	Risk-weighted assets[2]
			(unaudited)			
Croatia	3.1	2.7	77.1	77.5	70.4	29.0
Slovenia	3.3	2.9	71.7	71.8	382.8	28.8
Serbia	0.9	1.7	11.3	11.4	66.8	22.5
Bosnia & Herzegovina	1.6	1.9	21.9	20.5	52.3	21.0
Montenegro	0.8	0.7	7.6	7.7	43.7	5.9
Company and consolidation	-	-0.2	-	-	-	6.6

1 Gross carrying amount of loans and receivables less expected credit loss allowance.
2 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules.
(Source: Company information)

15.8.2 Key Strategic Objectives and Value Drivers

For the Public Finance Segment, which serves public sector entities and states, new lending is performed only in exceptional circumstances, and only if profitability metrics are met. In the past few years, Addiko Group has decreased the lending activity of its Public Finance Segment, as the segment has come under increasing price pressure with excessive tenures. Addiko Group now focuses on maintaining the existing deposit volumes of the Public Finance Segment and providing account keeping services to its clients.

15.8.3 Key Products and Breakdown of Portfolio

The Public Finance Segment offers public entities the following key products:

- Lending products: working capital loans, revolving loans, investment loans, overdrafts, credit cards
- Deposit products: current accounts and term deposits
- Banking products: payment services and debit cards
- Guarantees and letters of credit: guarantees, letters of credit, documentary collection
- Other products: FX services, interest rate swap – IRS / interest rate risk protection, factoring

The table below sets out the net banking income of the Public Finance Segment for its main products for the year ended December 31, 2018:

As of December 31, 2018	Net banking income	Percentage
	(in EUR million) (unaudited, unless otherwise indicated)	(unaudited)
Lending	2.0	21%
Deposit products	6.1	63%
Trade finance products	1.6[1]	16%
Total	**9.7[2]**	**100%**

1Includes the total net fee and commission income as well as the asset contribution margin from the funds transfer pricing. The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates
2Audited information
(Source: Audited Consolidated Financial Statements and Company information)

15.9 Corporate Center Segment

Addiko Group's Corporate Center Segment acts as a service center for all Addiko Group entities and customers. It is responsible for Addiko Group's treasury activities as well as non-business-related items, such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levy and other one-off items, including Addiko Group's reconciliation to IFRS. In addition, this segment is responsible for direct deposit activities in Austria and Germany, with Austrian and German deposits shown in the balance sheet of the Corporate Center Segment

The following table shows certain key financials and key data of the Corporate Center Segment for the 2017 and 2018 financial years:

	For the financial year ended December 31,	
Profit or Loss*	**2018**	**2017**
(in EUR million)	**(audited)**	
Net banking income	1.7	-1.8
Net interest income[1]	2.6	-0.2
Net fee and commission income	-0.9	-1.6
Net result on financial instruments	70.0	9.7
Other operating result	-7.8	-0.5
Operating income	**63.9**	**7.4**
Operating expenses	-72.9	-71.9
Operating result	**-9.0**	**-64.5**
Change in CL	4.1	0.0
Operating result before tax	**-4.9**	**-64.5**
Business Volume		
Net loans and receivables[2]	12.2	53.8
Financial liabilities at amortised cost	797.7[3]	1,040.1[4]
Risk-weighted assets[5]	819.5	968.5

* All figures presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

1 Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution). The funds transfer prices are defined by Addiko Group's treasury department using a market interest rate approach in determining opportunity interest rates.

2 Gross carrying amount of loans and receivables less expected credit loss allowance.

3 Contains EUR 360 million deposits of customers (direct online deposits), EUR 324 million deposits of credit institutions and EUR 113 million other.

4 Contains EUR 409 million deposits of customers (direct online deposits), EUR 342 million deposits of credit institutions, EUR 190 million Tier 2 and EUR 99 million other financial liabilities at amortised cost.

5 Includes only risk-weighted assets for credit risk, without application of IFRS 9 transitional rules.

(Source: Audited Consolidated Financial Statements)

The following table shows how the operating expenses of the Corporate Center Segment are allocated between the Company and the subsidiaries for the 2017 and 2018 financial years:

	For the financial year ended December 31,	
	2018	**2017**
(in EUR million)	**(unaudited, unless otherwise indicated)**	
Personnel expenses	19.1	18.0
Administrative expenses	19.7	19.7
Depreciation	1.4	1.8
Intra-group charging	1.7	2.7
Operating expenses of the Company	**41.8**	**42.2**
Operating expenses in the subsidiaries	34.5	33.4
Reconciliation/ consolidation	-3.4	-3.7
Total Corporate Center Segment operating expenses	**72.9**[1]	**71.9**[1]

1 Audited information, audited figures for the financial year 2017 were taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.

(Source: Audited Consolidated Financial Statements and Company information)

The administrative expenses in the amount of EUR 19.7 million for the financial year 2018 break down to 41.7% legal and advisory expenses, 34.5% IT expenses, 7.8% intra-group charging, 3.7% office premises expenses, 0.6% marketing expenses and 11.8% other expenses.

The segment also provides basic hedging services (such as foreign exchange hedges and interest rate swaps) to individual customers upon request, though it does not actively take risk positions on behalf of customers. The Corporate Center Segment, as is the case for the other segments of Addiko Group, adheres to a strict policy of self-funding and thus does not receive funding from other segments. Funding is obtained, for example, through its online direct deposit activities in Austria and Germany, pursuant to which it is able to raise a significant amount of funds in a short amount of time. This rapid funding ability also allows the segment to serve as Addiko Group's lender of last resort in case of a liquidity crisis.

The Corporate Center Segment's prime responsibilities comprise asset and liability management (ALM) steering, management of liquidity portfolios within the regulatory requirements (e.g., LCR and NSFR) and providing treasury products

and services to Addiko Group's client base (e.g., the segment provides basic hedging services, such as foreign exchange hedges and interest rate swaps, to individual customers upon request, though it does not actively take risk positions on behalf of customers).

Beyond that, the treasury activities are focused on Addiko Group-wide liquidity management supporting subsidiaries in optimizing their funding mix and efficiently applying Addiko Group's fund transfer pricing tools.

The Corporate Center Segment also manages and supervises Addiko Group's liquidity reserve requirements.

15.10 Operating Platform

Addiko Group's operating platform is based upon three pillars: (i) capability building, (ii) customer experience and (iii) cost management. Capability building is to be accomplished through agile, digital and lean competencies with innovation at their core, backed by an innovative operating model that helps Addiko Group leverage skills and scales. The customer experience is to be improved by means of automation, digitalization and efficient processes. Finally, cost management is to be achieved through the diligent management of Addiko Group resources and the continuous optimization thereof. Together, these three pillars form the basis for enabling Addiko Group's businesses.

As for the new operating model, the goal is to achieve an operating model to support the goal of "six countries – one winning team" through a clear-cut allocation of responsibilities. The legal basis for the operating model are various service level agreements entered into between the Addiko Group companies. Pursuant to the operating model, central steering functions or Group shared services are located in Vienna or in Addiko Group subsidiaries. While central steering functions encompass strategic guidance, monitoring, and oversight (e.g. human resources, legal, marketing), and Group shared services encompass operational services (i.e. digital banking, cost & investment controlling and retail risk modelling & analysis located in Serbia; risk validations and group data service located in Austria; transaction banking, business & non-core controlling, application development, procurement, GBSM&T and trade finance & guarantees located in Croatia, with retail risk modelling & analysis, risk validations, Group data service and application development still to be launched) provided from one location to other locations. By contrast, local execution functions are handled by Addiko Group employees in the regional businesses that are responsible for execution of local activities.

As an illustration of a central steering function, the human resources department is based in Croatia, but oversees personnel-related activities for the entire Group, including the development of a human resources strategy and underlying standards and policies, oversight of recruitment, cultural transformation, talent and leadership development, as well as compensation and benefits.

As an illustration of a Group shared services, the digital banking department with 20 FTE as of December 31, 2018 is based in Serbia, but provides operational services to other countries, including the transformation of the IT infrastructure, the group-wide roll-out of application programming interfaces to allow integration of third party products as well as attracting digital talents and driving innovation. The transaction banking department with 11 FTE as of December 31, 2018 based in Croatia aims to become the best-in-class service provider, providing high-quality services with high efficiency. Addiko Group seeks to consolidate the stand-alone units into one Group shared service by the end of 2020 with approximately 110 FTE.

Through the operating model, Addiko Group is able to improve quality levels by raising its overall efficiency and future growth. Generally, the key advantages of the operating model can be described as follows:

- Proximity to local markets: the operating model strengthens the understanding of Addiko Group's client needs and allows a better utilization of local capabilities;
- "Learning-curve" effects: the rising output levels through centralization improve the skills of employees and reliability of processes;
- Operational stability: increased specialization and enhanced reliability facilitate better operational stability;
- Platform for talent: the new approach is positioned as a platform for talents and springboard for further professional development within Addiko Group; and
- Economies of scale: the bundling of services helps realize cost advantages, with costs per unit decreasing.

The operating model also supports better management of processes across Addiko Group through standardizing key processes Group-wide, thereby enabling better information and best-practice sharing across all of Addiko Group's countries of operation.

The ongoing implementation of the operating model is proceeding according to plan.

15.11 Information Technology

15.11.1 Overview

Addiko Group has established guiding principles to focus its IT efforts in order to achieve its key objective of enabling its business and support personnel to provide customers with "straightforward banking" in all six countries of operation. In accordance with these principles, Addiko Group seeks to: (i) operate as a digital challenger through rapid modernization of digital capabilities and the implementation of a new IT architecture with open application programming interfaces to provide services for customers via strategic/Fintech partners; (ii) use a modern agile method to complement the standard waterfall development method in order to deliver functionalities in multiple iterations (sprints) ensuring constant alignment between business requirements and developed functionalities and achieving a quick time to market; (iii) operate as a single, unified IT department across all six countries of operation and across banks, with various cross-country joint functions to maximize skill utilization and asset synergies; (iv) employ process automation by leveraging state of the art technologies from selected partners like Appian for business process management (BPM) and Blueprism for robotic process automation (RPA) which enable Addiko Group to quickly automate business processes; and (v) develop assets (applications, infrastructure) that can be used repeatedly across Addiko Group entities through an architecture with a common application programming interface layer to ensure multiple usage of applications and infrastructure. Addiko Group's newly designed information technology (IT) architecture allows for full scalability and easy integration of third party services and capabilities. Incremental cost for additional business is therefore marginal.

In order to create a stable IT foundation, Addiko Group invested in the following: (a) Addiko integration layer (AIL), comprising a three-tiered architecture intended as a foundation for additional future technology stacks, which allows the quick integration/launch of new features or applications without the necessity to alter core banking systems; (b) data centers, comprising two data centers resulting from the consolidation and outsourcing of twelve separate legacy data centers - Tier 3 data centers separated by 400 km provide the Addiko Group hardware and network infrastructure to eliminate the possibility of a service interruption end ensure fail-safe operations; (c) core system harmonization, including unified hosting and on-going full harmonization within the two pre-existing core banking clusters, Temenos and Hibis; and (d) ATM outsourcing, which includes the sale and outsourcing of ATMs to ensure regulatory compliance and create additional income via "dynamic currency conversion".

15.11.2 Description of the IT Infrastructure

Addiko Group has almost completely outsourced its IT infrastructure and hardware. Most of the datacenters were consolidated from originally twelve partly outdated in-house datacenters to two state-of-the-art outsourced datacenters acting as a primary and secondary datacenter operated by Addiko Group's strategic partner DXC and located in Belgrade, Serbia and Zagreb, Croatia in addition to the ARZ in Innsbruck, Austria. The primary and secondary datacenters for Addiko Group's operations in Croatia are new and currently operated by Addiko Group's internal IT department. All datacenters were designed to provide sufficient redundancy and performance and to leverage virtualization.

Consolidation and outsourcing also allows the mitigation of cyber-risks, which are believed to be the most important emerging risk category. Considerable efforts and investments are undertaken to mitigate these risks, increase protection, detect successful attacks as early as possible and limit the impact of such attacks, with no major incidents recorded thus far.

The following primary components of Addiko Group's IT services are based on the domains of the IT application architecture as well as IT infrastructure:

Channels

Addiko Group's core digital channels include new online banking, mobile banking applications and chatbots built with strategic partners. The traditional branch channel uses a common customer relationship management system based on Microsoft Dynamics for managing customer relationships and as an entry point for execution of processes and transactions.

Servicing, Support & Collaboration

State of the art technologies from selected partners like Appian for business process management (BPM) and Blueprism for robotic process automation (RPA) are used to quickly automate business processes. Microsoft Office 365 is being rolled out as a Group-wide collaboration platform / modern workplace.

Data Management & Analytics

For collecting, managing and analysing data, Addiko Group operates common consolidated Group data warehouses and specific local data warehouses for each Group bank. Data management and analytics are primarily based on SAS and Microsoft technologies.

Interfaces

Addiko Group's integration layer with its open application programming interface approach plays a primary role in interconnecting applications and data sources across the Group. The integration layer is a unique asset co-developed with one of Addiko Group's strategic partners and is deployed by using modern agile development at scale. It is based on an open application programming interface approach, which allows the reuse of assets / services for various business processes. Thus the front-end, through low cost of integration, can easily and quickly integrate modules from various third parties. Addiko Group pursues a strategy of creating an ecosystem with innovative and leading edge partners, including Fintechs.

Core Banking

Addiko Group runs on two pre-existing core banking clusters (Temenos and Hibis). Core banking systems are stable and performant, with regular release upgrades but no need for replacement or further consolidation. Core banking systems are being harmonized within each cluster.

15.11.3 Third-party Service Providers

In pursuing its objective, Addiko uses a balanced outsourcing approach. Pursuant thereto, Addiko Group outsources commodity services and services where Addiko Group is too small to develop and provide first-rate services of its own. In addition, Addiko seeks development partnerships for strategic assets enhancing customers' experience and introducing new and innovative services. Consequently, Addiko Group has thus far selected the following strategic partners:

- DXC: provides IT infrastructure to the entire Addiko Group and managing core banking systems for the Temenos T24 cluster;
- HRC: provides core banking for the HIBIS cluster;
- ARZ: provides primarily support for holding functions, i.e. data warehouse and a reporting platform (especially regulatory reporting) in Austria. Furthermore, ARZ operates the back-office for all Austrian banking business (online deposit business);
- Asseco: provides the whole ATM network (>500 ATMs) as a technical partner;
- Comtrade: a key partner for developing Addiko Group's digital IT assets, in particular regarding customer interfacing applications (mobile and online banking) and the Addiko Group integration layer; and
- Appian: provides the Group-wide harmonised business process management platform.

With most of the providers, Addiko Group has concluded new Group-wide contractual arrangements over the last three years that reflect Addiko Group's strategy, are market standard and aligned with relevant regulations. Furthermore, Addiko Group intends to consolidate both its IT applications and providers and is rolling out standard platforms (e.g., Microsoft Dynamics and Microsoft Office 365). The costs for the top two vendors amount to approximately 50% of the overall IT expenses.

15.12 Data Protection Compliance

Within Addiko Group, a data protection implementation project was implemented in order to align the then existing data processing activities with the requirements of the General Data Protection Regulation. Addiko Group has established a data protection compliance management system, *inter alia* setting forth policies, processes as well as technical and organisational measures.

This group-wide data protection compliance framework also applies to Addiko Group entities established in non-EU countries, which entities have to comply with General Data Protection Regulation standards, unless mandatory local data protection and privacy laws would require otherwise. All Addiko Group banks run individual data processing inventories and have implemented standard processes for the handling of requests for the exercising of data subjects' rights (*e.g.* access, erasure, objection). Addiko Group has also bought and deployed data protection software (OneTrust), which is used e.g. for executing data protection impact assessments and legitimate interest assessments, managing data breaches, and for statistical purposes in connection with, *inter alia*, data subject rights, records of processing activities.

Employees are trained via an online tool in relation to data protection compliance. Data protection impact assessments are done for the most critical systems (like rating platforms or Office365).

Addiko Group uses multi-party data protection agreements (in line with the requirements set out in Art 28 of the General Data Protection Regulation) when vendor a third party is providing a service to at least two Addiko affiliates. In this case, group data protection negotiates the respective data protection agreement. Therefore, compliance with the General Data Protection Regulation is assured, oversight enabled, and this also represents a single point of entry for Addiko Group and has cost (FTE) saving effects. With some external service providers the respective data processing agreements are still in the negotiation process.

Each Addiko entity (ABH, ABC, ABSA, ABBL, ABS, ABSE and ABM) has appointed a data protection officer (***DPO***) who reports directly to the respective management board. In addition, thereto, a group DPO coordinates data protection tasks in relation to the entire Addiko Group. Except for ABH, where the data protection officer is outsourced, all data protection officers are employed by the respective Addiko bank. With respect to the intra-group outsourcing, the banks of Addiko Group have concluded multi-party data processing agreements. Addiko Group intends to implement binding corporate rules to facilitate intra-group transfers from Addiko banks within the EU to those outside.

15.13 Intellectual Property Rights, Domains, Licenses

Addiko Group has registered several "Addiko Bank" word trademarks and figurative trademarks in Austria, with EUIPO and WIPO. There was one opposition made with the EUIPO in relation to all figurative "Addiko Bank" trademarks in relation to the use of the color red for financial and monetary affairs, real estate affairs and insurances. That opposition is still in a settlement process through the execution of a respective agreement.

The basic brand identifying Addiko Group is "Addiko Bank".

Addiko Group has also registered other trademarks such as the word trademark "straightforward banking" in Austria and Serbia and submitted application (published) for "Synddiko" figurative trademark with EUIPO and in Bosnia & Herzegovina, Serbia and Montenegro.

Addiko Group has entered into IT-related licensing agreements relating to standard products offered by Microsoft (e.g. Windows, Windows Server, O365, Dynamics, Project Online), IBM, Oracle, VMware, SAS, Appian and others as well as to other software products necessary for conducting its business activities.

Addiko Group currently maintains the following internet domains: addiko.com, addiko.at, addiko.si, addiko.hr, addiko.rs, addiko.ba, addiko.me, synddiko.com.

15.14 Employees

The table below shows the total numbers of employees (headcount) and active full-time equivalent (FTE) employed by the various entities of Addiko Group (on a country-by-country basis) as of March 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016.

	Austria Headcount/FTE	Croatia Headcount/FTE	Slovenia Headcount/FTE	Bosnia & Herzegovina Headcount/FTE	Serbia Headcount/FTE	Montenegro Headcount/FTE	Addiko Group Headcount/FTE
	(unaudited, unless otherwise indicated)						
March 31, 2019	153/139.9	1,084/997.3	372/350.4	781/732.5	588/563.0	166/150.0	**3,144/2,933.0**
December 31, 2018	158/140.5	1,107/1,024.8	369/344.8	765/714.5	585/555.0	165/153.0	**3,149/2,932.5**[1]
December 31, 2017	159/144.5	1,130/1,034.0	357/329.9	780/729.5	595/561.8	159/153.0	**3,180/2,952.7**[1]
December 31, 2016	157/136.4	1,256/1,112.2	386/341.3	876/813.0	639/599.9	161/150.5	**3,475/3,152.0**[1]

1 Total FTE numbers have been audited

(Source: Audited Consolidated Financial Statements and Company information)

As of March 31, 2019, Addiko Group employed 3,143 employees with 2,993.0 active FTE. The difference between headcount and active FTE numbers reflects employees who are on maternity leave, sick leave or garden leave, as well as part-time employments. Of these 3,143 employees, 1,522 were employed in front-facing positions and 1,621 were back-office employees. There were 139.9 active FTEs working in Addiko Group's holding functions in Austria, while 196.8 active FTE were working on Addiko Group related activities in central steering and Group shared services functions in Addiko Group's other countries of operation. As of March 31, 2019, there were 51.8 central steering active FTE and 145.0 Group shared services active FTE working for Addiko Group.

Approximately 4.8% of Addiko Group's employees are located at the head offices in Vienna and Klagenfurt, while the majority of Addiko Group roles are based in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. This unique operating model allows for talents and experts to be identified across countries. It also ensures high quality competencies that are leveraged across Addiko Group. Employee training investment is focused on three categories: risk (7% in 2018), leadership (46% in 2018) and sales/retail (48% in 2018), with employee participation in such trainings focused primarily on risk (64% in 2018), then on sales/retail (28% in 2018) and then on leadership (8% in 2018). The average age of employees is 39, with 51% of employees being front facing. The gender structure at Addiko Group is as follows:

[1] Includes all supervisory boards across the Group (excluding works council).
[2] Managerial level below management board.
(Source: Company information)

As of December 31, 2015, Addiko Group employed 4,079 employees with 3,756 active FTE. During 2016 and 2017, Addiko Group continually reduced its number of employees due to restructuring programs as well as due to the selling off of leasing businesses. In this context, Addiko Group created cross-country network teams (such as central steering and Group shared service functions) and was able to leverage talent across countries in order to gain capabilities and efficiencies. Further, by launching the operating model in 2016, significant reorganisation and transformation measures were implemented by Addiko Group. Such restructuring measures were largely completed in 2018.

Overall, the headcount number has decreased due to investment in technology and increasing automation as well as the centralisation of functions. Notwithstanding technology improvements, Addiko Group expects headcount to stabilize as Addiko Group's business grows.

15.14.1 Collective Arrangements, Relationships with Employee Representatives, Shop Agreements, Social Plans etc.

Addiko Group has cooperative relationships with the employee representative bodies in place at the Company (*Betriebsrat der Addiko Bank AG*) and Addiko Bank d.d., Zagreb (*Radničko vijeće Addiko Bank d.d.*). Besides those two formally recognised employee representative bodies, there are also three unions represented at Addiko Group level: one in Addiko Bank a.d. Banja Luka (Union Organisation Addiko Bank) and two in Addiko Bank d.d., Zagreb (Union of Croatian Banking and Financial Institution's Employees - Addiko Bank Branch and Addiko Union). Although those union organisations have not taken on the formal role of employee representative body, they are consulted as regards essential employee rights. No further employee representative bodies have been established, and no other unions are represented, at the other local entities of Addiko Group.

Currently, there are no group-wide collective bargaining agreements or similar labor contracts that would apply to all entities of Addiko Group. Some local entities of Addiko Group are subject to local collective agreements.

The Company is bound by the collective bargaining agreement applicable to the employees of the Austrian banking sector (*Kollektivvertrag für Angestellte der Banken und Bankiers;* ***Bank CBA***). Addiko Bank d.d., Ljubljana is subject to the local national collective agreement for the banking sector. No collective bargaining agreements apply to Addiko Group's local entities in Montenegro, Croatia, Serbia and Bosnia & Herzegovina.

There are two social plans in place at the Company. One social plan applies to employees whose employment commenced prior to December 31, 2012 and the other to employees who joined after January 1, 2013. Both social plans stipulate, amongst other elements, severance payments in the event of restructuring and other compensation arrangements mitigating potential impacts from redundancies for operational reasons. Both social plans were revised with effect as of January 1, 2019. It has been agreed to extend the term of both social plans until December 31, 2021. The estimated costs are reflected in the respective provision for restructuring measures.

In the past three years, no strikes occurred at any of the local entities of Addiko Group or the Company. Good relationships between the management and its employees and employee representatives are particularly important for Addiko Group and Addiko Group believes these relationships are good.

15.14.2 Compensation

15.14.2.1 Overview

Addiko Group's remuneration strategy aims to reward performance and contribution in an appropriate mix of fixed and variable remuneration, which is market based and which prevents Addiko Group from an excessive risk taking, while rewarding sustainability and long-term results. Variable remuneration will generally serve to attract, retain and motivate employees to achieve the objectives of Addiko Group, within its risk appetite and risk management framework.

The overall guidelines of the compensation system, the remuneration policy and practices as well as compensation-related incentive structures of Addiko Group are subject to annual audits by the Group's internal audit function as well as monitoring by supervisory boards and remuneration committees. The remuneration policy is governed by the provisions of the applicable legislation, the EBA guidelines, the circulars and decisions defined by each local regulator and EU directives on capital requirements. There are clearly set criteria and conditions for the payment of various bonuses to the managerial staff, employees and key functions holders.

Addiko Group has implemented a compensation system in its local entities that includes fixed and variable remuneration components as well as fringe benefits/benefits-in-kind focusing on risk adequacy, sustainability and appropriateness of remuneration and linked to the performance.

Addiko Group follows market medians when setting base salaries, taking into account other factors such as local market benchmarks, availability of skill in the market, available budget and candidates' expectations. Some benefits and fringe benefits support employees' salaries and healthcare. These are limited and vary by country.

Four incentive programs exist in order to recognize and reward performance and are CRD IV compliant. These include the annual bonus scheme as well as the retail sales incentive, the early collection incentive and the senior leadership incentive program, starting as a pilot project for the performance period 2019, as described in more detail below. Addiko Group's bonuses are awarded within the variable pay framework and are closely linked to target-oriented management. By applying individual bonuses Addiko Group intends to reward an individual's outstanding performance. Taking into consideration not only individual, but also the organizational performance, they also aim to motivate for team work and achievement of targets as a team.

The total remuneration of the members of the Management Board comprises monetary remuneration (fixed and performance-based variable, the variable partly subject to deferral, malus and claw-back rules according to the Company's remuneration policies) and non-monetary remuneration (fringe benefits), including payment upon early termination of employment and their function. The relevant target values and parameters (qualitative and quantitative targets, including financial key performance indicators of Addiko Group such as net operating income, operating expenses, risk adjusted return on capital) are agreed between the Supervisory Board and each member of the Management Board individually in writing and in compliance with the Company's remuneration policies and applicable supervisory law on an annual basis. The variable annual bonus is payable in accordance with the deferral rules under the Company's remuneration policies, which are in line with EBA-guidelines. See also "*22.2.4 Management Board Compensation*."

Remuneration for the mid-level management includes both a fixed base salary as well as a variable annual bonus (the variable bonus is again partly subject to deferral, malus and claw-back rules according to the Company's remuneration policies). The annual bonus is determined by three factors: target group (function), country success bonus factor (Group /country performance) and individual performance. The individual employee's target and objective achievement are discussed in an annual performance review meeting and determined in course of an overall performance rating process. The variable annual bonus is payable in accordance with the deferral rules under the Company's remuneration policies, which are in line with EBA-guidelines.

In connection with the listing of the Company, Addiko Group is currently in the process of amending its incentive programs to also encompass a stock option program. These amendments will reflect the Company's status as a listed entity.

The total personnel expenses increased from EUR 97.4 million in the financial year 2017, by EUR 2.0 million, or 2.0%, to EUR 99.4 million in the financial year 2018. In total, the variable remuneration for all three variable remuneration schemes

mentioned above amounted to EUR 10.1 million and EUR 9.9 million for the financial years 2017 and 2018, respectively, representing 10.4% and 10.0% of the total remuneration paid by Addiko Group for the financial years 2017 and 2018, respectively.

15.14.2.2 Annual Bonus Scheme

Addiko Group intends to continue operating its existing variable incentive compensation programme under which all employees are entitled to receive a variable annual cash bonus in addition to their fixed compensation (the ***Annual Bonus Scheme***). An employee is eligible to participate in the Annual Bonus Scheme upon completion of more than five months of employment within Addiko Group. The annual bonus pool for the Annual Bonus Scheme is determined on the basis of Addiko Group's performance and on the performance of each Addiko Group subsidiary bank. The annual bonus payments being payable to participating employees are determined on the basis of both qualitative and quantitative targets, including Addiko Group's operating results and the individual employee's target and objective achievement.

Effective May 2018, 1,744 employees were rewarded in 2017 through the three variable incentive programs, representing roughly 55% of Addiko Group employees. This number also includes certain members of Addiko Group's senior management.

15.14.2.3 Retail Sales Incentive

Addiko Group will continue to operate its existing retail sales incentive compensation programme in which employees in sales functions who are in a position to directly influence the sales results of Addiko Group are eligible to participate (the ***Retail Sales Incentive***). Participating employees receive a variable cash bonus pursuant to the Retail Sales Incentive, the amount of which is determined on the basis of quantitative and qualitative performance indicators. The cap is set for each position as a percentage of the gross salary. The cap differs by country and ranges from 20% to 50%.

15.14.2.4 Early Collection Incentive

Addiko Group operates a short-term incentive bonus scheme applicable to employees in the collections call center teams to further improve performance in line with Addiko Group's risk strategy focusing on early collections within the first 90 days past due. The plan provides for monthly incentive payments for collections call center employees upon meeting certain defined performance targets. The parameters of the early collection incentive scheme relate to both overall team performance and individual effort.

15.14.2.5 Senior Leadership Incentive Program

This program is currently in the implementation phase. The most critical members of the senior management and management teams (including country management board members and group managing directors) are expected to be invited to participate in an extended performance incentive program pursuant to which they will receive an additional performance bonus if specific group targets are achieved in 2019. For the 2019 performance cycle, 36 employees may be rewarded with a cash payment as an extended part of the Annual Bonus Scheme, and the payout is planned for April 2020.

15.14.2.6 Pensions and Long-Term Employee Benefits

A long-term benefit plan applies to employees of the Company: After ten years of employment with Company, the percentage of salary the Company pays to the company provision fund (*Betriebliche Vorsorgekasse*) under the "new" severance pay scheme (*Abfertigung "neu"*) on a monthly basis is doubled (from the mandatory percentage of 1.53% to 3.06%).

A market standard healthcare program is provided to employees of the Company and Addiko Bank d.d., Zagreb. No particular executive healthcare plans are provided.

Further, employees of the Company benefit from the following provisions under the Bank CBA: (i) An employee's notice period will be increased by additional two months after five years of service and (ii) employees who have been employed with the Company for more than twenty years will be entitled to a jubilee payment in the amount of one monthly salary.

Other than the benefits described above in this section, Addiko Group does not operate any pension schemes or provide retirement benefits or similar long-term benefits as part of the employment compensation packages.

15.14.3 Addiko Bank Group HR Strategy

Addiko Group's human resource strategy has seven pillars of focus: (i) recruitment and employment, (ii) talent management, (iii) education, (iv) employee engagement, (v) performance management, (vi) employee compensation and benefits, and (vii) human resource cost and reporting management.

Addiko Group’s so-called "HR Roadmap" has introduced over 50 policies, processes, practices and tools in order to reflect and enable:

- Fair and structured remuneration schemes
- Management by objectives
- Diligent hiring and recruitment processes
- Talent management
- Employee skills and competencies
- Effective leadership development
- Accurate human resource cost reporting
- Cultural transformation
- Employee engagement

Recognition was given to Addiko Bank d.d., Ljubljana in 2018 by being awarded a national certificate as a "family friendly" bank. Addiko Bank d.d., Zagreb was awarded the "Employer Partner Certification" for excellence in human resource management in January 2019. All employees benefit from an abundance of training courses and qualifications, team building events and non-financial employee recognition. Embracing a unified human resource strategy across all six countries with the purpose of "building a great place to work" is reflected in the fact that all countries have adopted the 2018-2021 "HR Roadmap" (described above).

Addiko Group believes that it has built a strong team of employees through its prudent recruitment, development and performance assessment practices. As proof of continued focus upon employee development, a total amount of EUR 1.6 million was invested in educational programs in 2018. Addiko Group further launched the group diversity and inclusion policy in 2018, setting gender diversity targets across all layers. In total, 69.3% of Addiko Group's employees, 19.2% of Addiko Group's management and 24.2% of Addiko Group's local supervisory boards are female. The employee base is stable with 92% of the employment contracts being concluded for an indefinite period of time, and 98% of the employees working on a full-time basis.

15.15 Real Estate and Leases

Addiko Group currently operates 197 branches as of March 31, 2019, in its countries of operation, of which branch premises Addiko Group owns 67 and leases 130 (68 owned and 130 leased as of December 31, 2018). Design of relocated branches, refurbishments and new openings are done in accordance with the branch standards defined at the end of 2017 to reflect the new Addiko Group brand experience.

The headquarters in Vienna, Austria, is leased. There is a second office location in Klagenfurt, Austria, hosting mainly parts of the finance, risk and IT teams. The following table shows the material properties currently occupied by Addiko Group:

Property name	Location	Net Floor Area (m^2)	Leased/Owned
Addiko d.d. (Zagreb), HQ	Zagreb, Croatia	6,800	Leased
Addiko Bank d.d. (Ljubljana), HQ	Ljubljana, Slovenia	4,125	Leased
Addiko a.d. BEOGRAD, HQ – Usce	Belgrade, Serbia	2,419	Leased
Addiko Bank a.d. Banja Luka, HQ	Banja Luka, Bosnia & Herzegovina	3,524	Owned
Addiko Bank d.d. (Sarajevo), HQ	Sarajevo, Bosnia & Herzegovina	3,618	Owned
Addiko a.d. BEOGRAD, HQ – Addiko Hill	Belgrade, Serbia	1,398	Owned
Addiko Bank AG, HQ	Vienna, Austria	1,180	Leased
Addiko Bank AG, 2nd Office	Klagenfurt, Austria	986	Leased
ADDIKO BANK A.D. PRODGORICA, HQ	Podgorica, Montenegro	973	Leased

(Source: Company information)

Addiko Group continues to review its property requirements, taking into account cost containment measures as well as growth initiatives in selected businesses. As part of Addiko Group’s space optimization program, the total area used by Addiko Group (for headquarters and branches) was reduced from approximately 132,000 m^2 in December 2015 to approximately 92,000 m^2 in March 2019, a 30% reduction in area, driven by both headquarters and branch space optimization. The number of branches reduced thereby from 235 as of December 31, 2015 to 197 as of March 31, 2019.

The overall real estate operating expenditure also decreased due to space optimizations, contract renegotiations and other efficiency efforts. The operating expenditures for the financial year 2018 was EUR 17.8 million, as compared to EUR 18.8 million in the financial year 2017, a 5% reduction.

There is one large reconstruction project ongoing, with a value of over EUR 1 million, which is the modernization of the local headquarter in Sarajevo expected to finish by the second quarter of the financial year 2019, which was financed out of Addiko Group`s current cash flows.

15.15.1 Sale of Real Estate Assets

In 2017, Addiko Group started a group-wide real estate sales programme to reduce the number of assets (including underutilized branches and office space) owned by Addiko Group that were of no strategic importance. In regards to the group-wide real estate sales programme, the Existing Shareholder has entered into service agreements with all Addiko Group banks (except for ABM and the Company) for the purpose of providing management services in relation to the sales process for real estate assets owned by Addiko Group that are part of the programme. Addiko Group will benefit from a significant reduction of the real estate assets through improved quality of the balance sheet and greater profitability. The program started with 63 items, which had a book value of approximately EUR 26.8 million as of December 31, 2017. In the financial year 2018, 4 real estate assets were sold, thereby reducing the book value of the remaining items to approximately EUR 26.0 million as of December 31, 2018.

15.16 Material Legal Disputes and Administrative Proceedings

Addiko Group is subject to a number of legal and administrative proceedings as part of its ordinary business activities. Such proceedings are often highly complex, take considerable time and are difficult to predict or estimate. Similar disputes and proceedings will likely also arise in the future and may involve new or untested legal issues and therefore the outcome of such cases may be difficult to predict.

As of December 31, 2018, Addiko Group's overall passive legal disputes (i.e., disputes where Addiko Group is the defendant) amounted to claims of EUR 331 million (excluding accrued interest) relating to 2,729 cases. From the overall amount in dispute of EUR 331 million (excluding accrued interest), 1.6% (or EUR 5 million) relate to business generated after January 1, 2016 (1% relates to corporate and damage claims). The remainder relates to business that was generated before January 1, 2016, which amounts in dispute were substantially reduced, from over EUR 1 billion at the beginning of the financial year 2016, in connection with Addiko Group's reorganisation and transformation. See "*14.3 Transformation*".

The passive legal disputes relate to declaratory, payment and damage requests, including FX cases and loan processing fee cases. The Management Board believes that Addiko Group's Consolidated Financial Statements make adequate provisions for pending legal proceedings. However, there can be no assurance that such provisions are sufficient or additional provisions would be required in the future. See also *"3 Risk Factors*".

It is impossible to reliably determine or predict the outcome of proceedings pending or threatened. Other than the proceedings described below, during a period covering the previous twelve months, no legal or administrative proceedings (including any proceedings which are pending or threatened of which the Company is aware) may have or have had in the recent past significant effects on the Company and/or Addiko Group's consolidated financial position or profitability.

Legal disputes relating to certain standard provisions of Addiko Group's customer agreements

Of the overall portfolio of passive legal disputes, 2,035 disputes relate to certain standard contractual provisions concerning retail FX clauses in CHF loans of Addiko Group, unilateral interest rate changes and refunds of loan processing fees.

FX Clauses

In Croatia, on September 18, 2015, and in Montenegro in August 2015 (as amended on September 18, 2015), laws were introduced requiring banks to convert CHF loans into EUR denominated loans, converting the loan amount at a currency rate which was applicable at the day of payment of the respective loans (the ***Conversion Laws***). The Conversion Laws were introduced to remedy the implications of the appreciation in value of the CHF relative to the local currency, which appreciation became relevant with respect to lending activities. Historically, CHF-loans were made available to customers in local currency and provided for a repayment obligation in such local currency at an amount corresponding to the relevant CHF exchange rate at the relevant repayment date. Following the increase in value of the CHF currency to the respective local currency, customers allegedly claimed that they would not be able to repay such CHF-loan. The Conversion Laws as well as alleged insufficient information/notification of borrowers about currency risk led to many claims being brought against Addiko Group in relation to FX and floating interest rates clauses in the loan agreements.

Irrespective of the Conversion Laws, in Croatia, initiated by "Potrošač", a consumer protection association, and Montenegro, claims against Addiko Group regarding the CHF clauses are pending since those proceedings were commenced before the "Conversion Laws" came into force. Since the claims in Croatia were filed by Potrošač, Addiko Group is currently unaware of how many clients Potrošač represents as the claim was only a declaratory claim and Potrošač did not formally represent the

clients. Now all clients need to sue individually and request compensation. Additionally, in Croatia, Addiko Group filed ordinary and extra ordinary remedies against the High Commercial Court's verdict.

In Slovenia, the Supreme Court rendered three verdicts regarding FX clauses in CHF loans in the period from October to December 2018. All verdicts specify the term "notification duty" of the banks regarding risks and development of the CHF currency, which is assessed by the court on the case by case basis. The draft Slovenian CHF Loans Act, which was put into the parliamentary procedure on May 16, 2019, allows for a challenge of the obligation to conversion if the notification duty was duly fulfilled, in accordance with the case law of the European Court of Justice (ECJ) and Slovenian case law. Addiko Group cannot currently predict whether, when and with what wording the final Slovenian CHF Loans Act may become effective.

In Montenegro, since May 2013 a group of claimants (267 persons) applied to the court for a partial annulment of CHF loans (amount in dispute of approximately EUR 7,650,000) received from a subsidiary of Addiko Group. As of April 30, 2019, out of these 267 persons 113 settled in the meantime and waived their claims and additional 50 claimants settled but did not waived their claims with the Montenegrin subsidiary. Therefore, 154 persons are still involved.

The claimants mainly argue that the Montenegrin Act on Contracts and Torts and the Montenegrin Consumer Protection Act were violated. The first instance court rendered a verdict in favor of the subsidiary of Addiko Group on July 7, 2017, but following an appeal by the claimants and the subsidiary of Addiko Group, the second instance court repealed the first instance court's judgment and remanded the case for retrial.

In Serbia, a conversion law regarding CHF housing loans was enacted on April 29, 2019 as *lex specialis* in the Republic of Serbia. This law came into force on May 7, 2019 and obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests) after conversion into EUR currency, whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The conversion amount to be taken over by the banks amounts to 21%, with the Republic of Serbia to participate in the amount of 17% of the reduction. The law was adopted following issuance of an official standing of the Serbian supreme court of cassation which argued nullity of Swiss franc clauses under certain conditions. The implications of such opinion in the context of the law are yet to be determined. Given the existing amount of provisions on this portfolio, on the basis of the current assessment there is a loss potential in a single-digit million amount.

Unilateral Interest Rate Changes

Additionally, there have been some claims asserted in relation to the unilateral interest rate clauses found in many agreements. The clauses in question allowed Addiko Group to increase or decrease the interest rate in its own discretion. In Croatia, the government installed a law before the Conversion Laws fixing the interest rate at 3.32% for CHF FX loans. Clients claim that these clauses violated the law since it is unfair due to the interest rates being indeterminable and shows the imbalance between banks and clients.

Loan Processing Fees

In Serbia, another set of claims relates to refunds of loan processing fees. These disputes are based on an argument that (i) the loan processing fees do not represent real expenses for a bank, (ii) such fees are not properly defined in the way that one can understand the origin of such costs, and (iii) such fees do not fall within permissible costs under the applicable Serbian regulations. As of April 30, 2019 Addiko Group in Serbia is acting as a defendant in 621 loan processing fees disputes and the total value of the pending disputes is approximately EUR 440,000 (excluding interest and legal fees).

In the view of Addiko Group, the claims described above are without merit, and Addiko Group intends to defend itself vigorously in respect of these claims.

Legal disputes relating to payment and damage requests

Of the overall portfolio of passive legal disputes, 13 disputes relate to payment and damage requests exceeding EUR 5 million per dispute (excluding accrued interest), which in aggregate amount to EUR 123 million (excluding accrued interest). Six of those proceedings are briefly described below based on the following criteria: payment/damage claims per country above EUR 5 million amount in dispute.

Croatia

In Croatia, a claim in the amount of EUR 8,923,213 is pending against a subsidiary of Addiko Group relating to a loan agreement in connection with a housing construction project in Karlovac. The claimant is seeking damages for financial losses that allegedly occurred due to the fact that the subsidiary of Addiko Group, after it financed phase I. of the project, refused, in breach of its obligations, to finance phases II., III. and IV. of the project. The claimant argues that the subsidiary of Addiko Group terminated negotiations for financing of the remaining phases of the project without a valid reason and thus should be obliged to reimburse the claimant for lost profits. The first instance court upheld the claim, ordering the subsidiary of Addiko Group to pay EUR 2,436,078 with interest accruing from December 3, 2009, and to reimburse the cost of the proceedings. The decision was upheld on appeal. On September 20, 2018, the residual claim in the amount of EUR 4,778,926 was sold to a third party by the claimant. The subsidiary of Addiko Group and the claimant filed for a further appeal before the Supreme Court, which appeal is still pending. The amount of EUR 4,778,926 was already paid by the respective Addiko subsidiary in November 2018.

In another case in Croatia a claim was filed for a compensation of damages in the amount of EUR 16,617,625 due to loss of earnings, as a result of non-fulfillment of the contractual obligations by the Addiko Group subsidiary. The subsidiary of Addiko Group did not disburse the agreed funds under the loan agreement since the loan agreement was mutually terminated because the claimant did not fulfill the condition precedents. The first instance court rejected the claim. The claimant managed to overturn the decision on appeal in the part referring to EUR 73,000, which was quashed and remanded for a retrial the remaining part of the decision was confirmed and upheld on appeal. The claimant filed for a third level appeal with the Supreme Court. The appeal was rejected by the Supreme Court of which the subsidiary of Addiko Group was informed on June 13, 2019. Although the claimant may file a constitutional claim with the Constitutional Court this case is deemed closed since the subsidiary of Addiko Group is not party to this claim.

Bosnia & Herzegovina

In Bosnia & Herzegovina a claim in the amount of EUR 11,965,544.86 is pending against a subsidiary of Addiko Group relating to a loan agreement pursuant to which the claimant seeks the annulment of two annexes to the loan agreement, governing a decrease of the principal amount and an increase of the interest rate. The claim is mainly based on the argument that the annexes to the loan agreement was allegedly concluded under coercion, blackmail and threat by the subsidiary of Addiko Group. The first instance proceedings are still pending.

Another claim relating to a loan agreement is pending against a subsidiary of Addiko Group in Bosnia & Herzegovina. The subsidiary of Addiko Group, as lender, the claimant as borrower and another Bosnian company as co-debtor, entered into a long-term loan agreement with a currency clause (*Ugovor o dugoročnom kreditu sa valutnom kauzulom*), pursuant to which the subsidiary of Addiko Group granted to claimant a loan in an amount of EUR 3,579,043.17. The loan was granted for the purpose of financing the construction of a parking facility in Sarajevo. The loan was secured *inter alia* by a mortgage established over the property owned by the claimant. At a certain stage, the subsidiary of Addiko Group refused to continue financing the construction of the parking facility because the claimant failed to obtain the construction permit until the end of the utilization period, as stipulated in the loan agreement. The claimant argued that issuance of the construction permit was not a condition for utilization of the loan. In the first instance court decision, the claimant was awarded damage compensation in an amount of approximately EUR 194,176.00 on the basis of the wrong calculation of the charged interest, while the other claims were denied as ungrounded. The second instance court confirmed the first instance decision to deny the remaining damage claims, while in relation to the decision to award damages in regards to the unilateral interest rate change, the decision was revoked and the matter remanded to the first instance court. Following such ruling, the claimant appealed the decision regarding the denial of the remaining damages, with the Supreme Court which currently also rejected the appeal, while the claim relating to the unilateral interest rate change is currently in retrial proceedings before the first instance court. The amount in dispute is approximately EUR 9,405,909.

In another claim the claimants as the borrower and guarantor to a loan agreement contracted with the subsidiary of Addiko Group in Bosnia & Herzegovina claiming for EUR 13,905,114.55 on damages due to lost profits. On September 30, 2009, parties executed an annex amending the interest rate to 6 months LIBOR plus margin of 5.30% p.a. Due to an enormous increase of the exchange rate between BAM and CHF during the repayment period, the claimant faced difficulties in meeting its payment obligations, which ended with a default. The claimant requested on several occasions a conversion of the loan into a BAM loan, but ABSA never agreed to it.

Via the lawsuit claimants seek (a) annulment of the annex due to the fact that it had been allegedly concluded under blackmail and threat; as well as (b) damages allegedly occurred due to: (i) the claimant's impossibility to realize the profits from its investment project; (ii) loss of goodwill; (iii) loss of profit; and (iv) as a domino effect the work and sales.

The second instance proceeding is still pending. On December 3, 2018, neither claimants nor their legal representative appeared in court although the hearing was scheduled in time. The judge ruled the claim as withdrawn. Claimants filed an appeal and a motion for reinstatement.

A further claim is pending against a subsidiary of Addiko Group in relation to which the claimant is seeking damages caused by an alleged breach of a loan agreement concluded among the claimant, as guarantor, the subsidiary of Addiko Group, as lender, and another Bosnian company as the primary debtor. The claimant argues that the subsidiary of Addiko Group was obliged to try to collect its claim from the primary debtor first and only thereafter pursue claims against the claimant, which the subsidiary of Addiko Group failed to do. The subsidiary of Addiko Group raised an objection that the claim was time-barred. The amount in dispute is approximately EUR 7,294,757 and the first instance proceedings are still pending.

A further claim is pending against a subsidiary of Addiko Group and two other companies in relation to a share purchase agreement. The claimant and a Bosnian company concluded a share purchase agreement by which the claimant purchased shares of another company. It was determined that the seller was not in fact the registered owner of the shares sold and the shares are formally owned by a third party, of which the subsidiary of Addiko Group is allegedly a legal successor. The claimant has certain commercial receivables against the company which shares the claimant bought. Since Addiko Group's subsidiary in Bosnia & Herzegovina is still registered as 63% shareholder claimants sue for an aggregate amount of EUR 8,270,244.85 because the company was unable to properly operate and settle its debt vis-à-vis creditors, employees and tax authorities.

The claimant requested the court to order Addiko Group's subsidiary in Bosnia & Herzegovina to pay damages to the company because Addiko Group's subsidiary in Bosnia & Herzegovina, acting as a controlling shareholder, allegedly induced the company to conduct its operations in the way damaging to the company.

Addiko Group's subsidiary in Bosnia & Herzegovina raised a defence that the claimant has no standing to sue since the claimant is in fact a majority shareholder of the company. Addiko Group's subsidiary in Bosnia & Herzegovina sold and transferred its shares in the company and the claimant was the ultimate acquirer of those shares in 2008. Also, the claim is time-bared.

The first instance court rejected the claim and its decision was confirmed and upheld on appeal. The claimants filed for a third level appeal before the Supreme Court and the appellate proceeding is still pending.

Montenegro

A declaratory claim in the amount of EUR 5,750,000 is pending in second instance against a subsidiary of Addiko Group upon its appeal in connection with an agreement on the realization of an auction sale of real estate subject to mortgages. The same claimants also initiated another proceeding against the subsidiary of Addiko Group, requiring the voidance of the pledge statements pursuant to which the mortgage in favor of the subsidiary of Addiko Group was established. In the second proceeding all three instances ruled in favor of the claimants. However, the subsidiary of Addiko Group filed an extraordinary appeal with the constitutional court.

Arbitration Proceedings

In September 2017, the Company (together with its Croatian subsidiary) filed two Requests for Arbitration with the ICSID in Washington, DC against Montenegro and the Republic of Croatia regarding the Conversion Laws claiming EUR 10 million and EUR 201 million, respectively. The Company claims that the Bilateral Investment Treaties (***BIT***) with the respective country regarding the fair and equivalent treatment under the respective BIT was violated. Counter memorials by the respondents have yet been submitted to the tribunals denying any damages and liability in relation to these proceedings.

In regards to the arbitration against Croatia, there were two developments in December 2018: First, Croatia made a request to bifurcate the proceedings, which was denied by the tribunal. Second, the EU Commission submitted a request to intervene as a Non-Disputing Party in order to provide further support for its view that the Tribunal lacks jurisdiction over the Company's claims in light of the "Achmea" decision by the European Court of Justice, ECJ (March 2018) finding that the arbitration provisions of intra-EU BITs are contrary to European law. Following this judgement, the EU Commission has intensified its dialogue with all EU Member States on intra-EU BITs and as a result, all Member States have committed themselves signing the termination of all intra-EU BITs until the end of 2019. The proceedings remain pending. Due to the aforementioned position of the EU Commission the Company has filed a claim for compensation with the Croatian courts in June 2019 claiming that the Conversion Law violated EU treatises. The claimed amount is equal to the amount in the BIT proceeding.

15.17 Insurance

Addiko Group has entered into insurance contracts it believes are relevant and considered best practice to a bank of its size to cover management and operational risk. Sums insured and specific conditions of the contracts are dependent on market conditions and acceptable pricing for Addiko Group and insurers. All insurance policies were reviewed and accepted by Addiko Group and are supported by market analysis and benchmarks that the insurance broker provided to Addiko Group upon request.

Since 2016, Addiko Group has continuously reduced its premiums for its D&O insurance, with a reduction of 26% in 2017 and 38% in 2018. The insurance premium for the D&O insurance may increase after listing of the Company with the stock exchange due to higher risks. The potential increase is evaluated currently with the insurance broker and insurance companies. The insurance policies concluded by Addiko Group mainly cover the following topics:

- Crime / banker's blanket bond insurance
- Cyber insurance
- Professional liability insurance
- Directors' and officers' liability insurance
- Criminal procedures legal defense costs insurance
- Property damage insurance
- General liability insurance

15.18 Material Contracts

The following section provides a summary of material agreements to which any member of the Addiko Group is a party.

15.18.1 Bancassurance Co-operation with UNIQA International AG

On January 24, 2018 the Company and Uniqa entered into an Austrian law governed memorandum of understanding (***MoU***) establishing a framework for providing bancassurance services on a non-exclusive basis in CSEE countries where Addiko Group operates. The MoU is concluded for an indefinite period and can be terminated by either party at the end of each calendar year, subject to six-month prior notice and provided further that it may be terminated at the end of 2022 for the first time. The MoU establishes the framework, procedures, principles and guidelines with respect to jointly defined bancassurance services to be developed and offered to Addiko Group's customers relating to insurance products tied to lending products, current accounts and cards and risk insurance products. Currently, under the MoU bancassurance products are offered in Bosnia & Herzegovina, Croatia, Montenegro, Serbia and Slovenia.

15.18.2 Customer Business Agreement with Mastercard Europe SA

On May 9, 2018, the Company and Mastercard Europe SA (***Mastercard***) entered into a customer business agreement (the ***Customer Business Agreement***), to which each of the Addiko Group entities joined by way of accession as a party to the Customer Business Agreement. Under the Customer Business Agreement, Addiko Group is able to offer credit and debit card services of Mastercard to its customers and Mastercard will provide the following services: (i) marketing support (Mastercard grants to the relevant local entity a support for their marketing and advertising activities), (ii) customer delivery support, (iii) product development support (support the respective legal entities with an amount specified in the respective individual agreements for the significant costs and work to be undertaken by the local entity for the research and development of new Mastercard card implementations, and/or other Mastercard products and/or services), (iv) academy support (professional support in all areas of the payment card operations business), (v) advisors support, and (vi) migration support. The Customer Business Agreement expires on December 31, 2022. Under the terms of the Customer Business Agreement, each party has the right to terminate the Customer Business Agreement for good cause. The Customer Business Agreement is governed by the laws of Belgium.

15.18.3 ATM Outsourcing Arrangements

Framework Sale and Purchase Agreement

On April 20, 2017, the Company and Asseco South Eastern Europe Spólka Akcyjna (***Asseco***) entered into a framework sale and purchase agreement pursuant to which Addiko Group, following execution of respective country agreements by the relevant local entities of Addiko Group and Asseco, sold all Automated Teller Machines (***ATM***) stocked or installed in various locations across the respective countries (***ATM Fleet***) to Asseco. The framework sale and purchase agreement is governed by Austrian law.

Framework Services Agreement

On the same date, the Company and Asseco entered into a framework services agreement (the ***Framework Services Agreement***), also governed by Austrian law, pursuant to which Asseco, following execution of respective local services agreements by the relevant local entities of Addiko Group and Asseco, provides ATM maintenance services (and related services) to Addiko Group. In accordance with the Framework Services Agreement, Asseco undertakes to perform such services in regards to the ATM Fleet in return for, in particular, a monthly fee to be paid by the respective Addiko Group subsidiary for such services. The Framework Services Agreement is concluded for an indefinite period. Each party to a local services agreement is entitled to terminate the local services agreement at any time for good cause (as defined in the framework services agreement, e.g. material breach, force majeure, etc.), subject to a termination notice of at least 180 days. Termination of local services agreements by the respective entity of Asseco for convenience, however, is only permitted after the first 24 months and then only subject to a termination notice of at least six months. Furthermore, on April 20, 2017, the Company and Asseco entered into an additional agreement that specifies, among others, rights and duties in connection with an early termination of a local services agreement (the ***Exit Agreement***). Pursuant to the Exit Agreement, the party which terminates a local services agreement for convenience or which is responsible for a termination, must pay an exit fee. After the first seven years of a local services agreement, it may be terminated without payment of such exit fee. Furthermore, in the event that a local services agreement becomes ineffective, for whatever reason (including termination by any party as well as termination caused by any Addiko Group subsidiary), the respective Addiko Group subsidiary is entitled to purchase the respective ATMs from the respective Asseco subsidiary at the termination date for a purchase price reflecting the fair market value calculated as agreed in the Exit Agreement.

15.18.4 Software licenses and professional services by Appian

On July 31, 2017 the Company and Appian Software Switzerland LLC and its parent company, Appian Corporation, a Delaware corporation (***Appian***), entered into a master agreement, to which agreement Addiko Bank a.d. Beograd and Addiko Bank d.d., Ljubljana joined by way of accession as a party to the agreement. The master agreement stipulates terms and conditions and products dealing with the provision of term licenses for the Appian's business process management software, including maintenance services and professional services in connection with the Appian software as mutually agreed upon individual agreements. These separate agreements on consulting services (statement of work) include, for example, support related to the digital corporate loan and trade finance process, to Addiko's monitoring, early warning system and pre-workout application as well as on-site training sessions. The remuneration (*e.g.*, license and service fees) to be paid to Appian is set forth in the respective individual agreement(s). Unless otherwise stipulated in the master agreement the parties are entitled to terminate an individual agreement concluded under the master agreement and/or the master agreement for good cause (as defined in the master agreement). Licenses for the Appian software are granted until July 31, 2022. The master agreement and any individual agreement are governed by Austrian law.

15.18.5 Software solutions, licenses and professional services by Comtrade

On January 15, 2018 the Company and Comtrade d.o.o., Sarajevo, Comtrade Solutions Engineering d.o.o, Serbia and Comtrade d.o.o., Ljubljana (***Comtrade***) entered into a framework agreement regarding software solutions, licenses and professional services provided by Comtrade, to which agreement Addiko Group subsidiaries could join by way of accession as a party to the agreement. Addiko Group is using Comtrade's e-banking software platform as group-wide core operating system for e-banking and partially mobile banking. The framework agreement establishes the frame for the cooperation between the Company and Addiko Group subsidiaries (which have joined the agreement by way of accession) and Comtrade related to digital transformation of Addiko Group. The agreement, among others, defines commercial terms of the cooperation between Comtrade and Addiko Group including licensing of products/solutions and provision of related service. Under the framework agreement Comtrade will, among others, develop, set up and provide Addiko Group with certain software solutions (in particular for digital segment of Addiko Group's business and related services/products and Comtrade mToken including licenses), render support and maintenance services with regard to certain supported systems. The framework agreement is concluded for an indefinite period of time. The Company may terminate the framework agreement for convenience within six months' notice to the end of a month; Comtrade within six months' notice to the end of a month provided, that Comtrade is not entitled without the explicit prior written consent of the Company (and its respective subsidiaries) to terminate the agreement as long as certain services to be performed by Comtrade have not yet been fully completed by Comtrade. Comtrade has waived its right to terminate the agreement for convenience for the period of three years. However, Comtrade granted the Company the option that Comtrade will waive its right to terminate the agreement for another period of three years following the expiry of the first three years, in case the Company accepts a potential adjustment in remuneration which is calculated according to fair market prices for resources at that time. Furthermore, the parties are entitled to terminate the agreement for good cause (e.g. materially breach of contractual obligations, insolvency/bankruptcy, etc.). The framework agreement is governed by Austrian law.

15.18.6 Processing Agreement with First Data Deutschland GmbH

Addiko Bank d.d., Croatia, entered into a processing agreement with First Data Deutschland GmbH (***First Data***) on August 21, 2018. First Data is a leading provider of payment processing services. Under the agreement also Addiko Bank d.d. Sarajevo, Addiko Bank a.d. Banja Luka, Addiko Bank a.d. Beograd and Addiko Bank A.D. Podgorica are entitled to receive services to be provided by First Data. Pursuant to the agreement, First Data will, for the term of the agreement, be the sole and exclusive provider of certain services to be provided under the agreement. Services to be provided under the agreement include transaction processing services (in connection with e.g. credit cards, debit cards, prepaid cards, ATMs). For various services provided under the agreement the respective Addiko Group subsidiary has to pay certain fees. The contract period is ten years. The processing agreement is governed by Austrian law.

15.18.7 Agreement with ARZ Allgemeines Rechenzentrum Gesellschaft mbH

On August 18, 2017 the Company and ARZ entered into a supplementary agreement to the customer agreement, concluded on July 15, 2014, the scope of which is, among others, data center services to be provided by ARZ. In connection with its online banking pursuant to the supplementary agreement, ARZ also provides assistance, among others, in connection with end user support and back office activities for Austrian banking business (online deposit business). For services provided by ARZ, the Company has to pay certain service fees. The supplementary agreement is concluded for an indefinite period of time. The parties are entitled to terminate the supplementary agreement for good cause (e.g. materially breach of contractual obligations). The termination of the supplementary agreement has no effect on the customer agreement. However, the parties waived their termination right for good cause until December 31, 2019.

15.18.8 Multi-Country Master Service Agreement with DXC Technology

On August 31, 2016, the Company, Addiko Bank a.d. Beograd, Addiko Bank A.D. Podgorica, Addiko Bank d.d. Ljubljana entered into a multi-country master service agreement with Enterprise Services d.o.o. Beograd (a subsidiary of DXC Technology) (***MSA***). Further, on October 1, 2016, Addiko Bank a.d. Banja Luka and Addiko Bank d.d. Sarajevo and on January 1, 2017 Addiko Bank d.d. Zagreb joined to the MSA. To implement the MSA the Addiko Group subsidiaries entered into local services agreements. Under the MSA Enterprise Services provides technology products, software, solutions, and services. The services to be provided by Enterprise Services relate to the following areas:

- IT Management services
- Service Desk services
- Data Center services
- Middleware services
- Network services
- IT Security and Audit services
- End user Workplace services
- Lotus notes services
- Application management services
- Business Continuity and Disaster Recovery services

For services provided by Enterprise Services, the respective Addiko Group subsidiary has to pay service fees. The MSA will end on October 31, 2022. The MSA and the local service agreements can be terminated for cause (as defined in the MSA) by both parties and, by the respective Addiko Group subsidiary, for convenience (as described in the MSA). The MSA is governed by Austrian law.

16 Risk Management

16.1 Introduction

Addiko Group steers and monitors its risks across all business segments, with the aim of optimizing the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting Addiko Group's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

Addiko Group adheres to the following central principles with respect to the overall controlling of risk management:

- Clearly defined processes and organizational structures are adhered to for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring departments are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (***FMA-MSK***) and the Banking Act.
- Addiko Group implements appropriate, mutually compatible procedures for the purpose of identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

16.2 Regulatory framework

Addiko Group is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. Each entity of Addiko Group is regulated and supervised by relevant authorities in each jurisdictions in which it operates. The Austrian supervisor, FMA, is the consolidated supervisor for the Addiko Group.

At the time of the Private Placement, Addiko Group is regulated and supervised by the relevant authorities up to and including the level of AI Lake, which holds 100% of the shares in the Company. At or around the pricing, AI Lake will cease to be the majority shareholder of Addiko Group. After the closing of the Private Placement, Addiko Group will be regulated and supervised by the relevant authorities only up to and including the level of the Company.

On the basis of the SSM Regulation, Addiko Bank AG is considered a less significant credit institution and Addiko Group is considered a less significant group. Addiko Bank AG and Addiko Group remain under the supervision of the national supervisory authorities and are only indirectly supervised by the European Central Bank. In Austria, less significant institutions and less significant groups of credit institutions remain under the supervision of the FMA.

The SRB is the resolution authority for significant banks and other cross-border groups within the European Banking Union. Together with National Resolution Authorities (***NRAs***), it forms the SRM. The mission of the SRB, in cooperation with the NRAs, is to ensure the orderly resolution of failing banks with minimum impact on the "real" economy and public finances of the participating Member States of the Banking Union with a view to maintaining functions of banks that are important to the "real" economy. As a cross-border group, Addiko Group is within the SRB´s remit of the SRM relating to resolution. The Croatian subsidiary of Addiko Group is treated as a locally significant institution in Croatia.

Addiko Group qualifies as a group of credit institutions (Kreditinstitutsgruppe) within the meaning of Section 30 of the Banking Act. Under the Banking Act, the institutions in the group of credit institutions must set up adequate internal control mechanisms and provide the superordinate credit institution with all documents and information required for consolidation. The institutions must also provide each other with all information which appears necessary to ensure the adequate capture, assessment, limitation, management and monitoring of risks as specified in Section 39 and 39a of the Banking Act as well as the capture, identification and evaluation of credit risks necessary for banking operations in the group of credit institutions and the institutions belonging to the group.

The table below shows the entities that are (currently) in the scope of consolidation at the AI Lake level. Additionally, the legal entities highlighted in grey below are consolidated in Addiko Group as of March 31, 2019:

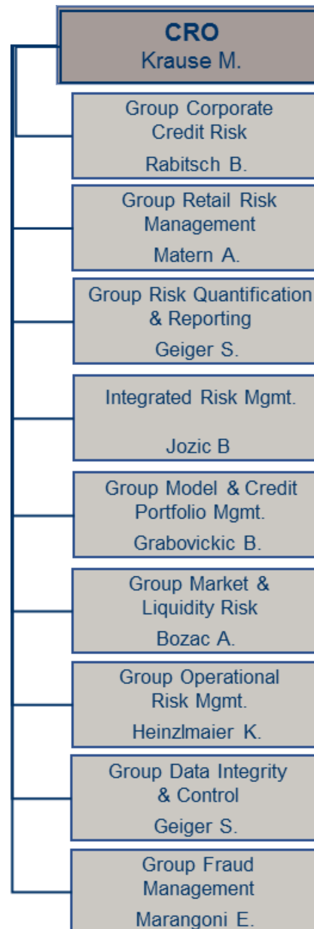
	Group Companies	Country	Share in % (direct)	Consolidation in AI Lake	Consolidation in Addiko
1.	AI LAKE (LUXEMBOURG) HOLDING S.à r.l.	Luxemburg		Yes	No
2.	AI LAKE S.à r.l.	Luxemburg	100	Yes	No
3.	AI LAKE & Cy S.C.A.	Luxemburg	54.4	Yes	No
4.	AI LAKE (LUXEMBOURG) MANAGEMENT S.à r.l.	Luxemburg	100	Yes	No
5.	AI LAKE (LUXEMBOURG) S.à r.l.	Luxemburg	90.24	Yes	No
6.	ADDIKO BANK AG (formerly: HYPO	Austria	100	Yes	Yes

	Group Companies	Country	Share in % (direct)	Consolidation in AI Lake	Consolidation in Addiko
	GROUP ALPE ADRIA AG, Hypo SEE Holding AG)				
7.	ADDIKO BANK d.d., Ljubljana	Slovenia	100	Yes	Yes
8.	ADDIKO BANK d.d., Zagreb	Croatia	100	Yes	Yes
9.	Addiko Bank d.d., Sarajevo	Bosnia & Herzegovina	99.9985	Yes	Yes
10.	Addiko Bank a.d., Banja Luka	Bosnia & Herzegovina	99.8631	Yes	Yes
11.	ADDIKO BANK a.d., BEOGRAD	Serbia	100	Yes	Yes
12.	ADDIKO BANK AD, Podgorica	Montenegro	100	Yes	Yes

(Source: Company information)

16.3 Risk divisions under the CRO responsibility

The organizational structure of Risk Management on Group level is represented by the following chart:



The following organizational departments are under the responsibility of the CRO:

Addiko Group's corporate credit risk department has responsibility for credit risk management for all non-retail customers. Such responsibility also encompasses an operative and strategic role. Operationally, Addiko Group's corporate credit risk department covers the analysis and approval of credit applications above internally-defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for the credit risk management of all non-retail customers, as well as a governance role over departments covering operative credit risk management for all non-retail customers of Addiko Group subsidiaries.

Addiko Group's retail risk management department oversees all the retail risk and collections departments across all of Addiko Group. Its aim is to support the profitable growth of the consumer portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings with all entities of the Addiko Group ensures that the portfolio development is tracked, issues are identified in an early stage and corrective actions are initiated. The retail risk management department is also a key stakeholder of the product approval and review process. This enables that the risk appetite of the lending products is in line with the risk appetite of Addiko Group.

Addiko Group's integrated risk management department manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides Addiko Group's risk strategy, economic capital management, stress testing, coordination of national bank examinations, represents a regulatory single point of contact (***SPOC***) function, and coordinates risk management departments in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Addiko Group's model and credit risk portfolio management department oversees the credit risk model landscape from a portfolio management perspective. It makes sure that applied models fulfill expected quality standards, while fitting within the model architecture also to budget and strategy. This allows for an early strategic repositioning of future lending activities. Part of the Group model and credit risk portfolio management department is the Group's risk validation department, which provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is a fully independent Group shared services department within the operating model that monitors model performance and stability; reviews model relationships and tests model outputs against outcomes.

Addiko Group's risk quantification & reporting department was established in 2018. It provides services which are connected with automated creation of standardized and regulatory risk reports and support other group risk stakeholders with regards to preparing, maintaining risk databases and setting up technical solutions jointly with the IT departments. The function is situated in Austria and works closely with local credit risk functions across Addiko Group´s network.

Addiko Group's market risk & liquidity risk department oversees activities related to market risk (foreign exchange risk, interest rate risk, credit spread risk and equity risk) and the bank's liquidity risk. The team is partially situated in Austria and Slovenia and works closely with locally based market and liquidity risk teams in each of the countries.

Addiko Group's operational risk management department provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk to provide a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

Addiko Group's fraud management department coordinates the activities of the fraud managers in Addiko Group subsidiaries with the goal of guaranteeing a linear approach to the entire process of fraud management. Addiko Group fraud managers are risk managers in that they operate by means of risk management assessment, they identify the possible criticalities in business processes and products that can be exploited to commit frauds, they propose and monitor the necessary anti-fraud controls.

16.4 Risk Management Principles

16.4.1 Overall

The risk management principles of Addiko Group include the central rules of conduct for handling risks within Addiko Group. These principles form a basis for maximum uniformity in the employees' understanding of the risk management goals throughout the organization.

The credit principles seek to clearly define the basics of the credit business to achieve a high and uniform standard of credit decision-making when there is material risk. Furthermore, the credit principles are meant to ensure that the credit process is carried out in accordance with transparent and manageable rules governing both the market and operating risk management sides of Addiko Group.

The risk management framework was significantly changed beginning in 2016, in particular in the areas of corporate and retail credit risk management as described below, as well as regarding the establishment of strong risk indicators with respect to budgeting, forecasting and tracking, for which regularly monitored risk appetite and key risk indicators for each of Addiko Group's countries of operation are available, which allow a drilling down from aggregated Group-level indicators to entity and segment details based on consistent Group-defined methodologies.

Addiko Group's credit policies for the different segments are aimed at determining the desired structure of loan portfolios, as well as defining the measures and procedures that Addiko Group implements to reach the desired portfolio structure. The credit policies also provide definitions of basic rules and limits which are to be adhered to when approving new business.

Addiko Group also established a group wide internal capital adequacy assessment process (***ICAAP***), internal liquidity adequacy assessment process (***ILAAP***) and risk appetite framework (***RAF***) which are described in detail below.

16.4.2 Corporate Credit Risk Management

Underwriting rules were redefined so that emphasis is placed primarily on sources of repayment (cash flows coming from the customer's business), while collateral is considered only a secondary means of repayment. A customer's repayment potential

must be proven based on reliable and sufficiently conservative assumptions with respect to future cash flows, regardless of the collateral or guarantees offered by the customer.

Customer-based monitoring is improved through the introduction of higher frequency monitoring of customers with higher credit risk exposures (over internally defined materiality thresholds), early warning score improvements (in particular the triggers and activities based thereon), as well as the introduction of several watch loan statuses that aim to define a segmented and structured approach in regards to customers that show any signs of financial deterioration or difficulties.

Additionally, customer-based ex post monitoring, based on randomly selected customer samples in each Addiko Group subsidiary, was introduced with the aim of controlling the application of defined lending rules and limits, including credit risk mitigation levels and specified approval rights.

With respect to workout and collection activities, more focus is given to prevention than curing, meaning prevention from going into NPE status and early identification of financial difficulties. Based on sufficient early identification of root-causes, suitable activities are devised. Restructuring activities are commenced only if the customer has sufficient business and cash flows to support its repayment potential. Otherwise, suitable early exit or workout activities are devised.

16.4.3 Retail Credit Risk Management

The following principles refer to the risk governance of the private individual segment of the lending portfolio.

The retail lending process is governed by Group-wide risk policies. The primary policies in this regard are the Group retail credit policy (including retail fraud management), the Group collection and restructuring policy and the Group retail review policy. Local adaptation of these policies can be stricter and must incorporate local regulatory requirements.

Another important pillar for managing Addiko Group's risk appetite is the Group-wide product initiation & update approval process, which is defined in a specific Addiko Group policy. The aim of this policy is to define the general framework adopted by Addiko Group to implement new and modified products and review their performance regularly. A business case is an essential part of all product applications that details the profitability of the product and its main drivers, including risk cost. A selection of such input variables are converted into key performance indicators which are incorporated into the regular monitoring infrastructure.

The following requirements represent a high-level excerpt of the retail credit decisions process which ensures that each customer's profile is in line with Addiko Group's risk appetite. In the case of special individual lending structures or cross-selling campaigns (for example small ticket lending, test initiatives or current lending process in Croatia where the Credit Bureau is temporarily unavailable) deviations to the underwriting process detailed in this section may apply. Also, in case of retail revolving lending products, special underwriting rules are applied. In the case of retail mortgage lending, additional rules apply in relation to the collateral.

Client stability

- Regular income
- Information on employer
- Phone accessibility
- Number of loans taken in recent past

Affordability

- Indebtedness is assessed to ensure the repayment capability of the customer
- Buffers applied in the calculation in case of longer tenors or FX loans (only EUR is permitted)

Willingness to pay assessment

- Application and behavioral scoring
- Fraud screening
- Credit history verification through internal and external sources

Portfolio monitoring is an essential tool of Addiko Group's risk governance framework enabling it to:

- track the development of the portfolio on a regular basis,
- ensure that the risk cost is in line with Addiko Group's strategy,
- identify adverse trends as early as possible.

The monitoring infrastructure consists of the following main elements:

- monthly portfolio quality reviews,
- monthly collection performance reviews,
- weekly collection updates.

Intervention points are defined for certain indicators of the monitoring toolkit to ensure that the necessary actions are devised and taken should Addiko Group's budget plan be endangered.

16.4.4 Three lines-of-defense model

Addiko Group's risk governance is supported by a three lines-of-defense model, which allows Addiko Group to ensure the identification and management of risks across Addiko Group and the countries in which it operates.

The three lines-of-defense model is a standard industry practice pursuant to which the risk is assumed and managed during a transaction by business departments (i.e., the first line of defense). The rules, methodology and controls for processes where risk is assumed are defined and monitored by the risk management department (i.e., the second line of defense), with the reporting process and escalation procedures serving as the tools for providing information to management. The structure is overseen and controlled by management, relying on reports received and information obtained from internal audits (i.e., the third line of defense). This structure is presented in the following chart:

(Source: Company information)

16.5 Communication and Escalation of Risks (Risk Governance)

16.5.1 Group-wide risk management and control system

Ensuring adequate group-wide risk management structures and processes is in the responsibility of Addiko Group's Chief Risk Officer (***CRO***), who is a member of the Management Board. The CRO acts independently of market and trading departments, with a focus on the FMA-MSK as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganization of problem loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and managing the Pillar 2 risk capital that is required from an economic point of view.

16.5.2 The role and responsibilities of the Supervisory Board relating to risk management (including established committees and their risk management responsibilities)

The Supervisory Board is responsible for supervising the Management Board and the fulfillment by the Management Board members of their respective duties under applicable corporate and regulatory laws. The Supervisory Board is regularly (at

least quarterly) informed of Addiko Group's risk situation, risk management and risk controlling, including capital and risk planning, setting of the risk strategy and certain other risk-related topics.

The Supervisory Board has established the following committees which are competent to handle specific risk-related tasks in accordance with regulatory requirements under the Banking Act:

The Credit Committee is a decision-making committee responsible for the granting of loans and credits to customers or to a group of affiliated customers in accordance with the Rules of Procedure of the Supervisory Board.

The Audit & Compliance Committee is in charge of the following:

- Monitoring the accounting process as well as issuing recommendations or suggestions to ensure its integrity;
- Monitoring the effectiveness of the internal control system, the internal revision system and Addiko Group's risk management system;
- Monitoring of the audit opinion and the consolidated audit opinion taking into consideration the findings and conclusions contained in reports, which have been disclosed by the Auditors Supervisory Authority;
- Reviewing and monitoring the independence of the auditor (group auditor), in particular with regard to the additional services performed for the company that is the subject of the audit opinion;
- Delivering the report containing the findings of the audit opinion to the Supervisory Board and a statement about how the audit opinion contributes towards the reliability of the financial reporting, as well as the role of the Audit Committee in that regard;
- Auditing the annual consolidated financial statements and preparing their approval, the proposed appropriation of profits, the management report and, where applicable, the corporate governance report, as well as submitting the report on audit results to the Supervisory Board;
- Auditing the consolidated report and the consolidated management report, the consolidated corporate governance report as well as submitting the report on the findings of the audit to the Supervisory Board; and
- Conducting the procedure for selecting the auditor (group auditor) taking into consideration the appropriateness of the fee as well as the recommendations for the appointment of the auditor (group auditor) to the Supervisory Board.

The Risk Committee deals with the following:

- Advising the Management Board on the credit institution's current and future risk profile and risk strategy;
- Monitoring the implementation of that risk strategy in the context of controlling, monitoring and limiting risks and monitoring capital adequacy and liquidity;
- Verifying whether the prices of the services and products offered by the credit institution adequately consider the credit institution's business model and risk strategy and submitting, if necessary, a plan with remedial measures; and
- Notwithstanding the duties of a remuneration committee, verifying whether the incentives offered by the internal remuneration system take into account risk, capital, liquidity and the probability of realizing profits as well as the point in time when realized.

16.5.3 The role and responsibilities of the Managing Board relating to risk management (including established committees and their risk management responsibilities)

The Management Board is responsible for managing the risks of Addiko Group in accordance with applicable laws, the Company's articles of association as well as the rules of procedures of the Supervisory Board and the Management Board.

The Management Board has established the following committees for the main risk topics that arise with respect to Addiko Group:

- The Credit Committee: it approves all counterparty risks (including credits to associated companies of Addiko Group or problem loans) above the credit authority of the subsidiaries and/or above the delegated credit competence of single persons.
- The Board Audit Committee: it oversees the proper monitoring and supervision of regulatory topics and acts as a strategic platform for its participants to discuss operational risk on a group-wide level. Moreover, it provides an overview of significant audit deficiencies, legal and compliance issues as well as AML.
- The Risk Executive Committee: it is in charge of ICAAP and risk bearing capacity, portfolio steering and limitation and other methodological and project-related topics.
- The Asset Liability Committee: it oversees the steering of interest-, liquidity, FX- and equity risk.

16.6 Risk Management Framework of Addiko Group

16.6.1 Description of risk strategy and risk planning process

Addiko Group performs an integrated planning process on an annual basis which lays out the future strategic development of the group, the entities and the business segments. The key components of the planning process are "business and financial strategy" and "risk strategy". The business and financial strategy is based on a detailed five-year plan of Addiko Group and represents the detailed strategic plan for each subsidiary and business segment. The risk strategy is the key risk document of Addiko Group in which the risk strategy and appetite are defined.

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

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

Addiko Group's RAF sets Addiko Group's risk profile and forms part of the process of development and implementation of Addiko Group's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The risk dimensions cluster the measures with a clear statement of risks covered within and guiding principles for monitoring and steering. The risk adjustment framework measures define the risk level the bank is willing to accept. Measures are split in primary measures giving calibrated numerical limits and secondary measures giving additional support. The calibration of measures takes into consideration the 2018 budget and the recovery plan giving an interlinked framework for proper internal steering and surveillance.

16.6.2 Risk self assessment as part of the risk management framework

As part of the ICAAP, Addiko Group is obliged to consider all the risks to which it is exposed, as well as to use appropriate methods considering its size to analyze and determine which of the current risks are material and which are immaterial for Addiko Group.

Addiko Group therefore performs as basis for the ICAAP a risk materiality assessment process throughout all entities of the group. This process defines, determines and measures risks taken and establishes guidelines and processes with the purpose of finding the most adequate solution for risk management.

Risks taken are divided into material and immaterial or significant and not significant, respectively. The materiality level is determined by taking into consideration certain current and future risk indicators. Risks are considered significant if they, during a short time period, can have negative consequences for Addiko Group, such that Addiko Group must ensure adequate capital coverage.

Current risk materiality assessment methodology is based on quantitative and qualitative measures of risk portfolio indicators taking into consideration risk exposure, volatility of risk exposure, sensitivity, frequency, realized losses. The process is based on a traffic lights system providing an output – summary overview in the form of a defined matrix.

In order to ensure that all relevant risks are adequately considered within the risk and capital management process, Addiko Group regularly – at least annually – conducts a risk inventory. In the course of the risk inventory procedure, an update of the list of relevant material risks and a re-assessment of all relevant material risk types is completed and the appropriateness, assumption, timeframe and calculating model of risk types are reviewed.

16.7 ICAAP

Addiko Group has established an ICAAP at the level of Addiko Group which is in accordance with 39a Banking Act, the OeNB's Guidelines on Bank-Wide Risk Management (***ICAAP Guidelines***), the ECB's supervisory expectations on ICAAP and the ECB's SSM Guide on ICAAP.

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

Internal capital planning together with risk strategy represents one of the main steps in order to adequately implement ICAAP into a risk management mechanism. By defining risk covering potential, Addiko Group determines an acceptable risk level for a certain time period.

Based on supervisory requirements and the benefits of a business perspective, the basic requirements that are taken into account in the development of the ICAAP are the following:

- Securing the capital adequacy (regulatory and internal)
- ICAAP as an internal management tool
- Main principle for ICAAP implementation – proportionality
- Responsibility of the Management Board
- Assessment of all Addiko Group's material risks
- Processes and internal control procedures of the bank

16.7.1 Definition of capital

Addiko Group uses two different perspectives of capital which are also reflected in the ICAAP: (i) an internal capital perspective and (ii) a regulatory perspective (standardized).

The individual components of the different perspectives are a mixture of balance sheet and income statement values as can be seen below. For Pillar II (Basel as transposed in EU legislation) related calculations, the most important is the internal capital perspective, which is also the basis for the economic Risk Coverage Capital (RCC).

16.7.2 Internal Capital Perspective

RCC is mainly determined by accounting and financial controlling capital figures and is divided into two parts:

- Allocated RCC
- Non Allocated Economic Buffer (risk buffer): 15% of the available risk coverage capital

At Addiko Group, the RCC is calculated according to the liquidation (gone concern principle) and the going concern approach. The aim of the gone concern RCC calculation is in particular to provide a maximum of capital for protection of creditors.

One of the main tasks of risk management at Addiko Group is to secure the risk bearing capacity of the credit institution. The risk bearing capacity represents the capacity of the bank to cover the risks arising from its business, through existing capital. Thus, the risk bearing capacity represents the primary basis for the strategy, as it is limiting the business operations by defining the acceptable risks for the business.

For securing the risk bearing capacity and limiting of the overall risk position, the appropriate loss limits and risk limits are established on the basis of the existing risk coverage potential and in accordance with the risk profile. All those limits are measured and controlled continuously. Thus, timely and transparent reporting of the limit usage is one of the core elements of risk bearing capacity.

For the capital adequacy assessment at Addiko Group, the required risk capital and the risk coverage capital are compared.

In the management of risk bearing capacity, Addiko Group applies a forward-looking view. Overall limits are set as final targets to be reached within one year. For each sub risk type where current utilization exceeds the set target limit the Management Board will define specific sets of measures and actions aiming to ensure limit compliance within a target period.

In connection with the risk profile, it is defined that for covering the required risk capital according to Pillar II maximal 85% of the available risk coverage capital of Addiko Group can be used for taking risks. The remaining 15% must be kept as capital buffer to manage crisis situations. The appropriateness of this capital buffer is validated regularly in stress case scenarios.

The Management Board is informed about the ICAAP-related indicators on a monthly basis, the results are discussed, and the report is presented to the risk committee of the Supervisory Board.

16.7.3 ICAAP performance

The ICAAP steering culminates in the usage of the risk bearing capacity on Addiko Group consolidated level to a value of 63.6% by the end of the financial year 2018.

Addiko Group (gone concern)	As of December 31, 2018	2017	2016
	(in EUR million) (unaudited)		
Credit risk			
Single name	361.7	341.2	374.9
Concentration risk	23.3	35.4	44.8
Transfer risk	-	7.9	10.6
FX-induced credit risk	11.0	5.7	8.5
Participation risk	-	1.2	0.8
Credit Risk Total	396.1	391.5	439.6
Market risk			
Interest rate risk (trading & bank book)	17.5	8.8	11.9
Credit spread risk (liquid & illiquid)	9.9	5.5	17.5
Foreign exchange rate	17.8	32.9	15.3
Equity risk	-	0.1	0.1
CVA risk	0.1	0.1	-
Market Risk Total	45.3	47.4	44.9
Funding spread risk	6.0	6.0	12.9
Operational risk	32.6	32.7	34.4
Object risk	7.1	8.4	10.2
Single risk types - Subtotal	487.1	485.9	542.1
Other risks	24.4	24.3	27.1
Overall internal capital requirement[1]	511.5	510.2	569.2
Risk coverage capital total[2]	804.6	905.5[5]	1,040.8
Utilization of RCC Total[3]	63.6%	56.3%	54.7%
Utilization of RCC Allocated[4] (85%)	79.5%	66.3%	64.3%

1 Overall internal capital requirement: total capital requirement for all risks in Pillar 2
2 Risk coverage capital total: total available capital in Pillar 2
3 Utilisation of RCC Total: ratio of the total capital requirement for all risks compare to the total available capital in Pillar 2
4 Utilisation of RCC Allocated: ratio of the total capital requirement for all risks compare to 85% of the available capital in Pillar 2 Risk main components and forecast
(Source: Company information)

As outlined in the previous section, credit risk is the major driver of the risk profile of Addiko Group. In this regard, Addiko Group expects a rising trend, in line with the business development reflected in the business strategy and 2018 budget. These higher credit risks will lead to a higher utilization of the risk bearing capacity, but will stay below the internal and external limits. Internal budgeted limit for risk bearing capacity is set at utilization of 85% of risk coverage capital.

16.8 Risk and capital performance

16.8.1 Capital management

The capital management of Addiko Group is based on own funds as defined by the CRR and the corresponding national regulations (Basel 3 Pillar 1) and the economic capital management approach (Basel 3 Pillar 2) related to the ICAAP. The requirements were implemented within the EU by the CRR 575/2013 and the CRD IV. The CRD IV was enacted in national law in the Banking Act.

Addiko Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of Addiko Group's business, to analyze changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilizations for each segment. The capital management function is fully integrated into Addiko Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the Supervisory Review and Evaluation Process (SREP), minimum regulatory capital requirements are set for Addiko Group. In addition to the minimum capital ratios required by the regulators, Addiko Group defines early warning and recovery levels in Addiko Group's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG.

Additionally, the capital management team tracks all new regulatory changes, e.g. MREL, IFRS 9 and Basel 4. The impact of the new regulatory changes is estimated and the expected effects on the capital position of Addiko Group is presented to the respective division heads and board members. This process should ensure that Addiko Group adapts its capital management procedures to the new prudential requirement in time.

16.8.2 Own funds and capital requirements

Own funds according to CRR consist of Common Equity Tier 1 (***CET 1***), additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is

considered in relation to the total risk. The regulatory minimum capital ratios including the regulatory buffers as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016 amounted to:

	Regulatory minimum CET1 ratios as of March 31,	Regulatory minimum CET1 ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement	4.70%	4.70%	2.70%	3.60%
Total SREP Capital Requirement (TSCR)	**9.20%**	**9.20%**	**7.20%**	**8.10%**
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**11.702%**	**11.077%**	**8.451%**	**8.725%**

(Source: Company information)

	Regulatory minimum Tier 1 ratios as of March 31,	Regulatory minimum Tier 1 ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	6.00%	6.00%	6.00%	6.00%
Pillar 2 requirement	4.70%	4.70%	3.70%	4.90%
Total SREP Capital Requirement (TSCR)	**10.70%**	**10.70%**	**9.70%**	10.90%
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**13.202%**	**12.577%**	**10.951%**	**11.525%**

(Source: Company information)

	Regulatory minimum TC ratios as of March 31,	Regulatory minimum TC ratios as of December 31,		
	2019	2018	2017	2016
Pillar 1 requirement	8.00%	8.00%	8.00%	8.00%
Pillar 2 requirement	4.70%	4.70%	4.90%	6.50%
Total SREP Capital Requirement (TSCR)	**12.70%**	12.70%	**12.90%**	14.50%
Capital Conservation Buffer (CCB)	2.500%	1.875%	1.250%	0.625%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.001%	0.000%
Total	**15.202%**	**14.577%**	**14.151%**	**15.125%**

(Source: Company information)

In addition to Pillar I minimum capital ratios, institutions also have to fulfill capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2017 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of Addiko Group and AI Lake scopes of consolidation additional 4.7% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I.

At the date of this Prospectus, Addiko Bank AG expects to receive a decision as a result of the 2018 SREP process based on which own funds were deemed adequate both at the consolidated and the holding level as well as it has already received a decision relating to the Slovenian and Croatian subsidiaries. Effective as of such decision to be issued by the FMA, the additional Pillar II requirement is expected to decrease from 4.7% to 4.1%.

According to Section 23 para. 1 Banking Act, Addiko Group must establish a capital conservation buffer in the amount of 2.5%.

The transitional provisions for capital conservation buffers, by way of derogation from the requirements under Section 23 Banking Act, are regulated in Section 103q para. 11 Banking Act as follows:

- for the period from January 1, 2016 until December 31, 2016: 0.625%;
- for the period from January 1, 2017 until December 31, 2017: 1.25%;
- for the period from January 1, 2018 until December 31, 2018: 1.875%;
- for the time from January 1, 2019 onwards: 2.500%.

A breach of the combined buffer requirement (the CCB and the systemic risk buffer) would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

The following table shows the breakdown of own funds of Addiko Group applying transitional rules and its own funds requirement as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
		(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million unless otherwise indicated) (audited, unless otherwise indicated)		
	Common Equity Tier 1 (CET1) capital instruments and reserves				
1	Capital instruments and the related share premium accounts	195.0	195.0	5.0	5.0
2	Retained earnings	615.3	561.0	792.8[3]	727.1[4]
3	Accumulated other comprehensive income (and other reserves)	7.7	-0.8	4.6[3]	-13.5[4]
4	Minority interests (amount allowed in consolidated CET1)	0.0	0.0	0.0	0.0[4]
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	54.2	-68.1[3]	-23.9
6	CET1 capital before regulatory adjustments	818.0	809.5	734.4[3]	694.7[4]
	CET1 capital: regulatory adjustments				
7	Additional value adjustments	-1.3	-1.2	-4.4[3]	-5.9
8	Intangible assets (net of related tax liability)	-31.2	-30.3	-21.8	-17.3
10	DTA that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-16.7	-19.0	-12.8[3]	0.0
	IFRS 9 transitional rules	36.5	43.8	0.0	0.0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-12.7	-6.7	-39.1[3]	-23.2[4]
29	Common Equity Tier 1 (CET1) capital	805.3	802.8	695.3	671.4
	Tier 2 (T2) capital: instruments and provisions				
58	Tier 2 (T2) capital	0.0	0.0	100.0	60.0
59	Total capital (TC = T1 + T2)	805.3	802.8	795.3	731.4
60	Total risk weighted assets	4,599.8	4,545.0	4.653.1	4.470.8[2]
	Capital ratios and buffers %				
61	CET1 ratio	17.5%	17.7%	14.9%	15.0%[2]
63	TC ratio	17.5%	17.7%	17.1%	16.4%[2]

1 The references identify the lines prescribed in the EBA template, which are applicable for Addiko Group. The structure is based on the Regulation (EU) No. 1423/2013 providing implementing technical standards on disclosure for own funds requirements published in the Official Journal of the European Union on December 20, 2013.
2 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
3 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
4 Unaudited Company information.

(Source: Audited Consolidated Financial Statements and Company information)

16.8.3 Capital requirements (risk-weighted assets) based on a transitional basis

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
		(in EUR million) (unaudited)	(in EUR million) (audited, unless otherwise indicated)		
1	Credit risk pursuant to Standardised Approach	4,011.3	3,958.5	4,059.6	3,918.3[2]
6	Counterparty credit risk	5.5	5.4	8.7	7.5
19	Market risk	175.2	173.2	176.3	128.2[2]
23	Operational risk	407.9	407.9	408.4	416.8
	Total risk weighted assets	4,599.8	4,545.0	4,653.1	4,470.8[2]

1 The references identify the lines prescribed in the EBA template, which are applicable for Addiko Group. The structure is based on the Regulation (EU) No. 1423/2013 providing implementing technical standards on disclosure for own funds requirements published in the Official Journal of the European Union on December 20, 2013.
2 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
(Source: Audited Consolidated Financial Statements and Company information)

16.8.4 Disclosures with respect to the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of EU Regulation 575/2013 (CRR)

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
		(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million unless otherwise indicated) (audited, unless otherwise indicated)		
	Available capital (amounts)				
1	Common Equity Tier 1 (CET1) capital	805.3	802.8	695.3	671.4
2	CET1 capital as if IFRS 9 had not been applied	768.8	759.0	695.3	671.4
5	Total capital (TC)	805.3	802.8	795.3	731.4
6	TC as if IFRS 9 transitional rules had not been applied	768.8	759.0	795.3	731.4
	Risk-weighted assets (amounts) (RWAs)				
7	Total RWAs	4,599.8	4,545.0	4,653.1	4,470.8[2]
8	Total RWAs as if IFRS 9 transitional rules had not been	4,562.4	4,501.3	4,653.1	4,470.8[2]

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
	applied				
	Capital ratios %				
9	CET1	17.5%	17.7%	14.9%	15.0%[2]
10	CET1 as if IFRS 9 transitional rules had not been applied	16.9%	16.9%	14.9%	15.0%[2]
13	TC	17.5%	17.7%	17.1%	16.4%[2]
14	TC as if IFRS 9 transitional rules had not been applied	16.9%	16.9%	17.1%	16.4%[2]
	Leverage ratio (LR)				
15	LR total exposure measure	6,510.4	6,559.0[3]	6,665.3[3]	7,487.1[3]
16	LR	12.4%	12.2%[3]	10.4%[3]	9.0%[3]
17	LR as if IFRS 9 transitional rules had not been applied	11.9%	11.7%[3]	10.4%[3]	9.0%[3]

1 The references identify the lines prescribed in the EBA template, which are applicable for Addiko Group. The structure is based on the Regulation (EU) No. 1423/2013 providing implementing technical standards on disclosure for own funds requirements published in the Official Journal of the European Union on December 20, 2013.
2 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
3 Unaudited Company information
(Source: Audited Consolidated Financial Statements and Company information)

The Company has opted, at the level of Addiko Group, to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on December 21, 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; plus
- any subsequent increase in expected credit losses in the non-credit-impaired (stage 1 and stage 2) booked there-after.

Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs. While the adoption of these transitional capital rules has a negligible impact on CET1 capital in 2018, they would mitigate the impact on capital in adverse economic conditions.

Based on these transitional arrangements EUR 36.5 million (EUR 43.8 million) have been added back to Addiko Group CET1 as of March 31, 2019 (December 31, 2018). This comprises EUR 37.6 million (EUR 45.5 million) in impairment allowances, less EUR 1.1 million (EUR 1.7 million) in deferred tax as of March 31, 2019 (December 31, 2018). The corresponding impact on RWAs is an increase of EUR 37.4 million (EUR 43.7 million) as of March 31, 2019 (December 31, 2018).

16.8.5 Leverage ratio on a transitional basis

The CRD IV framework presented a non-risk based leverage ratio that is intended as an additional measure to determine the capital adequacy. The ratio was at first introduced as a complementary tool. In December 2017, the Basel Committee on Banking Supervision (BCBS) decided to set, starting in 2018, the initial target ratio at 3.0%, as a mandatory minimum requirement to implement. The following table presents the leverage ratio as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

Ref[1]	Item	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
		(in EUR million) (unaudited)	(in EUR million) (unaudited, unless otherwise indicated)		
20	Tier 1 capital	805.3	802.8[2]	695.3[2]	671.4[2]
21	Total leverage ratio exposure	6,510.4	6,559.0	6,665.3	7,487.1
22	Leverage ratio %	12.4%	12.2%	10.4%	9.0%

1 The references identify the lines prescribed in the EBA template, which are applicable for Addiko Group. The structure is based on the Regulation (EU) No. 1423/2013 providing implementing technical standards on disclosure for own funds requirements published in the Official Journal of the European Union on December 20, 2013.
2 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

16.9 Validation of risk models

The procedures are validated as stipulated by the standards issued by the regulatory authorities. A validation policy was implemented to define the process of validating models in the credit risk area. Furthermore, validation concepts for the regular PD models and the IFRS 9 framework were created. Based on those concepts, all credit risk relevant PD models and the IFRS 9 methodology were validated and respective validation reports were distributed to all relevant stakeholders.

The minimum requirements for the validation reports are defined as follows:

- Overview page with the major results (“traffic lights”)
- Executive summary of the results in written form

- List of findings and recommendations (old and new)
- Model design / methodology chapter describing the main model process/functionality
- Qualitative questionnaire covering use test, data quality, model design and process, at a minimum
- Quantitative tests covering performance, calibration and stability aspects, at a minimum Monthly model monitoring calls are conducted with all subsidiaries to ensure a proper progress for implementing the recommendations from the 2016 validation reports.

The model monitoring and reporting is mainly based on the internal "Model Monitoring Reporting System". It is used to monitor rating processes, default processes and performance of the respective rating procedures at the subsidiary level on a monthly basis. Performance of rating procedures focuses on accuracy of forecasts, calibration and stability.

16.10 Stress-testing

Stress testing is performed at Addiko Group to evaluate resilience to negative developments in its operating environment. The test's prime purpose is to simulate portfolio performance in given conditions and measure the impact of each of those events. With respect thereto, meticulous scenarios are designed to assess portfolios against specific material risk factors and their drivers. Thus, scenarios are typified based on the size of their effects. Stress testing is performed to determine whether under stress scenarios the development of the internally available capital breaches the foreseen stress buffer of 15%. If this is the case, mitigation measures are discussed in the Group Risk Executive Committee (GREC).

The stress test assignments vary by type, scope and coverage of the stress test itself.

On an annual basis, the FX lending stress tests are performed to analyze the impact of worsening currency exchange rates versus EUR on Addiko Group's capital adequacy, as exposures in non-local currencies (particularly EUR and CHF exposures) are material in some Addiko Group entities.

Additionally, a comprehensive stress test is performed based on several macro-economic scenarios, analyzing the impact on credit risk, particularly on the formation of NPEs and increased provisions. The comprehensive stress test consolidates credit risk, market risk and operational risk effects and presents the overall expectation of ability of the entity to continue satisfying capital requirements under adverse conditions.

As part of recovery plan preparations, a reverse stress testing is performed, focusing on identifying the degree of impact that would bring the entity to a non-viability state.

Market risk stress scenarios are motivated from a statistical analysis of the historical data of the last 10 years. Based on this historical data, changes in 250-day windows are calculated. From these changes, specific quantiles are taken and thus define for stress testing purposes a pessimistic and an adverse scenario. Scenarios are devised to cover both short-term and long-term market fluctuations. In preparing stress testing scenarios, historical data from Addiko Group data systems are used. Stress tests and scenario analyses are then performed based on these data.

16.11 Recovery and resolution planning

A group recovery plan is developed, updated and submitted by Addiko Group to FMA. The recovery plan covers the range of recovery measures to restore financial strength and viability during extreme stress or significant deterioration of financial situation; critical functions etc. Addiko Group collaborates closely with the SRB to draft a group resolution plan.

Addiko Group prepares and updates its recovery plan on an annual basis, covering all group entities within one document. In case of major changes of the legal structure, organizational structure, business model and/or significant changes of the financial / risk situation, an immediate update of the group recovery plan may be triggered. The document is prepared through the centrally-led project in which all entities participate. This approach ensures bottom-up and top-down consistency as well as the continual decision-making and decision-execution processes.

The Addiko Group recovery plan provides information on the group, stress calculations based on four scenarios and - as a key element - measures that may be taken to restore Addiko Group's financial strength and viability during an extreme stress situation. These pre-defined measures and actions should help to protect Addiko Group, its customers and the markets. As a further key part of its group recovery plan, Addiko Group has established a process for the identification of critical functions and core business segments. This information is also of high importance for the creation of the group resolution plan in connection with which Addiko Group is closely working with the SRB and FMA.

16.12 ILAAP

Aside from the liquidity risks measured in economic capital under ICAAP as funding spread risk and market liquidity risk, the illiquidity risk is covered under ILAAP on an independent scale.

To cover this risk, Addiko Group must hold a set of unencumbered assets that are available to obtain liquidity.

The counterbalancing capacity serves as a limit for the liquidity gap and, within the ILAAP framework, the liquidity risk appetite is limited by the amount of counterbalancing capacity, i.e. a stock of high quality liquid assets that can be monetized if necessary, even in times of stress.

Addiko Group must hold a large enough stock of counterbalancing capacity to ensure its ability to generate or obtain cash in a timely and cost-efficient manner so that obligations can be met as they fall due. The stock of counterbalancing capacity can be considered the risk bearing capacity on the cash flow, respectively the liquidity level. Hence the liquidity potential respectively counterbalancing capacity constrains the risk appetite. As a dedicated subset of the whole counterbalancing capacity, the liquidity stress reserve is especially reserved for stress situations while the rest can also be used under normal conditions.

The volume of stress reserve is scaled based on the results of internal stress testing. Within the framework of Basel III LCR, the necessary amount of highly liquid assets (Basel III stress reserve) to fulfill the internal allocated limit for the ratio is calculated based on predefined stress scenario outflows.

Addiko Group sets the following targets in connection with the framework of ILAAP:

- Assurance of solvency of Addiko Group at any time within given limits and the defined strategy;
- Preparation of liquidity and funding planning;
- Market access and liquidity risk diversification with regard to instruments, currency, counterparty and maturity;
- Management of core liquidity reserve (base and stress reserve);
- Management of regulatory liquidity triggers (local and group wide);
- Adequate funds transfer pricing that reflects direct and indirect cost of liquidity;
- Adequate structure of maturity transformation (asset versus liability side);
- Growth of primary funds and optimization of loan to deposit ratio;
- Contingency planning and management;
- Maintaining market confidence;
- Reporting to management and the relevant regulator;
- Avista assets – non maturing deposits (e.g. avista) account modelling.

To derive an appropriate amount of required counterbalancing capacity, Addiko Group uses a set of survival horizon limits for different stress scenarios covering mild or severe name, market as well as independent combined crises. The survival horizon measure relates to the quantity of Addiko Group's counterbalancing capacity to the cumulative, net cash outflow under normal and stress conditions. This relation can be expressed by the following survival horizon formula:

$$Survival\ Horizon = max\left\{s \left| \sum_{s\ days} FCEs \leq LP \right.\right\}$$

with FCE = forward cash exposure and LP = liquidity potential, respectively counterbalancing capacity.

The survival horizon, S, is the last day before the liquidity potential assets are fully depleted. It is the number of days during which net cash outflows can be completely offset by sales/tender/repo of liquid assets.

Limits need to reflect differences in both severity and time horizons, so that Addiko Group sets separate limits, respectively degrees of tolerance for separate liquidity need environments. Those with the most severe potential consequences are associated with the lowest limits or the lowest comfort levels.

Based on the defined stress scenario, respective survival horizons must be met, i.e. there must be sufficient counterbalancing capacity to survive at least the respective time horizon. The limits also show that Addiko Group tolerates more risk exposure for long time spans than for short time spans.

16.12.1 ILAAP performance (Other ILAAP indicators)

In the internal liquidity adequacy assessment process, Addiko Group defined several key performance indicators to measure the liquidity risk. The main indicators include the comparison of overall counterbalancing capacity (***CBC***) with minimum stress reserves (liquidity buffer), coverage of cumulative negative cash-flows with counterbalancing capacity and liquidity value at risk (***LVaR***).

The CBC includes the high-quality liquid assets that can be easily and immediately converted into cash at little or without loss of value. The overall CBC should be high enough to cover the minimum stress reserve (liquidity buffer). The minimum stress reserves consist of high-liquid assets dedicated for use in the liquidity tight (stress) situations.

The cash flow gap analysis unveils maturity mismatches by displaying the expected future net cash-flows aggregated in "pre-defined time buckets". The liquidity required in any of the particular time buckets can thus be determined, implicating the need to fill the "gap" when the net cash-flow is negative (single/marginal or cumulative gaps). A marginal gap is the netted liquidity gap comparing inflows and outflows within one defined time-bucket (positive or negative).

Outflows within 1 year is a dynamic cash flow perspective of all relevant outflows within 365 days. This contains stochastic (modelled cash flows reflecting customer behaviour) cash-flows; deterministic (contracted maturities) cash-flows and planned business (new refinancing-lines).

Inflows within 1 year is dynamic cash flow perspective of all relevant inflows within 365 days. This contains stochastic (modelled cash flows reflecting customer behaviour) cash-flows; deterministic (contracted maturities) cash-flows and planned business (new customer business).

LVaR measures the funding spread risk as funding costs arising from closing negative liquidity gaps with certain confidence level.

For measuring the coverage of cumulative negative cash-flows with counterbalancing capacity, Addiko Group defined different liquidity scenarios (‘time to wall’) with different severance and time horizons as measurement of its capability to overcome unfavorable situations.

For measuring the coverage of cumulative negative cash-flows with counterbalancing capacity, Addiko Group defined different liquidity scenarios (‘time to wall’) with different severance and time horizons as measurement of its capability to overcome unfavorable situations.

Indicator[1] (unaudited)	December 31, 2018		December 31, 2017		December 31, 2016	
	Result	Limit	Result	Limit	Result	Limit
Cash flow gap	0.55	NR	0.38	NR	0.87	NR
Outflows within 1 Year	2.28	NR	2.15	NR	2.27	NR
Inflows within 1 Year	1.64	NR	1.66	NR	2.40	NR
Time to wall	> 12	12	> 12	12	> 12	12
Coverage of liquidity buffer	1,018.83	492.00	1,073.92	457.00	1,085.99	649.00
ICAAP Structural Risk	6.03	12.88	5.97	16.48	12.94	17.69

1 Figures presented in million EUR with exception of “time to wall” which is measured in months
(Source: Company information)

16.13 Identification, measurement and steering of risks

16.13.1 Credit risk

16.13.1.1 Credit risk definition

In terms of scale, credit risk constitutes the most significant risk for Addiko Group. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilized collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

Other risk types that are also included under counterparty default risks, such as country and participation risks, are measured, controlled and monitored separately.

16.13.1.2 Credit general requirements

The credit risk strategy provides concrete specifications for the organizational structure of Addiko Group in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a group-wide instruction on authority levels as defined by the Management Board and the Supervisory Board, credit decisions are made by the Supervisory Board, Management Board and the Addiko Group credit committee as well as by key staff in the back office and the analysis departments of the risk office.

The Group credit committee is a permanent institution of Addiko Group and the highest body for making credit decisions, subordinated only to the Management Board.

The GREC is responsible for all methodological matters relating to credit risk, unless a decision by the Management Board is required for issues of fundamental importance.

16.13.1.3 Credit risk measurement

The Addiko Group network uses its own rating procedures to analyze and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

16.13.1.4 Corporate credit risk management

In regards to loan portfolio generation and management, Addiko Group differentiates between two basic approaches to the credit approval process: (i) the tailor-made approach, which is specific to the individual customer and which is applied in the case of customers of the SME Business Segment and the Large Corporates Segment, and (ii) the mass production approach, which is portfolio based and applied in the case of customers of the Retail Segment.

With respect to the individual approach, almost each customer and its connected entities are observed and analysed on an individual level (its business, connected entities, history, financials, future strategy and plans, debt servicing, etc), with the aim of determining its repayment potential, using adequate and sufficiently conservative assumptions related to its future cash flows. Only with respect to simple and very small size products, certain values of financial and non-financial criteria are defined, based on which, if fulfilled, automated credit application approval is granted without additional individually-based analyses.

The reasoning behind individual analysis lies in the size and importance of exposures involved, as well as specifics of each business and cash flows generated out of it, which are the primary source for debt repayment.

Approval rights are assigned to respective credit committees established by Addiko Group's management and are applied on an individual customer or group of customers level for all customers of the SME Business Segment and Large Corporates Segment. They are centralised at the holding level for all significant exposures and/or significant/higher risks. Automated approval processes are applied only for certain simple and very small size products, as mentioned above.

The below table presents the approval thresholds on subsidiary level for the financial year 2018:

	For the financial year ended December 31, 2018
	(EUR in million) (unaudited)
ABC, Croatia	7.5
ABS, Slovenia	7.5
ABBL & ABSA, Bosnia & Herzegovina	5.0
ABSE, Serbia	7.5
ABM, Montenegro	3.0
Addiko Group	**15.0**

(Source: Company information)

In the financial year 2018, more than 70% of all loan disbursements were approved within the country limits. Exposures of more than EUR 15.0 million require approval by Addiko Group's supervisory board credit committee.

The below table presents the average loan ticket size (on-balance exposure) per segment for the financial year 2018:

	For the financial year ended December 31, 2018
	(EUR in thousand) (unaudited)
Consumer Business	7
SME Business Segment	217
Mortgages Business	34
Large Corporates Segment	1,490
Public Finance Segment	967

(Source: Company information)

During the credit approval process, a customer's repayment potential must be proved based on adequately projected cash flows from the customer's business, while collaterals only serve the purpose of credit risk mitigation and a secondary option, but must not be seen as a source of loan repayment in the regular repayment process.

After a certain loan exposure is approved, a continuous customer-based monitoring and annual review must be performed until final repayment. Regular monitoring must be performed regardless of whether the customer has financial problems,

though such monitoring is more frequent (on a quarterly and semi-annual basis) for higher exposures (over internally defined thresholds) or for clients with financial instability or financial problems. An early warning system is also part of client-based monitoring, with certain predefined values of selected financial and non-financial indicators which, if reached, point to potential financial difficulties and trigger further detailed customer investigations and, potentially, certain actions related thereto (restructuring or exit/workout).

If, based on internal investigations and analyses, it is shown that a customer does not or will not have the ability to repay its obligation to Addiko Group, even if all exposure restructuring possibilities are considered, then an appropriate exit strategy is analysed and devised, ether by refinancing from other banks (if possible) or acceptable workout strategies (debt sale, settlement, collateral sale, legal proceedings, etc.) within a certain timeframe. The aim is to engage this process at the early stages of financial difficulties, essentially the pre-default stage, since the customer’s business and cash flows in that stage can still contribute to a full or very high repayment rate. The default stage, by contrast, result in many other issues for customers (such as actions by all other creditors and suppliers), which restrict or impede the customer’s cash flow generation and, thus, its potential for debt repayment.

16.13.1.5 Retail credit risk management

Unsecured Cash Loan Underwriting

The consumer cash loan book is considered and handled as a homogenous portfolio, which requires a portfolio-managed governance approach. Consumer cash lending can be described as follows:

- standard set of products with a mass lending approach;
- centralized and highly standardized underwriting process using decision engine logic;
- high degree of automated decision making, where rules of underwriting are based on statistical analytics.

The cash loan approval process focuses primarily on (i) the stability of the customer, (ii) affordability and (iii) willingness of the customer to pay.

A determination of stability encompasses an assessment of whether the customer has regular income, since this will serve as the primary source for loan repayment. Credit bureau information is also examined to understand whether the customer is in financial difficulty (e.g., number of loans taken in the last 12 months). Private phone accessibility must also be provided by the loan applicant.

An affordability determination entails a calculation by Addiko Group to ensure that the customer has sufficient repayment capability. If the tenor of the loan is longer and/or if it is denominated in a foreign currency (only EUR is permitted) than an additional buffer is applied in the debt-to-income calculation.

A determination of willingness to pay involves application or behavioral scoring, fraud screening and an assessment of the credit history performance of the applicant.

Samples are regularly taken from the approved loans and are reviewed for quality assurance purposes. In the case of special individual lending structures or cross-selling campaigns (for example, small ticket lending, test initiatives or current lending processes in Croatia when the credit bureau is temporarily unavailable), deviations of the underwriting process detailed in this section may apply. Also, in the case of consumer revolving loan products, special underwriting rules apply. In the case of retail mortgage lending, additional rules apply in relation to the collateral.

Collections

Dedicated collection teams operate in all of Addiko Group’s countries of operation. Organisationally, these collection teams are part of the risk management team and are centralized in the headquarters of the local Addiko Group entities.

The collection teams focus on continually increasing their collection efficiency and improving and expanding their collection tools to achieve broad coverage of the following tools: auto dialer system, collection scorecard, account sweeping system and collection efficiency monitoring. In addition, where regulatory requirements permit, the collection teams also initiate regular debt sale campaigns to sell loans in regards to which standard collection processes did not yield results.

The collection process is divided into early and late collection phases. A centralized and uniform collection report enables the local collection teams, and Group counterparts, to evaluate and understand the collection performance in great detail. Collection reports are available on a daily and monthly basis.

Portfolio Monitoring

Portfolio monitoring is an essential pillar of Addiko Group’s risk governance framework. The main reports that enable the regular monitoring of the portfolio development are the monthly portfolio quality review, the monthly collection performance review and the weekly collection update.

The monthly portfolio quality review report enables Addiko Group to understand the portfolio development in detail. It includes reviews of new volume developments, risk quality of the new volume, delinquency bucket developments, fraud indicators, underwriting process indicators (time-to-decision, approval rate, rate of automatic decision), portfolio distribution by rating categories, results of the regular quality assurance sample as well as other data. A portfolio quality review call is scheduled monthly to discuss the developments of the last reporting month. Both Group-level employees and local entity counterparts participate. Corrective actions may be defined in the course of these meetings and thereafter implemented.

Through monthly collection performance review reports, collection performance is assessed on a regular basis. The reports discuss overall collection efficiency, collection efficiency by product segments and performance compared to pre-set targets. The reports also track recovery vintages and follow the efficiency of the regular collection activities (contact rate, promise to pay, promise kept etc.). The reports enable an overview by product segment, by collector and by collection phases (early, late collections).

The main aim of the weekly collection update is to understand whether the monthly collection results are on track to meet targets, discuss system related developments and issues, if any, and to discuss any organisational related topics.

16.13.1.6 Credit risk limitation

The steering of total group-wide commitments with individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

At Addiko Group, limits are set and monitored independently by a risk control department. If limits are exceeded, this is communicated immediately to the operative risk department as well as the front office and reported to the GREC. In all other segments, limit control is carried out through a group-wide authorization level policy (Pouvoir-Ordnung). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

16.13.1.7 Key credit metrics

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

Breakdown of net exposure within Addiko Group in accordance with IFRS 7.36 as of March 31, 2019:

	As of March 31, 2019							
	Performing			Non Performing			Total	
	Exposure	ECLS1&2*	Net	Exposure	ECL S3**	Net	Exposure	Net
Financial instruments				**(EUR in million) (unaudited)**				
Cash reserves[1]	684.3	-3.3	681.0	0.0	0.0		684.3	681.0
Financial assets held for trading	24.7		24.7	0.0			24.7	24.7
Loans and advances	3,871.4	-79.3	3,792.1	377.8	-290.6	87.2	4,249.2	3,879.2
of which credit institutions	14.4	0.0	14.4	0.0	0.0	0.0	14.4	14.4
of which customer loans	3,857.0	-79.3	3,777.7	377.8	-290.6	87.2	4,234.8	3,864.9
Investment securities[2]	1,249.4	-1.1	1,248.3	0.0	0.0	0.0	1,249.4	1,248.3
Other Assets – IFRS 5[3]	0.0	0.0	0.0	0.4	-0.3	0.1	0.4	0.1
On balance total	5,829.8	-83.7	5,746.1	378.2	-291.0	87.2	6,208.0	5,833.3
Off balance	960.8	-3.9	956.9	15.0	-7.1	7.9	975.8	964.8
Adjustments[4]	-1.1	1.1	0.0	0.0	0.0	0.0	-1.1	0.0
Total	6,789.4	-86.5	6,702.9	393.2	-298.1	95.2	7,182.7	6,798.1
Adjustments[5]	-1.2		-1.2			0.0	-1.2	-1.2
Total credit risk exposure	6,788.2	-86.5	6,701.7	393.2	-298.1	95.2	7,181.4	6,796.9

* Expected Credit loss for exposure in Stage 1 and Stage 2.

** Expected Credit loss for exposures in Stage 3.

1 The position does not include cash on hand in amount of EUR 96.4 million.
2 Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia.
3 The position includes only loans and receivables.
4 EUR 1.1 million refer to loss allowance on debt securities at FVTOCI and is not presented for credit risk purpose as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments.
5 EUR 1.2 million refer to other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.
(Source: Company information)

Breakdown of net exposure within Addiko Group in accordance with IFRS 7.36 as of December 31, 2018:

	As of December 31, 2018							
	Performing			Non Performing			Total	
	Exposure	ECLS1&2*	Net	Exposure	ECL S3**	Net	Exposure	Net
Financial instruments	(EUR in million) (audited)							
Cash reserves[1]	901.7	-4.0	897.7				901.7	897.7
Financial assets held for trading	24.3		24.3				24.3	24.3
Loans and advances	3,783.2	-81.3	3,701.9	388.1	-297.2	90.9	4,171.3	3,792.9
of which credit institutions	5.6	0.0	5.6	0.0	0.0	0.0	5.6	5.6
of which customer loans	3,777.6	-81.2	3,696.3	388.1	-297.2	90.9	4,165.7	3,787.3
Investment securities[2]	1,182.1	-1.7	1,180.4	0.0	0.0	0.0	1,182.1	1,180.4
Other Assets – IFRS 5[3]	0.0	0.0	0.0	0.4	-0.4	0.1	0.4	0.1
On balance total	5.891.3	-87,0	5,804.3	388.5	-297.6	91.0	6,279.9	5,895.3
Off balance	949.4	-4.8	944.6	15.2	-6.9	8.4	964.7	953.0
Total	6.840.7	-91.8	6,748.9	403.8	-304.4	99.4	7,244.5	6,848.3
Adjustments[4]	-8.8		-8.8			0.0	-8.8	-8.8
Total credit risk exposure	6.831.9	-91.8	6.740.1	403.8	-304.4	99.4	7,235.7	6,839.5

* Expected Credit loss for exposure in Stage 1 and Stage 2.
** Expected Credit loss for exposures in Stage 3.
1 The position does not include cash on hand in amount of EUR 105.2 million.
2 Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia.
3 The position includes only loans and receivables.
4 Adjustments include other exposures which are not considered as credit risk relevant exposure towards third party.
(Source: Audited Consolidated Financial Statements)

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

	As of December 31, 2017							
	Performing			Non Performing			Total	
	Exposure	PRP*	Net	Exposure	SRP**	Net	Exposure	Net
Financial instruments***	(EUR in million) (audited)							
Cash reserves[1]	1,187.3		1,187.3				1,187.3	1,187.3
Financial assets held for trading	19.8		19.8				19.8	19.8
Loans and advances	3,622.5	-37.2	3,585.3	553.4	-381.5	171.9	4,175.9	3,757.2
of which credit institutions	65.5	-0.2	65.3	0.0	0.0	0.0	65.5	65.3
of which customer loans	3,557.0	-37.0	3,520.0	553.4	-381.5	171.9	4,110.4	3,691.8
Investment securities[2]	1,267.6	0.0	1,267.6	0.0	0.0	0.0	1,267.6	1,267.6
Other Assets – IFRS 5[3]	0.0	0.0	0.0	30.9	-17.8	13.0	30.9	13.0
On balance total	6,097.3	-37.2	6,060.1	584.3	-399.4	184.9	6,681.6	6,245.0
Off balance	798.5	-5.2	793.3	21.4	-6.1	15.3	819.9	808.6
Total	6,895.8	-42.4	6,853.4	605.7	-405.5	200.2	7,501.5	7,053.6
Adjustments[4]	-3.4		-3.4			0.0	-3.4	-3.4
Total credit risk exposure	6,892.4	-42.4	6,850.0	605.7	-405.5	200.2	7,498.1	7,050.2

* Portfolio Risk Provision.
** Specific Risk Provision.
*** Figures as of and for the financial year 2017 presented herein are taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
1 The position does not include cash on hand in amount of EUR 98.5 million.
2 Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia.
3 The position includes only loans and receivables.
4 Adjustments include other exposures which are not considered as credit risk relevant exposure towards third party.
(Source: Audited Consolidated Financial Statements)

The following table shows the exposure in accordance with IFRS 7.36 as of December 31, 2016:

	As of December 31, 2016							
	Performing			Non Performing			Total	
	Exposure	PRP*	Net	Exposure	SRP**	Net	Exposure	Net
Financial instruments	(EUR in million) (audited, unless otherwise indicated)							
Cash balances at central banks and	1,784.8		1,784.8				1,784.8	1,784.8

other demand deposits, excluding cash on hand [1]								
Financial assets held for trading	17.4		17.4				17.4	17.4
Loans and advances	3,625.7[5]	-31.9[5]	3,593.8[5]	689.4[5]	-503.4	186.0[5]	4,315.1[5]	3,779.9[5]
of which credit institutions	49.5[5]	-0.2	49.4[5]	0.0[5]	0.0	0.0[5]	49.6	49.4
of which customer loans	3,576.2[5]	-31.7	3,544.4[5]	689.4[5]	-503.4	186.0[5]	4,265.6	3,730.5
Available-for-sale financial assets and held-to-maturity investments[2]	1,387.4[5]	0.0	1,387.4[5]	0.0	0.0	0.0	1,387.4[5]	1,387.4[5]
Other Assets – IFRS 5[3]	0.0	0.0	0.0	30.9[5]	-1.9[5]	29.0	30.9	29.0
On balance total	6,815.4[5]	-31.9[5]	6,783.5[5]	720.3[5]	-505.3[5]	215.0[5]	7,535.7[5]	6,998.5[5]
Off balance	725.8[5]	-3.6[5]	722.1[5]	40.5[5]	-8.9[5]	31.6[5]	766.3	753.7[5]
Total	7,541.2[5]	-35.5[5]	7,505.6[5]	760.8	-514.2[5]	246.6	8,302.0[5]	7,752.2[5]
Adjustments[4]	6.8[5]	-	6.8[5]	-	0.6[5]	0.6[5]	6.8[5]	7.5[5]
Total credit risk exposure	7,547.9[5]	-35.5[5]	7,512.4[5]	760.8	-513.6	247.2[5]	8,308.7	7,759.7[5]

* Portfolio Risk Provision.
** Specific Risk Provision.
1 The position does not include cash on hand in amount of EUR 93.4 million.
2 Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia.
3 The position includes only loans and receivables.
4 Adjustments include other exposures which are not considered as credit risk relevant exposure towards third party.
5 Unaudited Company information.
(Source: Audited Consolidated Financial Statements and Company information)

16.13.2 Allocation of exposure within the Group

The following table presents the breakdown of the total credit risk exposure as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

	Credit risk exposure as of March 31,	Credit risk exposure as of December 31,		
	2019	**2018**	**2017**	**2016**
	(EUR in million) (unaudited)		**(EUR in million) (audited)**	
Croatia	2,762.8	2,850.1	3,152.0	3,107.7
Slovenia	1,876.3	1,795.8	1,710.6	1,595.7
Serbia	989.8	1,044.0	957.4	986.2
Bosnia & Herzegovina	1,042.0	1,026.4	1,005.4	991.3
Montenegro	260.7	271.2	295.9	274.1
Company	249.9	248.3	376.7	1,353.8
Addiko Group	**7,181.4**	**7,235.7**	**7,498.1**	**8,308.7**

(Source: Audited Consolidated Financial Statements and Company information)

16.13.3 Exposure by rating class within the Group

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

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

The following table shows the credit risk exposure by internal rating class as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

	Credit risk exposure as of March 31,	Credit risk exposure as of December 31,

	2019	2018	2017	2016
	(EUR in million) **(unaudited)**		**(EUR in million)** **(audited)**	
1A-1E	1,971.0	1,955.2	2,180.1	2,272.1
2A-2E	3,241.3	3,301.5	3,156.7	3,311.7
3A-3E	1,326.8	1,306.1	1,287.7	1,635.9
Watch	243.1	259.6	259.8	305.6
NPE	393.2	403.8	605.7	760.8
No rating	6.0	9.5	8.0	22.6
Total	**7,181.4**	**7,235.7**	**7,498.1**	**8,308.7**

(Source: Audited Consolidated Financial Statements and Company information)

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

A customer can only recover in full from the default status if none of the previously identified default criteria (according to the definition) apply any longer and a period of good conduct of at least three months has been complied with. In non-performing forbearance cases as well as if forbearance applies together with other default criteria, the minimum period of good conduct to be complied with is one year.

An automatic recovery after a three-month period of good conduct is only possible in case of defaults due to payments being overdue by more than 90 days. In case of all other default criteria, an approval by the distressed asset management department is required in addition to compliance with the period of good conduct.

16.13.4 Exposure by region within the Group

Addiko Group's country portfolio focuses on South Eastern Europe. The table shows the breakdown of credit risk exposure by region within Addiko Group (at customer level) as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

	Credit risk exposure as of March 31,	Credit risk exposure as of December 31,		
	2019	2018	2017	2016
	(EUR in million) **(unaudited)**		**(EUR in million)** **(audited)**	
SEE	6,291.3	6,346.5	6,425.8	6,527.8
Europe (excl. CEE/SEE)	525.8	506.5	698.5	1,368.9
CEE	261.9	274.4	220.0	222.5
Other	102.5	108.2	153.7	189.5
Total	**7,181.4**	**7,235.7**	**7,498.1**	**8,308.7**

(Source: Audited Consolidated Financial Statements and Company information)

16.13.5 Exposure by industry within the Group

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

	Credit risk exposure as of March 31,	Credit risk exposure as of December 31,		
	2019	2018	2017	2016
	(EUR in million) **(unaudited)**		**(EUR in million)** **(audited)**	
Private	1,850.2	1,849.0	1,883.8	1,955.3
Financial services	1,209.6	1,340.2	1,732.0	2,358.9
Public sector	1,022.5	981.5	1,103.0	1,239.5
Industry	987.2	967.5	755.3	859.8
Trade and commerce	744.6	753.7	668.8	570.0
Services	538.3	533.8	541.7	518.2
Real estate business	88.4	88.9	99.8	87.4
Tourism	119.0	106.4	87.6	84.6
Agriculture	78.8	75.5	73.6	98.0
Other	543.0	539.1	552.5	537.0
Total	**7,181.4**	**7,235.7**	**7,498.1**	**8,308.7**

(Source: Audited Consolidated Financial Statements and Company information)

16.13.6 Exposure by business sector and region

The following table shows the exposure by business sector and region as of March 31, 2019:

	Credit risk exposure as of March 31, 2019				
	Europe (excl. CEE/SEE)	SEE[1]	CEE[2]	Other	Total
			(EUR in million) (unaudited)		
Private	1.9	1,847.6	0.6	0.1	1,850.2
Financial services	387.0	739.1	0.0	83.5	1,209.6
Public sector	114.9	646.4	261.3	0.0	1,022.5
Industry	12.7	968.7	0.0	5.7	987.2
Trade and commerce	0.0	739.8	0.0	4.7	744.6
Services	8.9	526.9	0.0	2.5	538.3
Real estate business	0.0	88.4	0.0	0.0	88.4
Tourism	0.0	119.0	0.0	0.0	119.0
Agriculture	0.0	78.8	0.0	0.0	78.8
Other	0.5	536.6	0.0	5.9	543.0
Total	**525.8**	**6,291.3**	**261.9**	**102.5**	**7,181.4**

1 SEE encompasses Albania, Bosnia & Herzegovina, Croatia, North Macedonia, Montenegro, Serbia and Slovenia.
2 CEE encompasses Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Poland, Romania, Russian Federation, Slovakia, Turkey and Ukraine.
(Source: Company information)

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

	Credit risk exposure as of December 31, 2018				
	Europe (excl. CEE/SEE)	SEE[1]	CEE[2]	Other	Total
			(EUR in million) (audited)		
Private	2.1	1,846.2	0.6	0.1	1,849.0
Financial services	411.9	839.0	0.0	89.3	1,340.2
Public sector	72.3	635.4	273.8	0.0	981.5
Industry	13.4	948.3	0.0	5.8	967.5
Trade and commerce	0.0	749.0	0.0	4.7	753.7
Services	6.3	525.1	0.0	2.5	533.8
Real estate business	0.0	88.9	0.0	0.0	88.9
Tourism	0.0	106.4	0.0	0.0	106.4
Agriculture	0.0	75.5	0.0	0.0	75.5
Other	0.5	532.6	0.0	5.9	539.1
Total	**506.5**	**6,346.5**	**274.4**	**108.2**	**7,235.7**

1 SEE encompasses Albania, Bosnia & Herzegovina, Croatia, North Macedonia, Montenegro, Serbia and Slovenia.
2 CEE encompasses Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Poland, Romania, Russian Federation, Slovakia, Turkey and Ukraine.
(Source: Audited Consolidated Financial Statements)

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

	Credit risk exposure as of December 31, 2017				
	Europe (excl. CEE/SEE)	SEE[1]	CEE[2]	Other	Total
			(EUR in million) (audited)		
Private	2.3	1,880.8	0.6	0.2	1,883.8
Financial services	571.0	1,039.4	0.0	121.6	1,732.0
Public sector	110.0	757.1	219.2	16.7	1,103.0
Industry	14.5	738.7	0.0	2.0	755.3
Trade and commerce	0.0	664.1	0.0	4.8	668.8
Services	0.0	539.2	0.1	2.5	541.7
Real estate business	0.0	99.8	0.0	0.0	99.8
Tourism	0.0	87.6	0.0	0.0	87.6
Agriculture	0.0	73.6	0.0	0.0	73.6
Other	0.7	545.6	0.2	6.0	552.5
Total	**698.5**	**6,425.8**	**220.0**	**153.7**	**7,498.1**

1 SEE encompasses Albania, Bosnia & Herzegovina, Croatia, North Macedonia, Montenegro, Serbia and Slovenia.
2 CEE encompasses Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Poland, Romania, Russian Federation, Slovakia, Turkey and Ukraine.
(Source: Audited Consolidated Financial Statements)

The following table shows the exposure by business sector and region as of December 31, 2016:

	Credit risk exposure as of December 31, 2016				
	Europe (excl. CEE/SEE)	SEE[1]	CEE[2]	Other	Total
			(EUR in million) (audited)		
Private	4.7	1,949.7	0.8	0.2	1,955.3
Financial services	1,253.6	954.0	0.0	151.4	2,358.9
Public sector	82.3	935.8	221.4	0.0	1,239.5
Industry	16.8	820.1	0.0	22.9	859.8
Trade and commerce	0.0	570.0	0.0	0.0	570.0
Services	10.9	504.6	0.0	2.8	518.2
Real estate business	0.0	87.4	0.0	0.0	87.4
Tourism	0.0	84.6	0.0	0.0	84.6
Agriculture	0.0	98.0	0.0	0.0	98.0
Other	0.7	523.7	0.2	12.4	537.0
Total	**1,368.9**	**6,527.8**	**222.5**	**189.5**	**8,308.7**

1 SEE encompasses Albania, Bosnia & Herzegovina, Croatia, North Macedonia, Montenegro, Serbia and Slovenia.

2 CEE encompasses Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Poland, Romania, Russian Federation, Slovakia, Turkey and Ukraine.

(Source: Audited Consolidated Financial Statements)

The figures are broken down according to the country of the customer's registered office. The Retail Segment and SME Business Segment are the main focus of Addiko Group's core countries in South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail Segment's business.

16.13.7 Presentation of exposure by size classes

Addiko Group pursues a strict strategy of reducing concentration risk in the corporate banking area.

The credit risk exposure ranging above EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

	As of March 31, 2019		As of December 31, 2018		2017		2016	
Size classes	**Credit risk exposure**	**GoBs[1]**	**Credit risk exposure**	**GoBs[1]**	**Credit risk exposure**	**GoBs[1]**	**Credit risk exposure**	**GoBs[1]**
	(EUR in million) (unaudited)	**Number of**	**(EUR in million) (audited)**	**Number of**	**(EUR in million) (audited)**	**Number of**	**(EUR in million) (audited)**	**Number of**
<10,000	552.3	303,417	554.3	302,969	539.3	314,296	486.4	316,610
10.000-50.000	1,223.3	57,582	1,194.7	56,123	1,100.7	50,381	946.6	42,427
50.000-100.000	404.6	5,878	417.1	6,058	490.4	7,109	579.9	8,375
100.000-250.000	347.0	2,394	356.2	2,469	426.3	2,973	522.4	3,637
250.000-500.000	191.1	560	196.4	575	207.9	601	227.5	660
500.000-1.000.000	280.9	413	270.0	400	244.4	356	234.4	336
1.000.000-10.000.000	1,630.4	575	1,646.2	576	1,353.1	476	1,439.0	485
10.000.000-50.000.000	1,108.9	55	1,007.6	48	1,043.8	52	1,169.2	57
50.000.000-100.000.000	395.8	6	365.4	5	526.5	8	71.2	1
>100,000,000	1,047.1	5	1,227.8	6	1,565.7	7	2,632.3	8
Total	**7,181.4**	**370,885**	**7,235.7**	**369,229**	**7,498.1**	**376,259**	**8,308.7**	**372,596**

1 Group of borrowers (GoB) is the combination of two or more inter-related meta customers, between which legal or economical interrelationship exist, such as that two or more natural or legal persons constitute a single risk because one of them, directly or indirectly, has control over the other or others or because if one of them were to experience financial problems, in particular funding or repayment difficulties, the others or all of the others would also be likely to encounter funding or repayment difficulties.

(Source: Audited Consolidated Financial Statements and Company information)

16.13.8 Share of stage 2 financial assets

The stage 2 financial assets amounted to EUR 385.9 million and EUR 393.9 million as of December 31, 2018 and as of March 31, 2019, respectively. Of this stage 2 financial assets EUR 40.1 million and EUR 31.9 million were forborne as of December 31, 2018 and as of March 31, 2019, respectively.

16.13.9 Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

Internal rating classes	As of March 31, 2019		As of December 31, 2018		2017		2016	
	Exposure	Collateral	Exposure	Collateral	Exposure	Collateral	Exposure	Collateral
	(EUR in million) (unaudited)				(EUR in million) (audited)			
1A-1E	1,950.7	445.0	1,953.9	463.8	2,179.3	417.0	2,270.8	109.0
2A-2E	3,193.7	768.3	3,274.2	716.3	3,136.6	738.1	3,241.6	988.5
3A-3E	1,234.3	342.0	1,242.8	332.5	1,262.5	400.7	1,588.1	630.6
Watch	194.2	78.7	212.3	87.1	217.1	105.3	276.9	143.1
NPE	3.0	0.1	0.5	0.3	2.6	1.0	9.3	4.7
No rating	3.3	0.5	9.4	0.0	8.0	0.6	20.5	3.8
Total	**6,579.2**	**1,634.7**	**6,693.2**	**1,600.1**	**6,806.1**	**1,662.6**	**7,407.2**	**1,879.7**

(Source: Audited Consolidated Financial Statements and Company information)

The NPEs stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant.

Overdue but not impaired financial assets:

Overdue but not impaired financial assets	As of March 31, 2019		As of December 31, 2018		2017		2016	
	Exposure	Collateral	Exposure	Collateral	Exposure	Collateral	Exposure	Collateral
	(EUR in million) (unaudited)				(EUR in million) (audited)			
– overdue to 30 days	195.2	75.6	125.8	48.5	75.8	23.9	127.6	36.5
– overdue 31 to 60 days	13.2	3.0	9.3	4.7	8.1	2.6	18.7	8.9
– overdue 61 to 90 days	3.8	0.7	4.3	1.5	4.3	1.2	4.5	2.7
– overdue 91 to 180 days	0.1	0.1	0.0	0.0	0.1	0.1	0.7	0.3
– overdue 181 to 365 days	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.3
– overdue over 1 year	0.0	0.0	0.0	0.0	0.3	0.3	0.1	0.1
Total	**212.3**	**79.4**	**139.4**	**54.7**	**88.5**	**28.0**	**152.0**	**48.8**

(Source: Audited Consolidated Financial Statements and Company information)

The primary reason for not taking into account specific risk provisions for the exposures over 90 days is that, after performing an impairment test, there is no need for a specific risk provision for impairment losses through primary and secondary cash flows.

Impaired financial assets:

Impaired financial assets	As of March 31, 2019	As of December 31, 2018	2017	2016
	(EUR in million) (unaudited)		(EUR in million) (audited)	
Exposure	389.9	403.1	603.4	749.5
Provisions	298.1	304.4	405.5	513.6
Collateral	175.4	183.1	288.4	419.8

(Source: Audited Consolidated Financial Statements and Company information)

The factors that are considered when identifying impairment are stipulated in the default detection and recovery policy. Events which indicate objective evidence that a financial instrument may be impaired are listed in note "Exposure by rating class".

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

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

16.13.10 Top 10 non-performing exposures

Addiko Group is focused on segments where exposure is not concentrated in one source of economic power, therefore the individual credit risk exposures are low. Most of the top 10 non-performing exposures were approved before the current management took over (i.e. prior to January 1, 2016). Since then, very large exposures have been avoided.

The top 10 non-performing exposures are adequately covered with provisions and collateral as of March 31, 2019:

(in EUR million, unless otherwise indicated) (unaudited)	Country	Industry	Previous risk framework	As of March 31, 2019
NPE 1[1]	Croatia	Service	Yes	47.0
NPE 2	Serbia	Real estate business	Yes	6.9
NPE 3	Croatia	Construction industry		6.0
NPE 4	Serbia	Real estate business	Yes	4.7
NPE 5	Bosnia and Herzegovina	Service	Yes	4.7
NPE 6	Slovenia	Metal industry and mechanical engineering		3.3
NPE 7	Slovenia	Retail and wholesale trade		2.2
NPE 8	Slovenia	Energy	Yes	2.2
NPE 9	Croatia	Tourism	Yes	2.1
NPE 10	Slovenia	Service	Yes	2.0
Top 10 NPE				**81.0**
Total Addiko Group NPE				393.2
Share of top 10 NPE in total Addiko Group NPE				20.6%
Provisions for the top 10 NPE				58.7
Provision coverage for the top 10 NPE				72.5%
Collateral for the top 10 NPE				35.1
Collateral coverage for the top 10 NPE				43.3%

1 A material amount of NPE 1 (EUR 27.4 million) was exchanged for equity shares and convertible bonds within the extraordinary administration procedures on 1 April 2019, reducing NPE 1 to EUR 19.6 million. Taking into account this transaction, the NPE ratio at the end of March 2019 would ceteris paribus decrease from 5.5% to approximately 5.1%. In addition, on 7 May 2019 Addiko Bank d.d., Croatia concluded a contract for the disposal this exposure for a price above current carrying amount.

(Source: Company information)

The top 10 non-performing exposures are adequately covered with provisions and collateral as of December 31, 2018:

(in EUR million unless otherwise indicated) (unaudited, unless otherwise indicated)	Country	Industry	Previous risk framework	As of December 31, 2018
NPE 1[1]	Croatia	Service	Yes	47.1
NPE 2	Serbia	Real estate business	Yes	7.0
NPE 3	Serbia	Other financial services	Yes	6.0
NPE 4[2]	Croatia	Construction industry		6.0
NPE 5	Serbia	Real estate business	Yes	4.8
NPE 6	Bosnia & Herzegovina	Service	Yes	4.7
NPE 7	Slovenia	Metal industry and mechanical engineering		3.8
NPE 8	Slovenia	Energy	Yes	2.3
NPE 9[3]	Slovenia	Retail and wholesale trade		2.3
NPE 10	Croatia	Tourism	Yes	2.2
Top 10 NPE				**86.2**
Total Addiko Group NPE				403.8[4]
Share of top 10 NPE in total Addiko Group NPE				21.4%
Provisions for the top 10 NPE				62.4
Provision coverage for the top 10 NPE				72.4%
Collateral for the top 10 NPE				36.3
Collateral coverage for the top 10 NPE				42.1%

1 A material amount of NPE 1 (EUR 27.4 million) was exchanged for equity shares and convertible bonds within the extraordinary administration procedures on 1 April 2019, reducing NPE 1 to EUR 19.6 million. Taking into account this transaction, the NPE ratio at the end of March 2019 would ceteris paribus decrease from 5.5% to approximately 5.1%. In addition, on 7 May 2019 Addiko Bank d.d., Croatia concluded a contract for the disposal this exposure for a price above current carrying amount.

2 Size of the exposure is significant larger than average of SME portfolio, considering for the approval of the loan contractual agreements between the client and buyers of the client products, which didn't became valid. Client became problematic in April/May 2018, when our client started with significant delays in payment. Client stalled workout proceedings and acted in a fraudulent manner, avoiding payments to Addiko. Coverage as of December 31, 2018: 88.9% provisions + 28.6% collateral = 117.5% total coverage.

3 Client from "old book" with whom a restructuring (i.e. payment guarantee was converted it into long-term loan) was done while client was still performing, which classified the client to "new book". Since a full exit from the client was not possible, this was the only feasible solution in order to prevent additional

financial difficulties for the client. The client is now regularly repaying its obligations. Coverage as of December 31, 2018: 80.2% provisions + 99.8% collateral = 180.0% total coverage.
4 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

16.13.11 Exposures in CHF

Addiko Group's strategy is to reduce and minimize credit risk exposures in CHF, which have been adequately covered with provisions and collateral. The following table presents the CHF exposure of Addiko Group's network banks:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million) (unaudited)	(in EUR million) (audited, unless otherwise indicated)		
ABC, Croatia	41.0	45.8	66.5	99.0
ABS, Slovenia	76.1	79.5	91.9	118.0
ABSE, Serbia	87.9	91.9	114.5	156.6
ABBL & ABSA, Bosnia & Herzegovina	19.1	21.1	46.4	74.3
ABM, Montenegro	5.5	5.6	6.9	9.1
Company	0.1	0.0	5.0	2.5
Total CHF exposure	**229.7**	**243.9**	**331.2**	**459.5**
o/w non-performing exposure	51.2	53.4	113.5[2]	182.0[1]
o/w performing exposure	178.5	190.5[1]	217.6[1]	277.5[1]
Share of non-performing CHF NPE	22.3%	21.9%	34.3%	39.6%
Share of performing CHF NPE	77.7%	78.1%	65.7%	60.4%
Provision on CHF NPE exposures	40.2	41.7[1]	89.9[1]	150.7[1]
Collateral on CHF NPE exposures	27.5	28.7[1]	51.6[1]	96.8[1]
Surplus of coverage (provision and collateral) over exposure amount	16.6	17.0[1]	28.0[1]	65.5[1]

1 Unaudited Company information.
2 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

16.13.12 Distinction of views according to new / old risk framework

The portfolio is shown according to the "new / old risk framework" to illustrate the approach in risk management applied from 2016, when the new management took over the bank.

"New risk framework" relates to exposure to all clients approved after January 1, 2016. The exposure of the whole client is taken into account as the whole client is evaluated during the approval procedure, also taking into account existing exposure.

"Old risk framework" relates to exposure to clients in regards to which no new approvals were undertaken after January 1, 2016, and some specific clients (mostly large corporates) in regards to which approvals were undertaken only to prevent greater losses. These specific clients are shown within the "old risk framework", since under the new management and strategic direction of Addiko Group such types of clients / exposures would not be approved. The "old risk framework" exposures are managed toward amortising and are decreasing significantly over time.

	Credit risk exposure as of March 31, 2019		
	Total	of which new risk framework	of which old risk framework
		(in EUR million) (unaudited)	
Consumer Business	1,447.7	1,241.7	206.0
SME Business Segment	1,611.9	1,504.2	107.7
Focus area	**3,059.6**	**2,745.8**	**313.8**
Large Corporates Segment	926.1	801.4	124.7
Mortgage Business	982.3	460.2	522.1
Public Finance Segment	222.0	106.7	115.3
Corporate Center	1,991.5	1,351.1	640.3
Total	**7,181.4**	**5,465.3**	**1,716.2**

(Source: Company information)

Credit risk exposure as of December 31, 2018

	Total	of which new risk framework	of which old risk framework
	(in EUR million) (audited, unless otherwise indicated)		
Consumer Business	1,415.0	1,202.9[1]	212.0[1]
SME Business Segment	1,559.3	1,451.3[1]	108.0[1]
Focus area	**2,974.3[1]**	**2,654.2[1]**	**320.1[1]**
Large Corporates Segment	907.0	769.6[1]	137.4[1]
Mortgage Business	1,015.7	465.9[1]	549.8[1]
Public Finance Segment	223.2	106.7[1]	116.4[1]
Corporate Center	2,115.5	1,408.2[1]	707.3[1]
Total	**7,235.7**	**5,404.7[1]**	**1,830.9[1]**

1 Unaudited Company information
(Source: Audited Consolidated Financial Statements and Company information)

16.13.13 NPE volumes, ratios and coverage per segment

The following table shows the NPE credit risk exposures of the new and old risk framework as of March 31, 2019 and as of December 31, 2018, 2017 and 2016 as well as the changes for the financial years 2017 and 2018:

	Consumer Business	SME Business Segment	Large Corporates Segment	Mortgage Business	Public Finance Segment	Corporate Center	Total
	(in EUR million) (unaudited, unless otherwise indicated)						
NPE as of December 31, 2016	**165.3**	**125.2[1]**	**142.2[1]**	**314.3**	**5.7[1]**	**8.1[1]**	**760.8[1]**
NPE increase new book[2]	19.1	5.6	0.0	6.1	0.0	0.2	31.0
NPE increase legacy[2]	4.0	3.4	65.2	12.5	0.0	5.6	90.8
NPE decrease new book[2]	-3.5	-9.5	0.0	-10.0	0.0	0.0	-23.0
NPE decrease legacy[2]	-24.3	-14.0	-27.0	-64.1	-0.5	-0.1	-129.9
Net change within NPE new book[2]	-1.6	-5.7	-0.5	-0.7	0.1	0.0	-8.4
Net change within NPE legacy[2]	-30.8	-17.4	-29.9	-33.6	-1.0	-2.9	-115.6
NPE as of December 31, 2017	**128.2[1,3]**	**87.5[1]**	**150.0[1]**	**224.5[1,3]**	**4.3[1]**	**11.1[1]**	**605.7[1]**
NPE Increase new book[2]	19.1	15.1	3.1	2.9	0.0	0.0	40.1
NPE Increase legacy[2]	2.1	0.2	0.1	6.8	0.0	0.0	9.1
NPE decrease new book[2]	-6.5	-2.1	0.0	-7.2	0.0	0.0	-15.8
NPE decrease legacy[2]	-9.8	-3.5	-31.2	-33.3	0.0	0.0	-77.8
Net change within NPE new book[2]	-5.2	-6.6	-1.6	-0.9	-0.1	-0.2	-14.6
Net change within NPE legacy[2]	-24.2	-19.9	-39.4	-47.5	-0.9	-10.9	-142.9
NPE as of December 31, 2018[4]	**103.6[1]**	**70.7[1]**	**81.0[1]**	**145.2[1]**	**3.4[1]**	**0.0[1]**	**403.8[1]**
NPE as of March 31, 2019[5]	**99.7**	**71.8**	**73.7**	**138.7**	**9.4**	**0.0**	**393.2**

1 Audited information
2 New book refers to loans granted under the new risk framework. New risk framework refers to clients where any new risk decision / approval was undertaken after January 1, 2016. This also includes the prior credit risk exposure of such clients, as the risk decision applies not only to the new transactions. Specific large corporate clients, where business was only done to prevent loss (e.g. large Croatian retailer) are excluded from the new risk framework. Ratios taken from the risk records as of and for the financial years 2016, 2017 and 2018.
3 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
4 The NPE as of December 31, 2018 relate to EUR 188.6 million to ABC, Croatia, to EUR 35.8 million to ABS, Slovenia, to EUR 60.7 million to ABSA, Federation of Bosnia & Herzegovina, to EUR 46.0 million to ABBL, Republic of Srpska, to EUR 52.3 million to ABSE, Serbia and to EUR 20.4 million to ABM, Montenegro.
5 The NPE as of March 31, 2019 relate to EUR 178.1 million to ABC, Croatia, to EUR 35.5 million to ABS, Slovenia, to EUR 63.3 million to ABSA, Federation of Bosnia & Herzegovina, to EUR 45.8 million to ABBL, Republic of Srpska, to EUR 53.4 million to ABSE, Serbia and to EUR 17.2 million to ABM, Montenegro.
(Source: Audited Consolidated Financial Statements and Company information)

The NPE reduction has been driven by the non-focus segments. The current stock of NPE portfolio in non-focus segment is expected to be gradually reduced, while on the other hand this decrease will be offset by increasing NPEs of the focus segments.

The following table shows the NPE credit risk exposures of the new and old risk framework for the Consumer Business, for the SME Business Segment and for the non-focus areas as of March 31, 2019 as well as of December 31, 2018, 2017 and 2016:

	For the three-month period ended March 31,	For the financial year ended December 31,		
	2019	2018	2017	2016
	(in EUR million, unless otherwise indicated) (unaudited)	(in EUR million, unless otherwise indicated) (unaudited, unless otherwise indicated)		
Consumer Business				
NPE ratio %	6.9%	7.3%[2]	10.0%[2]	15.2%
NPE new risk framework	34.3	31.7	23.6	9.6
NPE old risk framework	65.4	71.9	104.6	155.7
Total NPE	99.7	103.6[2]	128.2[2]	165.3
Total credit risk exposure	1,447.7	1,415.0[2]	1,285.4[2]	1,084.8
Provision coverage	91.6%	91.1%[2]	89.2%[2]	87.2%
SME Business Segment				
NPE ratio %	4.5%	4.5%[2]	6.7%[2]	11.1%[2]
NPE new risk framework	28.4	29.2	22.9	32.5
NPE old risk framework	43.4	41.4	64.6	92.6
Total NPE	71.8	70.7[2]	87.5[2]	125.2[2]
Total credit risk exposure	1,611.9	1,559.3[2]	1,305.4[2]	1,130.7[2]
Provision coverage	62.1%	63.7%[2]	50.0%[2]	46.4%[2]
Non-focus areas[1]				
NPE ratio %	10.4%	10.7%[2]	11.7%[2]	12.1%
NPE new risk framework	16.9	16.7	18.0	23.0
NPE old risk framework	204.8	212.9	360.9	439.1
Total NPE	221.8	229.5[2]	378.9[2]	462.2
Total credit risk exposure	2,130.4	2,145.8[2]	3,245.8[2]	3,808.7
Provision coverage	73.1%	71.9%[2]	64.1%[2]	66.9%

1 Comprises the Mortgage Business, the Large Corporates Segment and the Public Finance Segment
2 Audited information. Audited numbers for Consumer Business and non-focus areas as of December 31, 2017 were taken from the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements and Company information)

16.13.14 Days past due per segment

The following table shows the credit risk exposure by days past due per segment as of March 31, 2019 and December 31, 2018:

	As of March 31, 2019					
	No overdue	< 30 days	31-60 days	61-90 days	> 90 days	Total
	(in EUR million) (unaudited)					
Consumer Business	1,311.5	41.0	7.6	3.6	84.0	1,447.7
SME Business Segment	1,472.8	99.3	1.8	1.9	36.1	1,611.9
Large Corporates Segment	853.2	17.2	0.0	0.0	55.7	926.1
Mortgage Business	818.7	39.2	7.3	1.3	115.8	982.3
Public Finance Segment	204.0	8.4	3.0	0.0	6.6	222.0
Consumer Business	90.6%	2.8%	0.5%	0.3%	5.8%	100.0%
SME Business Segment	91.4%	6.2%	0.1%	0.1%	2.2%	100.0%
Large Corporates Segment	92.1%	1.9%	0.0%	0.0%	6.0%	100.0%
Mortgage Business	83.3%	4.0%	0.7%	0.1%	11.8%	100.0%
Public Finance Segment	91.9%	3.8%	1.4%	0.0%	3.0%	100.0%

(Source: Company information)

	As of December 31, 2018					
	No overdue	< 30 days	31-60 days	61-90 days	> 90 days	Total
	(in EUR million) (audited)					
Consumer Business	1,285.1	33.3	5.2	3.1	88.2	1,415.0
SME Business Segment	1,456.5	63.2	0.2	1.5	38.0	1,559.3
Large Corporates Segment	830.4	15.2	1.0	0.0	60.4	907.0
Mortgage Business	861.4	25.0	6.7	3.2	119.4	1,015.7
Public Finance Segment	219.8	2.9	0.0	0.0	0.4	223.2
Consumer Business	90.8%	2.4%	0.4%	0.2%	6.2%	100.0%
SME Business Segment	93.4%	4.1%	0.0%	0.1%	2.4%	100.0%
Large Corporates Segment	91.6%	1.7%	0.1%	0.0%	6.7%	100.0%
Mortgage Business	84.8%	2.5%	0.7%	0.3%	11.8%	100.0%
Public Finance Segment	98.5%	1.3%	0.0%	0.0%	0.2%	100.0%

(Source: Audited Consolidated Financial Statements)

16.13.15 Comparison between credit risk bearing exposure and total credit risk exposure

Credit risk bearing exposure represent the credit risk exposure to customers whereas the total credit risk exposure also comprises non-client businesses:

	Credit risk exposure as of March 31, 2019	**Credit risk exposure as of December 31, 2018**
	(in EUR million) **(unaudited)**	**(in EUR million)** **(unaudited, unless otherwise indicated)**
Credit risk bearing exposure	5,297.8	5,236.6[1]
Securities and derivatives	1,274.7	1,201.2
Repurchase agreements	19.2	9.7
Central banks	589.8	788.2
Total credit risk exposure	**7,181.4**	**7,235.7**[1]

1 Audited information

(Source: Audited Consolidated Financial Statements and Company information)

16.13.16 Liquid Financial Assets by Rating and Geography

The following tables present the liquid financial assets (comprised mainly of investment securities and cash at central banks, all reflected in the Corporate Center) by rating and geography as of March 31, 2019:

	Credit risk exposure as of March 31, 2019
	(in EUR million) **(unaudited)**
AAA to BBB-	1,069.2
BB+ to B+	791.9
B	130.4
Watch	0.0
NPE	0.0
Not rated	0.0
Total	**1,991.5**

(Source: Company information)

	Credit risk exposure as of March 31, 2019	
AAA to BBB- rated, liquid financial assets	**(in EUR million)** **(unaudited, unless otherwise indicated)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	515.3	48%
SEE	199.2	19%
CEE	261.2	24%
Other	93.4	9%
Total	**1,069.2**	**100%**

(Source: Company information)

	Credit risk exposure as of March 31, 2019	
BB+ to B+ rated, liquid financial assets	**(in EUR million)** **(unaudited, unless otherwise indicated)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	6.0	1%
SEE	786.0	99%
CEE	0.0	0%
Other	0.0	0%
Total	**791.9**	**100%**

(Source: Company information)

	Credit risk exposure as of March 31, 2019	
B rated, liquid financial assets	**(in EUR million)** **(unaudited)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	0.0	0%
SEE	130.4	100%
CEE	0.0	0%
Other	0.0	0%
Total	**130.4**	**100%**

(Source: Company information)

The following tables present the liquid financial assets (comprised mainly of investment securities and cash at central banks, all reflected in the Corporate Center) by rating and geography as of December 31, 2018:

	Credit risk exposure as of December 31, 2018
	(in EUR million) (audited)
AAA to BBB-	1,063.9
BB+ to B+	893.0
B	153.6
Watch	0.0
NPE	0.0
Not rated	5.1
Total	**2,115.5**

(Source: Audited Consolidated Financial Statements)

	Credit risk exposure as of December 31, 2018	
AAA to BBB- rated, liquid financial assets	**(in EUR million) (unaudited, unless otherwise indicated)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	501.6	47%
SEE	189.6	18%
CEE	273.5	26%
Other	99.1	9%
Total	**1063.9**[1]	**100%**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

	Credit risk exposure as of December 31, 2018	
BB+ to B+ rated, liquid financial assets	**(in EUR million) (unaudited, unless otherwise indicated)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	0.2	0%
SEE	892.8	100%
CEE	0.0	0%
Other	0.0	0%
Total	**893.0**[1]	**100%**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

	Credit risk exposure as of December 31, 2018	
B rated, liquid financial assets	**(in EUR million) (unaudited)**	**(in percentage of total)**
Europe (excl. CEE/SEE)	0.0	0%
SEE	153.6	100%
CEE	0.0	0%
Other	0.0	0%
Total	**153.6**[1]	**100%**

1 Audited information
(Source: Audited Consolidated Financial Statements and Company information)

16.13.17 Market risk

16.13.17.1 Market risk definition

Market risks consist of potential losses arising from a change in market prices. Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. Addiko Group places a special emphasis on identifying, measuring, analyzing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, Addiko Group is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short-term. For existing positions, these are taken into account as part of the risk limitations for market risks.

16.13.17.2 Market risk general requirements

Addiko Group develops its market risk strategy on the basis of strategy discussions with the relevant treasury department. Resolutions on the combined business and risk strategy at group level are passed exclusively in the Group asset liability committee (***GALCO***) and are discussed in the Risk Committee.

16.13.17.3 Market risk measurement

Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, value at risk (VaR) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analysis using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so called “stress tests”, and analyzed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. The interest rate risk in the banking book is determined as a present value risk, as are all market risks of Addiko Group. The interest rate risk in the banking book is predominantly integrated into ongoing risk monitoring according to the VaR in market risk controlling.

Contractual cancellation rights are modelled as an option and taken into account in the risk calculation. All stochastic positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept. Alongside the VaR calculation, classic interest rate gap analysis is also used to measure interest rate risk in the banking book. Present value changes from the 200 base points interest shock scenario, which is still a regulatory requirement, always remain under the threshold of 20% of own capital funds at Addiko Group. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

16.13.17.4 Market risk limitation

A limit for market risk of the distributable risk capital has been set for Addiko Group. This defined risk capital represents the maximum loss for assuming market risks. The allocation of market risk capital is carried out based on a defined limit application process, setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity price risk (customer default and investments) and credit spread risk) and taking into account a market risk limit reserve. Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early warning system to show any negative developments in the market risk limit system early on. Within the market risk limitation and escalation processes, warning limit breaks (limit utilization greater than 80% of the defined limit) are also communicated on a regular basis. Warning limits are included in the automatically sent out daily treasury reports. Key stake holders are informed on a daily basis of these warning limit breaks during the regular daily reporting procedure.

16.13.17.5 Market risk control and monitoring

In market risk reporting, the VaR and performance figures for the trading book (small exposures in Addiko Bank AG, Addiko Bank Slovenia, Addiko Bank Croatia and Addiko Bank Serbia), banking book investments and market risk steering figures as well as the corresponding risk capital view are updated on a daily basis. Should limits be exceeded, escalation processes are defined up to the level of the Management Board. The Management Board also receives a monthly report where the current market risk of Addiko Group is shown. The control of interest risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest risk statistics. The GALCO, which consists of the Management Board as well as key staff in treasury, risk management and financial controlling, meets on a regular basis to analyze and decide on measures related to controlling the structure of the statement of financial position as well as liquidity. In addition to Group-level controlling, all subsidiaries and subsidiary portfolios are monitored and controlled.

16.13.17.6 Interest rate risk

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges (fair value hedges), thereby mitigating interest risk.

Regulatory requirements state that the proportion of interest risk – in the form of the standardized 200-basis point rise in directly affected interest-bearing positions (excluding non-interest-bearing positions (NIB)) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well balanced. NIB positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

16.13.17.7 Foreign currency risk

The extent of open foreign exchange positions is managed by conservative VaR limits in order to ensure that only marginal FX risks are carried in Addiko Group. Compliance with these limits is observed on a daily basis. The database for determining the VaR for foreign currency risks at the group level of Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of Addiko Group. The main foreign currency risk drivers are the Croatian (HRK) and Serbian (RSD) currencies. Aside from foreign currency risk from operating activities, Addiko Group is also exposed to an additional foreign currency risk from the consolidation of Addiko Bank AG's strategic investment in Addiko a.d. Beograd and Addiko d.d. Zagreb as recorded in the statement of financial position. The strategic currency risk thus represents the majority of the risk in open currency items at Addiko Group. In addition to monitoring VaR in respect of foreign currency, Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on monthly basis within the Group Asset Liability Committee.

16.13.17.8 Equity price risk

The share capital held in Addiko Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. Addiko Group makes a distinction between equity price risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments).

Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at Addiko Group – which is why Addiko Group is actually only exposed to an extremely low level of risk from share items and therefore also no major concentration risk exists here.

16.13.17.9 Credit spread risk

The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at Addiko Group. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, Addiko Group also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

16.13.17.10 Development of market risk VaR (in EUR million)

Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. The following table shows the VaR of the relevant market risk factors at the 99.0% confidence level and with a holding period of one day.

	As of March 31,	**As of December 31,**		
	2019	**2018**	**2017**	**2016**
	(EUR in thousand) (unaudited)	**(EUR in thousand) (unaudited)**		
Interest Rate Risk (Banking and Trading Book)	1,415	834	420	584
Credit Spread Risk	980	471	260	835
Foreign Exchange Risk	597	846	1,566	729
Equity Risk – Investments	1	1	2	2
Equity Risk – Client Default	4	5	4	5

(Source: Company information)

The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

16.13.17.11 Market risk sensitivity analyses – credit spread and interest rate risk

The following table presents the development of the interest rate sensitivity and the credit spread risk sensitivity (impact of 1 basis point parallel shift of the interest rate curve and the credit spread curve, respectively, on the present value of banking book) as of December 31, 2018, 2017 and 2016:

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	(in EUR thousand) (unaudited)	(in EUR thousand) (unaudited)		
Interest rate sensitivity	-273	-293	-94	153
Credit spread sensitivity	-406	-381	-399	-258

(Source: Company information)

16.13.18 Operational risk

16.13.18.1 Operational risk definition

Addiko Group defines operational risk as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

16.13.18.2 Operational risk general requirements

A robust framework of operational risk management, which includes identifying, measuring, managing, monitoring and reporting operational risk, provides a mechanism for discussion and effective escalation of issues leading to better risk management and improved institutional resilience.

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored risk mitigation actions.

Operational risk management is a continuous, cyclical process that includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk. The following activities are therefore applied in operational risk management in Addiko Group:

- Loss data collection of operational risk losses and related mitigation measures
- Data validation
- Estimation of operational risk loss exposure

When estimating operational risk loss exposure, Addiko Group mostly relies on internal operational risk losses as the most valid data source. Nevertheless, operational risk loss exposure of particular processes and the Group as a whole is additionally estimated through the following activities:

- Risk and controls self-assessment
- Scenario analysis

16.13.18.3 Operational risk monitoring

The operational risk management department reports on a monthly basis to the GREC and on a quarterly basis to the audit committee of the Management Board in order to provide an overview of the operational risk situation to management in order to enable the related risk steering and integration of the operational risk management into the bank processes.

The most significant individual operational risk events since the financial year 2016, which are not related to legal proceedings, were:

- the fraud in the loan disbursement process by one employee in Slovenia in 2017, leading to EUR 1.7 million disbursements via 71 loans across 3 branches (EUR 1.4 million outstanding loan balance, which has been fully provisioned),
- and the fraud in the loan disbursement process by one employee in Montenegro in 2017, leading to EUR 1.6 million disbursements via 87 loans (EUR 0.7 million outstanding loan balance, which has been fully provisioned).

The identification of these cases prompted immediate review of the disbursement process and implementation of additional controls. Fraud controls were substantially strengthened, the frequency of audits in exposed areas was increased and also the automation of fraud matrix in the loan application and salary monitoring process was increased.

16.13.18.4 Operational risk sub-types

The following sub-types of operational risk are managed within different organizational departments. Quantification for operational risk covers all such sub-types.

ICT risk (Cyber risk)

This includes risk related to information technology and refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of information, communication and technologies. Information, communication and technologies risk are mapped into the following information, communication and technologies risk categories: information, communication and technologies availability and continuity risk, information, communication and technologies security risk, information, communication and technologies change risks, information, communication and technologies data integrity risks, information, communication and technologies outsourcing risks. Information, communication and technologies risk is managed under the Group IT department where objectives and principles of information, communication and technologies risk management are placed and defined within the security policy provided by CISO Systems, Inc. and related policies and manuals.

Outsourcing risk

Outsourcing risk is the risk that engaging a third party, or another Group entity (intra-group outsourcing), to provide services adversely impacts the institution's performance and risk management.

The Addiko Group outsourcing policy defines the management of outsourcing as well as standards and processes of business activities and the managing of outsourced services.

Model risk

Model risk refers to the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models

Standardized and aligned model development and implementation processes are defined within the model development and implementation policy for credit risk models and the validation policy for credit risk models.

Conduct risk

Conduct risk refers to the current or prospective risk of losses to an institution arising from inappropriate supply of financial services, including cases of willful or negligent misconduct. Conduct risk is incorporated and managed within the operation risk management framework defined within the Addiko Group operational risk policy.

Money laundering/financing of terrorism risk

Money laundering is a process in which funds generated by illegal and criminal activities are placed into legal financial circulation and subsequently invested into a legitimate activity. Terrorism financing is defined as the provision or collection of funds, by any means, directly or indirectly, with the intention that they be used, or with the knowledge that they are to be used, in full or in part, to carry out a terrorist act, to finance a terrorist organization or individual terrorists.

The Addiko Group anti-money laundering and countering financing of terrorism policy is the main document for Addiko Group in regards to the anti-money laundering, combating terrorist financing and handling of embargoes. It is implemented along with related documents that illustrate respective processes and measures applied to establish effective and consistent systems for such purposes.

16.13.19 Liquidity risk

16.13.19.1 Liquidity risk definition

Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

Liquidity risk consists of the following components:

- Illiquidity risk: describes the risk that Addiko Group is unable to meet its payment obligations as they fall due in full or in time – this part of liquidity risk is measured in ILAAP.

- Funding Spread Risk: indicates the risk of financial losses arising from unfavorable changes in Addiko Group's own credit spread (liquidity spread) where the lending business was refinanced with non-matching maturities (liquidity maturity transformation risk) – this part of liquidity risk is measured in ICAAP.
- Market Liquidity Risk: is the risk that financial losses will arise due to insufficient market liquidity. At Addiko Group, this is measured together with market price risk.

Therefore, the liquidity management within Addiko Group must ensure that the group can efficiently meet both expected and unexpected, current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Addiko Group. Additionally, liquidity management must monitor structural liquidity in a static and dynamic perspective.

Funding spread risk and market liquidity risk are measures that cover a special kind of price risk and therefore must be recognized in the economic capital under ICAAP, while illiquidity risk is covered under ILAAP. For the funding spread risk under ICAAP, Addiko Group reserves 2% of the economic capital for potential increases in the funding spread, which is clearly within risk bearing capacity.

External funding is currently comprised of regional customer deposits, deposits placed by non-bank financial institutions (insurance companies, investment funds etc.), repo business with commercial banks, interbank loans, supranational funding.

Addiko Group mainly offers deposit products in the form of overnight money and term deposits. The term deposits are plain-vanilla with maturities mainly up to one year.

Addiko Group's funding plan is based on conservative and carefully estimated loan and deposit volume growth. The Loan-to-Local Stable Funding Ratio (LLSFR) is set as a limiting factor for growth in each country. The growth of the business will be achieved by attracting customer deposits through intensified local marketing and cross-selling initiatives while adjusting offered interest rates to local market level.

In 2017, Addiko Group began the collection of deposits in the Austrian market. It established a presence through internet collection channels with a focus on daily due and term deposits. This step increased the diversification of its funding base.

Further reliable and flexible sources of Addiko Group's funding are interbank loans and repo programs, which Addiko Group intends to keep on a stable level. In 2019/2020 Addiko Group intends to issue covered bonds, for which the required banking license was obtained in 2015.

16.13.19.2 Liquidity risk general requirements

The strategic principles of handling liquidity risks at Addiko Group are defined in the liquidity risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. A liquidity risk policy and a liquidity risk manual that apply across the entire Addiko Group govern the content and organizational framework for the management and controlling of liquidity risks.

At Addiko Group, liquidity controlling and management at group level are the responsibility of group balance sheet management & treasury. It is here that the steering of situational and structural liquidity and the coordination of funding potential at group level takes place. The local treasury departments are responsible for operational liquidity steering and liquidity offset. The liquidity risk control at group level is the responsibility of CSU market & liquidity risk. At a local level, the respective risk control departments are in charge. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

Addiko Group has emergency liquidity planning in place, which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of Addiko Group are to rigorously maintain solvency and to prevent damage to the Addiko Group's reputation.

16.13.19.3 Liquidity risk measurement

The main methodological tool for measuring, analyzing, monitoring and reporting on liquidity risk within Addiko Group is the liquidity gap analysis. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realizable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies the capacity of Addiko Group – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favorable conditions. It shows options regarding the coverage of liquidity gaps and hence all liquidity risks related to cash flows. The most important components of the liquidity coverage potential (counterbalancing capacity) are as follows:

- Securities eligible for central bank
- Securities eligible for repo

- Credit claims eligible for central bank or repo
- Obligatory reserves (countable)
- Cash reserves at central bank (locked)
- Other liquefiable assets
- Committed/required credit lines
- New issuance and securitization

In addition to the normal scenario, the risk measurement spectrum is supplemented by other scenario analyzes conducted under stress conditions, such as name crises (rating deterioration, reputation crises), market crises (restrictive funding options on the capital market, increased cash outflow as well as transfer limits) as well as combined scenarios.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios which allow a compact assessment of the liquidity situation. In addition, an internal LCR limit restricts the short-term liquidity risk. For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal NSFR limit restricts the structural liquidity risk.

16.13.19.4 Liquidity risk control and monitoring

A bundle of different liquidity reserves ensures Addiko Group's solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective departments even during crisis situations. Moreover, Addiko Group holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

Liquidity controlling for Addiko Group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for Addiko Group through Addiko Group holding (Addiko Bank AG). A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. For the purposes of short-term controlling, forecast data is elicited directly at the sales departments based on customer transactions, while planned budget data are used for medium-term controlling.

Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and, as described above, to stress situations, depending on the market situation.

Besides structural controlling, care is also taken to ensure that general regulatory requirements in the various group countries are adhered to.

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the key indicators LCR, NSFR, LLSFR, the LVaR as funding spread risk as well as time-to-wall under normal and stress conditions and, on the other hand, through the integration of the structural liquidity risk into Addiko Group's overall controlling. Appropriate limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity coverage potential, threshold values are defined for all scenarios; and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Management Board and the responsible controlling departments.

As a part of the liquidity risk controlling and steering also liquidity stress test scenarios are defined and calculated on a monthly basis as it can be seen in the attached table as of December 31, 2018:

Scenario	Stress period	Time to wall	Minimum liquidity position	Liquidity position utilised
			(EUR in million)	
Normal scenario	12 months	> 12 m	1,749	0%
Mild name crisis	13 weeks	> 12 m	1,396	0%
Mild market crisis	13 weeks	> 12 m	1,361	0%
Mild combined crisis	13 weeks	> 12 m	1,349	0%
Severe name crisis	4 weeks	> 12 m	935	17%
Severe market crisis	4 weeks	> 12 m	986	7%
Severe combined crisis	4 weeks	13 w	424	60%
Survival scenario	7 days	4 w	944	0%

(Source: Company information)

16.13.19.5 Liquidity risk management

The liquidity/funding management function is included in Addiko Group's balance sheet management & treasury and the respective local balance sheet management & treasury departments in the ambit of the CEO or CFO.

The liquidity/funding risk management function is included in the central steering department for market and liquidity risk and the respective local market & liquidity risk departments of the local risk control departments in the ambit of the CRO.

Therefore, there is a strict separation of the liquidity/funding management in the ambit of the CEO/CFO and liquidity/funding risk management functions in the ambit of the CRO on the Group as well as on the local level.

The risk management organization within Addiko Group is based on the following five organizational levels:

- Risk committee of the Supervisory Board
- Management Board
- Committee level
- Group B1-level
- Individual institute level

The Management Board is the highest decision-making body for all issues related to the management of all types of risks within Addiko Group. The Management Board defines the risk strategy and risk profile of Addiko Group, and thus also the liquidity risk strategy. All internal policies governing group-wide risk regulations must be approved by the Management Board, including the risk strategy with integrated liquidity risk strategy.

The Management Board members, especially the CRO, have a decisive role in various risk committees and are informed about the development of risks on a regular basis (e.g. monthly liquidity risk reports, etc).

Further responsibilities are executed within the following Addiko Group committees:

(i) The monthly GREC is the strategic platform for the risk departments to discuss not only the risk-relevant methodological topics but also the current portfolio issues, the target portfolio and the measures which must be taken in order to achieve it. Moreover, the interaction between the different portfolios is also considered. All decisions and measures, mainly related to the portfolio issues, are taken under the consideration of ICAAP /ILAAP needs and an ensured risk bearing capacity. The GREC decides all risk related issues, which comprise portfolio, risk-related methodological, procedural and systematic issues. All decisions which have a strategic relevance or affect the steering of Addiko Group as a whole (e.g. liquidity risk strategy, risk provision budget and change of risk target portfolio ICAAP breaches) cannot be decided alone and must be submitted as recommendations at the following meeting of the Management Board.

(ii) The scope of the monthly Group asset liability committee (GALCO) generally is the steering of Group assets and liabilities and is governed by the CEO (steering of Addiko Group comprising interest, liquidity, FX- and equity-risk and information about further steering relevant issues). The GALCO has both information and decision-making responsibilities.

(iii) The Group liquidity round is an operative liquidity steering committee that takes place on a weekly basis. In stress conditions, the frequency of meetings is increased up to a daily basis.

Addiko Group liquidity limits are defined by central steering market and liquidity risk and approved in the GREC.

The Management Board and senior management are informed on a daily basis regarding the liquidity situation of the Group-wide cash and primary funds development. On a weekly basis, senior management is informed in the liquidity round (or out of meeting minutes, including between the CFO and CRO). On a monthly basis, the Management Board and senior management are informed within the monthly GALCO, the GREC and the monthly liquidity reports on Group and subsidiaries level.

16.13.19.6 Liquidity and funding performance

LCR performance

	As of March 31,	**As of December 31,**		
	2019	**2018**	**2017**	**2016**
	(EUR in million, unless otherwise indicated) (unaudited)			
High liquid assets	1,073	1,178	1,366	2,037
Net 30-day cash outflows	680	787	740	757
LCR	158%	150%	183%	269%

(Source: Company information)

The LCR was developed and introduced in` accordance with CRR and specified with the supplement Commission Delegated Regulation (EU) 2015/61. The LCR is expressed as the percentage of liquid assets divided by the net liquidity outflow (30 day stress) and set at a minimum of 100%, which indicates that a credit institution holds sufficient liquid assets to meet its net liquidity outflows during a 30-day stress period. During such a period, a credit institution should be able to quickly convert its liquid assets into cash without recourse to central bank liquidity or public funds.

NSFR performance

	As of March 31, 2019	2018	As of December 31, 2017	2016
	(EUR in million, unless otherwise indicated) (unaudited)			
Available stable funding	4,384	4,416	4,674	5,180
Required stable funding	4,392	4,346	4,639	5,000
NSFR	100%	102%	101%	104%

(Source: Company information)

The NSFR was also developed and introduced in accordance with CRR which foresees it as a long-term liquidity ratio. Currently, there is no regulatory minimum ratio prescribed. However, a future minimum ratio of 100% is expected, as proposed in the legislative proposal published by the European Commission on November 23, 2016. Currently, compromise proposals are under tripartite discussion between EU Commission, EU Parliament and EU Council.

Therefore, for the NSFR ratios presented above, the calculations were performed based on the NSFR template and Basel III: the NSFR paper from October 2014.

16.13.20 Other risks

"Other risks" are risks which are not sub-types of credit, market and operational risk, are within the ICAAP process covered by a capital buffer, considered and managed on a qualitative basis, and include object risk, reputational risk, residual risk, risk of excessive debts, macroeconomic risk, risk of new products, systemic risk and business / strategic risk.

"Other risks" are tracked and managed within specific processes outside of direct oversight of risk management (e.g. strategic risk influences on profit and loss movements monitored through budgeting and forecasting processes managed by Group financial controlling). "Other risks" are assumed during regular business practice in different areas of Addiko Group and are controlled and managed by the relevant responsible person for each process. The strategic approach of Addiko Group to "other risks" is to minimize their effect through good business practice, process management and compliance, as well as full consideration of potential negative effects when making decisions and basing business decisions on the careful consideration of all positive and negative impacts.

17 Transactions And Relationships With Related Parties

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Business relation with the European Bank for Reconstruction and Development, previously shown as "Associates and joint ventures" are disclosed in other related parties in 2016, 2017 and 2018 as well as for the first quarter of 2019. Key management positions at the Company or the parent company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the management boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

The sole shareholder of Addiko Group is the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. 96.3% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l. and 3.7% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development (EBRD).

Transactions with related parties are carried out in the normal course of business operations and on an arm's length basis.

Key personnel of the institution or its parent includes Group supervisory and management board members, parent supervisory and management board members as well as local management board members from subsidiaries.

Business relations with related parties were as follows as of the date specified:

For the three-month period ended March 31, 2019
(in EUR million)
(unaudited)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.1	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.1	0.0
Financial liabilities	0.0	0.0	0.0	1.0	39.4
Deposits	0.0	0.0	0.0	1.0	39.4
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.1	0.0	0.0	0.0	0.0

(Source: Company information)

Other liabilities in the amount of EUR 0.1 million to the parent company as of March 31, 2019 relate to services provided by the Existing Shareholder.

Financial assets in the amount of EUR 0.1 million of key personnel of Addiko Group as of March 31, 2019 relate to loans and advances which have been concluded at standard market terms.

Financial liabilities in the amount of EUR 1.0 million of key personnel of Addiko Group or its parent company as of March 31, 2019 relates to deposits which have been concluded at standard market terms.

Financial assets in the amount of EUR 3.4 million to other related parties as of March 31, 2019 belong to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. These debt instruments have been bought at standard market terms.

Financial liabilities in the amount of EUR 39.4 million to other related parties as of March 31, 2019 relate to funding received by ABSE – as part of a trading facilitation programme – from the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. The deposits have been concluded at standard market terms.

For the financial year ended December 31, 2018
(in EUR million)
(audited)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.3	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.3	0.0
Financial liabilities	0.0	0.0	0.0	0.9	39.0
Deposits	0.0	0.0	0.0	0.9	39.0
Debt securities issued	0.0	0.0	0.0	0.0	0.0
Other financial liabilities	0.0	0.0	0.0	0.0	0.0

For the financial year ended December 31, 2018
(in EUR million)
(audited)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Other liabilities	0.2	0.0	0.0	0.0	0.0

(Source: Audited Consolidated Financial Statements)

Other liabilities in the amount of EUR 0.2 million to the parent company as of December 31, 2018 relate to services provided by AI Lake (Luxembourg) S.à r.l., including marketing and corporate communication services, business continuity management services and services in regards to the real estate sales programme (for the latter, see also "*15.15.1 Sale of Real Estate Assets*").

Financial assets in the amount of EUR 0.3 million of key personnel of Addiko Group as of December 31, 2018 relate to loans and advances which have been concluded at standard market terms.

Financial liabilities in the amount of EUR 0.9 million of key personnel of Addiko Group or its parent company as of December 31, 2018 relates to deposits which have been concluded at standard market terms.

Financial assets in the amount of EUR 3.4 million to other related parties as of December 31, 2018 belong to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. These debt instruments have been bought at standard market terms.

Financial liabilities in the amount of EUR 39.0 million to other related parties as of December 31, 2018 relate to funding received by ABSE – as part of a trading facilitation programme – from the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. The deposits have been concluded at standard market terms.

For the financial year ended December 31, 2017
(in EUR million)
(audited)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	1.2	6.1
Debt securities	0.0	0.0	0.0	0.0	6.1
Loan and advances	0.0	0.0	0.0	1.2	0.0
Financial liabilities	196.9	0.0	0.0	1.7[1]	5.1
Deposits	0.0	0.0	0.0	1.7[1]	5.1
Other financial liabilities	196.9	0.0	0.0	0.0	0.0
Other liabilities	0.2	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	0.0	0.0	0.0	0.1	0.0
Loan commitments, financial guarantees and other commitments received	0.0	0.0	0.0	0.0	0.0

1 Numbers as presented in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements)

Financial liabilities to the parent company as of December 31, 2017 relate to the Tier 2 instruments issued March 2016 and February 2017 with the notional amount of EUR 60.0 million and EUR 130.0 million, respectively. The remaining EUR 6.9 million are accrued interest for the first Tier 2 issued March 2016.

Other liabilities in the amount of EUR 0.2 million to the parent company as of December 31, 2017 relate to services provided by AI Lake (Luxembourg) S.à r.l.

Financial assets in the amount of EUR 1.2 million of key personnel of Addiko Group or its parent as of December 31, 2017 relate to loans which have been concluded at standard market terms.

Financial liabilities in the amount of EUR 1.7 million of key personnel of Addiko Group or its parent as of December 31, 2017 relates to deposits which have been concluded at standard market terms.

The Nominal amount of loan commitments, financial guarantees and other commitments given to key personnel of Addiko Group or its parent amounts to EUR 0.1 million as of December 31, 2017.

Financial assets in the amount of EUR 6.1 million to other related parties as of December 31, 2017 belong to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. These debt instruments have been bought at standard market terms.

Financial liabilities in the amount of EUR 5.1 million to other related parties as of December 31, 2017 relate to deposits received from the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. The deposits have been concluded at standard market terms.

For the financial year ended December 31, 2016
(in EUR million)
(audited, unless otherwise indicated)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0[1]	2.1	6.0[1]
Debt securities	0.0	0.0	0.0[1]	0.0	5.8[1]
Loan and advances	0.0	0.0	0.0	2.1	0.2
Financial liabilities	66.9	0.0	0.0	2.0	0.2
Deposits	0.0	0.0	0.0	2.0	0.2
Other financial liabilities	66.9	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	0.0	0.0	0.0	0.0	0.0
Loan commitments, financial guarantees and other commitments received	0.0	0.0	0.0	0.0	0.0

1 Numbers taken from the Audited Consolidated Financial Statements as of and for the financial year 2017.
(Source: Audited Consolidated Financial Statements)

Financial liabilities to the parent company as of December 31, 2016 relate to the Tier 2 instrument issued March 2016 with the notional amount of EUR 60.0 million. The remaining EUR 6.9 million are accrued interest for this instrument.

Financial assets of key personnel of Addiko Group or its parent in the amount of EUR 2.1 million as of December 31, 2016 relate to loans which have been concluded at standard market terms.

Financial liabilities of key personnel of Addiko Group or its parent in the amount of EUR 2.0 million as of December 31, 2016 relate to deposits which have been concluded at standard market terms.

Financial assets to other related parties in the amount of EUR 6.0 million as of December 31, 2016 belong mainly to debt instruments (EUR 5.8 million) issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group. These debt instruments have been bought at standard market terms.

Financial liabilities to other related parties as of December 31, 2016 comprise to deposits in the amount of EUR 0.2 million, which have been concluded on standard market terms.

For the three-month period ended March 31, 2019
(in EUR million)
(unaudited)

(in EUR million)	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	0.0	0.0	0.0	-0.1
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	-0.2	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0

(Source: Company information)

Other administrative expenses to the parent company in the amount of EUR 0.2 million relate to services provided by the Existing Shareholder in the three-month period ended March 31, 2018.

Interest expenses from other related parties in the amount of EUR 0.1 million in the three-month period ended March 31, 2018 relate to the deposits received from the European Bank for Reconstruction and Development (ABSE received funding as part of a trading facilitation programme), one of one of the ultimate shareholders of Addiko Group.

For the financial year 2018
(in EUR million)
(audited)

(in EUR million)	**Parent company**	**Subsidiaries and other entities of the same group**	**Associates and joint ventures**	**Key personnel of the institution or its parent**	**Other related parties**
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-3.6	0.0	0.0	0.0	-0.4
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses.............	0.0	0.0	0.0	0.0	-0.1
Other administrative expenses.............	-0.8	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments.................	0.0	0.0	0.0	0.0	0.0

(Source: Audited Consolidated Financial Statements)

The interest expenses of EUR 3.6 million to the parent company in the financial year 2018 relate to the Tier 2 instruments issued March 2016 and February 2017. The first Tier 2 instrument issued March 2016 has a coupon of 14% (annual payment) and the second Tier 2 instrument has a coupon of 10% (quarterly payment at the end of each quarter). Both Tier 2 instruments were waived in March 2019 with the result that interest expenses have to be paid by Addiko Group only for the period January 1, 2018 up to the effective date of the waiver, for the financial year 2018.

Other administrative expenses to the parent company in the amount of EUR 0.8 million relate to services provided by AI Lake (Luxembourg) S.à r.l. in the financial year 2018.

Interest and similar income from other related parties in the amount of EUR 0.1 million in the financial year 2018 relates to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group.

Interest expenses from other related parties in the amount of EUR 0.4 million in the financial year 2018 relate to the deposits received from the European Bank for Reconstruction and Development (ABSE received funding as part of a trading facilitation programme), one of one of the ultimate shareholders of Addiko Group.

Fee and commission expenses from other related parties in the amount of EUR 0.1 million in the financial year 2018 relate to deposits received from the European Bank for Reconstruction and Development, one of one of the ultimate shareholders of Addiko Group.

For the financial year 2017
(in EUR million)
(audited)

(in EUR million)	**Parent company**	**Subsidiaries and other entities of the same group**	**Associates and joint ventures**	**Key personnel of the institution or its parent**	**Other related parties**
Interest and similar income	0.0	0.0	0.0[1]	0.0	0.2[1]
Interest expenses	-19.2	0.0	0.0	0.0[1]	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses.............	0.0	0.0	0.0	0.0	0.0
Other administrative expenses.............	-0.2	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments.................	0.0	0.0	0.0	0.0	0.0

1 Numbers as presented in the Notes to the Audited Consolidated Financial Statements as of and for the financial year 2018.
(Source: Audited Consolidated Financial Statements)

The interest expenses of EUR 19.2 million to the parent company in the financial year 2017 relate to the Tier 2 instruments issued March 2016 and February 2017. The first Tier 2 instrument issued March 2016 has a coupon of 14% (annual payment) and the second Tier 2 instrument has a coupon of 10% (quarterly payment at the end of each quarter).

Other administrative expenses to the parent company in the amount of EUR 0.2 million relate to services provided by AI Lake (Luxembourg) S.à r.l. in the financial year 2017.

Interest and similar income from other related parties in the amount of EUR 0.2 million in the financial year 2017 relates to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group.

For the financial year 2016
(in EUR million)
(audited)

	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-6.9	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses............	0.0	0.0	0.0	0.0	0.0
Other administrative expenses............	0.0	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments................	0.0	0.0	0.0	0.0	0.0

(Source: Audited Consolidated Financial Statements)

The interest expenses of EUR 6.9 million to the parent company in the financial year 2016 relate to the Tier 2 instrument issued March 2016. This Tier 2 instrument has a coupon of 14% (annual payment).

Interest and similar income from other related parties amounts to EUR 0.1 million in the financial year 2016 relates to debt instruments issued by the European Bank for Reconstruction and Development, one of the ultimate shareholders of Addiko Group.

18 Regulation and Supervision

18.1 Overview

The activities of Addiko Group across Europe are subject to the prudential supervision of institutions by the relevant (competent) authorities and the prudential requirements applicable in the respective jurisdictions. Such prudential supervision and requirements to be complied with in particular concern: (i) access to the activity as credit institutions (authorization); (ii) supervisory powers and tools for the prudential supervision; (iii) own funds and other capital requirements; (iv) liquidity requirements; (v) risk management; (vi) limitation of large exposures; and (vii) reporting and public disclosure requirements. These rules have an impact on the type and scope as well as the structuring of the activities carried out by Addiko Group in the different countries.

The following provides for an overview on the relevant prudential supervision and legislation regarding authorization, capital requirements, recovery and resolution of banks, and market infrastructure regarding capital applicable to Addiko Group. None of the following will represent a complete presentation of legal requirements and legislative developments in the European Union (EU), Austria or any other relevant jurisdiction in which Addiko Group is active.

The following descriptions take into account the shareholder structure prior to the implementation of the Private Placement and listing of the Existing Shares on the Vienna Stock Exchange insofar as regulatory requirements have to be met at the level of AI Lake as the highest level of consolidation which is, however, expected to change following the implementation of the Private Placement and listing of the Existing Shares insofar as AI Lake ceases to be the highest level of consolidation; see also "*16.2 Regulatory framework"*.

18.2 Regulation and Supervision in EU

18.2.1 Banking Union

In response to the global financial crisis and the European sovereign debt crisis, a number of initiatives relating to the regulatory requirements applicable to European credit institutions, including Addiko Group, have been (and are currently being) implemented, adopted, or developed.

This in particular also concerns the establishment of the so-called "(EU) banking union" (***Banking Union***). The Banking Union has currently two pillars, the SSM and the SRM, which rest on the foundation of the single rulebook, which applies to all EU countries. In November 2015, the EU Commission proposed to set up a European Deposit Insurance Scheme (EDIS) for bank deposits in the euro area as third pillar of the Banking Union, which however has not been implemented and is still under discussion.

In case of Addiko Group, currently only Austria and Slovenia are participating Member States of the Banking Union, while Croatia is a non-participating Member State.

Single Supervisory Mechanism

The SSM is a new system of financial supervision for the EU which officially entered into operation in November 2014. It comprises the ECB and the national competent authorities (***NCAs***) of participating Member States. Participating Member States are euro area countries and those Member States whose currency is not the euro but which have chosen to participate in the SSM by their NCAs entering into close cooperation with the ECB.

The SSM is mainly stipulated by the SSM Regulation and the Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (***SSM Framework Regulation***).

The ECB directly supervises the significant credit institutions of participating Member States, ("directly supervised banks" or "significant institutions"), while credit institutions of participating Member States which are not considered significant ("indirectly supervised banks" or "less significant institutions") continue to be supervised by their national supervisors, in close cooperation with the ECB. The decision on whether a credit institution is deemed significant is based on a number of criteria. Regardless of this, at any time the ECB can decide to directly supervise any one of these banks to ensure that high supervisory standards are applied consistently.

As institutions domiciled in participating Member States of the Banking Union, only the Company and Addiko Slovenia are subject to the SSM, while Addiko Bank d.d., Zagreb is not part of the SSM. Both, the Company and Addiko Slovenia, are less-significant institutions and therefore, neither Addiko Group nor any entity of Addiko Group is subject to direct supervision by the ECB.

Single Resolution Mechanism

The SRM which started operationally in January 2016 is set to centralize key competences and resources for managing the failure of a credit institution in the participating Member States of the Banking Union. The SRM complements the SSM and aims to ensure that if a credit institution subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy.

The SRM is in particular governed by: (i) the SRM Regulation covering the main aspects of the mechanism and broadly replicating the rules of the BRRD on the recovery and resolution of credit institutions (for details see "*18.2.3 Regulatory legal framework*"); and (ii) an Agreement on the transfer and mutualization of contributions to the Single Resolution Fund (***IGA***) (for details see "*18.2.5 Recovery and Resolution*").

Under the SRM, the SRB is the resolution authority for: (i) credit institutions which are considered significant or in relation to which the ECB has decided to exercise directly all of the relevant supervisory powers; and (ii) other cross-border groups, where both the parent and at least one credit institution as subsidiary are established in two different participating Member States of the Banking Union. In this function, the SRB is in particular, responsible for adopting Resolution Decisions in close cooperation with the NRAs, the ECB and the EU Commission.

18.2.2 Authorization and prudential supervision

Supervision on a consolidated basis / prudential consolidation

In case of the Company, Addiko Croatia and Addiko Slovenia, supervision is exercised on three levels, i.e.: (i) on an individual basis; (ii) on a sub-consolidated basis with the Company as parent institution within a Member State (i.e., the Addiko Group); and (iii) on a consolidated basis with AI Lake as EU parent financial holding company (***AI Lake Group***).

Consolidation for regulatory purposes is carried out in accordance with Articles 18 and 19 CRR, with the financial statements of the individual companies and the consolidated financial statements being prepared in accordance with the principles of IFRS. As of December 31, 2018, the scope of consolidation (both for regulatory purposes as well as for accounting purposes) included twelve fully consolidated subsidiaries of AI Lake.

The FMA is the consolidating supervisor as defined in Article 4(1)(41) CRR for the Company (and determined in accordance with Article 111 CRD IV), i.e. the competent authority responsible for the exercise of supervision on the (sub-) consolidated basis of the Company and AI Lake.

The consolidating supervisor must establish colleges of supervisors pursuant to Article 116 CRD IV (implemented in Austria in Section 77b Banking Act) which provide a framework for the supervisors and competent authorities to carry out and facilitate the exercise of the tasks referred to in CRD IV, such as reaching joint decisions on the adequacy of own funds and their required level and on liquidity and model approvals. In addition, and subject to the confidentiality requirements of Article 127(2) of the CRD IV and to EU law, supervisor colleges must ensure appropriate coordination and cooperation with relevant third-country supervisory authorities where appropriate.

18.2.3 Regulatory legal framework

Regulatory process in financial services within the EU

The current regulatory framework for financial services within the EU is based on the so-called "Lamfalussy Report" which recommended the following four-level regulatory approach as specific regulatory process:

- at level 1, the European Parliament and Council adopt the basic laws proposed by the EU Commission in the traditional co-decision procedure ("basic acts", i.e. either EU Directives which have to be transposed by the Member States into national law or EU Regulations which are directly applicable in all Member States);
- at level 2, the EU Commission can adopt, adapt and update technical implementing measures with the help of consultative bodies composed mainly of EU countries representatives;
- at level 3, committees of national supervisors are responsible for advising the EU Commission in the adoption of level 1 and 2 acts and for issuing guidelines on the implementation of the rules; and
- at level 4, the EU Commission must ensure the correct enforcement of EU rules by national governments.

Following the financial crisis, the EU reformed its framework for financial supervision. It established a new European Systemic Risk Board (***ESRB***) for monitoring macro-prudential risks and transformed the level 3 Lamfalussy committees into three European supervisory authorities (***ESAs***): (i) the EBA; (ii) the ESMA; and (iii) the European Insurance and Occupational Pensions Authority (***EIOPA***). The ESAs have taken over all of the functions of the previous level 3 committees and some new competences, including the responsibility of preparing so-called "technical standards" — a particular category of level 2 measures drafted by the ESAs as either regulatory technical standards (***RTS***) or implementing technical standards (***ITS***) and adopted by the Commission by means of delegated/implementing acts.

Legal Framework for Banking Activities

Basel III and CRD IV / CRR

The BCBS published an international regulatory framework for credit institutions, Basel III, which is a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector. The main parts of Basel III have been transposed into European law by the CRD IV and CRR.

The CRR and the implementation of the CRD IV, which apply as of January 1, 2014 (subject to certain transitional provisions) in particular (further) increased the qualitative and quantitative requirements for regulatory capital (own funds) and the required capital for derivative positions as well as newly introduced requirements for liquidity standards and a leverage ratio.

The main aspects of the prudential requirements – in particular the level of their application (including prudential consolidation), elements of own funds, capital requirements (credit risk, counterparty credit risk, market risk, operational risk, settlement risk, CVA-risk), large exposures, securitization (transferred credit risk), leverage, liquidity, reporting and disclosure – are stipulated by the CRR and respective delegated acts, while some other aspects, such as authorization and license requirements, capital buffers and risk management, are laid down in the relevant local laws implementing the CRD IV.

In Austria, the CRD IV was implemented by amendments of the Banking Act, in Croatia, amendments of the Croatian Credit Institutions Act, (*Zakon o kreditnim institucijama* – ***ZOKI***) implemented the CRD IV, and in Slovenia, the CRD IV was implemented by the 2015 Slovenian Banking Act (*Zakon o bančništvu (ZBan-2)* – ***ZBan-2***).

EU Banking Package

On June 7, 2019, a legislative package for measures to reduce risk in the banking system was published in the Official Journal of the EU (***EU Banking Package***). The EU Banking Package contains amendments of the CRR, the CRD IV, the BRRD and the SRM Regulation.

The EU Banking Package is intended to implement reforms agreed at international level following the financial crisis to strengthen the banking sector and address outstanding challenges to financial stability. Presented in November 2016, they include elements agreed by the BCBS and the FSB.

The EU Banking Package in particular includes the following key measures:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes;
- revised rules on capital requirements for counterparty credit risk and for exposures to central counterparties;
- a revised Pillar 2 framework;
- a new TLAC requirement for global systemically important institutions;
- enhanced MREL subordination rules for global systemically important institutions (***G-SIIs***) and other large banks referred to as top-tier banks;
- stricter eligibility criteria for MREL liabilities instruments for all banks;
- a new moratorium power for the resolution authority;
- restrictions to distributions in case of MREL breaches

The EU Banking Package shall enter into force on June 27, 2019, but most of the new rules shall apply from June 28, 2021.

Basel III reforms by BCBS

On December 7, 2017, the oversight body of the BCBS, the Group of Central Bank Governors and Heads of Supervision (***GHOS*** XE "***GHOS***"), endorsed the outstanding Basel III reforms proposed by the BCBS (i.e. the international regulatory framework for credit institutions developed by the BCBS in response to the financial crisis 2007 – 2009). These Basel III reforms in particular include:

- a revised standardised approach for credit risk, which will improve the robustness and risk sensitivity of the existing approach;
- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modelled approaches for low-default portfolios will be limited;

- revisions to the credit valuation adjustment (CVA) framework, including the removal of the internally modelled approach and the introduction of a revised standardised approach;
- a revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for global systemically important banks (G-SIBs), which will take the form of a Tier 1 capital buffer; and
- an aggregate output floor, which will ensure that risk-weighted assets (***RWAs*** XE "***RWAs***"),) generated by internal models are no lower than 72.5% of RWAs as calculated by the Basel III framework's standardised approaches. Credit institutions will also be required to disclose their RWAs based on these standardised approaches.

The revised standards will take effect from January 1, 2022 and will be phased in over five years.

In addition, on January 14, 2019, the GHOS endorsed the finalized revised market risk framework, which will also take effect from January 1, 2022.

Furthermore, the GHOS mandated the BCBS to review the regulatory treatment of sovereign risk in January 2015. On December 7, 2017, the BCBS published a respective discussion paper, but did not yet reach a consensus on making any changes to the regulatory treatment of sovereign exposures.

Legal framework for recovery and resolution

In Austria, the BRRD has been implemented into national law by the BaSAG which entered into force on January 1, 2015. The BaSAG applies to certain legal entities, in particular Austrian credit institutions (including the Company), and stipulates the FMA as the NRA. Amongst other requirements, institutions have to meet, at all times, the MREL set by the resolution authority on a case-by-case basis. Measures undertaken under the BRRD/BaSAG may also have a negative impact on debt instruments by allowing resolution authorities to order the write-down of such instruments or convert them into ordinary shares or other instruments of ownership. Where no such resolution tools and powers as set out above are applied, the Company may be subject to national insolvency proceedings.

In Croatia, the BRRD has been implemented by the Croatian Act on Recovery and Resolution of Credit Institutions and Investment Firms (*Zakon o sanaciji kreditnih institucija i investicijskih društava* - ***ZSKI***) which entered into force in February 2015. Parts of the BRRD relating to recovery plans, early intervention measures and group financial support arrangements were implemented in ZOKI. In addition, regarding the investment firms, parts of the BRRD relating to recovery plans, early intervention measures and group financial support arrangements are implemented in the Croatian Capital Market Act (*Zakon o tržištu kapitala* - ***ZTK***).

In Slovenia, the BRRD has been implemented by the Slovenian Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank* - ***ZRPPB***) which entered into force in June 2016. Parts of the BRRD relating to recovery plans, early intervention measures and group financial support arrangements were implemented in ZBan-2.

The EU Banking Package also introduces a harmonized national insolvency ranking of unsecured debt instruments to facilitate credit institutions' issuance of such loss absorbing debt instruments. Directive (EU) 2017/2399 amending the BRRD with respect to the ranking of unsecured debt instruments in insolvency hierarchy had to be transposed into national law by the Member States by December 29, 2018. In Austria, the relevant amendments of § 131 BaSAG entered into force on June 30, 2018 already, while in Croatia and Slovenia, the relevant amendments for implementing Directive (EU) 2017/2399 entered into force in February 2019.

Legal framework for payment services

In Austria, payment services are subject to the rules and provisions of the Austrian Payment Services Act 2018 (*Zahlungsdienstleistungsgesetz 2018* – ***Payment Services Act 2018***) which implements the "Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC" (*Payment Services Directive II* – ***PSD II***) in Austria. The Payment Services Act 2018 which entered into force on June 1, 2018 not only applies to payment institutions (*Zahlungsinstitute*), but largely also to payment service providers (*Zahlungsdienstleister*), such as Austrian credit institutions and therefore, the Company.

In Croatia, payment services are subject to the rules and provisions of the Croatian Payment Services Act (*Zakon o platnom prometu* – ***ZOPP***) which implements the PSD II in Croatia. The ZOPP which entered into force on July 28, 2018 not only applies to payment institutions (*institucije za platni promet*), but largely also to payment service providers (*pružatelji platnih usluga*), such as Croatian credit institutions and therefore, Addiko Croatia.

In Slovenia, payment services are subject to the rules and provisions of the Slovenian Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih (ZPlaSSIED)* – ***ZPlaSSIED***) which implements the PSD II in Slovenia. The ZPlaSSIED which entered into force on February 22, 2018 not only applies to payment institutions (*plačilne institucije)*, but largely also to payment service

providers (*ponudniki plačilnih storitev*), such as Slovenian credit institutions and therefore, Addiko Slovenia. The licensing of banks, including Addiko Slovenia, for providing payment services, is regulated under the ZBan-2, however, with reference to ZPlaSSIED for the definition of the respective payment services.

Legal Framework for Investment Services, Securities and Markets in Financial Instruments

MiFID II/ MiFIR

In the recent past, the regulatory framework for investment services and regulated markets has been updated, in particular by MiFID II and by MiFIR and applies since January 3, 2018. In Austria, MiFID II has been implemented by the Austrian Securities Supervision Act 2018 (*Wertpapieraufsichtsgesetz 2018* – ***Securities Supervision Act 2018***) and to some extent also by the Stock Exchange Act 2018.

The provision of certain investment services (*Wertpapierdienstleistungen*) and the performance of certain investment activities (*Anlagetätigkeiten*) – including certain ancillary services (*Wertpapiernebendienstleistungen*) – by investment firms is subject to the rules and requirements pursuant to the Securities Supervision Act 2018. As main parts of the Securities Supervision Act 2018 also apply to (other) legal entities (*Rechtsträger*) as defined in the Securities Supervision Act 2018 (including Austrian credit institutions), the Company has to comply with these rules when providing respective services to its clients.

These new rules include: stricter regulation and oversight of all relevant markets where financial instruments are traded, purchased or sold by covering additional markets and instruments; extended pre- and post-trade transparency rules from equities to all financial instruments; higher restrictions on operating trading platforms; more severe sanction powers for authorities; trading obligations for certain OTC derivatives; and new investor protection

The Securities Supervision Act 2018 in particular stipulates organizational requirements, product governance requirements and conduct of business rules to be complied with when receiving, transmitting and/or executing client orders in relation to securities and other financial instruments, proprietary trading, providing underwriting and other issuance-related services, managing client portfolios and providing investment advice.

In Croatia, MiFID II has been implemented by the ZTK, and to some extent by ZSKI. The provision of certain investment services (*investicijske usluge*) and the performance of certain investment activities (*investicijske aktivnosti*) – including certain ancillary services (*pomoćne usluge*) – by investment firms is subject to the rules and requirements pursuant to the ZTK. As main parts of the ZTK also apply to (other) legal entities as defined in Article 6(1)(4) ZTK (including Croatian credit institutions), Addiko Croatia has to comply with these rules when providing respective services to its clients.

In Slovenia, MiFID II has been implemented by the Slovenian Market Financial Instruments Act (*Zakon o trgu finančnih instrumentov (ZTFI-1)* – ***ZTFI-1***), which is applicable from December 15, 2018. The provision of certain investment services (*investicijske storitve*) and the performance of certain investment activities (*investicijski posli*) – including certain ancillary services (*pomožne investicijske storitve*) – by investment firms is subject to the rules and requirements of ZTFI-1. As main parts of the ZTFI-1 are also applicable to (other) legal entities as defined in Article 20 of ZTFI-1 (including Slovenian credit institutions), Addiko Slovenia has to comply with these rules when providing respective services to its clients. The banks are licensed in this respect under the ZBan-2, with a reference to ZTFI-1 setting out the rules and requirements in respect of the aforementioned services.

MAD II / MAR

On July 3, 2016, a new regime on market abuse entered into force consisting of the "Directive 2014/57/EU of the European Parliament and of the Council of April 16, 2014 on criminal sanctions for market abuse (market abuse directive)" (*Market Abuse Directive II* – ***MAD II***) which was implemented in Austria by the Austrian Stock Exchange Act 2018 (*Börsegesetz 2018* - **Stock Exchange Act 2018**) and the MAR establishes a common EU framework, *inter alia*, for insider dealing, the public disclosure of inside information, market manipulation, and managers' transactions. The Stock Exchange Act 2018 supplements the MAR and, in particular, provides for sanctions in case of violations of the MAR.

In Croatia, MAD II was implemented by the Croatian Criminal Act (*Kazneni Zakon* – **KZ**) and the ZTK, which also supplements the MAR and, in particular, provides for sanctions in case of violations of the MAR.

In Slovenia, MAD II was implemented by the Criminal Code (*Kazenski zakonik* – **KZ-1**) and Liability of Legal Persons for Criminal Offences Act (*Zakon o odgovornosti pravnih oseb za kazniva dejanja* – ***ZOPOKD***). ZTFI-1 supplements the MAR and, in particular, provides for sanctions in case of violations of the MAR.

EMIR

EMIR has been in force since August 16, 2012. The EMIR established common rules for central counterparties and trade repositories, in particular requires the clearing of certain standard derivatives contracts, i.e. OTC derivatives, through a central counterparty (***CCP***) and include requirements for reporting of derivative contracts and implementation of risk management standards.

18.2.4 Prudential requirements

Capital requirements

Own Funds Requirements

Pursuant to the CRR, institutions must at all times satisfy the following own funds requirements (capital ratios): (i) a Common Equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; and (iii) a total capital ratio of 8%, in each case calculated as the relevant capital of the institution expressed as a percentage of the total risk exposure amount. The total risk amount the sum of the following (after taking into account the provisions laid down in Article 92(4) CRR): (i) the risk-weighted exposure amounts (***RWAs***) for credit risk and dilution risk in respect of all the business activities; (ii) the own funds requirements for the trading-book business for position risk and certain large exposures (in case of a permitted excess of the large exposure limits); (iii) the own funds requirements for foreign-exchange risk, settlement risk and commodities risk; (iv) the own funds requirements for credit valuation adjustment risk of OTC derivative instruments; (v) the own funds requirements for operational risk; (vi) the RWAs for counterparty risk arising from the trading book business for derivatives, repurchase transactions, securities or commodities lending, borrowing or margin lending transactions based on securities or commodities, and long settlement transactions.

The own funds of an institution must consist of the sum of its Tier 1 capital and Tier 2 capital. Tier 1 capital consists of CET 1 capital (in particular equity capital) and Additional Tier 1 (***AT 1***) capital (in particular deeply subordinated perpetual capital instruments with a mandatory write down or conversion) and is considered to be the going concern capital, while Tier 2 capital (in particular subordinated capital instruments and subordinated loans) is considered to be gone concern capital.

Supervisory Review and Evaluation Process

The goal of SREP is to promote a resilient banking system as a prerequisite for a sustainable and sound financing of the economy. The SREP involves a comprehensive assessment of banks' strategies, processes and risks, and takes a forward-looking view to determine how much capital each bank needs to cover its risks.

Depending on the business model, governance and risk management, capital adequacy and the liquidity situation of the credit institution, each year the competent authority sets an individual additional own funds requirement for each credit institution. This requirement also takes into account results from the latest stress tests and needs to be met by the sort of capital, (i.e. CET 1, AT 1 or Tier 2 capital) set by the competent authority. Depending on the financial situation of the credit institution group, SREP requirements may vary annually. The SREP requirements have been split into a hard Pillar 2 requirement located above the Pillar 1 minimum requirements, but below the combined buffer requirement (capital conservation buffer plus countercyclical buffer plus systemic risk buffer/G-SII/O-SII buffer, see below). According to the SREP methodology, taking into account the applicable business model, the following SREP ratios have to be met by CET 1 capital on an individual basis (at the level of the Company, Addiko Croatia and Addiko Slovenia), on a sub-consolidated basis at the level of Addiko Group and on a consolidated basis (at the level of AI Lake):

	SREP add-on over minimum capital requirements as of June, 2019		
	Individual level	**sub-consolidated level**	**consolidated level**
AI Lake	n.a.	n.a.	4.100%*
Company	4.100%*	4.100%*	n.a.
Addiko Croatia	3.700%	n.a.	n.a.
Addiko Slovenia	3.250%	n.a.	n.a.

* Expected SREP ratio.
(Source: Company information)

Minimum requirements for own funds and eligible liabilities

Under the SRM, each institution has to ensure that it meets the MREL at all times (on an individual basis and also on the consolidated basis of the EU parent undertaking (i.e. in case of Addiko Group at the level of AI Lake)). Such minimum requirement currently must be determined by the resolution authority and will be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. The scope, calculation and composition of the MREL are currently under review. See also "*3.3.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends.*"

In order to ensure the effectiveness of bail-in and other resolution tools introduced by the BRRD, the BRRD requires that all institutions must meet a bank specific MREL to be calculated as a percentage of total liabilities and own funds and to be set by the relevant resolution authorities.

In this regard, the EU Commission issued a delegated regulation (i.e. the "Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016 supplementing the BRRD with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities"), which specifies the current criteria for setting MREL and requires each resolution authority to make a separate determination of the appropriate MREL for each

group or institution within its jurisdiction, depending on the institution's resolvability, risk profile, systemic importance and other characteristics. As of the date of this Prospectus, neither for Addiko Group or AI Lake Group nor the Company, nor Addiko Bank Croatia nor Addiko Bank Slovenia any binding MREL target has been set.

The Company expects the SRB to set a binding consolidated MREL target in the second half of 2019 with an adequate transition period for the build-up of the MREL target of up to four years. Furthermore, Addiko Group expects that the SRB will apply a "single-point-of-entry" ("SPE") approach as resolution strategy for Addiko Group, as a result of which Addiko Group forms a resolution group with the Company as resolution entity when setting the consolidated MREL requirements for the first time. The consolidated MREL target composed of loss absorbing amount, a recapitalization amount and a market confidence charge has been envisaged by the SRB in preliminary exchanges with the Company as being set under its current approach for Addiko Group based on a SPE approach, with the Company being the single point of entry of a resolution group comprising Addiko Group.

The 2018 SRB Policy is a policy statement of the SRB setting the current methodology for determining the consolidated MREL target for Addiko Group. The 2018 SRB Policy in particular addresses to the following (i) MREL targets at consolidated level relating to calibration, (ii) MREL targets at consolidated level relating to the eligibility of liabilities, (iii) MREL targets at individual level relating to calibration and (iv) transition periods. The 2018 SRB Policy contains new elements (as compared to previous SRB policies) strengthening the function of MREL as key tool to achieve resolvability, inter alia by introducing a reduced parameter of eligible instruments for consolidated targets, binding subordination requirements at increased levels, binding targets at individual level and additional guidance to tailor MREL to transfer strategies. While based on the current legislation, the SRB is increasing the requirements as regards bank resolvability and MREL targets to prepare the ground for upcoming regulatory changes in the context of the EU Banking Package. The 2018 SRB Policy is subject to review by the SRB and may be updated on the basis of the final legislative outcomes of the EU Banking Package.

The EU Banking Package also includes the revision of the CRR, the BRRD and the SRM Regulation in order to integrate the TLAC requirement into the EU's MREL rules. See also "*3.3.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends.*"

Requirements for large exposures

The CRR requires institutions to monitor, control and limit large exposures (on an individual and consolidated basis). The large exposures regime must act as a backstop to prevent an institution from incurring disproportionately large losses as a result of the failure of an individual client or group of connected clients due to the occurrence of unforeseen events.

For this purpose, an institution's exposure to a client or group of connected clients is considered a large exposure where its value is equal to or exceeds 10% of its "eligible capital" (i.e. the sum of: (i) Tier 1 capital; and (ii) Tier 2 capital is equal to or less than one third of Tier 1 capital).

An institution must not incur an exposure, after taking into account the effect of the credit risk mitigation, to a client or group of connected clients, the value of which exceeds 25% of its eligible capital. If the client is an institution or where a group of connected clients includes one or more institutions, that value must not exceed the higher of 25% of the institution's eligible capital or EUR 150 million, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation, to all connected clients that are not institutions does not exceed 25% of the institution's eligible capital.

The EU Banking Package includes some amendments for the large exposure regime, including a change of the definition of "eligible capital".

Liquidity requirements

The CRR contains quantitative and qualitative requirements for liquidity risk. In this regard, the CRR in particular stipulates a liquidity coverage requirement: Thus, institutions must hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. The LCR is calculated as the ratio of an institution's liquidity buffer to its net liquidity outflows. Institutions must regularly report the composition of the liquid assets in their liquidity buffer to their competent authority.

In addition, the CRR contains net stable funding requirements and requires institutions to report NSFR. The NSFR is calculated as the ratio of an institution's available stable funding relative to the amount of required stable funding over a one-year period. For the time being, there is no binding NSFR, but the EU Banking Package provides for the introduction of a (binding) NSFR of at least 100%.

Requirements regarding leverage

The leverage ratio (***LR***) is a new monitoring tool introduced by the CRR which aims to allow competent authorities to assess the risk of excessive leverage of the institutions as they have to report all necessary information on the leverage ratio and its components.

The LR (expressed as percentage) must be calculated as an institution's "capital measure" (i.e. Tier 1) divided by that institution's total exposure measure. For the time being, there is no binding LR for institutions, but the EU Banking Package provides for the introduction of a (binding) LR minimum requirement of 3% in the EU to mitigate the risk of excessive leverage.

18.2.5 Recovery and Resolution

Recovery and resolution planning; early intervention

In line with the BRRD and the BaSAG in relation to Austria, the ZOKI and the ZSKI in relation to Croatia and the ZRPPB and ZBan-2 in relation to Slovenia, *inter alia*, stipulates requirements for recovery and resolution planning, in particular regarding: (i) recovery plans or group recovery plans; and (ii) resolution plans or group resolution plans.

Therefore, in case of groups, the EU parent undertakings must draw up and submit to the consolidation supervisor a group recovery plan. Group recovery plans must consist of a recovery plan for the group headed by the EU parent undertaking as a whole and must identify measures that may be required to be implemented at the level of the EU parent undertaking and each individual subsidiary. The group recovery plan must be assessed by the consolidating supervisor together with the competent authorities of subsidiaries, after consulting the competent authorities of third countries and will be frequently updated at least annually.

The group recovery plan is drawn up by the Company on the level of AI Lake Group and must be submitted to the FMA. The FMA as consolidating supervisor, together with the competent authorities of subsidiaries, after consulting the competent authorities of third countries, reviews the group recovery plan and assesses the extent to which it satisfies the legal requirements set out in the BaSAG. The assessment shall take into account the potential impact of the recovery measures on financial stability in all the Member States where the group operates. The consolidating supervisor and the competent authorities of subsidiaries shall endeavour to reach a joint decision on the review and assessment of the group recovery plan, whether a recovery plan on an individual basis shall be drawn up for institutions that are part of the group and on the remedy of potential shortcomings or impediments. The joint decision on the group recovery plan or in the absence of a joint decision the decision taken by the FMA as consolidating supervisor is communicated to the Company in the form of a ruling (*Bescheid*).

In addition, in case of groups, the group-level resolution authorities (together with the resolution authorities of subsidiaries) must draw up group resolution plans. Group resolution plans must include a plan for resolution of the group headed by the EU parent undertaking as a whole, either through resolution at the level of the EU parent undertaking or through break up and resolution of the subsidiaries. The group resolution plan must identify measures for the resolution of the EU parent undertaking, the subsidiaries which are part of the group and located in the EU; certain other entities and in principle also subsidiaries that are part of the group and located in third countries. The group-level resolution authorities (together with the resolution authorities of subsidiaries, after consulting the consolidating supervisor and the competent authorities of such subsidiaries) must assess the extent to which groups are resolvable.

Pursuant to the SRM Regulation, in case of the Company, the SRB is in charge for drawing up a group resolution plan for the Company on the level of AI Lake Group.

In addition, the respective national laws provide for early intervention measures, in particular if an institution infringes the provisions of the CRR regarding the financial condition.

Resolution

The stated aim of the SRM is to provide relevant resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses. For this purpose, resolution authorities have the necessary powers to apply the resolution tools to institutions (and other entities which fall within the scope of the BRRD/the BaSAG respectively) that meet the applicable conditions for resolution.

Conditions for Resolution

The conditions for resolution are:

- the competent authority or the resolution authority determines that the institution is failing or likely to fail;
- having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an institutional protection scheme, or supervisory action, including early

intervention measures or the write-down or conversion of relevant capital instruments taken in respect of the institution, would prevent the failure of the institution within a reasonable timeframe; and

- a resolution action is necessary in the public interest.

A group will be deemed to be failing or likely to fail where the group infringes, or there are objective elements to support a determination that the group, in the near future, will infringe, its consolidated prudential requirements in a way that would justify action by the competent authority including but not limited to because the group has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds.

Resolution tools and resolution powers

In case of a resolution, the resolution authority has far-reaching powers, i.e. resolution tools and resolution powers. However, when applying the resolution tools and exercising the resolution powers, resolution authorities must have regard to the resolution objectives, and choose the tools and powers that best achieve the objectives that are relevant in the circumstances of the case.

The resolution tools are the following: (i) the sale of business tool; (ii) the bridge institution tool; (iii) the asset separation tool; and (iv) the bail-in tool. In principle, resolution authorities may apply the resolution tools individually or in any combination (except for the asset separation tool which may only be applied together with another resolution tool).

In addition to resolution tools, the resolution authority also has other resolution powers necessary to apply the resolution tools. Such resolution powers in particular include the power: to require any person to provide any information; to take control of and exercise all the rights and powers conferred upon the shareholders, other owners and the management body; to transfer shares or other instruments of ownership; to transfer to another entity, rights, assets or liabilities; to reduce, including to reduce to zero, the principal amount of or outstanding amount due; to convert liabilities into ordinary shares or other instruments of ownership; to cancel debt instruments; the power to reduce, including to reduce to zero, the nominal amount of shares or other instruments of ownership of an institution under resolution and to cancel such shares or other instruments of ownership; to require to issue new shares or other instruments of ownership or other capital instruments; to amend or alter the maturity of debt instruments, the amount of interest payable under such instruments, or the date on which the interest becomes payable; to close out and terminate financial contracts or derivatives contracts; to remove or replace the management body and senior management.

Write down and conversion power; bail-in tool

The powers provided to the resolution authorities include write-down and conversion powers which may be used prior to or on entry into resolution to ensure that, *inter alia*, relevant capital instruments fully absorb losses of the issuing institution and/or the group (so-called "write down or conversion of power" of relevant capital instruments). Accordingly, resolution authorities will be required to order the write-down of such relevant capital instruments on a permanent basis, or convert them into CET 1 items (such as ordinary shares or other instruments of ownership), once the conditions for resolution or the conditions for exercising the power of write-down or conversion of relevant capital instruments (both as described below) are met, and before any resolution tool (other than the bail-in tool) is made use of (statutory loss absorption).

If the relevant conditions (in particular those for applying resolution tools) are met, the relevant resolution authorities may also apply the bail-in tool in order to meet the resolution objectives. The resolution authority must exercise the write down and conversion power in accordance with the priority of claims under normal insolvency proceedings, meeting the following results:

(i) CET 1 is reduced first in proportion to the relevant losses;

(ii) the principal amount of AT 1 instruments is written down or converted or both;

(iii) the principal amount of Tier 2 instruments is written down or converted or both, in each case, if and to the extent of the reduction of the relevant capital instruments is not sufficient to cover the losses.

When applying the bail-in tool, resolution authorities may exercise the write down and conversion powers not only to shares or other instruments of ownership and relevant capital instruments pursuant to (i), (ii) and (iii) (= CET 1, AT 1 instruments and Tier 2 instruments) in the manner and order set out above, but also: (iv) reduce other subordinated debt that is not AT 1 or Tier 2 instruments in accordance with the hierarchy of claims in the normal insolvency proceedings; and (v) the rest of eligible liabilities (including certain senior) in accordance with the hierarchy of claims in the normal insolvency proceedings including the ranking pursuant to Section 131 BaSAG (sequence of write down and conversion / loss absorbing cascade).

The power of write-down or conversion of relevant capital instruments may be applied before and independent from the bail-in tool.

Any write-down or conversion of all or part of the principal amount of any instrument, including accrued but unpaid interest in respect thereof, in accordance with the bail-in tool or the write-down and conversion powers would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts so written down or converted would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder, regardless whether or not the institution's financial position is restored.

Where no such resolution tools and powers as set out above are applied, the Issuer may be subject to national insolvency proceedings.

Single Resolution Fund

The SRM includes a Single Resolution Fund (***SRF***) established by the SRM Regulation to which credit institutions and certain investment firms in the participating Member States have to contribute. Where necessary, the SRF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the SRB by the SRM Regulation. The SRF is composed of contributions from credit institutions and certain investment firms in the participating Member States within the Banking Union. The SRF ensures that the financial industry, as a whole, finances the stabilization of the financial system.

The SRF will be gradually built up during the first eight years (2016-2023) and must reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by December 31, 2023.

Within the resolution scheme, the SRF may be used only to the extent necessary to ensure the effective application of the resolution tools, as last resort. The SRF must not be used to absorb the losses of an institution or to recapitalize an institution. In exceptional circumstances, where an eligible liability or class of liabilities is excluded or partially excluded from the write-down or conversion powers, a contribution from the SRF may be made to the institution under resolution under two key conditions: (i) bail-in of at least 8% of TLOF; and (ii) contribution from the SRF of maximum 5% of TLOF.

Croatian Resolution Fund

The ZSKI establishes a Resolution Fund (***RF***) to which Croatian credit institutions and certain investment firms have to contribute. Where necessary, the RF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the Croatian resolution authorities.

The RF is gradually built up and must reach the target level of at least 1% of the amount of covered deposits of all Croatian credit institutions by December 31, 2024.

Within the resolution scheme, the RF may be used only to the extent necessary to ensure the effective application of the resolution tools, as last resort. The RF must not be used to absorb the losses of a credit institution or to recapitalize a credit institution. In exceptional circumstances, where an eligible liability or class of liabilities is excluded or partially excluded from the write-down or conversion powers, a contribution from the RF may be made to the credit institution under resolution under two key conditions: (i) bail-in of at least 8% of TLOF; and (ii) contribution from the RF of maximum 5% of TLOF.

Slovenian Bank Resolution Fund

The Bank Resolution Authority and Fund Act (*Zakon o organu in skladu za reševanje bank*) establishes a Bank Resolution Fund (***BRF***) to which Slovenian banks have to contribute. The BRF is operated and managed by BSI and its purpose is to finance the measures within the compulsory winding-up of the banks. Among others the funds of the BRF may be used for: (i) payment of the subscribed capital of the entity holding the separate assets; (ii) payment of the compensation to a bank in compulsory winding-up in cases where the BRF takes over its assets, rights and liabilities; (iii) loans, guarantees, sureties or other collateral granted with respect to measures of compulsory winding-up. The assets of the BRF may not be used to cover past losses of a bank in compulsory winding-up.

The target level of the assets in the BRF amounts to 2.3% of all the guaranteed deposits at the banks in Slovenia.

The BRF will cease as of December 31, 2024.

18.2.6 Regulation and Supervision applicable to the Company in Austria

Authorization and prudential supervision

As an integrated supervisory authority established in 2002, the FMA is responsible for the supervision of the Austrian financial market. Pursuant to the Austrian Financial Market Authority Act (*Finanzmarktaufsichtsbehördengesetz*) the FMA is, inter alia, the competent authority for the supervision of credit institutions in Austria.

The Company is a credit institution – not only pursuant to Section 1(1) of the Banking Act, but also as defined in Article 3(1)(1) CRD IV respectively of Article 4(1)(1) CRR – duly authorized and supervised by the FMA.

The FMA is the competent authority as defined in Article 4(1)(40) CRR responsible for the supervision of the Company.

As such, the FMA has a number of (far-reaching) supervisory powers and tools for the prudential supervision of credit institutions and may impose certain supervisory measures.

When exercising its supervisory duties, the FMA may, e.g. request certain information, documents and reports; instruct the OeNB to conduct on-site inspections; appoint a government commissioner (*Regierungskommissär*); instruct the credit institution to restore legal compliance within a certain period of time; (fully or partly) prohibit the managing directors (*Geschäftsleiter*) from managing the credit institution; and even revoke the banking license of the credit institution.

In particular circumstances, in particular where in the FMA's view there is evidence for assuming that a credit institution will breach legal requirements within the next twelve months or where necessary in order to enforce compliance with the CRR, the FMA may also:

- require credit institutions to hold additional own funds as an own funds requirement, to apply specific provisioning principles or treat their assets in a specific manner, to reduce the risk associated with their activities, products and systems to limit variable remuneration or to use net profits to strengthen own funds restrict;
- prohibit distributions of capital or profits or additional disclosure;
- restrict or limit the business, operations or network of credit institutions;
- request the divestment of activities that pose excessive risks to the soundness of a credit institution;
- impose additional (or more frequent) reporting requirements; or
- impose specific liquidity requirements, including restrictions.

Apart from that, the FMA may (or even must) impose administrative penalties (*Verwaltungsstrafen*) and penalty interests (*Pönalezinsen*) if an Austrian credit institution (such as the Company) or a financial holding company (such as AI Lake), as the case may be, violates applicable rules and provisions (such as the CRR and the Banking Act).

State commissioner

Further, the Austrian Federal Minister of Finance must appoint a state commissioner (*Staatskommissär*) (and a deputy state commissioner) in the case of certain credit institutions (*inter alia*, if their total assets exceed EUR 1 billion, like in case of the Company). The state commissioner (and its deputy) must be invited by the credit institution in a timely manner to the shareholders' meetings as well as to the meetings of the supervisory board, of the audit committees and of executive committees of the supervisory board. Upon request, they must be allowed to speak at any time. All written records of the meetings of the bodies and any resolutions made outside of a meeting (or of Austria) must be conveyed to the state commissioner and deputy state commissioner. The state commissioner (or its deputy) must immediately raise objections to resolutions of the bodies which he/she considers to violate legal or other provisions or administrative decisions, and report to the FMA accordingly. Such objections postpone the effectiveness of the resolution until a decision is issued by the FMA.

Legal framework for issuance of covered bonds

Covered bank bonds (*fundierte Bankschuldverschreibungen*) are securities that are issued by Austrian credit institutions with a particular license in accordance with the Austrian Act on Covered Bonds of Banks (*Gesetz betreffend fundierte Bankschuldverschreibungen* – ***FBSchVG***). Such bonds have to be secured (covered) by a cover pool (*Deckungsstock*) of assets which has to meet the requirements set out in the law and the articles of association of the issuer. A government commissioner (*Regierungskommissär*) is appointed in the interest of the holders of the covered bonds. The issuer may not dispose of any asset in the cover pool without first obtaining the consent of the government commissioner. In the event of the insolvency of the issuer, the bond holders have a first claim on the assets of the respective cover pool. The cover pool may consist of: claims and securities suitable for the investment of gilt-edged money (*Mündelgelder*), mortgages, claims against and securities issued (or guaranteed) by certain public sector entities.

Legal framework for consumer protection

There is no uniform legal framework with respect to consumer protection law in Austria. However, the general provisions on consumer protection are governed by the Austrian Consumer Protection Act (*Konsumentenschutzgesetz* – ***KSchG***). The KSchG contains general mandatory requirements for contracts with customers that aim to ensure fair and balanced treatment that is adequate for consumers and protects the rights of consumers to withdraw from agreements under certain circumstances.

Furthermore, certain sector-specific provisions on consumer protection applicable to the Company due to its business activities (also for particular types of consumer contracts) exist, such as the following:

- The Banking Act, the Securities Supervision Act 2018 and in particular the Payment Services Act 2018 contain specific consumer protection provisions and (information) obligations towards consumers in relation to the provision of the relevant regulated activities.
- The Austrian Distance Financial Services Act (*Fern-Finanzdienstleistungs-Gesetz* – ***FernFinG***) which transposes the "Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC" into Austrian law stipulates particular information obligations of credit institutions towards customers when providing financial services by means of telecommunication, and the consumer rights for withdrawing from agreements for such services.

Not only (groups of) consumers, but also certain consumer protection agencies and associations (such as the Chamber of Labor (*Arbeiterkammer*) and the Consumer Information Association (*Verein für Konsumenteninformation*)) are entitled to file actions for injunction concerning breaches of consumer protection rules by credit institutions and other enterprises

(*Verbandsklagen*). In most cases, such lawsuits claim that certain terms and conditions used by a credit institution violate consumer protection or other mandatory laws and regulations and must no longer be applied by the credit institution, and/or that credit institutions must terminate a business practice violating such laws and regulations. In recent years, such lawsuits have resulted in numerous terms and conditions used by Austrian credit institutions being declared void.

Capital requirements

§§ 23 to 23d Banking Act which implement Articles 128 to 140 CRD IV into national law in Austria require institutions to maintain in addition to the CET 1 capital maintained to meet the own funds requirements imposed by the CRR and potentially any Pillar 2 additional own funds requirement specific capital buffers to be met with CET 1 capital. The Austrian Capital Buffers Regulation (*Kapitalpuffer-Verordnung* – ***KP-V***) of the FMA further stipulates the calculation, determination and recognition of the countercyclical buffer rate, the determination of the capital buffer rate for systemic vulnerability and for systemic concentration risk (= systemic risk buffer) and of the capital buffer for other systemically important institutions.

Institutions are required to maintain a capital conservation buffer to be met with CET 1 equal to 2.50% of their total risk exposure amount calculated in accordance with Article 92(3) CRR. In addition, institutions are also required to maintain a countercyclical capital buffer to be met with CET 1. Pursuant to the KP-V, the countercyclical buffer rate is currently set at 0.00% for significant credit exposures located in Austria. In addition, national countercyclical buffers determined by the designated authorities of other Member States and third countries for significant credit exposures located in their respective territories apply. However, if a (national) countercyclical buffer rate has been determined in excess of 2.50% of total risk exposure amount (calculated in accordance with Article 92(3) CRR), a rate of 2.50% of total risk exposure amount will apply, unless the FMA has recognized a rate exceeding 2.50% of total risk exposure amount. The KP-V specifies that the institution specific countercyclical capital buffer rate is a weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located multiplied by the respective total risk exposure amount pursuant to Article 92(3) CRR.

As of the date of this Prospectus, the following countercyclical capital buffers above 0.000000% apply to the Company on the total risk exposure in the respective jurisdictions or have been announced to apply:

Country	Applicable rate	Contribution to total countercyclical buffer	Announced new rate	Applicable as of
United Kingdom	1.0%	0.001940%	n.a.	n.a.
Sweden	2.0%	0.000007%	2.5%	September 19, 2019
Norway	2.0%	0.000013%	2.5%	December 31, 2019

(Source: Company information)

As of the date of this Prospectus, no buffer requirement for systemic risk, other systemically important institutions (***O-SIIs***) or G-SIIs applies to the Company, Addiko Group and/or AI Lake Group.

Statutory deposit guarantee scheme

The “Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes” (*Directive on Deposit Guarantee Schemes* – ***DGSD***) stipulates financing requirements for the (mandatory) deposit guarantee schemes (***DGS***). In Austria, the DGSD first and foremost was transposed into national law by the Austrian Deposit Guarantee and Investor Protection Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz* – ***ESAEG***), which mainly entered into force on August 15, 2015. All Austrian credit institutions intending to take in customer deposits or offering securities services that are subject to investor compensation are obligated to join a DGS. In principle (subject to certain exemptions), all deposits up to EUR 100,000 per customer and credit institutions are covered.

Under the DGSD, in principle, the target level of *ex ante* financed funds for each DGS is 0.8% of covered deposits to be collected from credit institutions until July 3, 2024; i.e. the deposit guarantee fund must be fully funded until July 3, 2024.

On January 1, 2019, Einlagensicherung AUSTRIA Ges.m.b.H. started its operational activities as Austrian DGS for most of the Austrian credit institutions and all former DGS in Austria except for DGS for the Sparkassen.

The Company is a member of *Einlagensicherung* AUSTRIA Ges.m.b.H. (but does not belong to any voluntary protection scheme).

In addition to *ex ante* contributions, if necessary, credit institutions have to pay certain additional (*ex post*) contributions for resolution as well as DGS funds when funds are emptied by payments due to failing institutions.

Financial statements and audits

As an Austrian credit institution, the Company is required to prepare its individual financial statements accordance with the relevant provisions of the Austrian Enterprise Code (*Unternehmensgesetzbuch* – ***UGB***) and the Banking Act pursuant to § 43(1) of the Banking Act.

In addition, pursuant to Section 59(1) of the Banking Act, as superordinate credit institution (*übergeordnetes Kreditinstitut*) the Company must prepare consolidated financial statements for the group of credit institutions (*Kreditinstitutsgruppe*) (i.e. AI Lake Group) in accordance with IFRS and applicable regulatory requirements under the Banking Act.

In case of Austrian credit institutions, their individual and consolidated financial statements (including bookkeeping, the management report and the consolidated management report) must be audited by a bank auditor (*Bankprüfer*). The bank auditor must audit the legal compliance of the annual financial statements, whereby the audit must also ensure compliance with certain prudential requirements listed in Section 63(4) of the Banking Act. The results of the audit must be presented in an annex to the audit report on the annual financial statements (prudential report (*bankaufsichtlicher Prüfbericht*)). In case of the Company, the bank auditor is the certified public accountant, which must meet the requirements of a bank auditor (*Bankprüfer*) under the Banking Act. The bank auditor is appointed each year by the shareholders' meeting for the following financial year by the Company's shareholders' meeting.

Austrian credit institutions must submit the audit financial statements, including the prudential report to the FMA and the OeNB at the latest within six months after the close of the business year. In addition, the audit financial statements must be submitted to the competent companies register court (*Firmenbuchgericht*) and in case of "big" Austrian stock corporations also published in the Official Gazette of the Wiener Zeitung (*Amtsblatt zur Wiener Zeitung*).

On July 1, 2013, the Austrian Accounting Control Act (*Rechnungslegungs-Kontrollgesetz* – ***RL-KG***) entered into force which ensures compliance of financial information (annual reports as well as interim financial information) as well as certain other information published by entities having securities admitted to trading on a regulated market in Austria with national and international accounting standards. For this purpose, the FMA or the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung* – ***OePR***) – acting for the FMA – conducts audits either on a random or targeted basis when indications exist that accounting standards have been infringed. Detected inaccuracies may also be made public if the public interest to be informed about such findings overrides the respective entity's interest of keeping the findings confidential.

18.2.7 Regulation and Supervision applicable to Addiko Croatia

Authorization and prudential supervision

Pursuant to the ZOKI, the Croatian National Bank (*Hrvatska narodna banka* – ***CNB***) is the competent authority for the supervision of credit institutions in Croatia.

Addiko Bank d.d., Zagreb (***Addiko Croatia***) is a credit institution duly authorized and supervised by the CNB – not only pursuant to Article 3(28) ZOKI, but also as defined in Article 3(1)(1) CRD IV, respectively Article 4(1)(1) CRR.

Therefore, the CNB is the competent authority as defined in Article 4(1)(40) CRR responsible for the supervision of Addiko Croatia.

The CNB has a number of (far-reaching) supervisory powers and tools for the prudential supervision of credit institutions and may impose certain supervisory measures. Its supervisory powers and measures closely resemble the supervisory powers and measures of the FMA.

Commissioner

Further, the CNB may appoint a commissioner (*povjerenik*) (and a deputy commissioner and assistants to the commissioner) when it considers that a more detail assessment and supervision of a financial status and operating conditions of a credit institution are required.

The commissioner must be invited by the credit institution in a timely manner to the meetings of the management board and the supervisory board and of executive committees thereof. The commissioner may also convene the meetings of the management board, the supervisory board, and of executive committees thereof, propose agenda and provide proposals of resolutions, and the members of the respective bodies are obliged to attend. The commissioner must be allowed to speak at any time, but he/she has no right to vote. The credit institution and all its bodies must make available to the commissioner and his assistants all relevant documentation and must provide them access to its business books.

A commissioner is obliged to prepare a report on the credit institution's financial position and operating conditions, including an assessment of its financial stability and prospects for its continued operation and submit it to the CNB within 30 days of appointment. A commissioner must without delay notify the CNB of all circumstances which under his assessment may result in the credit institution failing to comply with imposed supervisory measures and of all circumstances which under his assessment may contribute to the deterioration of the credit institution's financial position.

Legal framework for consumer protection

There is no uniform legal framework with respect to consumer protection law in Croatia. However, the general provisions on consumer protection are governed by the Croatian Consumer Protection Act (*Zakon o zaštiti potrošača* – ***ZOZP***). The ZOZP also transposes certain provisions of the "Directive 2002/65/EC of the European Parliament and of the Council of September

23, 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC" into Croatian law and stipulates particular information obligations of credit institutions towards customers when providing financial services by means of telecommunication, and the consumer rights for withdrawing from agreements for such services.

Furthermore, there are certain sector-specific provisions on consumer protection applicable to Croatian credit institutions (also for particular types of consumer contracts), such as the following:

- The ZOKI, the ZTK and the ZOZP contain specific consumer protection provisions and (information) obligations towards consumers in relation to the provision of the relevant regulated activities.
- The Croatian Consumer Payment Account Act (*Zakon o usporedivosti naknada, prebacivanju računa za plaćanje i pristupu osnovnom računu*) – implementing the "Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features" – *inter alia*, provides for additional contractual transparency and information duties related to the costs of bank accounts, makes it easier for consumers to change their payment accounts and provides for a consumer right to get a basic payment account.
- The Croatian Consumer Credit Act (*Zakon o potrošačkom kreditiranju*) – transposing certain provisions of the "Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC" into Croatian law – stipulates information and other duties regarding the granting of consumer loans and provides for a framework for consumer loan agreements. Similar provisions are provided for in the Croatian Consumer Residential Credit Act (*Zakon o stambenom potrošačkom kreditiranju*) – implementing "Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010" into Croatian law.

Capital requirements

Articles 117 to 144 ZOKI which implement Articles 128 to 140 CRD IV into national law in Croatia require credit institutions to maintain in addition to the CET 1 capital maintained to meet the own funds requirements imposed by the CRR and potentially any Pillar 2 additional own funds requirement specific capital buffers to be met with CET 1 capital. The ZOKI and related decisions of the CNB further stipulate additional details on the calculation, determination and recognition of the countercyclical buffer rate, the determination of the capital buffer rate for systemic vulnerability and for systemic concentration risk (= systemic risk buffer) and of the capital buffer for other systemically important institutions.

Pursuant to the relevant decision of the CNB, the countercyclical buffer rate is currently set at 0.00% for significant credit exposures located in Croatia.

As of the date of this Prospectus, the CNB has stipulated an additional buffer for Addiko Croatia (on an individual level) for systemic risk (3.0%) which includes the capital buffer for O-SII. As a result, the current combined buffer requirement for Addiko Croatia consists of a capital conservation buffer of 2.5%, extended by a systemic risk buffer of 3%.

Statutory deposit guarantee scheme

The DGSD stipulates financing requirements for the (mandatory) deposit guarantee schemes (***DGS***). In Croatia, the DGSD was transposed into national law by the Croatian Deposit Guarantee Act (*Zakon o osiguranju depozita* – ***ZOOD***), which entered into force on July 25, 2015.

Croatia has only one centrally administered DGS maintained by the State Agency for Deposit Insurance and Bank Rehabilitation (*Državna agencija za osiguranje štednih uloga i sanaciju banaka*). Thus, Addiko Croatia is also a member of this DGS (but does not belong to any voluntary protection scheme).

Under the ZOOD, in principle, the target level of *ex ante* financed funds for DGS is 2.5% of the total value of the covered deposits of all Croatian credit institutions, to be collected from credit institutions until July 3, 2024; i.e. the deposit guarantee fund must be fully funded until July 3, 2024.

In addition to *ex ante* contributions, if necessary, credit institutions have to pay certain additional (*ex post*) contributions for resolution as well as DGS funds when funds are emptied by payments to failing institutions.

Financial statements and audits

As a Croatian credit institution, Addiko Croatia is required to prepare its individual and consolidated financial statements in accordance with the relevant provisions of the Croatian Accounting Act (*Zakon o računovodstvu*) and the ZOKI pursuant to Article 168 ZOKI.

In case of Croatian credit institutions, their individual and consolidated financial statements must be audited by an independent audit company (*revizorsko društvo*). The audit company must audit the legal compliance of the annual financial statements, whereby the audit must also ensure compliance with certain prudential requirements listed in Article 174 ZOKI. The audit company must meet the requirements for an audit of a credit institution under the Article 170 ZOKI. The audit

company is appointed each year by the shareholders' meeting for the following financial year by Addiko Croatia's shareholders' meeting.

Croatian credit institutions must submit the audit financial statements to the CNB at the latest within four months after their receipt from the audit company, i.e. in case of other systemically important institutions at the latest within three months after the close of the business year. In addition, the audit financial statements must be submitted to the competent companies register court (*sudski registar*) and the Croatian Financial Agency (*Financijska agencija*).

18.2.8 Regulation and Supervision applicable to Addiko Slovenia

Authorization and prudential supervision

Pursuant to the ZBan-2, the Bank of Slovenia (*Banka Slovenije* – ***BSI***) is the competent authority for the supervision of credit institutions in Slovenia.

Addiko Bank d.d., registered in the Slovenian Court and Commercial register under No. 1319175000 (***Addiko Slovenia***) is a bank duly authorized and supervised by the BSI – not only pursuant to Article 4 ZBan-2, but also as defined in Article 3(1)(1) CRD IV, respectively Article 4(1)(1) CRR.

Therefore, the BSI is the competent authority as defined in Article 4(1)(40) CRR responsible for the supervision of Addiko Slovenia.

The BSI has a number of (far-reaching) supervisory powers and tools for the prudential supervision of credit institutions and may impose certain supervisory measures. Its supervisory powers and measures closely resemble the supervisory powers and measures of the FMA.

Legal framework for issuance of covered bonds

Covered bonds – mortgage and municipal bonds (*hipotekarne in komunalne obveznice*) are securities that may be issued by Slovenian banks with a particular license in accordance with the Slovenian Mortgage Bond and Municipal Bond Act (*Zakon o hipotekarni in komunalni obveznici (ZHKO-1)* – ***ZHKO-1***). Such bonds have to be secured (covered) by a cover pool (*kritno premoženje*) of assets which has to meet the requirements set out in the law. The cover pool is monitored and supervised by the cover register administrator who is an independent person licensed by the BSI. The issuer may not dispose of any asset in the cover pool without first obtaining the consent of the cover register administrator. In the event of the insolvency of the issuer, the bond holders have a preferential claim over the assets of the respective cover pool; i.e. such assets are exclusively reserved to satisfy the claims of the bondholders. The cover pool may consist of: claims arising from mortgage loans, claims against certain public sector entities, derivative financial instruments issued by the bank in respect of the cover pool, and supplementary cover assets: (i) funds on the accounts with the BSI; (ii) investments into debt securities issued or guaranteed by the state; and (iii) investment into other debt securities issued by the European Investment Bank, European Bank for Reconstruction and Development or another bank, which are be used for collateral for a claim in the European System of Central Banks. Total of supplementary cover assets must not exceed 20% of the cover pool.

Legal framework for consumer protection

There is no uniform legal framework with respect to consumer protection law in Slovenia. However, the general provisions on consumer protection are governed by the Slovenian Consumer Protection Act (*Zakon o varstvu potrošnikov (ZVPot)* – ***ZVPot***). The ZVPot also transposes the "Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC" into Slovenian law and stipulates particular information obligations of credit institutions towards customers when providing financial services by means of telecommunication, and the consumer rights for withdrawing from agreements for such services.

Furthermore, there are certain sector-specific provisions on consumer protection applicable to Slovenian credit institutions (also for particular types of consumer contracts), such as the following:

- The Slovenian Consumer Credit Act (*Zakon o potrošniških kreditih (ZPotK-2)*) – transposing, among others, the "Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC" and the "Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010" into Slovenian law, and – stipulates information and other duties regarding the granting of consumer loans and residential immovable property consumer loans and provides for a framework for agreements in this respect;

- the Slovenian Consumer Protection against Unfair Commercial Practices Act (*Zakon o varstvu potrošnikov pred nepoštenimi poslovnimi praksami)* transposing the "Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 006/2004 of the European Parliament and of the Council" into Slovenian

law and regulating the acts and omissions of the businesses which are qualified as unfair commercial practices against the consumers; and

- the Out-of-Court Settlement of Consumer Disputes Act (*Zakon o izvensodnem reševanju potrošniških sporov (ZIsRPS)*) transposing the "Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC" into Slovenian law and regulating out-of-court settlement of consumer disputes.

Capital requirements

Articles 206 to 233 ZBan-2 which implement Articles 128 to 140 CRD IV into national law in Slovenia require credit institutions to maintain in addition to the CET 1 capital maintained to meet the own funds requirements imposed by the CRR and potentially any Pillar 2 additional own funds requirement specific capital buffers to be met with CET 1 capital. The ZBan-2, the related regulations and decisions of the BSI further stipulate additional details on the calculation, determination and recognition of the countercyclical buffer rate, the determination of the capital buffer rate for systemic vulnerability and for systemic concentration risk (= systemic risk buffer) and of the capital buffer for other systemically important institutions.

Pursuant to the relevant decision of the BSI, the countercyclical buffer rate is currently set at 0.00% for significant credit exposures located in Slovenia.

As of the date of this Prospectus, no buffer requirement for systemic risk, O-SIIs or G-SIIs applies to Addiko Slovenia risk buffer of any O-SII.

Statutory deposit guarantee scheme

The DGSD stipulates financing requirements for the (mandatory) deposit guarantee schemes (***DGS***). In Slovenia, the DGSD was transposed into national law by the Slovenian Deposit Guarantee Scheme Act (*Zakon o sistemu jamstva za vloge –* ***ZSJV***), which entered into force on April 12, 2016.

Slovenia has only one centrally administered DGS maintained by the BSI. Thus, Addiko Slovenia is also a member of said DGS (but does not belong to any voluntary protection scheme). The fund is being financed by contributions from banks and savings banks established in Slovenia. The fund is used to make repayments of deposits covered by guarantee, and to finance resolution or compulsory winding-up measures by means of which the guarantee of access to deposits covered by guarantee is maintained for depositors.

The target level of the fund is 0.8% of the sum of all deposits covered by guarantee in Slovenia, and must be reached through banks' ordinary annual contributions by July 3, 2024.

In the event of the deposit guarantee fund not having sufficient funds at its disposal to repay deposits covered by guarantee, the banks would have to provide additional funds via extraordinary contributions, and the law also provides for the possibility of a short-term loan to be provided to the fund by the government, and a liquidity loan to be provided by the Bank of Slovenia subject to the requisite collateral.

Financial statements and audits

As a Slovenian bank, Addiko Slovenia is required to prepare its individual and consolidated financial statements in accordance with the relevant provisions of the Slovenian Companies Act (*Zakon o gospodarskih družbah (ZGD-1) –* ***ZGD-1***), the Auditing Act (*Zakon o revidiranju*) and the ZBan-2.

In case of Slovenian banks, their individual and consolidated financial statements must be audited by an independent audit company (*revizijska družba*). The audit company must audit the legal compliance of the annual financial statements, whereby the audit must also ensure compliance with certain prudential requirements as provided for by Article 90 ZBan-2.

A bank may appoint the audit company for a period which will not be shorter than three financial years and no longer than consecutive 10 financial years, whereas the (subsequent) interruption must be for a period for at least four financial years. Specific restrictions apply to the early termination of the contract with the audit company.

Financial year for the purposes of the audited financial statements must be equal to the calendar year.

Slovenian banks must submit the audited financial statements (i.e. the annual report and the audit report) to the BSI within eight days from their receipt from the audit company, but not later than four months after the end of a calendar year. Audited financial statements must also be published on the bank's public website within four months from the end of a calendar year and must be available on the website for the following five years. The bank must also submit the audited financial statements to the Slovenian Agency of the Republic of Slovenia for Public Legal Records and Related Services (*AJPES*) of not later than six months after the end of the calendar year.

18.3 Regulation and Supervision in Bosnia & Herzegovina applicable to Addiko Sarajevo and Addiko Banja Luka

18.3.1 Preliminary remarks

Bosnia & Herzegovina (***BiH***) is a complex state, which consists of two entities: Federation of Bosnia & Herzegovina (***FBiH***) and Republika Srpska (***RS)***) and a special district under the direct sovereignty of the state (which covers comparatively much smaller territory) - Brčko District of Bosnia & Herzegovina (***BDBiH***). FBiH is further divided into 10 cantons and numerous municipalities whilst RS has only municipalities, at the local governance level. The state (BiH) holds exclusive competence in the following matters: monetary policy, indirect taxation, external affairs, most serious criminal offences of war crimes and organized crime, foreign trade, customs, immigration, refugees and asylum and communication. All other matters, including, *inter alia*, banking and financial regulatory, corporate, education, judiciary, internal affairs, culture, environmental protection, labor, trade, direct taxation, social contributions, health and retirement system, etc. fall under the competences of the entities. BDBiH in most areas holds the same competences as the entities, however, it is under the direct sovereignty of the state and is considered a condominium of both FBiH and RS.

Banking and financial regulatory falls within the competence of the entities and BDBiH.

Addiko Group has two banks in BiH: Addiko Bank d.d. Sarajevo (***Addiko Sarajevo***) and Addiko Bank a.d. Banja Luka (***Addiko Banja Luka***).

18.3.2 FBiH (Addiko Sarajevo)

Architecture of regulation and supervision of Addiko Sarajevo

Supervision on an individual basis

FBiH has its banking agency - FBiH Banking Agency (***FBA***) (*Agencija za bankarstvo FBiH*). Its role, competences and powers are set out in the FBiH Law on Banking Agency (FBiH official gazette no. 75/17) (*Zakon o Agenciji za bankarstvo FBiH*). FBA is the competent body for the supervision of the FBiH banking system and is thus in charge of the supervision of Addiko Sarajevo.

FBA is tasked with the preservation and strengthening of the stability of the banking system and protection of the depositors and the improvement of its secure, quality and lawful business activities. It is set up for the purposes of supervision of the subjects of the banking system and is the body in charge of the bank restructuring.

FBA may perform supervision of the activities of the banks, organizational parts of the banks incorporated in the other entity or BDBiH, subsidiaries, representative offices of foreign banks, as well as other legal entities that are subject to the consolidated supervision (members of the banking group and holdings).

When carrying out the supervision, FBA has a right to inspect books and other documentation, as well as request other information from persons that have an ownership or management connection with the bank, persons to which the bank has transferred a significant portion of its business activities, as well as the owners of the qualified participation in the bank.

Methods and ways of supervision include the following: carrying out of an indirect supervision, carrying out of direct supervision, ordering supervision measures and issuance of certain acts (opinions, approvals and consents). When carrying out the supervision, FBA inspects the legality of the business activities of the bank, including the organization, strategies, policy, procedures and assesses whether the bank is (or may be) exposed to the following risks: risk of the bank for the banking system and risks determined through the results of the bank stress testing.

When it deems necessary, FBA may carry out enhanced supervision, which implies the increase of the number and frequency of the direct supervision, appointment of the advisor, request additional or more frequent reporting from the bank etc.

Supervisory measures that the FBA may order include: written warning, written order (for the remedy of the fallacies in business activities), warning to the management member, undertaking of measures of early intervention, carry out the procedure for the establishing whether the conditions for the restructuring process have been met, revoking of the banking license and filing thereafter for liquidation or bankruptcy of the bank. Other than the supervisory measures, FBA has additional authorities in the course of the early intervention, restructuring, liquidation and bankruptcy proceedings, including the appointment advisors and interim or liquidation administrators.

Supervision on a consolidated basis

FBA may also perform supervision on a consolidated level with respect to the banking group where a bank in FBiH has a role of the superordinate parent company or a subsidiary. For that cause, it may analyze the consolidated financial statements, carry out direct supervision of the banking group and its members to determine the accuracy of data in the consolidated financial report as well as risks to which a local bank and banking group are exposed and assess the condition of the banking group. FBA is also authorized to visit the foreign bank subject to the consolidated supervision abroad and cooperate with the

foreign supervision authorities (college of supervisors). Superordinate parent company in a banking group is under the obligation to prepare and file with the FBA the consolidated financial statements of that banking group (prepared in line with the IFRS).

When it discovers that a member of the banking group (excluding the bank), has violated the FBiH regulatory framework or that the actions or financial position of any member may have adverse consequences for the financial stability of the bank or that it may place bank's depositors in danger, it will order such member to remedy irregularities within a set deadline. If such member does not abide by such order, the FBA may order the bank to suspend any investment into its subsidiary, order increase of the share capital of the subsidiary, order that all direct and indirect business activities between the bank and members of the banking group are temporarily aborted etc. If these measures also do not result in the remedy of the irregularities, FBA may order decrease of investments into the subsidiary in a way that such entity ceases to be a subsidiary, revoke of the consent given to the mother company for the acquisition of the controlling share in the bank, demand from the mother company to sell significant or controlling participation in a subsidiary etc.

Advisor(s)

If the FBA deems that a more detailed assessment and monitoring of the financial condition of the bank is necessary, it may appoint one or more advisors (*savjetnik*) to temporarily work together with the managing body of the bank. Bank is obliged to invite the advisor to the meetings of the management and the supervisory board. FBA may decide that the supervisory board and the management of the bank must receive consent from the advisor to the decisions they adopt.

In addition, the FBA can also appoint one or more interim external administrators for a period up to 24 months when it determines that the measures of early intervention are not adequate enough to enhance the business of the bank and restore the healthy and stable bank management.

Regulatory legal framework

BiH is not a part of the EU and thus its treaties, regulations and directives are inapplicable in FBiH. Therefore, banks in FBiH are subject only to the national (i.e. entities') regulatory framework and supervision. However, newly adopted FBiH regulations are to a significant extent modeled on Basel III and CRD IV.

Legal framework for banking activities

Banking activities are governed by FBiH Law on Banks (FBiH official gazette no. 27/17) (*Zakon o bankama FBiH*). FBiH Law on Banks govern all aspects of banks' operations, including the establishment of a bank, issuance of a banking license, bank's share capital, ownership, bank's management, bank's business activities, risk management, internal controls, exposures, banking secrecy, reserves, auditing, recovery, supervision, restructuring, liquidation and insolvency. In addition, FBA, as the competent banking regulator, adopted a number of implementation bylaws regulating banks and banking operations in more detail.

Legal framework for recovery and restructuring

Legal framework for recovery and restructuring is set by FBiH Law on Banks and FBA's implementing acts.

Legal framework for payment services

Payment services are governed by different laws:

- The FBiH Law on Internal Payment Order (FBiH official gazette nos. 48/15 and 79/15) (*Zakon o unutrašnjem platnom prometu FBiH*) (setting out the participants and organizations authorized for the carrying out of the internal payment order (in particular banks), types of accounts, ways and forms of payments, payment settlement and forced settlement from an account and other rights and obligations of the participants in the internal payment order);
- The FBiH Law on Payment Transactions (FBiH official gazette nos. 32/00 and 28/03) (*Zakon o platnim transakcijama FBiH*) (governing payment operations, credit-transfer and debit-transfer payments in convertible marks and participants in the payment transactions in FBiH);
- FBiH Law on Foreign Exchange Transactions (FBiH official gazette no. 47/10) (*Zakon o deviznom poslovanju FBiH*) (governing the payment operations between residents and non-residents in convertible marks and foreign currency, payment operations between residents in foreign currency and one-sided transfer of property from country abroad and vice versa).

Legal framework for investment services, securities and markets in financial instruments

Investment services as such are governed by the FBiH Law on Securities Market (FBiH official gazette nos. 85/08, 109/12, 86/15 and 25/17) (*Zakon o tržištu vrijednosnih papira FBiH*). This law applies to banks when they e.g. act as depositories during the issuance of shares or as professional intermediaries (*profesionalni posrednici*). Banks are also allowed to provide services as custody banks. MiFID II/MiFIR have not been transposed into the FBiH law.

FBiH Law on Securities Market defines the term "privileged information" (*povlaštena informacija*), as a privileged, confidential or any other information or event which attributes certain benefit or advantage to an individual holding the

information and which may affect the issuer or the market of securities or the price of issued securities, which has not been made public. Certain persons are in particular proscribed from using confidential information in trading. FBiH Law on Securities Market also prohibits securities market manipulation (*manipulacija tržištem*) and also prescribes market manipulation and certain usage of privileged information as a criminal offense. MAD II/ MAR have not been transposed into the FBiH law.

EMIR has also not been transposed into the FBiH law.

Legal framework for consumer protection

Rules on consumer protection, with specific regard to consumer protection in financial services are found both in legislation at state level and entity level. The BiH Law on Consumer Protection (BiH official gazette nos. 25/06 and 88/15) (*Zakon o zaštiti potrošača BiH*) contains inter alia general rules of consumer protection, declaration of products, guarantees, advertising, remedies available to the consumers and unfair terms with specific provisions applying to consumer credits, prescribing among other, the information to be made to the consumer especially in regards to the total costs to the consumer, rules applicable to termination of contracts etc.

The FBiH Law on Banks also contains some provisions specifically related to the protection of the users of the financial services in the cases of sale of loans to other financial institutions. FBiH also adopted a specific law dealing with the matter, namely the FBiH Law on Protection of Users of Financial Services (FBiH official gazette no. 31/14) (*Zakon o zaštiti korisnika finansijskih usluga FBiH*) prescribing specific rules applicable in financial services with natural persons, e.g. consumer credits of up to BAM 150,000.00 (approx. EUR 75,000.00) and operating leasing agreements. The law contains, among other, the rules on advertising, information to be given to the consumers as well as obligatory elements of the contracts on financial services. It is worth noting that FBiH Law on Banking Agency foresees the role of ombudsman for banking system (*ombudsmen za bankarski sistem*) tasked with the specific care for the protection of consumers and users of financial services. The ombudsmen for banking system in FBiH provides information, issue guidelines and deal with the complaints of the consumers and mediate in between the consumers and banks, while financial institutions are obliged to cooperate with the ombudsmen.

Prudential requirements

Own Funds Requirements

Pursuant to the FBiH Law on Banks and FBiH Decision on the Calculation of the Bank's Capital (FBiH official gazette no. 81/17) (*Odluka o izračunavanju kapitala banke*), bank needs to at all times fulfill the following capital ratios: (i) CET 1 capital ratio of 6.75%; (ii) Tier 1 capital ratio of 9% (to be applied from October 21, 2018 in FBiH); and (iii) a total capital ratio of 12%. Each of the capital ratios is calculated as a ratio of a relevant capital (CET 1, Tier 1 or total capital ratio) and the total risk exposure amount and expressed in percentages.

The total risk exposure amount is calculated as the sum of the following:

(i) the RWAs for credit risk and dilution risk in respect of all the business activities (except for the RWAs for business activities from trading-book);

(ii) the own funds requirements for the trading-book business for position risk and certain large exposures (which exceed limitations defined by the special decision on large exposures);

(iii) the own funds requirements for foreign-exchange risk, settlement risk and commodities risk;

(iv) the own funds requirements for operational risk;

(v) the RWAs for counterparty risk arising from the trading book business for derivatives, repurchase transactions, securities or commodities lending, borrowing or margin lending transactions based on securities or commodities, and long settlement transactions.

Capital requirements from items (iii) and (iv) above include all the risks arising out of all the business activities of the bank (items from the trading-book and banking-book). All capital requirements from items (ii) to (iv) are calculated by multiplication by 12.5.

The own funds of an institution will consist of the sum of its Tier 1 capital and Tier 2 capital. Tier 1 capital consists of CET 1 capital (in particular equity capital) and AT 1 capital.

Capital buffers

FBiH Decision on the Calculation of the Bank's Capital requires banks to maintain, in addition to the CET 1 capital, specific capital buffers. Institutions are required to maintain a capital conservation buffer in the form of CET 1 equal to 2.50% of their total risk exposure amount calculated in accordance with the mechanism explained above under item (i). Capital conservation buffer is made up of parts of CET 1 capital and may not be used for the calculation and maintaining Tier 1 or total capital ratio.

Other capital buffers that may be applicable include capital buffer for systematically important bank (0% to 2% of the total risk exposure). Other than the latter, countercyclical buffer and buffer for the systemic risk may be prescribed by a special act.

The combined buffer is composed of the CET 1, increased for the following buffers: countercyclical buffer specific for the bank, capital buffer for systematically important bank and capital buffer for the systemic risk.

FBA and the RS Banking Agency, together with the BiH Central Bank and BiH Deposit Insurance Agency, need to mutually set a methodology for determining systematically important banks, based on which methodology FBA would issue a list of systematically important banks. However, such list has not been issued thus far. Furthermore, as of the date of this Prospectus, no additional buffer rates were prescribed by FBA.

Supervisory review and evaluation process

SREP has not been implemented in FBiH.

Minimum requirements for own funds and eligible liabilities

The FBiH Law on Banks also specifies that banks, in every moment, must satisfy minimum requirements for capital and eligible liabilities (MREL) and is expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the bank. The FBA has adopted a Decision on Minimum Requirements for Own Funds and Eligible Liabilities (FBiH official gazette no. 26/18) (*Odluka o minimalnim zahtjevima za kapitalom i prihvatljivim obavezama banke*). These provisions also apply to a banking group at a consolidated level. If there are additional activities the bank should perform to reach a binding MREL target, FBA may determine an additional deadline. As of the date of this Prospectus, FBA has not yet set a binding MREL target.

Requirements for large exposures

FBiH Law on Banks requires banks to monitor, control and limit large exposures. In that regard, bank's exposure to a person or a group of affiliated persons is considered large when its value is equal or exceeds 10% of the eligible capital (Tier 1 capital and Tier 2 capital). The FBA has adopted an implementing decision on large exposures (FBiH official gazette no. 81/17) (*Odluka o velikim izloženoastima banke*).

In each case, bank's exposure towards a person or a group of affiliated persons, following the application of techniques of credit risk mitigation, may not exceed 25% of the eligible capital. Furthermore, the maximum allowed credit sum which is not secured by collateral towards one person or a group of affiliated persons may not exceed 5% of the eligible capital.

Liquidity requirements

FBiH Decision on the Managing the Bank's Liquidity Risk (FBiH official gazette no. 81/17) (*Odluka o upravljanju rizikom likvidnosti banke*) was adopted by the FBA and it prescribes minimum qualitative requirements for the managing the bank's liquidity risk, quantitative requirements for banks with respect to the coefficient of the liquidity coverage and securing stable sources of the financing. Article 17 of the FBiH Decision on the Managing the Bank's Liquidity Risk introduces the LCR and requires the bank to secure an adequate level of the buffer of liquidity, in order to satisfy the needs for liquidity in case of stress scenario over a period of 30 days. The LCR is calculated as the ratio of a bank's liquidity buffer to its total 30-day net liquidity outflows. LCR must be at least equal to 100%.

Article 34 of the FBiH Decision on the Managing the Bank's Liquidity Risk also introduces NSFR, which is calculated as a ratio of an institution's available stable funding and the amount of required stable funding. NSFR also must be at least equal to 100%.

Requirements regarding financial leverage

FBiH Law on Banks and the FBiH Decision on the Calculation of the Bank's Capital also require that banks calculate their financial leverage ratio. Financial leverage ratio is calculated in percentages, by dividing measure of capital (i.e. Tier 1 capital) with the total exposure measure (calculation of total exposure measure is defined by Article 37(4) to (8) FBiH Decision on the Calculation of the Bank's Capital).

Each bank is required to ensure and maintain minimum financial leverage ratio of 6%.

Recovery, early intervention and restructuring

Recovery and Early Intervention

FBiH Law on Banks requires that a bank prepares a recovery plan, that must contain all the measures to be undertaken by the bank in case of significant deterioration of its business with an aim of recovery of sustainable business and corresponding financial position. Such a plan is adopted by the supervisory board of the bank and its content is not to be disclosed to any natural or legal entity (including the shareholders), not even if the bank's shares are traded on a regulated market, except for persons included in the drafting and adoption process. FBA needs to review and asses the plan, taking especially into consideration the appropriateness of capital structure and bank's financing, having in mind the complexity of the organizational stucture and risk profile. The bank has to revise the plan at least once a year; whenever there is a change of the legal and/or organizational structure of the bank, of a business model or a financial situation of a bank or of assumptions used

for the plan, which changes might have a significant effect to the plan execution; when the FBA requests, based on the abovestated changes.

In case of groups, superordinate bank of a banking group subject to the supervision on a consolidated basis has a duty to prepare and deliver to the FBA recovery plan of the banking group, which sets out the measures for the recovery of the financial stability and financial position at the group level and every individual group member, with listing all the entities falling under the supervision.

If, during the supervision, FBA determines that the bank is acting contrary to the legal framework, or that it is probable that it will, as a consequence of deterioration in its financial position, in near future violate certain provisions of the legal framework, it may order the bank to: instruct its management bodies to implement some of the measures set out in the recovery plan, demand analysis of the current status, order that a shareholders meeting is convened or even to convene it itself, order dismissal of one or more members of the supervisory board, management board or senior management, appoint advisor or external administrator in the bank, etc.

Restructuring

FBiH Law on Banks sets out a detailed restructuring mechanism similar to resolution under the BRRD. The restructuring process has an aim to secure the continuity of key functions, pre-empt adverse effects, protect public funds, protect secured depositors and assets and property of the clients.

FBA implements restructuring abiding by the following principles: losses are first borne by the bank's shareholders, bank's creditors are second in line to bear losses, supervisory board and management are dismissed and are responsible in case that they contributed to bank's inability to carry out its business activities, none of the creditors may suffer more losses than in a scenario in which the insolvency or liquidation proceedings has been open over the bank, deposits are secured up to the minimum prescribed by law etc.

(i) Conditions for restructuring

The conditions for restructuring are:

- the FBA determines that the institution is failing or likely to fail; and
- having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures of early intervention, or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments taken in respect of the institution, would prevent the failure of the institution within a reasonable timeframe; and
- a restructuring action is necessary in the public interest.

(ii) Restructuring tools and restructuring powers

In case of a restructuring, the FBA has far-reaching powers, i.e. restructuring tools and restructuring powers. However, when applying the restructuring tools and exercising the restructuring powers, FBA must have regard to the defined restructuring objectives, and choose the tools and powers that best achieve the objectives that are relevant in the circumstances of the case.

The restructuring tools are the following: (i) the sale of business; (ii) the transfer of whole or part of the business to a special purpose bank; (iii) the asset separation and transfer; and (iv) internal restructuring. In principle, resolution authorities may apply the resolution tools individually or in any combination (except for the asset separation and transfer tool which may only be applied together with another resolution tool).

In addition to the restructuring tools, the restructuring authority also has other resolution powers necessary to apply the resolution tools. Such resolution powers in particular include the power: to require any person to provide any information; to dismiss the supervisory board and management; to take control of and exercise all the rights and powers conferred upon the shareholders, other owners and the management and supervisory board and conferring those rights and powers to special management; to transfer shares or other instruments of ownership; to transfer rights, assets or liabilities to another entity; to reduce, including to reduce to zero, the principal amount of or outstanding amount due; to convert liabilities into ordinary shares or other instruments of ownership; to cancel debt instruments; the power to reduce, including to reduce to zero, the nominal amount of shares or other instruments of ownership of an institution under resolution and to cancel such shares or other instruments of ownership; to require to issue new shares or other instruments of ownership or other capital instruments; to amend or alter the maturity of debt instruments, the amount of interest payable under such instruments, or the date on which the interest becomes payable; to close out and terminate financial contracts or derivatives contracts.

Write-down and conversion power; internal restructuring

FBA may also order write down and conversion of the instruments of the capital. It may be ordered independently from any restructuring measures or together with restructuring measures, if the conditions for restructuring have been met. If the write-down and conversion are done after the initiation of the restructuring proceedings, it is applied before restructuring tools. Write down or conversion, with respect to the relevant capital instruments, is performed if one of the following is met: (i) it has been determined that the conditions for restructuring have been met, before taking any restructuring measures; (ii) FBA

determines that the bank would not be able to continue business activities unless the write down or conversion does not occur, and it is not probable that any other measure may reach a desired goal; or (iii) if the bank requests extraordinary public financial support, except if it is a liquid bank, requesting financial support for the purpose of resolving lack of capital established during the stress testing and assessment of the asset quality.

Write down or conversion is done in order to achieve the following: (i) CET 1 is reduced first in proportion to the relevant losses; (ii) the principal amount of AT 1 instruments is written down or converted or both (to the extent required to cover the losses); (iii) the principal amount of Tier 2 instruments is written down or converted (to the extent required to cover the losses).

Internal restructuring may be applied for the purposes of the increase of the capital of the bank to the extent necessary for the carrying out of the normal business activities of the bank or for the purposes of the write-down or conversion (in which case they are transferred to the special purpose bank, with an aim of securing the capital for that bank or are transferred under the tool of sale of business or tool of separation of the bank in restructuring. Write-down or conversion may be applied to all the bank's liabilities, except for the liabilities arising out of the secured deposits, obligations that are secured by a security instrument, liabilities arising out of the client's asset and money management, obligations towards banks in BiH, foreign banks and investment funds (maturing in less than seven days), obligations towards payments and securities clearing systems (maturing in less than seven days) and obligations towards employees, creditors (for goods and services provided during the restructuring), tax authorities and BiH Deposit Insurance Agency.

Single Resolution Fund

SRF has not been set up in BiH. According to the unofficial information from FBA, its formation should occur at the state (BiH) level, under the auspices of the BiH Deposit Insurance Agency.

Statutory deposit guarantee scheme

Deposit guarantee schemes are regulated at the state level with the BiH Law on Bank Deposit Insurance (BiH official gazette nos. 20/02, 18/05, 100/08, 75/09 and 58/13) (*Zakon o osiguranju depozita u bankama BiH*) establishing the BiH Deposit Insurance Agency (***DIABiH***). Addiko Sarajevo is a member of DIABiH's DGS (but does not belong to any voluntary protection scheme). This framework is applicable directly in FBiH. The BiH Law on Bank Deposit Insurance prescribes the protection of deposits of up to BAM 50,000.00 (approx. EUR 25,000.00) made by natural or legal persons (with certain exceptions) in the participating bank members of the deposit insurance fund in case of loss of banking license by actions of respective banking agency or by voluntary winding down of bank's operations or in the case of appointment of provisional administrator. The insurance premium rate to be paid by the member bank each quarter to the insurance fund opened by the DIABiH at the BiH Central Bank is calculated on the basis of average total of eligible deposit increased for the accrued interest, excluding the deposits and assets defined by the BiH Law on Bank Deposit Insurance. In 2018, the insurance premium is set at 0.26%.

Financial statements and audits

Addiko Sarajevo is required to prepare its financial statements in accordance with the FBiH Law on Banks, and FBiH Law on Accounting and Auditing (FBiH official gazette no. 83/09) (*Zakon o računovodstvu i reviziji FBiH*). Addiko Sarajevo has to prepare yearly individual and consolidated financial statements, in line with the IFRS and the applicable FBiH legal framework. Addiko Sarajevo also needs to maintain its business books and other business documentation and registers in a way that enables, at any time, inspection whether the bank conducts its business activities in line with the applicable framework and industry standards.

Both individual and consolidated financial statements are subject to the audit of an independent auditor. A bank's shareholder's meeting needs to appoint an auditor. The auditor is obliged to provide the FBA an audit plan. As a rule, a bank must appoint the same auditor for at least three consecutive years and not longer than five consecutive years (which may be extended for additional two years, under the condition that the auditing company appoints another auditor to carry out the audit). FBA is required to grant prior approval to the appointment of an auditor. The auditor is required to issue an opinion as to the adherence of the bank to the applicable accounting principles and whether the financial statements disclose the true and objective financial position. Furthermore, auditor may be requested by FBA to opine on the following: adherence to the rules on risk management, efficiency of the function of the risk management, function of the monitoring compliance and function of the internal auditing, condition of the information system and adequacy in its management and accuracy and completeness of the reports delivered to the FBA.

Banks also have an obligation to file their financial statements with the FBiH Financial and Informatics Agency (authority which collects financial statements of all the legal entities and individual entrepreneurs in FBiH) as well as the FBA and the BiH Central Bank.

18.3.3 RS (Addiko Banja Luka)

Architecture of regulation and supervision of Addiko Banja Luka

Supervision on an individual basis

RS has its banking agency - RS Banking Agency (***BARS***) (*Agencija za bankarstvo RS*). Its role, competences and powers are set out in the RS Law on Banking Agency (RS official gazette nos. 59/13 and 4/17) (*Zakon o Agenciji za bankarstvo RS*). BARS is the competent body for the supervision of the RS banking system and is thus in charge of the supervision of Addiko Banja Luka.

The role and powers of BARS are substantially the same as for FBA. Apart from the supervisory measures that FBA may order, BARS may also order (as a key measure) that rights of a qualified shareholder be limited.

Supervision on a consolidated basis

This matter is substantially regulated in the same manner as in FBiH.

Advisor(s)

This matter is substantially regulated in the same manner as in FBiH.

Regulatory legal framework

BiH is not a part of the EU and thus its treaties, regulations and directives are inapplicable in RS. Therefore, banks in RS are subject only to the national (i.e. entities') regulatory framework and supervision. However, newly adopted RS regulation is to a significant extent modeled on Basel III and CRD IV.

Legal framework for banking activities

Banking activities are governed by RS Law on Banks (RS official gazette nos. 4/17 and 19/18) (*Zakon o bankama RS*). This matter is substantially regulated in the same manner as in FBiH.

Legal framework for recovery and restructuring

Legal framework for recovery and restructuring is set by RS Law on Banks and BARS' implementing acts.

Legal framework for payment services

Payment services are governed by different laws:

- RS Law on Internal Payment Order (RS official gazette nos. 52/12 and 92/12) (*Zakon o unutrašnjem platnom prometu RS*);
- RS Law on Payment Transactions (RS official gazette nos. 44/00 and 12/01) (*Zakon o platnim transakcijama RS*);
- RS Law on Foreign Exchange Transactions (RS official gazette nos. 96/03, 123/06, 92/09, 20/14 and 20/18) (*Zakon o deviznom poslovanju RS*).

This matter is substantially regulated in the same manner as in FBiH.

Legal framework for investment services, securities and markets in financial instruments

Investment services as such are governed by the RS Law on Securities Market (RS official gazette nos. 92/06, 34/09, 30/12, 59/13, 86/13, 108/13 and 4/17) (*Zakon o tržištu hartija od vrijednosti*). According to this law, banks are, among other entities, considered as "qualified investors" (*kvalifikovani investitori*) (in case of the call for purchase of securities directed to qualified investors, there is no need to publish a prospectus). Banks are also allowed to carry out brokerage and dealership activities and provide services as custody banks. MiFID II/ MiFIR has not been transposed into the RS law.

RS Law on Securities Market defines the term "privileged information" as all facts unknown to the public that refer to one or more issuers of securities or securities, which, in case they become public, may affect the price of securities. Certain persons are in particular proscribed from using confidential information in trading. RS Law on Securities Market also prohibits securities market manipulation (*manipulacija tržištem*) and also prescribes market manipulation and certain usage of privileged information as a criminal offense. MAD II/ MAR has not been transposed into the RS law.

EMIR has also not been transposed into the RS law.

Legal framework for consumer protection

The RS Law on Consumer Protection (RS official gazette nos. 6/12, 63/14 and 18/17) regulate the matter in a similar manner as the BiH Law on Consumer Protection (with the exception of the consumer credits provisions).

RS Law on Banks contains rules on the consumer protection (i.e., application of standard terms and conditions, rules on advertising and information to be given to the users as well as rules related to the obligatory elements of contracts in consumer credit contracts and other financial services.

RS Law on Banking Agency also foresees the role of ombudsman for banking system (*ombudsmen za bankarski sistem*). This matter is substantially regulated in the same manner as in FBiH.

Prudential requirements

Own Funds Requirements

Pursuant to the RS Law on Banks and RS Decision on the Calculation of the Bank's Capital (RS official gazette nos. 74/17, 114/17 and 48/19) (*Odluka o izračunavanju kapitala banke*), bank needs to at all times fulfill the following capital ratios: (i) CET 1 capital ratio of 6.75%; (ii) Tier 1 capital ratio of 9%; and (iii) a total capital ratio of 12%. Each of the capital ratios is calculated as a ratio of a relevant capital (CET 1, Tier 1 or total capital ratio) and the total risk exposure amount and expressed in percentages.

The total risk exposure amount is calculated as the sum of the following:

(i) the RWAs for credit risk and dilution risk in respect of all the business activities (except for the RWAs for business activities from trading-book);

(ii) the own funds requirements for the trading-book business for position risk and certain large exposures (which exceed limitations defined by the special decision on large exposures);

(iii) the own funds requirements for foreign-exchange risk, settlement risk and commodities risk;

(iv) the own funds requirements for operational risk;

(v) the RWAs for counterparty risk arising from the trading book business for derivatives, repurchase transactions, securities or commodities lending, borrowing or margin lending transactions based on securities or commodities, and long settlement transactions.

Capital requirements from items (ii) and (iv) above include all the risks arising out of all the business activities of the bank (items from the trading-book and banking-book). All capital requirements from items (ii) to (iv) are calculated by multiplication by 12.5.

The own funds of an institution will consist of the sum of its Tier 1 capital and Tier 2 capital. Tier 1 capital consists of CET 1 *capital (in particular equity capital) and AT 1 capital.*

Capital buffers

This matter is substantially regulated in the same manner as in FBiH.

Supervisory review and evaluation process

SREP has not been implemented in RS.

Minimum requirements for own funds and eligible liabilities

The RS Law on Banks also specifies that banks, in every moment, must satisfy minimum requirements for capital and eligible liabilities (MREL), which is expressed as the ratio of the sum of the capital and eligible liabilities against the sum of capital and total liabilities of the bank. The BARS has adopted a Decision on Minimum Requirements for Own Funds and Eligible Liabilities (RS official gazette no. 20/18) (*Odluka o minimalnim zahtjevima za kapitalom i prihvatljivim obavezama banke*). These provisions also apply to a banking group at a consolidated level. If there are additional activities the bank should perform to reach a binding MREL target, the BARS may determine additional deadline. As of the date of this Prospectus, binding MREL target has not been set for Addiko Banja Luka.

Requirements for large exposures

This matter is substantially regulated in the same manner as in FBiH.

Liquidity requirements

This matter is substantially regulated in the same manner as in FBiH.

Requirements regarding financial leverage

This matter is substantially regulated in the same manner as in FBiH.

Recovery, early intervention and restructuring

Recovery and early intervention

RS Law on Banks requires that a bank prepares a recovery plan, that must contain all the measures to be undertaken by the bank in case of significant deterioration of its business with an aim of recovery of sustainable business and corresponding financial position. The recovery plan is classified as a business secret. As in FBiH, there is also an obligation to prepare a recovery plan for the bank group.

This matter is substantially regulated in the same manner as in FBiH.

Restructuring

This matter is substantially regulated in the same manner as in FBiH.

Write-down and conversion power; internal restructuring

This matter is substantially regulated in the same manner as in FBiH.

Single Resolution Fund

For further details see the corresponding point for FBiH.

Statutory deposit guarantee scheme

This matter is substantially regulated in the same manner as in FBiH. As there is only DGS for FBiH and RS Addiko Banja Luka is also a member of DIABiH's DGS (but does not belong to a voluntary protection scheme).

Financial statements and audits

Addiko Banja Luka is required to prepare its financial statements in accordance with the RS Law on Banks and RS Law on Accounting and Auditing (RS official gazette no. 94/15) (*Zakon o računovodstvu i reviziji RS*). This matter is substantially regulated in the same manner as in FBiH.

Addiko Banja Luka needs to file their financial statements with the RS Agency for Intermediary, IT and Financial Services (authority which collects financial statements of all the legal entities and individual entrepreneurs in RS).

18.4 Regulation and Supervision applicable to Addiko Serbia

18.4.1 Architecture of regulation and supervision of Addiko Serbia

Banking Union

Serbia is not a Member State of the European Union and does not participate in the Banking Union.

Authorization and prudential supervision

Supervision on an individual basis

The activities of Addiko Bank a.d. Belgrade, Serbia (***Addiko Serbia***) are subject to the prudential supervision of banks by the relevant (competent) authority and the prudential requirements.

The National Bank of Serbia (*Narodna Banka Srbije – **NBS***) directly supervises banks in Serbia. The NBS is responsible for the authorization, ongoing supervision and revocation of banks licenses.

Addiko Serbia is a bank duly authorized and supervised by the NBS, as defined in Article 2 of the Serbian Law on Banks (*Zakon o bankama – **Law on Banks***).

NBS exercises bank supervision as off-site and on-site supervision. Off-site supervision is exercised by examining reports and other documentation that a bank submits to the NBS pursuant to regulations and/or at its request in accordance with the Law and other operational data of the bank available to NBS. On-site supervision is, generally, exercised in a bank's premises – by inspecting business books and other documentation of the bank. Such supervision is conducted by employees of the NBS appointed by the decision of the governor of NBS or the decision of the person authorized by the governor.

Supervision on a consolidated basis / prudential consolidation

In case of Addiko Serbia, supervision is exercised only on an individual basis.

18.4.2 Supervisory powers of competent authorities

National Bank of Serbia

The main objective of the NBS is to foster and maintain the stability of the financial system. As such, the NBS has a number of (far-reaching) supervisory powers and tools for the prudential supervision of the banking sector and may impose certain supervisory measures.

The NBS is, *inter alia*, in charge of issuing and revoking banking licenses; granting consents on the initial foundation deed and articles of association and amendments thereto; granting prior consents for appointment of members of the management and executive board; granting prior consents for (direct or indirect) acquisition of shares in banks which gives voting rights above certain thresholds and revoking such consents in line with the law; issuing protective measures and fines for breaches of the law.

When exercising its supervisory duties, the NBS may, e.g. request certain information, documents and reports; instruct the bank to restore legal compliance within a certain period of time; (fully or partly) prohibit the managing directors from managing the bank; and even revoke the banking license of the bank.

In particular circumstances, for example when in the opinion of the NBS a bank acted contrary to the provisions of Law on Banks or other laws pursuant to which the NBS is in charge of bank supervision, regulations of the NBS or other regulations, or contrary to the standards of prudent banking, and/or that the bank acted in any other way which jeopardizes its safety and soundness, NBS may impose one of the following measures: (i) send a written warning to a bank; (ii) revoke a banking license; (iii) impose orders and measures for the elimination of established irregularities. Such orders/measures include, *inter alia*, the following: to require a bank to hold additional own funds as an own funds requirements; to apply specific provisioning principles or to treat their assets in a specific manner to reduce the risk associated with their activities, products and systems; to limit variable remuneration; to use net profits to strengthen own funds, restrict or prohibit distributions of capital or profits or additional disclosure; to restrict or limit the business operations or network of credit institutions; to request the divestment of activities that pose excessive risks to the soundness of a credit institution; impose additional (or more frequent) reporting requirements or specific liquidity requirements.

Apart from that, the NBS may (or even must) impose administrative penalties (and penalty interests) to a bank and members of its management bodies if Serbian bank violates applicable rules and provisions. The Law on Banks prescribes criteria for determination of penalty amounts for both bank and its members of management bodies.

Under current legal framework for supervision of financial services in Serbia, the NBS is, *inter alia*: monitoring: (i) banks operating in Serbia; (ii) companies providing payment services/issuing e-money; (iii) financial leasing and insurance companies (including voluntary pension fund supervision); and (iv) foreign exchange operations.

The Republic of Serbia Securities Commission

The Securities Commission of the Republic of Serbia (***Securities Commission***) controls participants involved in the capital market trading process, including, *inter alia* the Stock Exchanges, Central Securities Depository (CSD), commercial banks, brokerage companies, investment funds as well as the public enterprises whose shares are traded on the stock exchange – in the operations they conduct on the securities market in compliance with the law.

Specific powers and authorities of the Securities Commission are regulated by the Law on the Capital Markets (*Zakon o tržištu kapitala* – ***Law on the Capital Markets***), Law on the Takeover of the Stock Companies (*Zakon o preuzimanju akcionarskih društava)* and Law on the Investment Funds *(Zakon o investicionim fondovima*).

Pursuant to the Law on the Capital Markets, the Securities Commission is *inter alia*, in charge of, the following: (i) to adopt by-laws and other regulations for the purpose of implementation of the Law on the Capital Markets, and to adopt by-laws and regulations relating to the licensing, regulation and supervision of credit rating agencies within the Republic of Serbia; (ii) to approve the status of qualified investors to natural persons and legal entities; (iii) to grant licenses to investment firms, market operator, and to deny, withdraw and suspend licenses; (iv) to regulate, supervise and monitor activities of issuers and public companies, fulfillment of obligations of reporting of issuers and participants on the regulated market; (v) to regulate, supervise and monitor activities of the Central Securities Depository and Stock Exchanges in Serbia (vi) to regulate, supervise and monitor primary and secondary trading in financial instruments in the Republic of Serbia, regardless of whether such trading occurs on or off the regulated market.

Supervision of market participants is performed by the Securities Commission through direct controls (daily, periodic and annual reports as well as ad hoc requests) and indirect controls (through statistical analysis).

Under current legal framework for supervision of financial services in Serbia, the Securities Commission is *inter alia*: monitoring: (i) broker-dealer firms/investment advisors/portfolio managers; (ii) investment funds/investment funds management companies; (iii) investment services/activities or custody operations of the banks; (iv) capital markets transactions; (v) stock exchanges operations.

As of the date of this Prospectus, Addiko Serbia does not provide custody or other capital markets related services, and is not public enterprise, thus, supervision is exercised only by the NBS.

18.4.3 Regulatory legal framework

Regulatory process in financial services within Serbia

Concerning the fact that Serbia is not an EU Member State, EU laws and regulations are not directly applicable in Serbia. In the past period, Serbia has made a significant improvement on its path towards EU membership. Following the decision of the European Council as of June 2013 to open negotiations, the First Inter-Governmental Conference on Serbia's EU accession took place on January 21, 2014, on which occasion accession negotiations on membership were formally launched. The initial stage of negotiations - analytical overview and assessment of conformity of Serbian regulations with the EU *acquis communautaire* (***acquis communautaire***) and their application (screening) had already commenced in September 2013, and was finalized in late March 2015. During that process the majority of EU regulations are implemented into Serbian laws and

regulations. Accordingly, when it comes to the regulation and supervision of the banks in Serbia, the EU regulations in the field of banking are, to a large extent, implemented in the domestic laws and the National Bank of Serbia Decisions (for details see below).

The NBS has the principal role in the regulatory framework for financial services in Serbia. Under the Law on Banks, the NBS has the authority to pass decisions, resolutions and measures required in the financial services sector. Furthermore, the NBS has the authority to develop draft laws related with the financial system of the Republic of Serbia (i.e., laws related with the financial service, financial stability, monetary policy, and monetary stability of Serbian dinar (RSD)). Also, the Government of Serbia should consult the NBS about any draft law concerning the financial system and affecting the attaining of objectives and exercising of functions of the NBS before submitting it to the Parliament for consideration.

The current regulatory framework for financial services in Serbia is based on the set of laws, *inter alia*, Law on Banks, Law on National Bank of Serbia (*Zakon o Narodnoj Banci*) as a framework law, Law on payment services (*Zakon o platnim uslugama*), Serbian Protection of Financial Services Users Law (*Zakon o zaštiti korisnika finansijskih usluga usluga*), Law on Foreign Exchange Operations (*Zakon o deviznom poslovanju*), Law on Insolvency and Liquidation of Banks and Insurance Companies (*Zakon o stečaju banaka i društava za osiguranje*), Law on the Capital Markets, and relevant bylaws – decisions and guidelines of the NBS/Securities Commission. Namely, the aforementioned laws are representing a legal framework based on which the NBS and the Securities Commission, adopt the decisions and guidelines which contain the technical measures necessary for implementation of the laws and effective supervision and control of financial institutions.

Legal framework for banking activities

The main aspects of the prudential requirements – in particular the level of their application (including prudential consolidation), elements of own funds, capital requirements (credit risk, counterparty credit risk, market risk, operational risk, settlement risk, CVA-risk), large exposures, securitization (transferred credit risk), leverage, liquidity, reporting and disclosure – are stipulated by the Basel III Decisions (as defined below) and respective delegated acts, while some other aspects, such as authorization and license requirements, capital buffers and risk management, are also laid down in the Law on Banks.

The main parts of the Basel III standards (thus the main parts of CRD IV and CRR) have been transposed into Serbian legislation by the following NBS decisions (***Basel III Decisions***):

- Decision on Capital Adequacy of Banks;
- Decision on Disclosure of Data and Information by Banks;
- Decision on Reporting on Capital Adequacy of Banks;
- Decision Amending the Decision on Reporting Requirements for Banks;
- Decision on Liquidity Risk Management by Banks; and
- Decision Amending the Decision on Risk Management by Banks.

In its meeting on December 15, 2016, the NBS Executive Board, adopted the aforementioned Basel III Decisions (published in the “RS Official Gazette”, No. 103/2016), and by that the Basel III standards were introduced for the first time in the Republic of Serbia (the regulation became applicable as of June 30, 2017). Before the adoption of the Basel III Decisions the NBS performed the analysis that lasted for two years, based on which it was concluded that the Serbian banking sector is ready for the implementation of Basel III standards. For example, after the adoption of these rules capital adequacy requirements for banks was decreased from the regulatory minimum capital adequacy ratio of 12%, to the capital adequacy ratio of 8% required under the Basel III standards.

However, based on the European Commission report on Serbia *2018 Communication on EU Enlargement Policy* dated as of April 17, 2018, when it comes to the Chapter 9 - Financial services, the European Commission assessed as follows: “*Serbia is moderately prepared to join the European Union when it comes to the area of financial services*.” It was concluded by the European Commission that some progress was made in this field, especially in the field of banks and financial conglomerates, but more work is required to fully implement the financial services *acquis communautaire*. In the coming year, Serbia should in particular take additional steps to align completely with CRR and CRD IV. Namely, it has been concluded by the European Commission that the NBS started in June 2017 to implement its plan to align with the Basel III standards, however European Commission concluded that by the end of 2017 Basel III standards were not fully implemented in Serbia and that by the end of 2018 such implementation should be finished.

Legal framework for recovery and resolution

The area of recovery and resolution of credit institutions is governed mainly by the Law on Banks, last amended in February 2015. The amended Law on Banks is largely in line with the BRRD and Directive 2001/24 on the reorganization and winding up of credit institutions.

Serbian legislation, when it comes to the recovery and resolution of the banks, like BRRD is based on the following key elements: (i) preparation and prevention - NBS must draw and regularly update resolution plans for each bank operating in

Serbia (i.e. Addiko Serbia); (iii) early intervention measures - NBS can adopt early intervention measures; (iii) resolution of a bank – NBS can initiate resolution of a Serbian bank (for further details, see Section *18.4.5 "Recovery and Resolution"*). While the special resolution fund is not yet created, bail-in is already possible by use of the deposit insurance fund under the conditions set out in the Law on Banks. Moreover, apart from using deposit insurance funds, the NBS can submit a report on the cost of a resolution to the government requesting government financial support to fund resolution actions.

Even though, pursuant to the Law on Banks the NBS should cooperate with the authorities of the EU Member States in the process of bank resolution (i.e., banks that have EU parent banks) such cooperation is yet to be fully established. To that end, as of July 2018 the NBS and the SRB have reached the Cooperation Arrangement on the exchange of information and cooperation in connection with the resolution planning and the implementation of such planning with respect to, inter alia, banks with cross-border operations.

Currently, Serbian legislation does not allow cross-border provision of banking services. Therefore, an alignment with the provisions of Directive 2001/24 on the recognition of effects of parent bank's bankruptcy proceedings on its branches established in the EU is envisaged in Serbia. Under current legal framework, bankruptcy/litigation procedures over the banks are initiated by the NBS and decided by a competent court. The Deposit Insurance Agency of the Republic of Serbia (***Agency***) acts as bankruptcy administrator.

Since the recovery and resolution regulation in Serbia is not fully harmonized with EU regulation, Addiko Serbia may be subject only to national resolution, recovery and insolvency proceedings.

Legal framework for issuance of covered bonds

Covered bank bonds are yet to be adequately introduced into the Serbian legal framework.

Legal framework for payment services

Payment services are subject to the rules and provisions of the Serbian Law on Payment Services and relevant bylaws - decisions issued by the NBS. Pursuant to these laws and bylaws, payment services in the Republic of Serbia can be provided by: (i) bank; (ii) electronic money institutions; (iii) payment institution; (iv) National Bank of Serbia; (v) treasury department or other public authorities in the Republic of Serbia, in accordance with its competencies stipulated by law; (vi) public postal operator based in the Republic of Serbia, established in accordance with the law regulating postal services. Accordingly, these laws and regulation apply to payment services performed by Addiko Serbia.

Legal framework for investment services, securities and markets in financial instruments

The provision of certain investment services and the performance of certain investment activities – including certain ancillary services – by investment firms is subject to the rules and requirements pursuant to the Law on Capital Markets (i.e. to preform brokerage – broker dealer activities, entities/individuals must obtain license issued by the Securities Commission), and respective bylaws issued by the Securities Commission. However, the law has not yet been aligned with respect to cross-border activities and foreign issues.

The Law on the Capital Markets defines and regulates, inter alia, financial instruments, transferable securities, investment firms, investment and ancillary services, regulated market, multilateral trading facilities and over the counter trade, the scope of work and responsibilities of the market supervision and competent authorities. The Law on the Capital Markets in particular stipulates organizational requirements, product governance requirements and conduct of business rules to be complied with when receiving, transmitting and/or executing client orders in relation to securities and other financial instruments, proprietary trading, providing underwriting and other issuance-related services, managing client portfolios and providing investment advice.

MiFID II / MiFIR

The Law on Capital Markets is aligned to a large extent with Directive 2004/39/EC on markets in financial instruments (***MiFID***). The alignment with MiFID II and MiFIR has not yet been achieved and will depend on the development of Serbian capital markets rules.

MAD II / MAR

Directive 2003/6/EC on insider dealing and market manipulation (***MAD***) is largely implemented in Serbian national law through the Law on Capital Markets and its bylaws. However, MAD II has not yet been implemented in Serbian legislation (alignment is envisaged no later than six months prior to Serbia's accession to the EU). To date, Serbia has not yet started alignment with the MAR.

EMIR

EMIR has not been transposed to Serbian law as of yet.

Legal framework for consumer protection

The general provisions on consumer protection in the area of financial services are governed by the Serbian Protection of Financial Services Users Law (*Zakon o zaštiti korisnika finansijskih usluga* – ***PFSUL***) and Serbian Protection of Financial

Services Users in Distance Contracting Law (*Zakon o zaštiti korisnika finansijskih usluga kod ugovaranja na daljinu – **PFSUDCL**),* and relevant decisions issued by the NBS.

The PFSUL contains general mandatory requirements for contracts with consumers, with an aim to: (i) ensure fair and balanced treatment that is adequate for consumers; (ii) protect the rights of consumers; and (iii) leave an option for a consumer to withdraw from agreements under certain circumstances. Thus, according to the PFSUL, the customer will *inter alia* have the right: (i) to withdraw from the credit agreement, agreement on authorized overdraft facility, agreement on issuing and use of a credit card, leasing agreement and financial arrangement – within 14 days from the date of conclusion of the agreement, without giving any reason for withdrawal; (ii) to obtain information, data and instructions relating to his contractual relationship with the financial service provider; (iii) to be informed on all relevant information and explanations of the terms referring to the deposit/credit/leasing agreement, in a pre-contractual phase; and also to be informed on all necessary information during the contractual relationship. The NBS has the authority to determine if the provisions of the contract of the financial service provider were unjust or its business practice was unfair. PFSUL further prescribes an obligation for financial service providers to ensure, through their general terms of business, application of good business customs, good business practice and fair treatment of consumers. In case of violation of the provisions of the PFSUL, financial service provider can be held liable and be fined in the amount of up to RSD 1,000,000.00 (approx. EUR 8,500.00).

PFSUL provides for application of the Customer Protection Law (*Zakon o zaštiti potrošača* - ***CPL***) in terms of, *inter alia*, determination of unjust contract provisions and unfair business practice.

The PFSUDCL contains general mandatory requirements for contracts with consumers of financial services when the contract is performed exclusively by the use of one or more means of distance communication, within the organized offer of the providing of financial services. PFSUDCL also provides for the application of general rules and principles of the CPL.

In Serbia, a conversion law regarding CHF housing loans was enacted on April 29, 2019 as *lex specialis* in the Republic of Serbia. This law came into force on May 7, 2019 and obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests) after conversion into EUR currency, whereas the conversion rate will be the middle CHF-EUR currency rate, calculated on the basis of the official middle exchange rate of the NBS for RSD-EUR and RSD-CHF, as of the day of the conversion. The Republic of Serbia will participate in the amount of 17% of the reduction.

18.4.4 Prudential requirements

Capital requirements

Own Funds Requirements

Pursuant to the Decision on Capital Adequacy of Banks (one of the Basel III Decisions through which the CRR is implemented in Serbian legislation) the Serbian banks must at all times satisfy the following own funds requirements (capital ratios): (i) a Common Equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; and (iii) a total capital ratio of 8%, in each case calculated as the relevant capital of the institution expressed as a percentage of the total risk exposure amount.

Capital buffers

In addition to the obligation of the Serbian Banks to maintain the CET 1 capital in order to meet the own funds requirements imposed by the NBS Decision on Capital Adequacy of Banks (and potentially any Tier 2 capital), pursuant to the same Decision, the Serbian banks are also obliged to maintain following capital buffers: (i) capital conservation buffer; (ii) countercyclical capital buffer; (iii) capital buffer for a systemically important bank; (iv) capital buffer for a globally systemically important bank; and (v) systemic risk buffer.

The NBS, in its Decision on Capital Adequacy, further stipulates the manner of calculation determination and recognition for each of the aforementioned buffers. The Serbian banks are required to maintain the capital conservation buffer on an individual and consolidated basis equal to 2.50% of its RWA (RWA calculated in accordance with Section 3 (2) of this Decision).

The NBS should, on quarterly basis, determine the countercyclical capital buffer rate for the Republic of Serbia taking into the account the buffer guide, applicable guidelines and recommendations of the ESRB and other variables it considers relevant for monitoring the cyclical dimension of systemic risk. The current countercyclical capital buffer rate for the Republic of Serbia is set in line with the recommendation for setting the countercyclical capital buffer rate of the ESRB (ESRB/2014/1).

Pursuant to the relevant decision of the NBS, the countercyclical buffer rate is currently set at 0.00% for significant credit exposures located in Republic of Serbia.

The banks assessed by the NBS as the *systemically important banks in the Republic of Serbia*, must maintain the additional CET 1 capital at the level between 1% to 2% rate of its RWA. Pursuant to the *NBS Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and capital buffer rates for those Banks* as of May 9, 2019, effective as of June 30, 2019, Addiko Serbia is not a systematically important bank in the Republic of Serbia.

Furthermore, the National Bank of Serbia sets the rate and defines the manner of maintaining the systemic risk buffer, in order to prevent and mitigate long-term non-cyclical systemic risks, for banks whose share of foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic in Serbia in total placements of that bank approved to corporates and households in the Republic of Serbia exceeds 10%. Currently, the rate of the systemic risk buffer is set at 3% of total foreign currency and foreign currency-indexed placements of a bank, approved to corporates and households in the Republic of Serbia.

As of the date of this Prospectus, no buffer requirement for systematically important banks or for systemic risk, applies to Addiko Serbia.

Supervisory Review and Evaluation Process

In Serbia, the SREP is carried out by the NBS supervision department as an ongoing process, which brings together findings from all supervisory activities performed on an individual bank into a comprehensive supervisory overview of that bank. The SREP, *inter alia*, includes: (i) monitoring of the basic risk indicators; (ii) business model analysis; (iii) assessment of adequacy of capital and liquid assets.

The NBS makes the overall SREP assessments of different degrees of granularity depending on the group to which the bank belongs and its size, nature, complexity and riskiness of business activities, and/or its business model. Based on the findings of the conducted SREP process, the NBS may undertake, in accordance with regulations, appropriate supervisory measures to remove the identified irregularities and to set the capital adequacy ratio higher than the legally prescribed one.

In the process of supervisory assessment of capital adequacy, the NBS supervision department determines whether the own funds held by the bank provide sound coverage of risks to which the bank is or might be exposed.

Total SREP capital requirement (***TSCR***) is determined as a sum of: (i) minimum own funds requirements calculated in accordance with the Decision on Capital Adequacy of Banks; and (ii) the sum of additional own funds requirements determined for each individual risk; and (iii) any additional own funds requirements determined to be necessary to cover material inter-risk concentrations.

The TSCR ratio is calculated trough the methodology determined by the NBS. The NBS started in year 2018 to calculate TSCR ratio, and to give recommendations to the banks which, so far, are not obligatory. Starting from year 2019, NBS plans to issue the decisions with the calculated TSCR ratio based on which individual banks in Serbia would be obliged to meet such TSCR ratios calculated by the NBS.

Minimum requirements for own funds and eligible liabilities

The Decision on the minimum requirements for capital and eligible liabilities of a bank has been introduced into Serbian legislation to ensure the effectiveness of bail-in and other resolution tools introduced by the latest changes of the Law on Banks (as of 2015). Under the NBS Decision on the Minimum Requirements for Capital and Eligible Liabilities of a Bank (by this Decision the MREL rules are introduced in Serbian legislation), NBS determines, by virtue of a decision, the minimum requirement for capital and eligible liabilities for each bank when drawing up the bank's resolution plan. The scope, calculation and composition of the MREL are determined in the aforementioned Decision. Namely, the Law on Banks and the Decision on minimum requirements for capital and eligible liabilities of a bank, require that all banks must meet an individual MREL requirement determined by the NBS (calculated as the amount of own funds and eligible liabilities and expressed as a percentage of the total liabilities and own funds of the bank).

Based on the aforementioned NBS Decision, Serbian banks must by December 31, 2018 comply with the 75% of the minimum requirements for capital and eligible liabilities determined by the NBS (when drawing up the first resolution plan of that bank).

Requirements for large exposures

Pursuant to the NBS Decision on the Risk Management by the Banks (one of the Basel III Decisions through which the CRR is implemented in Serbian legislation), the banks are obliged to monitor, control and limit concentration risk (defined as a risk arising directly or indirectly, from the bank's exposure to the same or similar source of risk or same or similar type of risk). Concentration risk includes, among other things, the large exposures. The large exposure is to be considered a bank exposure, to a client or group of connected clients (as defined in the Law on Banks), which is equal to or exceeds 10% of the banks' "eligible capital". Also, a bank must not incur an exposure, after taking into account the effect of the credit risk mitigation, to a client or group of connected clients the value of which exceeds 25% of its "eligible capital".

Liquidity requirements

The NBS Decision on Liquidity Management by Banks (one of the Basel III Decisions through which the CRR is implemented in Serbian legislation), stipulates that Serbian banks are obliged to manage the liquidity risk. Further this Decision stipulates the liquidity coverage requirements, and calculation of the LCR. The NBS Decision on Liquidity Management by Banks contains to the large extent the same provisions as the CRR.

In addition, the Serbian regulation does not stipulate requirements for net stable funding or for NSFR reporting. However, in practice Serbian banks are preparing calculation of the NSFR for their internal purposes.

Requirements regarding leverage

In accordance with the NBS Basel III Decisions, the LR (expressed as percentage) is calculated as a ratio of Tier 1 capital and a bank's total exposure amount. Total exposure amount is calculated as the sum of on- and off-balance sheet exposures, exposure based on derivatives, increased for counterparty credit risk with respect to repo and reverse repo transactions, margin lending transactions, agreements on securities or commodities lending or borrowing transactions and long-settlement transactions. The banks are obliged to report LR (on the special forms) to the NBS on the quarterly bases.

The NBS does not prescribe the binding minimum requirement of LR for banks.

18.4.5 Recovery and Resolution

Recovery and resolution planning; early intervention

The Law on Banks, *inter alia*, stipulates requirements for recovery and resolution planning, in particular regarding: (i) group recovery plans and recovery plans; and (ii) group resolution plans and resolution plans.

The Serbian banks (i.e., Addiko Serbia) must draw up and submit the recovery plan to the NBS, such plan has to be updated and submitted to the NBS annually. The group recovery plans are drafted and submitted by the financial groups consolidated in Serbia (for example the financial group consolidated in Serbia would be considered a bank incorporated in Serbia and its leasing company also incorporated in Serbia). When it comes to the Serbian banks that have the EU parent bank, which submitted the group recovery plan to the consolidation supervisor, based on the written Cooperation Agreements, for sharing information and cooperation, signed by the NBS and relevant supervision authorities in the EU, such group recovery plans are provided to the NBS by the consolidation supervisor (i.e. in case of Addiko Serbia, the FMA). Such group recovery plans are used by the NBS when assessing the individual recovery plan of a subsidiary bank incorporated in Serbia (i.e., Addiko Serbia).

Resolution plans are prepared, in advance (and annually updated) by the NBS for each bank operating in Serbia. The group resolution plans are drafted and submitted by the NBS for the financial groups consolidated in Serbia. The resolution plan must *inter alia*, contain: (i) the summary of key elements of the restructuring plan; (ii) the brief overview of important changes that have occurred in the bank after the last modification of the restructuring plan; (iii) the explanation on the manner in which, to the extent necessary, the bank could separate critical functions and key business activities from other operations, in order to ensure business continuity in case of fulfillment of conditions for resolution; (iv) the deadlines for implementation of the essential elements of the resolution plan; (v) the detailed description of the assessment of the possibility for resolution and the description of measures needed to remove barriers to resolution; (vi) the description of procedures for determining the market value of the critical functions, key business activities and assets of the bank.

In developing and updating the resolution plan the NBS assesses whether the bank is resolvable, and identifies the obstacles to its resolution, i.e. assesses what measures can be taken to remove these obstacles. It will be considered that the bank is resolvable if it is possible to carry out the bankruptcy or liquidation or restructuring proceedings in it, provided that the execution of these proceedings, to the extent possible, does not lead to the occurrence of significant negative consequences on the stability of the financial system and that their implementation provides continuity of execution of critical functions of the bank.

Therefore, in case of Addiko Serbia, the information necessary for the drafting and updating the Addiko Serbia resolution plan must be, each year, submitted to and assessed by the NBS. Following the drafting/updating of the resolution plan, the NBS will deliver to the Addiko Serbia, the summary of key elements of the resolution plan.

Even though the resolution plans are assessed by the NBS on the level of the bank incorporated in Serbia (part of the EU parent banking group), as of July 2018 the NBS and SRB are cooperating and exchanging information in connection with the resolution planning and the implementation of such planning.

In addition to other measures described under Section *18.4.2 "Supervisory powers of competent authorities"* above, the NBS can provide for early intervention measures (including the NBS approval of the agreement on financial assistance within the group of the banks), in particular if it establishes that a bank infringes the provisions of the Law on Banks, regulations of the NBS or other relevant regulations, or it is likely that the bank will soon act contrary to the aforementioned regulations. Early intervention measures that may be imposed on the bank by the NBS, *inter alia*, include: (i) order to the bank to make changes in its business strategy; (ii) order to the bank to get in touch with potential buyers; (iii) if necessary, order to the management bodies of the bank to develop a plan of negotiations on debt restructuring with creditors of the bank, in accordance with the recovery plan.

Resolution

The Law on Banks provides the NBS with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability in Serbia.

Conditions for resolution

In line with the Law on Banks, the conditions for resolution are:

- the NBS determined that the bank is failing or likely to fail (if it is likely that the bank will not be able to conduct its' business operations); and
- having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by a financial assistance within the group or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments taken in respect of the bank, would prevent the failure of the bank within a reasonable timeframe; and
- a resolution action is necessary in the public interest.

A bank must be deemed to be failing or likely to fail when one of the following conditions is met (i) the conditions for revocation of the operating banking license are met or are likely to be met; (ii) if the bank's assets are lower than its' liabilities, or that it is likely that they will be soon; (iii) if the bank is insolvent or it is likely that it will be soon, unless the bank was granted financial assistance within the group (iv) if a bank requested an extraordinary financial assistance (except in cases explicitly allowed by the Law on Banks.

Resolution tools and resolution powers

Resolution is conducted by the NBS on the basis of a prepared resolution plan. Formally, the NBS initiates the resolution of the distressed bank (i.e., after the fulfillment of the conditions for resolution) by issuing a decision of the initiation of the resolution procedure (***Resolution Decision***). This Decision must be registered with the Serbian Business Registers Agency (*Agencija za privredne registere*) and published on the website of the NBS and the website of the distressed bank. From the date of issuing the Resolution Decision, the NBS, on behalf of the bank in resolution, has the far-reaching powers to implement resolution tools and measures that it determines necessary for the execution of the resolution.

The resolution tools are the following: (i) the sale of shares or assets and liabilities; (ii) transfer of shares, i.e. assets and liabilities to the bank for specific purposes (established by the Republic of Serbia), i.e. 'bridge bank'; (iii) the separation of asset; and (iv) distribution of losses to shareholders and creditors (i.e. '*bail-in tool*').

In principle, the NBS may apply the resolution tools individually or in any combination (except for the separation of asset tool which may only be applied together with another resolution tool). In course of resolution the NBS may take all measures necessary to apply the resolution tools such as: (i) removing the bank's managing and executive boards; (ii) amending and cancelling the agreements concluded by the bank; (iii) suspending all payments and the execution of other obligations under agreements concluded by the bank, as well as rights of the counterparty to enforce collateral – from the moment of publishing the decision on the suspension until midnight on the next business day; (iv) introduction of a special management in the bank, whereby it must appoint one or more special managers (if it determines that this action is necessary).

Write down and conversion power; bail-in tool

The NBS has the write-down and conversion powers which may be used prior to or on entry of the into resolution, in line with the provisions of the Law on Banks and *NBS Decision on detailed terms of conversion of supplementary capital items of a bank and/or bank under resolution and detailed terms and manner of write-down and conversion of liabilities of a bank under resolution* (these rules are aligned to the large extent with the BRRD).

Funds to be used for the banks resolution in Serbia

As Serbia is not the Member State within the Banking Union, in the course of resolution of the banks in Serbia SRF cannot be used.

Funds to finance resolution are provided from the deposit insurance fund, and from the funds of financial support which may be provided by the Republic of Serbia (in case that upon the request of the NBS deposit insurance fund is not sufficient to cover the costs of the bank resolution). If the NBS cannot obtain funds for the resolution of the bank, the resolution procedure would not be conducted and the NBS will immediately revoke the banking license of the bank, for which the resolution funds were not obtained. Funds of the deposit insurance fund to finance the resolution are provided solely in cash, and can only be used in line with the provisions of the Law on Banks and Law on Insurance of Deposits. Funds of the deposit insurance fund may not be used to directly cover the loss of the bank in resolution, for its recapitalization, or to ensure the capital for the special purposes bank (established by the Republic of Serbia).

Use of the funds of the deposit insurance fund to finance the resolution of the bank must be determined by the decision of the NBS, while the Agency (which is controlling the deposit insurance fund) will execute the transfer of these funds in the period and in the manner prescribed by that NBS decision.

18.4.6 Statutory deposit guarantee scheme

Pursuant to the Law on Insurance of Deposits ("*Zakon o osiguranju depozita*", RS Official Gazette No. 14/2015 and 51/2017 – ***Law on Insurance of Deposits***), a bank is obligated to insure, with the Agency deposits made with the bank, in Serbian

dinars (RSD) or in a foreign currency, by natural persons, entrepreneurs and SMEs (small and medium size enterprises). Based on this obligatory insurance of deposits, the Agency is obligated to repay the respective deposits, up to the *ex lege* insured amount in case of a bank's liquidation or insolvency. Such *ex lege* insured amount is currently set to EUR 50,000.00 per depositor. The obligations of the Agency, to repay the insured deposits are guaranteed by the Republic of Serbia. This is DGS of the Agency and is the only DGS in Serbia which Addiko Serbia belongs to (Addiko Serbia does not belong to a voluntary protection scheme).

Under the Law on Insurance of Deposits, any RSD or a foreign currency claim towards a bank, arising out of a deposit, savings deposit and/or current or other accounts, as a result of which the bank has a statutory or a contractual obligation to refund the relevant assets, qualifies as a deposit, whereby deposits made by a bank's related party or those resulting from money-laundering or activities related to financing of terrorism are amongst those that cannot be insured.

The Law on Insurance of Deposits further stipulates a bank's obligation: (i) to pay the so-called deposit insurance premiums to the Agency; (ii) to file monthly reports to the Agency in relation to the total amount of deposits and insured deposits, as well as other information that the Agency may deem useful; (iii) to permit on-site inspection of the Agency's officials for the purpose of determining the accuracy of the provided information; and (iv) to provide to its depositors and interested parties information on deposit insurance and the manner and amount of the repayment. Breach of any of these obligations by a bank is fined as a commercial offence; a failure by a bank to pay the so-called deposit insurance premium may also trigger revocation of its license.

The Agency is obligated to repay the insured amount in case of instigation of insolvency or liquidation proceedings in which case the depositors' claims arising out of the insured deposits are transferred to the Agency. Such claims are settled from the insolvency or liquidation estate. In relation to the non-insured parts of their deposits, the depositors are to report their claims in the insolvency/liquidation proceedings.

18.4.7 Financial statements and audits

As a Serbian licensed bank, Addiko Serbia is required to prepare its financial statements in accordance with the relevant provisions of the Serbian laws.

According to the Law on Banks, when preparing annual financial statements, banks in Serbia are required to apply IFRS. When it comes to the IFRS 9, such standard is applicable in Serbia as of January 1, 2018. The significance of the commenced application of IFRS 9 stems from the changed method of classification, measurement and calculation of impairment of financial instruments and represents an important shift for banks in terms of recognition and disclosure of credit losses since it introduces the concept of expected credit losses, instead of the concept of incurred credit losses, which, *inter alia*, entails macroeconomic models in their estimates and calculations.

A bank can also be required to prepare extraordinary financial statements in cases stipulated by Law on Accounting, such as: status changes, opening or closing of the bankruptcy proceedings or the start or conclusion of the process of liquidation.

Financial statements of a bank (including bookkeeping and management reports) must be audited by a licensed external auditor (*revizor*). The NBS determines and publishes the list of external auditors eligible to perform audit of banks' financial statements. The external auditor cannot conduct more than five consecutive audits of regular annual financial statements of the bank.

The auditor must audit whether the financial statements give a true and fair view of the financial position of the bank in accordance with the relevant legal framework, as well as whether the annual financial statements are in accordance with special regulations governing the operations of the bank, if that is provided in these regulations. Thus, the audit report includes: (i) external auditor's opinion; (ii) audited consolidated financial statements, (iii) opinion on compliance of business reports with financial statements for the same business year and the business report that was subject to this opinion; (iv) letter on financial statements presentation; and (v) analyses for the NBS purposes.

The bank must submit to the NBS the audit report along with the management letter delivered by the external auditor upon the completion of audit, no later than 120 days after the end of the business year to which the audit report relates. After 15 days from the submission of the audit report, the bank will publish: (i) complete external auditor's report, on its website and keep it on until the publication of the auditor's report for the next business year; and (ii) external auditor's summary report in daily newspapers circulated in the territory of the Republic of Serbia.

The NBS can refuse to accept the external auditor's report, and can order a new audit by another external auditor. If the NBS refuses to accept the external auditor's report, the bank must replace such report on its website with a report on a newly conducted audit prepared by another external auditor based on the new audit.

NBS regularly monitors the process of banks' preparation for the onset of application of IFRS 9. The most important conclusions of such analysis suggest the expected reduction in the capital adequacy ratio as a result of the IFRS 9 application.

18.5 Regulation and Supervision applicable to Addiko Montenegro

18.5.1 Architecture of regulation and supervision of Addiko Montenegro

Banking Union

Montenegro is not a Member State of the European Union and does not participate in the Banking Union.

Supervision on an individual basis

The Central Bank of Montenegro (*Centralna banka Crne Gore* – ***CBM***) directly supervises credit institutions in Montenegro. The CBM is responsible for the authorization, ongoing supervision and revocation of credit institutions' licenses. In addition to institutions, the CBM has responsibility for the supervision of micro-credit financial institutions, credit unions and credit guarantee business operations.

The financial sector in Montenegro is bank-dominated, with institutions accounting for over 90% of total assets of all financial market participants (money, capital and insurance markets).

The CBM is mainly governed by the Law on Central Bank of Montenegro (*Zakon o Centralnoj banci Crne Gore* – ***ZCBCG***), Law on Banks (*Zakon o bankama* - ***ZB***) and various secondary legislative acts passed by the CBM.

Addiko Bank A.D. Podgorica (***Addiko Montenegro***) is a credit institution duly authorized and supervised by the CBM as defined in Article 10a of the ZCBCG, which provides that "credit institution is a legal person whose business is to take deposits or other repayable funds from the public and to grant credits for its own account".

Within the meaning of the ZCBCG, credit institutions include: (i) banks and other credit institutions established in Montenegro which have been licensed by the CBM; and (ii) branches of credits institutions established outside Montenegro which pursue business in the territory of Montenegro in line with the ZB.

Pursuant to the ZCBCG, the CBM issues licenses and approvals to credit institutions, supervises credit institutions and passes regulations governing the operation of credit institutions and establishing standards of sound and safe operations for credit institutions.

Therefore, the CBM is the competent authority responsible for the supervision of Addiko Montenegro.

In performing the supervision of credit institutions, the CBM has direct access to business books and other documents of credit institutions, as well as of any other participants in the activities which are subject to supervision.

The CMB has the authority to prescribe which data, information and reports are to be submitted by credit institutions and deadlines for their submission and credit institutions must submit such data, information and reports to the CBM.

In case a credit institution fails to manage risks to which it is exposed in accordance with legislation or in case legal non-compliance, the CBM may impose measures and other obligations, including in the form of payment of monetary amounts to the Deposit Protection Fund.

The CBM performs supervision by: (i) analyzing reports, information and data that institutions deliver to the CBM under applicable legal rules and information and data that institutions deliver at the CBM's request and other data on institutions' operations available to the CBM; and (ii) by direct review of business books, accounting and other documentation at institutions and their counterparts in the supervised transactions.

Under the CBM-issued Regulation on Reporting to the Central Bank of Montenegro (*Odluka o izvjestajima koji se dostavljaju Centralnoj banci Crne Gore*), credit institutions must submit daily, ten-day, monthly, quarterly and annual reports in order to allow CBM to exercise its supervision function. All banks can be subject to on-site inspection conducted by the CBM with 10 business days' prior notice. Exceptionally, if the reports and information held by the CBM indicate that there are irregularities that may be of significance to the security and stability of bank's operations, on-site inspection may be conducted without prior notice.

CBM produces quarterly and annual macroeconomic off-site reports which allow monitoring of relevant performance indicators. The CBM also prepares a quarterly and annual report covering all institutions.

Supervision on a consolidated basis / prudential consolidation

In case of Addiko Montenegro, supervision is exercised only on an individual basis.

18.5.2 Supervisory powers of competent authorities

The primary objective of the CBM is to foster and maintain the stability of the financial system. As such, the CBM has a number of (far-reaching) supervisory powers and tools for the prudential supervision of credit institutions and may impose certain supervisory measures.

When exercising its supervisory duties, the CBM conducts off-site and on-site inspections. In addition, it may e.g. request specific information, documents and reports from credit institutions and parties to transactions subject to supervision; instruct the credit institution to restore legal compliance within a certain period of time; order increases in capital or order the credit institution to dismiss a BoD member and CEO, order the credit institution to divest and even revoke the license of the credit institution.

In deciding which measures will be undertaken towards an institution, the CBM takes account of: (i) the assessment of impact of the non-compliance on the current and future financial position of the bank and on the bank's exposure to individual types of risks; (ii) scope and degree of severity of the non-compliance, as well as the number, frequency and duration of non-compliance in the bank's previous operations; (iii) the assessment of readiness and capability of the bank's management to remove the found irregularities; and (iv) the impact that non-compliance may have on the financial discipline, safety and stability of the banking system.

If the bank's own funds, solvency ratio and/or other indicators of the bank's capital adequacy are below the prescribed levels, the CBM may, before taking other measures provided by law, prohibit the bank to engage in one or more types of business activities specified in the respective bank license.

In particular circumstances, CBM may introduce interim administration in a credit institution in case the bank's own funds and/or solvency ratio are below two thirds of the prescribed level, in case credit institution's liquidity has worsened down to the level that threatens interests of depositors and other creditors of the bank or if the credit institution obstructs the CBM in performing supervision.

Also, in some situations, e.g. where risk management in a bank is not adequate in relation to the level of assumed risk, the size of the bank and complexity of the products and services it offers or the bank's capital levels and risks are significantly unfavorable when measured against comparable institutions or if the institution has, or is expected to have, losses resulting in capital inadequacy or if the institution may be adversely affected by the activities of its parent and other members of banking group, the CBM may also require the credit institution to hold additional own funds as an own funds requirement and ensure higher solvency ratio and/or other capital adequacy indicators than those prescribed.

Apart from that, the ZCBCG and ZB prescribe that credit institution who violates applicable rules and provisions may be subject to misdemeanor responsibility (e.g. for submitting inaccurate reports or not submitting them at all, for not applying IAS and IFRS, etc.). However, if the CBM wishes to impose monetary fines for misdemeanors it must go for through the Misdemeanor Court.

In some cases, the CBM also has authority to order the credit institution to pay an amount ranging from 0.1% to 1% of bank's own funds to the Deposit Protection Fund. It may also request that the bank executive directors and BoD members pay an amount ranging from twofold to tenfold average net salary of bank employees to the Deposit Protection Fund.

Insurance Supervision Agency

In addition to being subject to supervision of the CBM as described above, Addiko Montenegro is supervised by both the CBM and Insurance Supervision Agency in relation to its operations as a registered insurance agent. The Insurance Supervision Agency issues licenses for performance of insurance-related activities, supervises the performance of such activities and passes bylaws in furtherance of the Insurance Law (*Zakon o osiguranju).* Its powers include the powers to impose measures to remedy unlawfulness and irregularities, to order the transfer of the insurance portfolio to another insurance company, to introduce interim administration and to revoke the license for carrying insurance-related operations. Similar to the CBM, the Insurance Supervision Agency may initiate misdemeanor proceedings for various violations of the Insurance Law and impose fines.

Financial Stability Council

With a view to monitoring, identifying, preventing and mitigating potential systemic risks in the financial system of the country as a whole, as well as ensuring the safeguarding of the financial system stability and diffusing negative factors, Montenegro established the Financial Stability Council (*Savjet za finansijsku stabilnost* – ***FSC****)*. The FSC was established under the Financial Stability Council Law (*Zakon o Savjetu za finansijsku stabilnost*) and counts the Governor of the CBM, the Minister of Finance, the Chairman of the Capital Market Authority and the Chairman of the Insurance Supervision Agency Council as members.

FSC provides a forum for interagency cooperation and analysis of systemic risks. The CBM acts as secretariat for the FSC and is charged with the responsibility for collecting, collating and analyzing the data provided to it by the other regulatory agencies. The FSC submits an annual report to the Parliament and must determine the national crisis management plan and organize related stress testing and financial system crisis simulation exercises.

18.5.3 Regulatory legal framework

The current regulatory framework for credit institutions in Montenegro rests on the CBM as the principal actor.

Under the ZCBCG, the CBM has the authority to pass regulations and measures required in the financial services sector.

Furthermore, the CBM has the authority to develop draft laws related to the pursuance of the CBM's objectives and exercise of its functions. Also, the Government of Montenegro must consult the CBM about any draft law concerning the financial system and affecting the attaining of objectives and exercising of functions of the CBM before submitting it to the Parliament for consideration. The Government must present the opinion of the CBM to the Parliament together with the bill law dealing with afore noted issues.

Legal framework for banking activities

The primary source of framework legislation governing the regulation of banking activities in Montenegro is the ZB. This key piece of legislation for the banking activities sets out the rules for setting up, management, operations and supervision of banks with a view to establishing and maintaining a safe and sound banking system that ensures the protection of interests of depositors and other creditors.

The ZB is substantially influenced by, and to limited degree implements, various European regulations which set minimum requirements for the regulation of institutions and banking services in the European Union. It is however worth noting that the Montenegrin legislators are preparing the new Law on Credit Institutions (which will replace the ZB) aimed at transposing Basel III into Montenegrin law by the way of harmonization of framework legislation governing the regulation of banking activities with the CRD IV and CRR.

The CBM has passed a number of regulations in furtherance of the ZB, including regulations dealing with capital adequacy, management of specific risks and reporting requirements.

Within the framework of an EU-funded project launched in June 2018, CBM is working on an innovated regulatory framework for the financial services sector in Montenegro, in line with the latest Basel III standards.

Legal framework for recovery and resolution

Montenegrin legislation is yet to be harmonized with the BRRD.

With the view to putting in place adequate framework for the recovery and resolution of credit institutions, CBM prepared working versions of the Law on Bank Recovery and Resolution (*Zakon o sanaciji banaka)* and the Law on Credit Institutions (*Zakon o kreditnim institucijama)* which were offered for public discussion earlier in the year. However, neither of the drafts has been submitted to the Parliament for consideration.

Legal framework for issuance of covered bonds

Covered bank bonds are yet to be adequately introduced into the Montenegrin legal framework.

Legal framework for payment services

Payment services are subject to the rules and provisions of the Montenegrin Payment Operations Act 2013 (*Zakon o platnom prometu –**ZPP***) which implements the "Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC", "Directive 2009/110/EC of the European Parliament and of the Council of 16September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC" and "Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements with respect to linked systems and credit claims", in Montenegro.

The ZPP, which has been applicable as of January 2015, not only applies to payment institutions (*platne institucije*), but largely also to payment service providers (*pružaoci platnih usluga*), such as Montenegrin credit institutions and therefore, Addiko Montenegro.

Legal framework for investment services, securities and markets in financial instruments

In the recent past, the regulatory framework for investment services, securities and regulated markets in Montenegro has been significantly updated by passing the Law on Capital Market (*Zakon o tržištu kapitala* – **ZTK**), which entered into force on January 12, 2018 replacing the Law on Securities (*Zakon o hartijama od vrijednosti*) which had regulated this subject matter since 2000. The ZTK has introduced, among others, the following novelties in the field of capital market: more comprehensive definition of a financial instrument; new trading venues through creation of new trading platforms (multilateral platforms for trading as well as for out-of-stock exchange trading); significant increase of standards for service provision and investor protection through more detailed defining of rights and obligations in terms of clients categorization, execution of client orders, before trade and post trade transparency, best transaction execution.

The ZTK in particular stipulates organizational requirements, product governance requirements and conduct of business rules to be complied with when receiving, transmitting and/or executing client orders in relation to securities and other financial instruments, proprietary trading, providing underwriting and other issuance-related services, managing client portfolios and providing investment advice.

Under the ZTK, provision of investment services and performance of investment activities (including ancillary services) is subject to the rules and requirements prescribed in ZTK, whereby investment services and activities may be performed by the investment firms as well as by the authorized credit institutions i.e. institutions or other credit institutions with license issued by the Montenegrin Capital Market Commission for provision of investment services and with authorization of the Montenegrin CBM for performance of such services.

Having in mind that Montenegro is in the process of EU accession negotiations, one of the main goals of the ZTK was to bring about further harmonization of Montenegrin legislation with EU *acquis* pertaining to Chapter 9 (*Financial Services*). With that respect, ZTK has provided for significant level of harmonization with the following EU legal instruments:

- "Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU";
- "Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council with respect to organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive";
- "Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC";
- "Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC";
- "Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC";
- "Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC";
- "Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes"; and
- "Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems".

Legal framework for consumer protection

There is no uniform legal framework with respect to consumer protection law in Montenegro. However, the general provisions on consumer protection are governed by the Montenegrin Law on Consumer Protection (*Zakon o zaštiti potrošača* – ***ZZP***). The ZZP determines the fundamental rights of consumers when purchasing goods and services and contains general mandatory requirements for contracts with customers that aim to ensure fair and balanced treatment that is adequate for consumers and protects the rights of consumers to withdraw from agreements under certain circumstances.

Furthermore, certain sector-specific provisions on consumer protection applicable to Montenegrin credit institution (also for particular types of consumer contracts), such as the following:

The ZB, the ZTK and the ZPP contain specific consumer protection provisions and (information) obligations towards consumers in relation to the provision of the relevant regulated activities.

- The Montenegrin Law on Consumer Credit Agreements (*Zakon o potrošačkim kreditima* – ***ZPK***) – transposing the "Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC" into Montenegrin law – stipulates information and other duties regarding the granting of consumer loans and provides for a framework for consumer loan agreements.
- The Montenegrin Law on Protection of Consumers – Users of Financial Services (*Zakon o zaštiti potrošača korisnika finansijskih usluga* ***ZZPKFU***) entered into force on August 8, 2015 and became applicable on February 8, 2016. The ZZPKFU is aimed at further strengthening consumer protection in the field of financial services. However, the ZZPKFU creates an overlap between the laws regulating consumer protection. Namely, the ZZPKFU transposes significant number of provisions of the "Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers", which Directive has already transposed by the adoption of the ZZP.
- The Law on Conversion of Swiss francs (CHF) denominated loans into euro (Euro) denominated loans (*Zakon o konverziji kredita u švajcarskim francima CHF u eure EUR* – ***ZKKSF***) was adopted by the Montenegrin Parliament and entered into force on August 22, 2015. The ZKKSF regulates the obligation of commercial institutions to perform conversion of loans contracted in the foreign currency - Swiss franc (CHF) in Euro on the day of conclusion of the respective loan agreements at the fixed annual interest rate of 8.2%. The commercial institutions were required to perform such conversion within 30 days following the entry into force of the ZKKSF.

18.5.4 Prudential requirements

Capital requirements

Own Funds Requirements

In Montenegro, credit institutions must maintain a minimum (absolute) capital of EUR 5 million and the minimum statutory capital adequacy ratio of 10%. Institutions must control capital adequacy by applying the methodologies and limits prescribed by the CBM in the Regulation on Capital Adequacy of Institutions (*Odluka o adekvatnosti kapitala banaka* – ***OAK***). Credit institutions must submit reports on the capital condition and structure to the CBM in accordance with the OAK.

The own funds of a credit institution consist of the sum of its Tier 1 (core capital) and Tier 2 (supplementary capital), reduced by the sum of deductible items. Tier 1 capital consists of paid-in share capital at nominal value, excluding cumulative preferential shares, collected issue premiums, excluding issue premiums based on cumulative priority shares; reserves for estimated losses; reserves established against post-tax income (legal, statutory, and other reserves), undistributed previous years' profit, current year profits under certain conditions and amount mitigating negative impact on own funds of the institution due to the transition to the valuation of asset items by applying IFRS 9.

Deductible items in the calculation of Tier 1 capital include prior years' losses, current year loss; intangible assets such as goodwill, licenses, patents, trademarks and concessions, nominal amount of acquired own shares, excluding cumulative preferential shares, unrealized loss on fair value adjustment of financial assets available for sale under the fair value, positive difference between the amount of calculated loan loss provisions and the sum of the amount of allowances for impairment on balance sheet and provisioning for off-balance sheet items and excess of limit in investing in real estates and fixed assets specified under special regulation of the CBM.

Tier 2 capital consists of nominal value of paid-in cumulative preferential share, paid issue premiums based on cumulative preferential shares, general reserves up to 1.25% of total risk weighted assets at a maximum, subordinated debt, hybrid instruments and revaluation reserves for real estate property owned by the institution.

Deductible items in the calculation of Tier 2 capital include acquired own cumulative preferential shares, receivables and contingent liabilities secured by hybrid instruments or subordinated debt up to the amount these instruments have been included in Tier 2 capital.

Capital buffers

No capital buffer requirements are applicable in Montenegro.

Supervisory Review and Evaluation Process (SREP)

Formal Supervisory Review and Evaluation Process is yet to be introduced in Montenegro.

Minimum requirements for own funds and eligible liabilities (MREL)

Montenegro is yet to introduce MREL.

Requirements for large exposures

Pursuant to the ZB, credit institutions must monitor, control and limit large exposures (on an individual and consolidated basis) in order to prevent an institution from incurring disproportionately large losses as a result of the failure of an individual client or group of connected clients due to the occurrence of unforeseen events.

The exposure of a bank to one party or group of related parties is the total amount of all bank claims on loans and other assets, including amount of off balance sheet obligations and uncollected written off assets, decreased by the amount of claims that is secured by high-quality instruments of security of claims. The CBM has issued a regulation outlining how bank exposures are calculated (*Odluka o načinu izračunavanja izloženosti banaka*).

A credit institution's exposure to a client or group of connected clients is considered a large exposure where its value is equal to or exceeds 10% of its own funds.

Under the ZB, total exposure of a credit intuition to one party or group of related parties may not exceed 25% of bank's own funds. The sum of all large exposures of a bank must not exceed 800% of bank's own funds.

Credit institutions must establish and keep central register of exposures, including large exposures.

Liquidity requirements

The ZB requires credit institutions to conduct business activity in a way that allows them to meet their monetary obligations at the moment such obligations become due.

Under the Regulation on Minimum Standards for Liquidity Risk Management in Banks passed by the CBM in 2008 (*Odluka o minimalnim standardima za upravljanje rizikom likvidnosti u bankama* – ***OMSL***), institutions must establish effective

measurement and management of liquidity risk on a daily, ten-day and quarterly basis and for longer periods as determined by the credit institution depending on the volume of cash flows and volume and complexity of bank's business activities.

Under the OMSL, the institution's liquidity level is reflected in its liquidity indicator. The liquidity indicator is the ratio of the sum of liquid assets to the sum of mature liabilities as defined by OMSL. Credit institutions must ensure that the minimum liquidity indicator amounts to 0.9 – when calculated for one business day or 1.0 – when calculated average liquidity indicator for all business days in a ten-day period.

Institutions must conduct periodical stress testing, using several types of stress scenarios, including assumption of changes in market and other factors which may have a material impact on institution's operations. They must also adopt liquidity contingency plans and immediately inform the CBM of a shortfall in liquidity, the reasons for a liquidity shortfall and planned activities for overcoming the liquidity shortage problem.

Requirements regarding leverage

Montenegro is yet to introduce the leverage ratio as a monitoring tool.

18.5.5 Recovery and Resolution

Please see "18.5.3 *Regulatory legal framework*" above.

18.5.6 Statutory deposit guarantee scheme

DGSD, which stipulates financing requirements for the (mandatory) DGS is expected to be transposed into national law after adoption of the draft new Law on Deposit Protection which passed public discussion in 2018. Currently, regime of statutory deposit guarantee scheme is governed by the Law on Deposit Protection last amended and entered into force on August 26, 2015 (*Zakon o zaštiti depozita* – ***ZZD***) which has transposed the "Directive 1994/19/EU of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes".

Under the ZZD, each credit institution is obliged to pay the following *ex ante* contributions: (i) initial premium in the amount of EUR 50,000.00 before the start of its operational activities; and (ii) regular premium which may not be higher than 0.8% of the average of the total deposits of credit institution as of the last day of each month in the previous trimester. The regular premium is calculated by the Deposit Protection Fund (*Fond za zaštitu depozita* – ***FZZD***) and is payable on quarterly basis. The premium paid by a credit institution is not refundable. Addiko Montenegro is a member of FZZD (but does not belong to any voluntary protection scheme).

In addition to *ex ante* contributions, if necessary, credit institutions have to pay certain additional (*ex post*) contributions to FZZD in case it has no sufficient funds to pay guaranteed deposits.

18.5.7 Financial statements and audits

As a Montenegrin credit institution, Addiko Montenegro is required to prepare its financial statements in accordance with the relevant provisions of the ***ZPD***, as well as in accordance with IAS, IFRS and applicable regulatory requirements under the ZB.

The financial statements of Montenegrin credit institutions (including bookkeeping and the management report) must be audited by a certified auditor, approved by the CBM. The auditor must audit the legal compliance of the annual financial statements, compliance with the IFRS and IAS whereby the audit must also ensure compliance with certain prudential requirements listed in the ZB and quality of information system of the bank. The results of the audit must be presented in the audit report on the annual financial statements. The auditor is appointed by the board of directors of the bank.

Montenegrin credit institutions must submit the annual financial statements, including the audit report to the CBM at the latest within 150 days after the close of the business year. Financial reports must also be submitted to the Companies Register of Montenegro (*Centralni registar privrednih subjekata*). In addition, an abbreviated version of the audit report must be published in at least one daily newspaper with country-wide circulation.

19 General Information on the Company

19.1 Legal and Commercial Name, Financial Year, Registered Office

The Company is a stock corporation (*Aktiengesellschaft*) established under Austrian law for an indefinite period of time. The Company's legal name is "Addiko Bank AG". Its registered seat is Vienna, Austria, and its business address is Wipplingerstraße 34/4, 1010 Vienna, Austria.

The Company has a branch office (*Zweigniederlassung*) under the legal name "Addiko Bank AG – Zweigniederlassung Klagenfurt am Wörthersee" in Klagenfurt am Wörthersee, Sterneckstraße 19, 9020 Klagenfurt am Wörthersee.

The Company was incorporated on September 7, 2010, as a limited liability company (*Gesellschaft mit beschränkter Haftung*) and transformed into a stock corporation with effect as of July 4, 2013.

The Company is the holding company of Addiko Group. Addiko Group's business is conducted both by the Company and by its subsidiaries.

The Company may be reached at its business address as well as by phone +43 50232-0 or by e-mail under holding@addiko.com. The Company is registered in the Austrian Companies Register (*Firmenbuch*; the ***Companies Register***) under registration number FN 350921 k.

The Company's financial year corresponds to the calendar year.

The Company's as well as Addiko's commercial name is "Addiko Bank".

19.2 History of Addiko Group

Addiko Group is an international banking group headquartered in Vienna, Austria, operating through six regional banks in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. In total, as of March 31, 2019, Addiko Group provides services to approximately 828 thousand customers through a well-dispersed branch network of approximately 197 branches across the five markets in Southeastern Europe and digital channels. For detailed information regarding the historical developments leading up to the restructuring of the Company, see *"14.2 Historical Developments Leading to Restructuring*".

19.3 History of the Company

The following represent the key milestones in the history of the Company.

- On August 12, 2010, the Company was founded as a limited liability company under Austrian law (*Gesellschaft mit beschränkter Haftung*).
- On December 20, 2010, the Company's sole shareholder HAA resolved to change the Company's name to "Hypo Phoenix Absicherungs GmbH", effective as of January 27, 2011.
- On June 28, 2013, HAA (now: HETA) acquired 100% of the shares in the Company.
- With effect as of June 29, 2013, the Company's share capital was increased by EUR 4,965,000 to EUR 5,000,000.
- The Company was then transformed from a limited liability company into a stock corporation, was renamed "Hypo SEE Holding AG", both changes became effective on July 4, 2013.
- In September 2014, the objects of the Company as set out in the Articles of Association were modified by adding the operation of banking business, due to the Company having obtained a license according to the Banking Act. Such change of the Articles of Association became effective on September 20, 2014. The Company was renamed "HYPO GROUP ALPE ADRIA AG", effective as of October 30, 2014.
- On October 30, 2014, FIMBAG acquired 100% of the share capital of the Company. FIMBAG was founded on behalf of the Austrian Ministry of Finance by the (former) Österreichische Industrieholding Aktiengesellschaft (ÖIAG (now: Österreichische Beteiligungs AG (ÖBAG))) in 2008 to curb the financial crisis's negative effects on Austrian banks by, *inter alia*, recapitalizing them through the subscription of participation capital and the acquisition of shares.
- On July 17, 2015, HETA on the basis of a power to dispose (*Verfügungsermächtigung*) transferred 100% of the FIMBAG shareholding in the Company to AI Lake (Luxembourg) S.à r.l., a company ultimately controlled by Advent International Corporation (***AIC***). For further information on the Shareholder Structure, see *"20 Shareholder Structure".*
- With effect as of June 30, 2016, the Company's name was changed to "Addiko Bank AG".

- Immediately prior to the date of this Prospectus, all Existing Shares are held by AI Lake (Luxembourg) S.à r.l., a limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, registered in the Luxembourg companies register (Registre de Commerce et des Sociétés) under registration number B191802. As of such date, 78.4% of the shares in AI Lake (Luxembourg) S.à r.l. are ultimately controlled by AIC, a SEC registered corporation established under the laws of Delaware and 18.5% of the shares are held by EBRD, with the remaining 3.1% held by the Managers (with the members of the Management Board holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board holding 1.1%).

The following table sets forth the number and percentage of Existing Shares owned by the Existing Shareholder as of the date of this Prospectus, and the number and percentage of the Existing Shares that the Existing Shareholder is expected to own upon completion and closing of the Private Placement expected to occur on July 15, 2019.

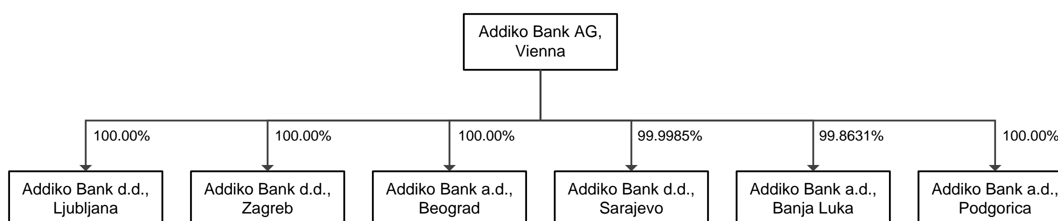
	On date of Prospectus		Upon completion and closing of the Private Placement (no exercise of the Greenshoe Option)		Upon completion and closing of the Private Placement (full exercise of the Greenshoe Option)	
Shareholder	**No. of shares**	**As a %**	**No. of shares**	**As a %**	**No. of shares**	**As a %**
AI Lake (Luxembourg) S.à r.l.	19,500,000	100.00	9,749,999	50	8,774,999	45.0
Free Float[1]	-	-	9,750,001	50	10,725,001	55.0

[1] In connection with the Private Placement, the Company has been informed that Wellington Management Group LLP, Brandes Investment Partners LP, SEB Investment Management AB and RWC Partners Ltd have been allocated Placement Shares representing 7.2%, 6.4%, 4.6% and 4.6% respectively.

(Source: Company information)

19.4 Structure of Addiko Group

The following chart provides an overview of all fully consolidated direct subsidiaries of the Company as of the date of this Prospectus, which corresponds to the consolidated group of companies as defined under IFRS as of December 31, 2018, using the full consolidation method:



(Source: Company information)

The leasing entity HYPO ALPE ADRIA LEASING d.o.o. Banja Luka in Bosnia & Herzegovina was liquidated after Addiko Bank a.d. Banja Luka had filed a motion for liquidation at the district commercial court in Banja Luka in September 2017. The court stated in its decision from March 12, 2018 that the liquidated company settled all of its obligations, therefore the liquidation procedure has been concluded by the district commercial court.

19.5 Information on the Material Subsidiaries of the Company

The following table sets forth the material subsidiaries of the Company as of March 31, 2019. All shares in these subsidiaries have been fully paid in.

Addiko Group Companies	Country	Share in % (direct)
ADDIKO BANK AG (formerly: HYPO GROUP ALPE ADRIA AG, Hypo SEE Holding AG)..	Austria	
ADDIKO BANK d.d., Ljubljana	Slovenia	100
ADDIKO BANK d.d., Zagreb	Croatia	100
Addiko Bank d.d., Sarajevo	Bosnia & Herzegovina	99.9985
Addiko Bank a.d., Banja Luka...	Bosnia & Herzegovina	99.8631
ADDIKO BANK a.d., BEOGRAD	Serbia	100
ADDIKO BANK AD, Podgorica...	Montenegro	100

(Source: Company information)

19.6 Auditors

Deloitte, with its business address at Renngasse 1, 1010 Vienna, Austria, certified public auditor and member of the Austrian Chamber of Tax Advisors and Public Accountants (*Kammer der Steuerberater und Wirtschaftsprüfer*), has audited and rendered unqualified auditor's reports (*uneingeschränkter Bestätigungsvermerk*) on the German-language originals of the Consolidated Financial Statements of Addiko Bank AG as of and for the financial years ended December 31, 2018 (auditor's report dated February 28, 2019), December 31, 2017 (auditor's report dated March 1, 2018) and December 31, 2016 (auditor's report dated February 23, 2017) prepared in accordance with IFRS as adopted by the EU. Apart from the German-language originals of the Consolidated Financial Statements, no financial information referred to in this Prospectus has been audited.

With respect to the Unaudited Interim Condensed Consolidated Financial Statements included herein, Deloitte, independent auditors, have applied limited procedures in accordance with International Standard on Review Engagements 2410 for a review of such information. However, as stated in their report included in the Unaudited Interim Condensed Consolidated Financial Statements included herein, they did not audit, and they do not express an opinion on that interim financial information.

19.7 Notices, Depository, Paying Agent

Pursuant to the Articles of Association, notices are generally made by publication in the Austrian Official Gazette (*Amtsblatt zur Wiener Zeitung*) and where legally permissible, on the website, in a notification journal, which is publically available, via an electronically operated information distribution system or in the Company's bank counter halls.

OeKB CSD, Strauchgasse 1-3, 1010 Vienna, Austria, is the depositary bank (*Verwahrstelle*).

Raiffeisen Centrobank AG will be the paying agent (*Zahlstelle*).

The depository (*Hinterlegungsstelle*) may be any credit institution that has its registered seat in a member state of the EEA or in a country that is a full member of the organization of Economic Co-operation and Development (***OECD***).

19.8 Specialist

Raiffeisen Centrobank AG will act as specialist for the Existing Shares in accordance with the rules of the Vienna Stock Exchange and the Prime Market segment.

19.9 Ratings

The Company is rated by Moody`s. The mandated rating agency is established in the EU and has been registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

As of the date of this Prospectus, the Company's credit ratings by Moody`s are as follows:

Category	Rating
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

(Source: Company information)

The rating reflects the view of the rating agency at the time it gave the Company the rating. The rating agencies can change their ratings at any time if they believe the circumstances have changed. A rating is not a recommendation to buy, sell or hold securities of the Company.

20 Shareholder Structure

Immediately prior to the date of this Prospectus, all Existing Shares are being held by AI Lake (Luxembourg) S.à r.l., a limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, registered in the Luxembourg companies register (Registre de Commerce et des Sociétés) under registration number B191802. As of such date, 78.4% of the shares in AI Lake (Luxembourg) S.à r.l. are ultimately controlled by AIC, a SEC registered corporation established under the laws of Delaware and 18.5% of the shares are held by EBRD, with the remaining 3.1% held by the Managers (with the members of the Management Board holding 1.6%, other top management members holding 0.4% and members of the Supervisory Board holding 1.1%).

The following table sets forth the number and percentage of Existing Shares owned by the Existing Shareholder immediately prior to the date of this Prospectus, and the number and percentage of the Shares that the Existing Shareholder is expected to own upon completion and closing of the Private Placement expected to occur on July 15, 2019.

	On date of Prospectus		Upon completion and closing of the Private Placement (no exercise of the Greenshoe Option)		Upon completion and closing of the Private Placement (full exercise of the Greenshoe Option)	
Shareholder	**No. of shares**	**As a %**	**No. of shares**	**As a %**	**No. of shares**	**As a %**
AI Lake (Luxembourg) S.à r.l.	19,500,000	100.00	9,749,999	50	8,774,999	45.0
Free Float[1]	-	-	9,750,001	50	10,725,001	55.0

[1] In connection with the Private Placement, the Company has been informed that Wellington Management Group LLP, Brandes Investment Partners LP, SEB Investment Management AB and RWC Partners Ltd have been allocated Placement Shares representing 7.2%, 6.4%, 4.6% and 4.6% respectively.

(Source: Company information)

The Shareholders Agreement

In preparation for the listing, on July 7, 2019, AI Lake (Luxembourg) Holding S.à r.l. (***Lux Topco***), an indirect holding company of the Existing Shareholder, together with certain of the Company's indirect shareholders, including certain funds managed by AIC and EBRD, agreed to terminate and replace the prior shareholders agreement governing their cooperation as direct and indirect shareholders of the Company relating to among others the Existing Shareholder and Addiko Group (the ***Old Shareholders Agreement***) with a new shareholders' agreement (the ***Shareholders Agreement***) among the same parties. The Shareholders Agreement (and termination of the Old Shareholders Agreement) will become effective upon listing of the Existing Shares on the Official Market of the Vienna Stock Exchange pursuant to the listing.

The Shareholders Agreement contains customary matters agreed between the parties concerning, among others, the appointment of the members of the boards of managers of the Existing Shareholder and its direct and indirect holding companies, and how they will operate.

The Company and Addiko Group are not subject to the Shareholders Agreement, save in respect of certain limited matters regarding how the Existing Shareholder will exercise the voting and other rights attached to the Existing Shares and sell the Existing Shares (subject to any lock-up the Existing Shareholder might be subject to at that time, including without limitation the lock-up summarized in "*4.3 Lock-Up Agreements*"). In particular and without limitation, as regards voting Lux Topco has undertaken to procure that the Existing Shareholder exercise its voting rights deriving from the Existing Shares in respect of the election and dismissal of the members of the Supervisory Board, any vote of no-confidence, and in respect of management matters that are brought before the general meeting of the Company only up to an aggregate maximum number equal to those voting rights of the other shareholders present and entitled to vote and voting at any given shareholders assembly minus one vote; to only vote for the appointment (election) of members of the Supervisory Board who are not independent of Lux Topco's shareholders to the extent that such non-independent Supervisory Board members will represent in aggregate a minority of the members of the Supervisory Board then in office; and if and for so long as EBRD holds at least 6% of the ordinary shares in Lux Topco, nominate for appointment one (1) independent Supervisory Board member nominated by EBRD and (for the avoidance of doubt in accordance with the restrictions described above) vote in favor of the appointment of such person.

The Shareholders Agreement will be terminated once there is only one shareholder of the shares in Lux Topco.

21 Information on the Share Capital of the Company, Applicable Regulations and Description of the Articles of Association

21.1 Share capital

The following summary provides information on the material terms of the Company's share capital as set out in the Articles of Association as amended by resolution of the Shareholders' Meeting adopted on June 6, 2019 as well as certain relevant provisions of the Stock Corporation Act.

This description is only a summary and does not include all information contained in the Articles of Association. The Company encourages a full review of the Articles of Association and further information, which is available on the Company's website (www.addiko.at under "Publications/Corporate Governance and Remuneration").

Information displayed on the Company's website is not incorporated by reference into this Prospectus.

21.1.1 Registered Share Capital

As of the date of this Prospectus, the issued and fully paid-in share capital of the Company amounts to EUR 195,000,000 divided into 19,500,000 ordinary bearer shares with no par value (*Stückaktien*). The calculated notional value of each Existing Share amounts to EUR 10.00.

All Existing Shares have identical voting rights and each Existing Share confers one vote at the Shareholders' Meeting.

21.1.2 Form and Certification of the Existing Shares

Form and contents of share certificates, if any, are determined by the Management Board and require approval from the Supervisory Board. According to the Articles of Association, all shares are bearer shares.

The Existing Shares are represented by one or, if applicable, several global certificates (*Sammelurkunde*) and deposited with OeKB CSD, a securities clearing and deposit bank as defined in Section 1 para. 3 of the Custody Act (*Depotgesetz*).

21.1.3 Development of the Company's share capital since 2013

From June 29, 2013 on, the Company's registered share capital amounted to EUR 5,000,000. Effective as of July 4, 2013, the Company was transformed from a limited liability company into a stock corporation. In course of this transformation, the amount of the Company's registered share capital was not changed. With effect as of September 26, 2018 the Company's registered share capital was increased by EUR 190,000,000 to EUR 195,000,000. On June 6, 2019, the registered shares of the Company were converted into bearer shares with no par value (*Stückaktien*) and a notional value of EUR 10.00 per share. For further details, see "*14.2 Historical Developments Leading to Restructuring*".

21.1.4 Conversion and Option Rights

As of the date of this Prospectus, there are no convertible securities, exchangeable securities or securities with warrants with respect to the share capital of the Company or any other member of Addiko Group.

21.1.5 Authorized Capital 2019

On June 6, 2019, the Shareholders' Meeting resolved to create authorized capital in an amount of up to EUR 97,500,000 (***Authorized Capital 2019***). The Authorized Capital 2019 was registered with the Companies Register on June 14, 2019.

Pursuant to the Authorized Capital 2019, the Management Board shall be authorized for a five year period from the date of the registration of the respective amendment of the Articles of Association in the Companies Register, thus until June 14, 2024, to increase the share capital, with the consent of the Supervisory Board, in one or several tranches, by an amount of up to EUR 97,500,000 (corresponding to a total of 50% of the Company's current share capital) by issuing up to 9,750,000 new ordinary voting bearer shares in return for contributions in cash and/or in kind. also by excluding the statutory subscription rights of the Company`s shareholders, subject to the consent of the Supervisory Board, and to determine the issue price (which may not be below the proportionate amount per share in the Company's registered share capital) as well as the issuing conditions in agreement with the Supervisory Board. Shareholders' subscription rights may be excluded in case the authorization is utilized by issuing shares against cash payments in a total amount of up to 10% of the share capital to exclude fractional amounts. In addition, the Management Board is authorized to exclude subscription rights in order to increase the share capital against contributions in kind.

21.1.6 Conditional Capital 2019

On June 6, 2019, the Shareholders' Meeting resolved to create authorized capital in an amount of up to EUR 19,500,000 (***Conditional Capital 2019***). The Conditional Capital 2019 was registered with the Companies Register on June 14, 2019.

Pursuant to the Conditional Capital 2017, the Company's registered share capital conditionally by up to EUR 19,500,000 by issuance of up to 1,950,000 new ordinary voting bearer shares. The conditional increase of capital may be implemented to the extent that conversion or subscription rights granted by the company to holders of debt instruments (including participation rights) with conversion or option rights or a conversion obligation yet to be issued by the Company. The aggregate nominal amount of the shares to be issued and the conversion ratio shall be determined in an acknowledged valuation proceeding on the basis of recognized methods of finance mathematics and the price of the shares of the Company and, in any case, the issue price shall be at least EUR 10.00 per share. The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase.

21.1.7 Authorization to Acquire and Sell Own Shares

On June 6, 2019, the Shareholders' Meeting resolved to authorize the Management Board for a period of 30 months from the date of the resolution in accordance with Section 65 para. 1 no. 8 and para. 1a and 1b Stock Corporation Act and subject to the consent of the Supervisory Board to acquire treasury shares of the Company.

Pursuant to the authorization, the consideration to be paid per share when repurchasing shares must not be lower than EUR 1 and must not be more than 20% above the volume weighted average closing price of the last 20 trading days preceding the respective purchase. The Management Board is authorized to establish the repurchase conditions, whereby the Management Board shall publish (each) corresponding Management Board resolution and the respective buy-back program including its duration in accordance with the statutory provisions.

The Management Board may exercise the authorization within the statutory limits on the maximum number of treasury shares either once or on several occasions, provided that the percentage amount of the share capital of the Company relating to shares acquired by the Company on account of the authorization or otherwise does not exceed 10% of the share capital at any time. Repeated exercise of the authorization is permissible. For the purpose of calculating the 10% threshold, the shares held by the Company as well as shares of the Company acquired by subsidiaries or third parties for the account of the Company or a subsidiary pursuant to Section 66 Stock Corporation Act as well as shares taken as pledge in accordance with Section 65b Stock Corporation Act must be taken into account.

The authorization may be exercised in whole or in part, or also in several partial amounts and for one or several purposes by the Company, by a subsidiary (Section 189a no. 7 Commercial Code), or by third parties acting on behalf of the Company.

The purchase may take place in accordance with the statutory requirements at the discretion of the Management Board via the stock exchange or a public offer or with the consent of the Supervisory Board in another legally permissible, appropriate manner, in particular, also under exclusion of the shareholders' pro-rata tender rights (reverse exclusion of subscription rights) and also by using equity capital derivatives. Trading in treasury shares is excluded as a purpose for purchase.

Pursuant to the authorization, the Management Board may resell the acquired shares without an additional resolution by the Shareholders' Meeting with the consent of the Supervisory Board via the stock exchange or a public offer and set the terms of sale. The authorization may be exercised in whole or in part, or also in several partial amounts and for one or several purposes by the Company, by a subsidiary (Section 189a no. 7 Commercial Code), or by third parties acting on behalf of the Company. In the case of a disposal by means of a public offer, the statutory pre-emptive right (subscription right) of the shareholders in relation to the treasury shares sold in the course of the public offer is excluded (direct exclusion of the statutory pre-emptive right (subscription right)) to exclude fractional amounts, which could arise in the event of an unfavorable subscription ratio, from the shareholders' pre-emptive right (subscription right).

Furthermore, the Management Board is authorized to retire the treasury shares acquired in whole or in part without an additional resolution by the Shareholders' Meeting with the consent of the Supervisory Board. The retirement causes a capital reduction by the portion of the share capital that is attributable to the shares retired. The Supervisory Board is authorized to adopt the changes to the Articles of Association of the Company to reflect the retirement of the treasury shares.

On September 15, 2017 the Shareholders' Meeting also resolved to authorize the Management Board for a period of five years from the date of the resolution in accordance with Section 65 para. 1b Stock Corporation Act, to adopt a resolution, subject to the consent of the Supervisory Board, on the sale of treasury shares using a different legally permitted method of sale than through the stock exchange or via a public offer and on a possible exclusion of pre-emption rights (subscription rights) of shareholders, and to define the terms and conditions of sale. The authorization includes, in particular, the sale of treasury shares by using a different legally permitted method of sale than through the stock exchange or via a public offer to the extent necessary to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation issued or yet to be issued by the Company or its subsidiaries (Section 189a no. 7 Commercial Code). The Management Board may also use a different legally permitted method of sale than through the stock exchange or via a public offer in order to issue shares to employees, senior executives, and members of the Management Board of the Company

or its subsidiaries (Section 189a no. 7 Commercial Code) within the framework of an employee participation program or a stock option program or in order to be able to sell the shares in exchange for contributions in kind, provided this is done for the purpose of (also indirect) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project or to carry out a so-called "scrip dividend" in the course of which the shareholders of the Company are offered to contribute their dividend claim (in whole or in part) as a contribution in kind against the transfer of treasury shares. Furthermore, the Management Board may also use a different legally permitted method of sale than through the stock exchange or via a public offer in order to be able to sell the shares in any way other than through the stock market or through an offer to all shareholders if the exercise of the authorization is objectively justified on the exercise date in accordance with the respective applicable legal requirements. In this case, the total number of shares to be sold together with new shares issued since granting of this authorization in the context of a capital increase under exclusion of the subscription right pursuant to Section 153 para. 4 Stock Corporation Act may not exceed 10 percent of the share capital at the date of the resolution or, if such value is lower, at the time of the exercise of this authorization. The maximum limit is further reduced by the pro rata amount of the share capital attributable to those shares which are to be issued for the purpose of servicing bonds (including participation rights) with conversion or option rights or a conversion obligation of the Company, provided that such debt instruments (including participation rights) have been issued since granting of this authorization under exclusion of the subscription right in accordance with Section 153 para. 4 Stock Corporation Act. The authorizations can be used once or more, in whole or in part, individually or jointly. The authorizations also include the use of treasury shares held by the Company, as well as shares in the Company acquired by subsidiaries or third parties for the account of the Company or a subsidiary pursuant to Section 66 Stock Corporation Act.

Currently, neither the Company nor any of its subsidiaries holds shares in the Company.

21.1.8 Description of any Restrictions of the Free Transferability of the Existing Shares

Under the Stock Corporation Act and the Company's Articles of Association, there are no restrictions on the free transferability of the Existing Shares. Investors, in particular international investors, however, are requested to inform themselves of any potential regulatory restrictions in relation to the acquisitions of shares in the Company, in particular under merger control laws, Austrian Foreign Trade Act (*Außenwirtschaftsgesetz*) and the Banking Act.

21.2 Applicable Provisions under Austrian Law

The following summary provides information on certain relevant provisions of the Stock Corporation Act, the Banking Act, the CRR and the Company's Articles of Association. The summary of relevant provisions under Austrian law set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all the topics discussed below.

21.2.1 General Regulations on Earnings Appropriation and Dividend Payments

During the first three months of each financial year, the Management Board must prepare annual financial statements for the previous financial year, including the notes thereto, the group financial statements (if applicable) as well as the management report and a group management report.

After the financial statements have been audited, the Management Board must submit the audited consolidated financial statements, along with a proposal for the distribution of any net profit, to the Supervisory Board and the Shareholders' Meeting. The Supervisory Board must provide the Management Board with a statement on the annual financial statements within two months of their presentation. The Supervisory Board must also file a report to the Shareholders' Meeting.

Pursuant to the Stock Corporation Act, the Company may only pay dividends out of distributable profits. Distributable profits are based on accumulated profits, as shown in the Company's unconsolidated financial statements in accordance with the Commercial Code, after allocations have been made to reserves, including retained earnings. Distributable profits can also be based on retained earnings from previous financial years.

On the basis of the Management Board's proposal and the Supervisory Board's report, the Shareholders' Meeting resolves within the first six months of the fiscal year whether dividends will be paid for any financial year and the amount and timing of any such dividend payment. The Shareholders' Meeting, in its resolution, is bound to the annual financial statements as prepared by the Management Board and approved by the Supervisory Board. In case the Supervisory Board does not approve the annual financial statements as prepared by the Management Board or if the Management Board and the Supervisory Board so decide, the Shareholders' Meeting is competent for approving the annual financial statements. It is, however, not bound to the Management Board's proposal for the distribution of the net profit. Pursuant to the Articles of Association, the Shareholders' Meeting may also resolve to exclude the distribution of the balance sheet profit in whole or in part and may also decide to allocate the balance sheet profit in whole or in part to the Company's reserves.

Unless otherwise decided by the Shareholders' Meeting, dividends are due 10 days after the Shareholders' Meeting which resolved on the dividends has been held. Dividends that have not been collected by the shareholder within three years after becoming due are deemed forfeited and accrue to the Company's free reserve.

21.2.2 Liquidation Rights

In case of the liquidation of the Company, any assets remaining after discharge of liabilities and repayment of supplementary capital will be distributed to the shareholders on a pro rata basis. Pursuant to statutory law, a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting is required to pass a resolution regarding the liquidation of the Company.

21.2.3 General Provisions Concerning Changes in Share Capital

Pursuant to the provisions of the Stock Corporation Act, an increase of the Company's share capital is permitted in particular by way of a resolution of the Shareholders' Meeting:

- to issue new shares against contributions in cash or in kind adopted by the Shareholders' Meeting (ordinary capital increase (*ordentliche Kapitalerhöhung*) pursuant to Section 149 et seq. of the Stock Corporation Act);
- authorizing the Management Board, on the basis of the Articles of Association and subject to approval of the Supervisory Board, to issue new shares up to a specified amount not exceeding 50% of the issued share capital at the time of authorization within a specified period, which may not exceed five years (authorized capital (*genehmigtes Kapital*) pursuant to Section 169 et seq. of the Stock Corporation Act);
- authorizing the issuance of new shares up to a specified amount for specific purposes, such as granting stock options to employees, executives and members of the Management Board and the Supervisory Board or of an affiliated company not exceeding 10% of the issued share capital at the time of authorization, to prepare a merger, or in order to grant conversion rights or subscription rights to holders of convertible bonds not exceeding 50% of the issued share capital at the time of authorization (conditional capital (*bedingtes Kapital*) pursuant to Section 159 et seq. of the Stock Corporation Act);
- authorizing the Management Board, subject to the approval of the Supervisory Board, to effect a conditional capital increase in order to grant stock options to employees, executives and members of the Management Board up to a certain amount not exceeding 10% of the issued share capital at the time of authorization (authorized conditional capital (*genehmigtes bedingtes Kapital*) pursuant to Section 159 para. 3 of the Stock Corporation Act); or
- authorizing the conversion of free reserves (*ungebundene Rücklagen*) or profit carried forward (*Gewinnvortrag*) into share capital (capital adjustment (*Kapitalberichtigung*) pursuant to the Austrian Capital Adjustment Act (*Kapitalberichtigungsgesetz*).

Resolutions of the Shareholders' Meeting regarding an ordinary increase of the Company's share capital require a simple majority of the share capital represented in the respective shareholders' meeting, except when subscription rights of existing shareholders are excluded, in which case a majority of at least 75% of the share capital represented at the time of the resolution is required.

Resolutions of the Shareholders' Meeting regarding authorized or conditional capital or authorized conditional capital require a majority of at least 75% of the share capital represented in the respective Shareholders' Meeting.

Except in the case of certain capital reductions effected by a repurchase of own shares by the Company, a resolution to decrease the share capital requires a majority of at least 75% of the share capital represented in the respective Shareholders' Meeting (Section 175 para. 1 of the Stock Corporation Act).

In addition, the Company has to comply with certain regulatory rules, in particular with notification requirements pursuant to Section 73 Banking Act and the requirement for a prior permission by the competent authority pursuant to Articles 77 and 78 CRR for any reduction or repurchase of Common Equity Tier 1 instruments.

Apart from that, the acquisition of a (direct or indirect) holding of capital and/or voting rights in the Company and its subsidiaries might be subject to notification requirement or even require a (prior) approval or other consent of the competent authorities; such requirements which apply to "proposed acquirer" (investors) may be different for each jurisdiction. In Austria, any party who has taken a decision to hold a qualifying holding in a credit institution directly or indirectly, (proposed acquirer), must first notify the FMA (Section 20 para. 1 Banking Act).

21.2.4 General Provisions Concerning Subscription Rights

Pursuant to Section 153 para. 1 of the Stock Corporation Act, when the Company issues new shares, existing shareholders of the Company are entitled to subscribe for and to be allocated such number of new shares (as well as securities convertible into

shares, securities with warrants to purchase shares, securities participation bonds or participation rights) to allow them to maintain their existing participation in the Company's share capital. The subscription rights (*Bezugsrechte*) of existing shareholders are therefore proportionate to the number of shares held by them prior to the offering of new shares. Similarly, Section 174 para. 4 of the Stock Corporation Act provides for subscription rights of existing shareholders of the Company in relation to securities convertible into shares, securities with warrants to purchase shares, securities with profit participation or participation certificates to allow them to maintain their existing participation in the Company's share capital.

Shareholders may waive or choose not to exercise their subscription rights. Furthermore, subscription rights may fully or partially be excluded by resolution of the Shareholders' Meeting (Section 153 para. 3 of the Stock Corporation Act) if the interest of the Company in such exclusion prevails over the interest of the Company's shareholders. If subscription rights are to be excluded, a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting must approve the respective resolution. In addition, the proposal to exclude subscription rights must be announced prior to the respective Shareholders' Meeting. Furthermore, resolutions excluding subscription rights must be based on a written report by the Management Board justifying such exclusion.

A shareholders' resolution in respect of authorized capital may either directly exclude subscription rights or authorize the Management Board to exclude subscription rights with a majority of 75% of the share capital present or represented at the respective Shareholders' Meeting. If the Management Board is authorized to exclude subscription rights, the Management Board's resolution to exclude subscription rights requires approval by the Supervisory Board, as well as an additional reasoned statement justifying the exclusion (see "*21.1.5 Authorized Capital 2019*"). If shares are issued out of conditional capital, existing shareholders are not entitled to subscription rights.

Existing shareholders are entitled to exercise their rights within a specified subscription period (*Bezugsfrist*), which must last for at least two weeks. When issuing new shares, the Management Board must publish a notice in the Official Gazette specifying the beginning and the duration of the subscription period, as well as the subscription price. Shareholders may transfer their subscription rights during the subscription period. If subscription rights are not exercised during the subscription period, they will be deemed forfeited.

It is not considered an exclusion of subscription rights if new shares are initially subscribed for by a credit institution which undertakes to offer the new shares to existing shareholders in proportion to their subscription rights (intermediate subscription right, *mittelbares Bezugsrecht*). The rights of the shareholders against such credit institution are fully substituted for and are treated as being the subscription rights.

In the Private Placement the shareholders of the Company are not entitled to subscription rights, as the Placement Shares are not newly issued by the Company but are Existing Shares sold by the Existing Shareholder (see "*4.2 Private Placement*").

21.2.5 Authorization to Purchase and Sell Treasury Shares

Pursuant to the Stock Corporation Act, a stock corporation may generally only trade (i.e., purchase and sell) its own shares in the following limited circumstances:

- upon prior authorization by the shareholders' meeting, for a period not exceeding 30 months and limited to a total of 10% of the overall share capital, if the shares are listed on a regulated market (such as the Official Market) for any legally permissible purpose, or if the shares are intended to be offered to the company's employees, members of its management board or supervisory board or employees of certain affiliated companies, provided that the company keeps sufficient reserves; the resolution must determine a minimum and a maximum consideration;
- if the shares are acquired without payment of consideration or if the stock corporation is acting as agent on a commission basis;
- to prevent substantial, immediately threatening damage to the stock corporation (subject to the limitation of 10% of the overall share capital), provided the stock corporation keeps sufficient reserves;
- by way of a universal legal succession (*Gesamtrechtsnachfolge*; e.g., succession by merger);
- for the purpose of indemnifying minority shareholders, if required by law, provided that the stock corporation keeps sufficient reserves;
- as part of a redemption of shares in accordance with the rules for capital decreases approved by the shareholders' meeting; or
- if the stock corporation is a credit institution authorized by the shareholders' meeting to purchase treasury shares for the purpose of trading in securities.

A stock corporation cannot exercise shareholder's rights (e.g., voting rights) with respect to treasury shares. Treasury shares held directly by the stock corporation are not entitled to dividends; if the treasury shares are held by a subsidiary, such shares are entitled to receive dividend payments.

21.3 Summary of the Articles of Association

The summary of the Articles of Association set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all items of the Articles of Association.

The current version of the Articles of Association has been in effect since June 6, 2019, the date on which the last of the applicable resolutions of the Shareholders' Meeting of June 6, 2019 on the amendment of the Articles of Association was registered in the Companies Register. The current version of the Articles of Association is available on the Company's website in the official German version and in a non-binding English language translation. Unless otherwise indicated, information displayed on the Company's website is not incorporated by reference in this Prospectus.

21.3.1 Corporate Purpose

Pursuant to Section 2 para. 1 of the Articles of Association, the Company's corporate purpose is

(a) the operation of banking business pursuant to the license granted according to the Banking Act, especially:

- deposit business pursuant to Section 1 para. 1 no. 1 of the Banking Act;
- current account business pursuant to Section 1 para. 1 no. 2 of the Banking Act;
- lending business pursuant to Section 1 para. 1 no. 3 of the Banking Act;
- custody business pursuant to Section 1 para. 1 no. 5 of the Banking Act;
- trading for own account or for the account of third parties in foreign means of payment, money- market instruments, financial futures contracts and equivalent instruments, contracts and securities pursuant to Section 1 para. 1 no. 7 of the Banking Act;
- guarantee business pursuant to Section 1 para. 1 no. 8 of the Banking Act;
- securities underwriting business – the issue of mortgage bonds, municipal bonds and covered bank bonds as well as the investment which proceeds from such instrument in accordance with the applicable legal provisions (restricted to the issuance of covered bank bonds) pursuant to Section 1 para. 1 no. 9 of the Banking Act;
- miscellaneous securities underwriting business pursuant to Section 1 para. 1 no. 10 of the Banking Act, third-party securities underwriting business pursuant to Section 1 para. 1 no. 11 of the Banking Act;
- money brokering transactions on the interbank market pursuant Section 1 para. 1 no. 17 of the Banking Act; and
- transactions brokering pursuant to Section 1 para. 1 no. 18 of the Banking Act.

(b) the establishment of branches in Austria and abroad; the formation, acquisition, management, sale of equity interests in other enterprises of any kind, the establishment of domestic and foreign subsidiaries; as well as conclusion of group and other business enterprise contracts.

(c) subject to consideration of the relevant statutory regulations, any transactions that are likely to directly or indirectly promote the business purposes of the Company.

Pursuant to Section 2 para. 2 of the Articles of Association, the Company's business activities may be carried out both in Austria and abroad.

21.3.2 Shareholders' Meeting

Shareholders' Meetings must be called by the Management Board or the Supervisory Board subject to applicable law and the provisions of the Articles of Association. A shareholder or a group of shareholders holding at least 5% of the share capital may request that the Company calls a Shareholders' Meeting, provided they have held such participation during the last three months before the request and continue to hold it until the Company has resolved on the request.

The Shareholders' Meeting must take place at the seat of the Company in Vienna or in another Austrian provincial capital.

The Company must publish an invitation notice of the respective Shareholders' Meeting on the Company's website as well as in the Official Gazette. The minimum period between publication of the invitation notice and the date of the respective Shareholders' Meeting is 28 days for an ordinary Shareholders' Meeting or 21 days for any other shareholders' meeting.

The right to attend a Shareholders' Meeting, the right to exercise voting rights and all other shareholder rights in the Shareholders' Meeting are dependent upon the Company having received evidence that the shares are held on the applicable record date (which is the end of the 10th day prior to the date of the respective Shareholders' Meeting). Proof of ownership will be provided by means of deposit confirmation that the shares are held in custody by the custodian bank. Any credit institution that has its registered seat in a member state of the EEA or a country that is a full member of the OECD may act as depository. The Company must have received such proof of ownership at the address designated for that purpose in the invitation no later than on the third working day before the shareholders' meeting or such later date, if any, as determined in the invitation. The deposit confirmation must not be older than seven days upon receipt by the Company. The Company will not be obliged to verify the factual correctness of the deposit confirmations received.

The chairman of the Supervisory Board presides at shareholders' meetings of the Company. If the chairman is not present, then the deputy chairman presides. If the deputy chairman is not present, the notary public called in for recording the minutes will chair the meeting until the election of a chairperson.

At least one Shareholders' Meeting must be held each financial year (ordinary Shareholders' Meeting). The Company's ordinary Shareholders' Meeting, which according to Section 18.2 of the Articles of Association must take place within the first six months of a financial year and which is called by the Management Board upon the receipt of the Supervisory Board's report on the annual financial statements (for further information, see "*21.2.1 General Regulations on Earnings Appropriation and Dividend Payments*"), has to pass resolutions on the following matters:

- appropriation of the balance sheet profit;
- the discharge of the members of the Management Board and the Supervisory Board;
- the election of the statutory auditor; and
- where applicable, on the approval of the unconsolidated financial statements.

Under certain circumstances, such as when a resolution violates the Articles of Association or the Stock Corporation Act, shareholders may petition the competent court to challenge or petition for a decree of nullity of resolutions adopted at the Shareholders' Meeting.

Neither Austrian law nor the Articles of Association restrict the right of non-resident or foreign holders of the Existing Shares to hold or vote the Existing Shares.

Shareholders may appoint proxies to represent them at Shareholders' Meeting by providing the Company with a written power of attorney in text form.

21.3.3 Shareholders' Rights

21.3.3.1 Voting Rights and Majority Requirements

Each Existing Share entitles its holder to participate, ask questions and cast one vote at the Shareholders' Meeting. Generally, there is no minimum attendance quorum at the shareholders' meeting (exceptions apply).

As a general rule, the Shareholders' Meeting may adopt its resolutions by simple majority of the votes cast (i.e., 50% plus one vote of the votes present at the Shareholders' Meeting). There are, however, some exceptions to this rule, and the articles of association may, subject to certain restrictions, provide for other majority requirements (see below).

In relation to resolutions of particular importance, Austrian law requires that a majority of the share capital present at the shareholders' meeting has to vote in favor of a given resolution. The requirement of the capital majority is in addition to that of the majority of the votes cast. Relevant for calculation of the majority of the capital is the capital represented when the resolution is passed. The share capital is represented by those shareholders who have the right to vote and cast a valid vote (i.e., shareholders that vote either in favor or against a proposed resolution; shareholders that abstain from casting a vote are not counted).

Generally, the differentiation between majority in terms of votes cast and capital majority is only relevant in case the articles of association limit the number of voting rights a shareholder can exercise (e.g., by means of a maximum voting right – *Höchststimmrecht*). This is also the result of the principle that, basically, one share grants one vote (there are, however, some exceptions to this principle). As of the date of this Prospectus different voting rights do not exist.

- For the following matters, a majority of 75% of the share capital present at a shareholders' meeting is necessary. The articles of association may only increase the applicable majority in these matters and/or provide for further requirements for any of these matters (which has not been made use of in the Articles of Association):
    - change of the stock corporation's business objective;
    - ordinary and simplified decreases of the share capital (*ordentliche und vereinfachte Kapitalherabsetzungen*);
    - authorized capital (*genehmigtes Kapital*) and conditional capital (*bedingtes Kapital*), including authorized conditional capital (*genehmigt bedingtes Kapital*);
    - exclusion of the shareholders' statutory subscription rights (*Bezugsrechtsausschluss*);
    - dissolution of the stock corporation and continuation of the dissolved stock corporation;
    - mergers (*Verschmelzungen*), including cross-border mergers, proportionate demergers (*verhältniswahrende Spaltungen*) and transformations (*Umwandlungen*), including transformations pursuant to the Austrian Transformation Act (*Umwandlungsgesetz*) and the Austrian Act on the Societas Europaea (*SE-Gesetz*);
    - asset transfers pursuant to Section 235 of the Stock Corporation Act (*Vermögensübertragung auf eine Gebietskörperschaft*), Section 236 of the Stock Corporation Act (*Vermögensübertragung auf einen Versicherungsverein auf Gegenseitigkeit*) and Section 237 of the Stock Corporation Act (*Vermögensübertragung in anderer Weise*);
    - profit pooling agreements pursuant to Section 238 of the Stock Corporation Act (*Gewinngemeinschaft*);
    - domination agreements (*Konzern-, Konzernierungsverträge*), control agreements (*Beherrschungsverträge*), affiliation agreements (*Unternehmensverträge*) and agreements/measures affecting the corporate governance in a way that requires analogous application of Sections 235 et seq. of the Stock Corporation Act;
    - determination of, or authorization of the management to determine, the acquisition and sale of own shares by other means than by means of a stock exchange or a public offering;
    - post-formation acquisitions pursuant to Section 45 of the Stock Corporation Act (in relation to post formation acquisitions effected within one year from the registration of the company in the register of companies the law provides for the additional requirement of an affirmative vote by 1⁄4 of the entire share capital);
    - certain amendments of the articles of association based on the Austrian Takeover Act (*Übernahmegesetz*; the ***Takeover Act***).
- For the following matters, more than 75% of the votes cast are in agreement and more than 50% of the registered capital entitled to vote is represented at the shareholders' meeting:
    - resolutions on an ordinary capital increase pursuant to Section 149 of the Stock Corporation Act;
    - amendments to the Articles of Association;
    - resolutions on the revocation of an appointment as Supervisory Board member;
    - the issue of convertible bonds, income bonds and participating certificates pursuant to Section 174 (1) and (3) of the Stock Corporation Act.
- For the following matters, a majority of 90% of the entire share capital is necessary. The articles of association may only increase the majority requirement and/or provide for further requirements for any of these matters:
    - squeeze-out pursuant to the Austrian Act on the Squeeze-out of minority shareholders (*Gesellschafter-Ausschlussgesetz*; the ***Squeeze-out Act***);
    - disproportionate demergers (*nicht-verhältniswahrende Spaltungen*) (certain types of demergers require approval of 100% of the share capital).

Austrian law provides certain (minority) shareholders' rights which may not be restricted by the articles of association or otherwise.

Further, Austrian law provides several rights for shareholders of a stock corporation which the respective shareholder can exercise at a shareholders' meeting, irrespective of a specific participation held. Such rights include, inter alia, the right to

attend the shareholders' meeting, the right to request the adoption of a resolution by the shareholders' meeting if the subject matter of the resolution is covered by the agenda of the shareholders' meeting, the right to challenge resolutions adopted by the shareholders' meeting, the right to appoint a proxy, etc.

Furthermore, there are shareholder rights in the context of Shareholders' Meetings that a shareholder (or a group of shareholders) can only exercise if it holds a certain participation in the Company (in some cases, the law requires also a minimum holding period).

The most important rights in this respect are (the following list is quite complete, however, not exhaustive):

- A shareholder or a group of shareholders with an aggregate holding of at least 20% of the share capital may object to settlements or waivers of liability claims of the stock corporation against members of the management board, the supervisory board or third parties.
- A shareholder or a group of shareholders with an aggregate holding of at least 10% of the share capital may:
  - demand special audits of activities with respect to the establishment of the stock corporation and its management, if these activities took place within the last two years, and make an application for the appointment of a special auditor by the court, if such request is rejected by a shareholders' resolution and special circumstances indicate improprieties or a breach of the stock corporation's articles of association or the law;
  - demand that the court must revoke the appointment of members of the Supervisory Board for cause;
  - veto the appointment of a special auditor and request the court to appoint a different special auditor;
  - request an adjournment of the shareholders' meeting if the annual financial statements are found to be incorrect by the shareholders requesting such adjournment; and
  - request the assertion of claims for damages on behalf of the stock corporation against members of the management board, the supervisory board or certain third parties, if the claim is not obviously unfounded.
- A shareholder or a group of shareholders with an aggregate holding of at least 5% of the share capital may:
  - request the convening of a shareholders' meeting or convening a shareholders' meeting upon judicial authorization, if neither the management board nor the supervisory board complies with a request for convening a shareholders' meeting;
  - request the inclusion of items on the agenda of the next shareholders' meeting;
  - request assertion of damage claims by or on behalf of the stock corporation against members of the management board, the supervisory board or certain third parties, if a special report reveals facts that may lead to damage claims against any such person;
  - apply for the appointment or removal of liquidators for cause;
  - apply for an audit of the annual financial statements during liquidation; and
  - contest the validity of a shareholders' resolution, if such resolution provides for amortization, accumulated depreciation, reserves and accruals exceeding the limits set forth by law or the articles of association.

A shareholder or a group of shareholders with an aggregate shareholding of at least 1% of the share capital is entitled to submit proposals on the resolutions to be adopted pursuant to each item of the agenda of an already announced shareholders' meeting and request that the proposals, including the reasoning therefore, be made available on the stock corporation's website, if any.

21.3.3.2 Dividend Rights

According to the Articles of Association, each shareholder is entitled to receive dividends, if and to the extent the annual Shareholders' Meeting resolves to distribute dividends. It may also exclude the distribution of the balance sheet profit in whole or in part and may also decide to allocate the balance sheet profit in whole or in part to the reserves. Profits will be distributed to the shareholders in proportion to the capital contributions made to the pro rata amount of the share capital. Contributions made in the course of the financial year will be taken into account in proportion to the time that has lapsed since the contribution was made. If new shares are issued in the course of a financial year, the date from which the profit entitlement applies will be defined at issuance. Profit shares not collected by shareholders within three years after becoming due are deemed forfeited and accrue to the statutory reserve of the Company. For further information, see "*21.2.1 General Regulations on Earnings Appropriation and Dividend Payments*".

21.3.3.3 Liquidation Proceeds

In the event of the Company's dissolution, any assets remaining after repayment of the outstanding debts and supplementary capital will be distributed pro-rata to the shareholders. The Company's dissolution requires a majority of at least 75% of the share capital present or represented at a Shareholders' Meeting. For further information, see "*21.2.2 Liquidation Rights"*.

21.3.3.4 Change or Impairment of Shareholders' Rights

The Stock Corporation Act contains provisions that protect the rights of individual shareholders. As a rule, shareholders must be treated equally under equal circumstances, unless the shareholders concerned agree otherwise. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The Articles of Association do not provide for more stringent conditions for the exercise of shareholders' rights than those provided by the Stock Corporation Act. In addition, the Articles of Association do not allow changes to, or restriction on, shareholders' rights under less stringent conditions than those provided by the Stock Corporation Act.

Neither Austrian law nor the Articles of Association restrict the right of non-resident or foreign holders of the shares to hold or vote the shares nor do they provide for a special procedure for the exercise of dividend rights by non-resident or foreign holders.

21.3.3.5 Disclosure Obligations

There are no provisions in the Articles of Association governing the threshold above which share ownership must be disclosed. For further information, see *"24.2 Notification and Disclosure of Shareholdings"*.

21.3.4 Redemption / Conversion of Existing Shares

Shares may be redeemed in the course of a decrease of the Company's share capital resolved by the Shareholders' Meeting or by the Company purchasing its own shares (for further information, see *"21.2.5 Authorization to Purchase and Sell Treasury Shares"*). A capital decrease requires a shareholders' resolution with a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting.

Shares can be converted into a different class of shares (e.g., non-voting preferred shares), but only with the consent of the respective holder or, if the conversion negatively affects other shareholders whose shares are not converted, the consent of such shareholders.

In addition, the Company has to comply with certain regulatory rules, in particular with notification requirements pursuant to Section 73 Banking Act and the requirement for a prior permission by the competent authority pursuant to Articles 77 and 78 CRR for any reduction or repurchase of Common Equity Tier 1 instruments.

22 Corporate Bodies, Management and Corporate Governance

22.1 Overview

In accordance with Austrian law, the Company has a two-tier board structure comprising the Management Board and the Supervisory Board. The Management Board is responsible for the executive management and represents the Company vis-à-vis third parties. The Supervisory Board is responsible for supervising the management and internal controls of the Company. Members of the Management Board are appointed by the Supervisory Board. Members of the Supervisory Board are elected by the Shareholders' Meeting or delegated by shareholders afforded such a delegation right in the Articles of Association. Under Austrian co-determination rules (*Mitbestimmungsrecht*), a stock corporation's works council has generally the right to delegate one works council representative to the Supervisory Board for every two shareholders' representatives at the Supervisory Board. The corporate bodies of the Company are bound in particular by the Articles of Association, the rules of procedure for the Management Board (*Geschäftsordnung für den Vorstand*), the rules of procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) and will be bound by the Austrian Corporate Governance Code (the ***ACGC***).

The following is a summary of the most important provisions of the Company's corporate legal framework.

22.2 Management Board

22.2.1 Appointment, Duties, Procedure of the Management Board

In accordance with the provisions of the Stock Corporation Act, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Pursuant to the Articles of Association, the restrictions provided in the Banking Act and the Stock Corporation Act apply to the Management Board as well as the members of the Supervisory Board of the Company. In particular, persons who pursuant to the Austrian Trade Code (*Gewerbeordnung - GewO*) are excluded from carrying out trade, who have a permanent contractual relationship with the Company and/or who are related with a member of the Management Board or Supervisory Board of the Company in direct line and first degree or relationship or who are married to or cohabit with a member of the Management Board or the Supervisory Board are ineligible for membership of the Management Board and the Supervisory Board. Under applicable law, members of the Management Board may be re-elected. However, the re-election of a member of the Management Board will enter into effect only if the re-election is confirmed by the chairperson of the Supervisory Board in writing.

The Supervisory Board may revoke the appointment of members of the Management Board prior to the expiration of their term for cause, such as a material breach of duty or the inability to manage the business properly. Shareholders are generally not entitled to appoint or dismiss members of the Management Board. However, the Shareholders' Meeting may adopt a resolution of no-confidence in relation to one or several members of the Management Board with simple majority of the votes cast. Such a vote of no confidence qualifies as a material reason on the basis of which the Supervisory Board may, but is not legally obliged to, revoke the appointment of the applicable member or members of the Management Board prior to the expiration of their term for cause. A revocation of a member of the Management Board from its corporate function, however, may not simultaneously terminate the underlying service agreement. Such a Management Board member's service agreement may be, and in case of a revocation may need to be, separately terminated subject the applicable notice period.

The Management Board is responsible for managing the Company's business and representing the Company in transactions with third parties. The Management Board is in particular bound by Austrian law, the Articles of Association and its rules of procedure.

As a general rule, the Management Board is not obliged to comply with orders or directives from the shareholders or the Supervisory Board. However, pursuant to the Stock Corporation Act, the Supervisory Board's rules of procedure and the Management Board's rules of procedure, the Management Board requires prior approval by the Supervisory Board or certain committees of the Supervisory Board to engage in certain transactions and measures as stipulated by applicable laws, the Articles of Association and the relevant Supervisory Board's rules of procedure and the Management Board's rules of procedure, including, without limitation:

- in any case: transactions of principle importance to the Company; definition of general principles of corporate policy as well as Company strategy; allocation of responsibilities within the Management Board; granting power of representation (Prokura); establishment and closing of business segments and branches of the Company and (in certain cases) the Company's subsidiaries; overall organizational structure of the Company; conclusion of cooperation agreements with credit institutions and insurance companies; annual budget; medium term plan of the Addiko Group; raising, repurchase, change of terms or other premature termination of the maturity of supplementary capital; the approval of taking over any executive, advisory or supervisory function by a member of the Management Board in a political party, a private/public enterprise outside the Company or a (business-related) non-profit organization; certain transactions in connection with related persons; the entering into agreements with the members of the Supervisory Board through which they undertake to provide services to the Company or a subsidiary; contracts with the respective

auditor an additional consulting or other services which do not bear a direct relationship to auditing of the annual financial statements; granting options on company shares to employees and executives of the Company or a Company's subsidiary or the definition of principles for granting of participations in profit and sales and guaranteed pensions payments; definition of principles for remuneration systems; and

- in case certain thresholds are exceeded: loans, limits and all credit relevant transactions according to applicable credit principles; establishment, reorganization and liquidation of a subsidiary; equity capital measures to a subsidiary; purchase, sale and pledge of shares of a subsidiary; purchase, sale and mortgaging/pledging of assets; guarantees and warranty commitments; issuing of bonds and other debt securities; taking loans and credits for a term of more than one year (interbank funding); operational expenses/capital expenditure in certain cases.

Furthermore, under the Banking Act, the prior approval of the Supervisory Board may be required (e.g. as set forth under Section 28 Banking Act regards related party transactions (*Organgeschäfte*) and/or as set forth under Section 28b Banking Act concerning large exposures (*Großkredite*)).If the Management Board fails to obtain such approval, it may be held liable for any resulting damage to the Company. The transactions, however, are generally effective and binding with respect to third parties acting in good faith (other than members of the Supervisory Board).

The Management Board has a quorum if at least half of the members are present, whereby a represented member of the Management Board will not be counted as present. The Management Board adopts its resolutions by simple majority vote (unless a greater majority of votes is provided for by law, the Articles of Association or the rules of procedure). In case of a tie, the chairman of the Management Board will have the casting vote, in the event the chairman is absent, the deputy chairman will have the casting vote. Any member of the Management Board will be deemed ineligible to participate in debate and voting on matters involving that member itself, its spouse or unmarried partner or any person related to it by blood or marriage up to and including the third degree and/or in which there are sufficient commercial or other grounds to call that member's impartiality into question; the decision as to whether any such grounds are present will be taken by the remaining members of the Management Board.

In accordance with the provisions of the Stock Corporation Act, the Articles of Association and the rules of procedure of the Management Board, the latter is subject to a detailed reporting regime. In particular, the Management Board is required to report to the Supervisory Board at least annually on strategy and business policy, as well as on the future development of the Company's assets, financial and earnings position based on a forecast and fundamental questions of future business policy. The Management Board is also required to report to the Supervisory Board regularly, at least quarterly, on the progress of business operations and on the results of the Company's business against forecast. The Management Board is obliged to inform the Supervisory Board of any incidents that may be of significance to the Company's business operations.

The Company must be represented by two members of the Management Board acting jointly or by one member of the Management Board together with an authorized signatory holding a joint power of representation (*Gesamtprokurist*). Subject to the limitations specified under applicable laws, the Company may also be represented by two authorized signatories holding a joint power or representation (*Gesamtprokuristen*). Pursuant to the Articles of Association, the Management Board must consist of two to seven members. Currently, the Management Board consists of four members and the Company has one authorized signatory holding a joint power of representation (*Gesamtprokurist*).

22.2.2 Current Members of the Management Board

The following table lists the positions of the current members of the Management Board of the Company, the year they were first appointed and the expiration of their current term:

Name	Function	Year first appointed	End of Current Term
Razvan Munteanu...........................	Chief Executive Officer	2016	March 31, 2021
Johannes Proksch	Chief Financial Officer & Transformation Officer	2015	July 31,2021
Markus Krause	Chief Risk Officer	2015	August 16, 2021
Csongor Bulcsu Németh.................	Chief Corporate & SME Banking Officer	2015	October 31, 2021

(Source: Corporate Governance Report 2018 of the Company)

The service agreements of all members of the Management Board of the Company are concluded for fixed terms and expire in 2021. Upon expiry, the service agreements shall end without any prior notice being required.

During the fixed term of the service agreement, the Company or the member of the Management Board of the Company may terminate the service agreement prior to its expiry for good cause without any notice period at any time. The members of the Management Board of the Company are obliged to notify the Company in advance of the intended termination and give the Company the opportunity to remedy the alleged good cause for termination within reasonable time.

A premature termination by the Company will also be effective if no good cause for such early termination exists. However, in case of a premature termination by the Company without good cause or for a good cause which was not caused by fault of the member of the Management Board, the respective member of the Management Board will be entitled to receive a one-off payment (please see below "*22.2.4 Management Board Compensation*" for further details).

All members of the Management Board of the Company are subject to (i) a post-contractual non-competition covenant for a period of six or nine months, respectively; and (ii) a post-contractual non-solicitation obligation with respect to the Company's employees for a period of nine or twelve months after the termination of employment. In case of a violation of such post-contractual covenants the member of the Management Board is obliged to pay a penalty fee in the amount of six or nine times his last monthly compensation (i.e. base salary plus pro-rated 13th and 14th salary).

22.2.2.1 Razvan Munteanu

Razvan Munteanu was born on October 3, 1966 in Bucharest, Romania. Mr. Munteanu obtained his M.Sc., computer science with high distinction in 1991 from the Polytechnic Institute, Bucharest. Mr. Munteanu has 27 years of professional experience in retail financial services, across a number of countries and various operating roles. He began his career in Belgium in 1992 when he joined Europay International as a certification engineer. He spent the early part of his career at Europay International as a transactional service manager and area manager, Eastern Europe. In 2001, Mr. Munteanu joined Citibank Romania as a consumer business manager, and in 2003 he was promoted to vice president, head of cards, at Citibank Hungary. In 2005, Mr. Munteanu joined Raiffeisen Bank Romania as vice president, head of retail focusing on running the consumer and SME business of Raiffeisen Bank Romania. In 2011 Mr. Munteanu joined Raiffeisen Bank International as the Managing Director, consumer banking overseeing the respective activities of Raiffeisen Bank in 15 Central European markets. In 2016 Mr. Munteanu was appointed as a member of the Management Board of Addiko Bank AG and in 2018 he was appointed as chief executive officer.

22.2.2.2 Markus Krause

Markus Krause was born on March 26, 1968, in Willich, Germany. Mr. Krause graduated with distinction from the University of Bochum – Institute for Mathematics and Statistics with a degree in mathematics, specialization in applied statistics and economics. Mr. Krause has 25 years of professional experience in the banking industry across various operating roles. He began his career in 1994 when he joined Citibank Privatkunden AG for an internship. After the internship Mr. Krause worked for Citibank Privatkunden AG as a credit analyst from 1994-1997 and then as a project manager in 1998. In 1999, Mr. Krause joined what is now known as general electric consumer finance and worked as a senior risk analyst from 1999-2001 and a risk portfolio manager from 2001-2004. In 2005 Mr. Krause took the role of risk manager – head of strategy team (Europe, Asia & Australia) for general electric consumer finance before moving to UniCredit Bank Austria AG in 2006. From 2006-2011 Mr. Krause worked at UniCredit Bank Austria AG as the head of credit risk methods & instruments (Austria & CEE). From 2011-2013 Mr. Krause worked as head of department strategic risk management & control BA Group at UniCredit Bank Austria AG. From 2014-2015 Mr. Krause held the role of chief risk officer at Sberbank Europe AG. In 2015 Mr. Krause was appointed as the chief risk officer of Addiko Bank AG and currently serves in the same position.

22.2.2.3 Csongor Bulcsu Németh

Csongor Bulcsu Németh was born on October 20, 1974 in Budapest, Hungary. Mr. Németh received an MA in business administration from Heriot-Watt University, Edinburgh in 1998. Mr. Németh began his career in 1999 as an associate, financial advisory services at Deloitte & Touche in Budapest, Hungary where he remained until 2001. Between 2002 and 2009 Mr. Németh worked in various sales positions at Budapest Bank Rt. (member of GE Money Bank), for the last 5 years as head of Budapest business center, commercial division. Mr. Németh was also a member of the supervisory board of Budapest Lease Co form 2004-2009. In 2009 Mr. Németh joined CIB Bank Zrt., Hungary – member of Intesa Sanpaolo Group where he worked as the head of SME central regions sales from 2009-2010 and as managing director, head of SME division, being a member of the senior management team, as well as a voting member of credit committee and distressed asset committee from 2010-2013. In 2013 Mr. Németh joined Sberbank Europe AG, Vienna as head of SME banking, member of senior management and voting member of credit committee, DAC and OPCO. In addition in 2013, Mr. Németh was also appointed as deputy chairman of the supervisory board for Sberbank Hungary and Sberbank Slovakia and in 2015 he was also appointed as the chairman of the supervisory board of Sberbank Bosnia & Herzegovina. In 2015 he was appointed as the chief corporate & SME banking officer at Addiko Bank AG in 2015 and currently serves in the same position.

22.2.2.4 Johannes Proksch

Johannes Proksch was born on November 15, 1969, in Vienna, Austria. Mr. Proksch graduated in March 1997 with a master's degree in economics from the Vienna University of Economics & Business Administration. In 1995 Mr. Proksch began working as a manager for Ernst & Young, Vienna and London until being promoted to an executive in corporate finance in London in 1999. From 1999-2002 Mr. Proksch worked as an associate director, corporate finance, financial institutions group at UBS Warburg, London. Since then he has held several corporate finance roles including the assistant director, corporate finance, global financial institutions group at ABN AMRO London form 2002-2004, director, investment banking, financial institutions group at Citigroup London from 2004-2007 and executive director, investment banking, financial institutions group at Morgan Stanley, London from 2007-2010. In 2010 Mr. Proksch was appointed as the group chief financial officer at

HAA (the predecessor of HETA) and at HYPO GROUP ALPE ADRIA AG (the predecessor of Addiko Bank AG), a position which he held until June 2015. Following the privatization of HYPO GROUP ALPE ADRIA AG in July 2015 Mr. Proksch was re-appointed by the new owner and serves as chief financial officer and transformation officer at Addiko Bank AG.

22.2.3 Contact

The members of the Management Board may be contacted at the Company's business address at Wipplingerstraße 34/4, 1010 Vienna, Austria.

22.2.4 Management Board Compensation

The appropriate level of remuneration for the members of the Management Board is determined by the Company's remuneration policies, the Supervisory Board and its Committee for Management Board Matters. The total remuneration of the members of the Management Board comprises monetary remuneration (fixed and performance-based variable, the variable partly subject to deferral, malus and claw-back rules according to the Company's remuneration policies) and non-monetary remuneration (fringe benefits), including payment upon early termination of employment and their function, as outlined below.

Total Remuneration

Total remuneration paid to the current members of the Management Board for their activities for Addiko Group in the financial year 2018 totaled approximately EUR 2.9 million (this figure does therefore not include the remuneration paid to members of the Management Board whose term ended in 2018).

Fixed Remuneration

The fixed remuneration element consists of a fixed salary (base salary). The Management Board members' annual base salaries range from EUR 410,000 to EUR 500,000.

Performance-Based Remuneration

The members of the Management Board are entitled to receive a variable annual bonus in accordance with the Company's remuneration policies. The bonus amounts of three members of the Management Board range from EUR 275,500 to EUR 385,000 per annum depending on the achievement of certain targets (both quantitative and qualitative targets, and actual results in relation to the annual budget for the Company and its subsidiaries). The fourth member of the Management Board is entitled to receive a variable bonus in the amount of 78% of his fixed annual remuneration, subject to the level of target achievement (as set out above). The relevant target values and parameters are agreed between the Supervisory Board and the member of the Management Board in writing and in compliance with the Company's remuneration policies and applicable supervisory law on an annual basis. The variable annual bonus is payable in accordance with the deferral rules under the Company's remuneration policies.

In case of (i) a premature termination by the Company for good cause due to a fault of the member of the Management Board or (ii) a premature termination by the member of the Management Board without good cause due to a fault of the Company, the member of the Management Board shall not be entitled to receive any variable remuneration, neither for past nor for the current or for future business years unless already awarded in compliance with applicable supervisory law. The Company shall not be entitled to claim any bonus payments already paid to the member of the Management Board unless required by applicable supervisory law.

Fringe benefits

The members of the Management Board are entitled to be covered by directors and officers insurance policies (D&O insurance policy). All members of the Management Board are further entitled to a company car. One member of the Management Board is entitled to be reimbursed for accommodation expenses of up to EUR 25,000 per annum if the place of work was in Klagenfurt.

Remuneration in case of Early Termination Without Good Cause

If the Company prematurely terminates the service agreement with the member of the Management Board without good cause or for a good cause which was not caused by fault of the member of the Management Board, the member of the Management Board will be entitled to receive a one-off payment for the loss of income for the remaining term until the expiry. The amount of such one-off payment shall be capped at an amount of six times (with respect to three members of the Management Board) and nine times (with respect to one member of the Management Board), respectively, of (i) the gross monthly base salary plus (ii) a pro-rated portion of the 13th and 14th salary plus (iii) a variable bonus, calculated on the basis of the most recent target values and parameters (based on the assumption of no more than 100% target achievement). In accordance with section 1162b of the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*) income incurred during the remaining term until the expiry of the service agreement may be deducted from such one-off payment.

Investment Agreement

Pursuant to the terms of an investment agreement dated December 2, 2015 (the ***Investment Agreement***), between AI Lake (Luxembourg) Holding S.à r.l., the Existing Shareholder, AI Lake & Cy SCA, AI Lake (Luxembourg) Management S.à r.l., AI Lake S.à r.l. and certain individuals, such individuals have purchased shares in the Existing Shareholder, the sole shareholder of the Company, via AI Lake & Cy SCA. Some of the investing individuals are or were members of the Supervisory Board or the Management Board (the ***Managers***). Under the Investment Agreement, AI Lake (Luxembourg) Holding S.à r.l. is entitled, in the case of a listing of the shares of the Company, to determine the manner in which the shares of the Existing Shareholder, including those held by AI Lake & Cy SCA, will be converted into shares of the Company or cashed out, with such decision applied equally and *pro rata* to each shareholder. The proceeds realized by AI Lake & Cy SCA in such event would then, in accordance with the provisions of the Investment Agreement and in such manner as is provided therein, be allocated or, in accordance with applicable law, distributed to the shareholders of AI Lake & Cy SCA, in proportion to their respective shareholding. As a result, with proceeds from the Private Placement of EUR 156,933,075, those Managers who are currently members of the Supervisory Board would receive an aggregate amount of EUR 17,898,013. Furthermore, those Managers who are currently members of the Management Board receive an aggregate amount of EUR 8,072,543 and have committed to reinvest 50% of such amount (post-tax) in the shares of the Company in connection with the Private Placement, subject to customary 365 day lock-up arrangements. In addition, should the Existing Shareholder reduce its stake in the Company to below 25%, such Managers would receive a one-time distribution of already accumulated proceeds in the aggregate amount of EUR 19,462,834 on account of their initial investment in their shares.

22.3 Supervisory Board

22.3.1 Election, Delegation, Duties and Procedures of the Supervisory Board

Pursuant to the Stock Corporation Act, the supervisory board of an Austrian stock corporation has to consist of at least three and a maximum of 20 members elected by the shareholders' meeting or delegated by shareholders who have been afforded the right to delegate supervisory board members in the articles of association either personally or because they hold specific registered shares granting such delegation right (as of the date of this Prospectus, the Articles of Association do not provide for any shareholder delegation rights). In a listed Austrian stock corporation, the total number of delegated members must not exceed one third of the supervisory board members. C-Rule 52a of the ACGC provides that the number of supervisory board members (without employees' representatives) of a listed Austrian stock corporation must not exceed ten members.

The Austrian Labour Constitutional Act (*Arbeitsverfassungsgesetz*; the ***Labour Constitutional Act***) entitles the works council to designate one of its members for every two members of the Supervisory Board elected by the Shareholders' Meeting, and in case of an uneven number of elected members, an additional works council member. Pursuant to the Articles of Association such delegation right of the works council will also apply for all Supervisory Board committees, with the exception of the committee dealing with matters related to the Management Board. The works council members have substantially the same rights and obligations as the other members of the Supervisory Board. If the works council fails to fill some or all of their allotted seats on the Supervisory Board, those seats remain vacant. Members of the Supervisory Board delegated by the works council can be removed only by the works council itself. Any works council member of the Supervisory Board who ceases for any reason to be a member of the works council will also lose its position on the Supervisory Board. Unlike the members of the Supervisory Board elected by the Shareholders' Meeting, the members designated by the works council are employees of the Company.

Since January 1, 2018, supervisory boards of listed stock corporations and non-listed stock corporations with more than 1,000 employees must comply with a gender quota stipulated in the Stock Exchange Act as well as in the Labour Constitutional Act. Pursuant to this gender quota legislation at least 30% of the members of the supervisory board have to be female and male, respectively. However, the gender quota legislation applies only if the applicable supervisory board is composed of at least six shareholder representatives and if at least 20% of all employees of the applicable stock corporation are female or male, respectively. The gender quota legislation will apply to elections and delegations of members of the supervisory board which occur after December 31, 2017. After December 31, 2017, an election or delegation of a member of the supervisory board in violation of the quota legislation will be void.

The Articles of Association specify that the Supervisory Board must consist of minimum three and maximum eight members (excluding employees' representatives). As of the date of this Prospectus, the Supervisory Board consists of five members, who have been elected by the Shareholders' Meeting, and two members, who have been delegated by the works council.

According to Rule C-54 of the ACGC, in corporations with a free float of more than 20%, the members of the Supervisory Board elected by the Shareholders' Meeting or delegated by shareholders must include at least one independent member who is not a shareholder with a stake of more than 10% or who represents such a shareholder's interest. In the case of corporations with a free float over 50%, at least two members of the Supervisory Board must meet these criteria. Currently, all members of the Supervisory Board serve as independent members in the meaning of Rule C-54 of the ACGC.

In addition, Section 28a para. 5a Banking Act stipulates that within credit institutions whose shares are listed on a regulated market at least two members of the supervisory board need to be independent within the meaning of the Section 28a para. 5b Banking Act. Pursuant to that provision a supervisory board member may generally not qualify as independent (subject to certain exemptions as set forth under Section 28a para. 5c Banking Act) if, for instance, the supervisory board member had a mandate as a member of the management body of the relevant credit institution for the previous five years; the supervisory board member is a controlling shareholder within the meaning of Article 22(1) of Directive 2013/34/EU; or the supervisory board member has a material financial or business relationship with the relevant credit institution. The relevant rules of the Banking Act apply to supervisory boards as of January 1 2019. However due a transitional provision for supervisory boards of credit institutions the composition of which has remained unchanged since June 14, 2018 Section 28a paras. 5a to 5c Banking Act apply from July 1, 2019 or from the date of a change in the composition of the supervisory board, if such a change takes place before July 1, 2019. Currently two members of the Supervisory Board qualify as independent within the meaning of Section 28a para. 5b Banking Act.

The Supervisory Board supervises and monitors the Management Board, but is not authorized to make management decisions. Supervision is exercised by review, discussion and approval, as required, of reports and resolution proposals prepared by the Management Board. In addition, the Supervisory Board may request reports on specific matters relating to the Company. The Supervisory Board may inspect and review all books, documents and assets. Furthermore, the Supervisory Board reviews the financial statements, reports in connection with the annual financial statements and proposals to the Shareholders' Meeting concerning the distribution of profits and reports thereon. The Supervisory Board must convene a Shareholders' Meeting if it is in the best interests of the Company. The Supervisory Board is responsible for appointing and removing members of the Management Board and is authorized to represent the Company in transactions with members of the Management Board. Furthermore, certain material decisions of the Management Board require the prior consent of the Supervisory Board (see "*21.2.1 Appointment, Duties, Procedure of the Management Board*").

The Supervisory Board elects a chairman and at least one deputy chairman from among its members. The Supervisory Board determines its own rules of procedure. The meetings of the Supervisory Board will be held whenever necessary for the fulfillment of the Supervisory Board's duties. The Supervisory Board meets at least once during each calendar quarter. Pursuant to the Articles of Association the Supervisory Board has a quorum if at least half of the members, who are elected by the Shareholders' Meeting, are present. Resolutions are adopted upon a simple majority of the votes cast. In the event of a tie, the chairman of the Supervisory Board casts the deciding vote.

No members of the Supervisory Board elected by the shareholders may, (if not appointed for a shorter period), serve for a period beyond the annual Shareholders' Meeting deciding on the discharge of the Supervisory Board members for the fourth financial year following the financial year of their election (where the year of election is not taken into account). Pursuant to the Articles of Association the members of the Supervisory Board may be re-elected. Pursuant to the Articles of Association, the Shareholders' Meeting may remove any Supervisory Board member it has elected if more than 75% of the votes cast are in agreement with such removal and more than 50% of the registered capital entitled to vote is present at the Shareholder's Meeting.

Members of the Supervisory Board may resign by written notice (in form of a registered letter addressed to the chairperson of the Supervisory Board or, in case of his absence, to the deputy). In the event an elected member resigns from the Supervisory Board before the expiry of its term, the next Shareholders' Meeting may elect a replacement. The term of office of the replacement member runs until the expiry of the original term of the member resigning. An extraordinary Shareholders' Meeting must be called immediately to elect a replacement if the number of Supervisory Board members has fallen below a number of three.

22.3.2 Current Members of the Supervisory Board

The following table lists the positions of the members of the Supervisory Board of the Company, the year they were first appointed and the expiration of their current term:

Name	Function	Year first appointed	End of Current Term
Hermann-Josef Lamberti	Chairman	2015	2021
Hans-Hermann Lotter	Deputy Chairman	2015	2021
Henning Giesecke	Deputy Chairman	2015	2021
Dragica Pilipovic Chaffey	Member	2015	2021
Sebastian Prinz von Schoenaich-Carolath	Member	2019	2021
Horst Floriantschitz	Employee Representative	2015	Until dismissal
Christian Lobner	Employee Representative	2015	Until dismissal

(Source: Corporate Governance Report 2018 of the Company and Company information)

The service agreements of all members of the Supervisory Board of the Company expire in 2021.

The Company or a member of the Supervisory Board of the Company may terminate his respective service agreement prior to its expiry without notice period for good cause at any time.

22.3.2.1 Hermann-Josef Lamberti

Hermann-Josef Lamberti was born on February 5, 1956, in Boppard, Germany. Mr. Lamberti studied business administration and economics in Cologne and Dublin and graduated in 1982 with a master's degree in business administration. Since 2010 he holds an honorary doctorate, Dr. h.c. rer pol, of the Faculty of Economics and Business Administration of Frankfurt University. Mr. Lamberti began his professional career in 1982 with Touche Ross in Toronto and subsequently joined Chemical Bank in Frankfurt. Mr. Lamberti worked from 1985-1998 for IBM in Germany in the areas of controlling, internal application development and sales banks/insurance companies. In 1993, he was appointed general manager of the personal software division for Europe, the Middle East and Africa at IBM Europe in Paris. In 1995, he moved to IBM USA, where he was vice president for marketing and brand management for the Enterprise Systems Division. He returned to Germany in 1997 to take up the position of chairman of management of IBM Germany in Stuttgart. Mr. Lamberti joined Deutsche Bank in 1998 as executive vice president in Frankfurt. Mr. Lamberti was a member of the management board of Deutsche Bank from 1999 until May 31, 2012, and a member of Deutsche Bank's group executive committee from 2002 until May 31, 2012. Mr. Lamberti also worked as chief operations officer at Deutsche Bank where he had global responsibility for human resources, information technology, operations and process management, building and facilities management as well as purchasing. Mr. Lamberti is non-executive member of the board of Airbus Group N.V. and the member of the supervisory board of ING Group N.V. He is also a senior business advisor of Advent International GmbH and a member of the board of Trustees of Frankfurt Institute for Advanced Studies. Mr. Lamberti is currently chairman of the Supervisory Board of Addiko Bank AG.

22.3.2.2 Hans-Hermann Lotter

Hans-Hermann Lotter was born on December 29, 1964, in Weidenau, Germany. Mr. Lotter received his Master (*Diplom*) degree in mathematical economics (*Wirtschaftsmathematik*) from the University of Ulm, Germany and his master of business administration from the University of Miami, Florida, USA. Mr. Lotter has more than 20 years of international leadership experience, amongst others as co-head of mergers & acquisitions and head of financial institutions group for Germany, Austria and Switzerland with Rothschild, as well as managing director of Lazard in Frankfurt. Prior to this he was active with the Deutsche Bank in the areas global corporate finance, as well as corporate development and strategic planning. In 2015 Mr. Lotter was appointed as member of the Supervisory Board of Addiko Bank AG. Currently he is deputy chairman of the Supervisory Board.

22.3.2.3 Henning Giesecke

Henning Giesecke was born on May 6, 1960, in Munich, Germany. Mr. Giesecke obtained his education in business administration (*Diplom-Kaufmann*) at Ludwig-Maximilians Universität, Munich. Since 1985 Mr. Giesecke has held different positions in risk management and corporates from 2006-2009 including as a member of the management board and group chief risk officer at UniCredit S.p.A., Milano and UniCredit Bank AG (HypoVereinsbank AG), München. Mr. Giesecke has also held several international positions in supervisory boards in Russia, Turkey and Italy. Mr. Giesecke has served on the supervisory board of Endurance Capital AG (deputy chairman), Erste Abwicklungsanstalt, Airbus Bank GmbH, Kathrein SE, Linde+Wiemann Holding SE (deputy chairman) and The Social Chain Group AG (chairman). Mr. Giesecke is currently deputy chairman of the Supervisory Board of Addiko Bank AG.

22.3.2.4 Dragica Pilipović-Chaffey

Dragica Pilipović-Chaffey was born on September 12, 1946 in Postojna, Slovenia. Ms. Pilipović-Chaffey received her BA and diploma in economics from the University of Belgrade, Belgrade, Yugoslavia in 1971 and her MBA international business and finance from George Washington University, Washington, DC in 1985. Ms. Pilipović-Chaffey is an experienced non-executive board member for public and non-listed companies and over the past 20 years has been a non-executive board member of more than 10 banks and commercial companies and institutions. From 1976-1991 she worked in the IMF Research Department and was a member, Negotiations for Yugoslav Debt Restructuring. From 1991-2008 Ms. Pilipović-Chaffey worked as director, ERBD in Poland and Baltic States (2007-2008), Serbia and Montenegro (2003-2007) and Russia (1999-2003). From 2004-2009 Ms. Pilipović-Chaffey was the president of Serbia Broadband Co. and from 2009-2015 Ms. Pilipović-Chaffey acted as the chief executive officer. Since 2015 Ms. Pilipović-Chaffey has been the vice president of United Group, large regional telecommunications and media business. Further, since 2014 Ms. Pilipović-Chaffey has been a member of the investment committee, IEF, Balkans, equity fund and since 2015 has been a Supervisory Board member of Addiko Bank AG. In 2018 Ms. Pilipović-Chaffey became a member of the board of directors of Odea Bank, Istanbul, Turkey.

22.3.2.5 Sebastian Prinz von Schoenaich-Carolath

Sebastian Prinz von Schoenaich-Carolath was born on September 17, 1957, in Vienna, Austria. Mr. Prinz von Schoenaich-Carolath received his Master (*Diplom*) degree in business and engineering (*Wirtschaftsingenieur*) from the University of Applied Sciences (*Fachhochschule*), Munich, Germany, and completed the Advanced Management Programm at the IESE

Business School, Barcelona, Spain. Mr. Prinz von Schoenaich-Carolath has more than 25 years of international leadership experience, amongst others as chairman of the board and general manager Poland branch at DZ-Polska, chairman of the board of Kölner Bank, member of the management board of Berliner Volksbank and speaker of the management board of Ulmer Volksbank. From 2015 to 2017, he also served as chairman of the board of HETA Asset Resolution AG, Klagenfurt, Austria. In 2019, Mr. Prinz von Schoenaich-Carolath was appointed as member of the Supervisory Board of Addiko Bank AG.

22.3.2.6 Horst Floriantschitz

Horst Floriantschitz was born on June 28, 1964 in Klagenfurt, Austria. Mr. Floriantschitz graduated in 1982 as an industrial management assistant from the Fachberufsschule in Klagenfurt. Mr. Floriantschitz has 37 years of professional experience across various operating roles. He started his career in 1982 when he joined Bären Battery GmbH as an employee in human resources. In 2008, Mr. Floriantschitz joined Hypo Alpe Adria Bank International AG (the predecessor of HETA) as an employee in human resources. In 2015 Mr. Floriantschitz was appointed as chairman of the works council as part of the Supervisory Board of Addiko Bank AG and currently serves in this role.

22.3.2.7 Christian Lobner

Christian Lobner was born on May 11, 1978 in Klagenfurt, Austria. Mr. Lobner studied applied business administration at Alpen-Adria-Universität Klagenfurt and received his master in 2003. In 2004 Mr. Lobner joined Hypo Alpe Adria Bank International AG (the predecessor of HETA) where he held various positions in the regulatory reporting and risk control division. In 2015 Mr. Lobner joined as a member of the works council as part of the Supervisory Board of Addiko Bank AG and currently serves in this role.

22.3.3 Contact

The members of the Supervisory Board may be contacted at the Company's business address at Wipplingerstraße 34/4, 1010 Vienna, Austria.

22.3.4 Committees

Pursuant to the Stock Corporation Act, the Supervisory Board may establish one or more committees from among its members in order to prepare its discussions and resolutions or to supervise the execution of its resolutions. Supervisory Board members appointed as employee representatives are entitled to a seat in each Supervisory Board committee, with the exception of the committee dealing with matters related to the Management Board.

In addition, the Banking Act requires certain committees to be established by the supervisory board of credit institutions. As of the date of this Prospectus the Supervisory Board has set up the following committees, which carry out preparatory work on selected tasks and issues on behalf of the Supervisory Board:

22.3.4.1 Credit Committee

The Credit Committee is *inter alia* responsible for the granting of loans and credits to customers or to a group of affiliated customers in accordance with the Rules of Procedure of the Supervisory board (the ***Credit Committee***).

As of the date of this Prospectus the members of the Credit Committee are Henning Giesecke, Hans-Hermann Lotter, Hermann Josef Lamberti, Horst Floriantschitz and Christian Lobner.

22.3.4.2 Audit & Compliance Committee

The Audit & Compliance Committee is, *inter alia,* responsible for monitoring the accounting process as well as issuing recommendations or suggestions to ensure its integrity; monitoring the effectiveness of the internal control system, the internal revision system and the company's risk management system; monitoring of the audit opinion and the consolidated audit opinion; reviewing and monitoring the independence of the auditor (group auditor); delivering the report containing the findings of the audit opinion to the Supervisory Board and a statement about how the audit opinion contributes towards the reliability of the financial reporting, as well as the role of the audit committee in that regard; reviewing the annual financial statements and preparing their approval, the proposed appropriation of profits, the management report and, where applicable, the corporate governance report, as well as submitting the report on audit results to the Supervisory Board; reviewing the consolidated report and the consolidated management report, the consolidated corporate governance report as well as submitting the report on the findings of the audit to the Supervisory Board; conducting the procedure for selecting the auditor (Addiko Group auditor) taking into consideration the appropriateness of the fee as well as the recommendations for the appointment of the auditor (Addiko Group auditor) to the Supervisory Board.

As of the date of this Prospectus the members of the Audit & Compliance Committee are Hans-Hermann Lotter, Henning Giesecke and Horst Floriantschitz.

22.3.4.3 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is *inter alia* responsible for submitting proposals to the Supervisory Board for appointments to positions on the Management Board, designing profile for vacancies o be filled on the Management Board, the preparation of proposals by the Supervisory Board to the Shareholders' Meeting to fill vacant seats on the Supervisory Board and the preparation of succession planning for the Management Board. It also deals with the Supervisory Board. In addition the Remuneration and Nomination Committee is inter alia responsible for monitoring the recruitment process with regard to senior management and approval of the general principles of the remuneration policy for employees of the Company.

As of the date of this Prospectus the members of the Remuneration and Nomination Committee are Hans-Hermann Lotter, Dragica Pilipovic Chaffey, Sebastian Prinz von Schoenaich-Carolath and Christian Lobner.

22.3.4.4 Risk Committee

The Risk Committee is *inter alia* responsible for advising the Management Board on the credit institution's current and future risk profile and risk strategy; monitoring implementation of that risk strategy in the context of controlling, monitoring and limiting risks and monitoring capital adequacy and liquidity; verifying whether the prices of the services and products offered by the credit institution adequately consider the credit institution's business model and risk strategy and submitting, if necessary, a plan with remedial measures; verifying whether the incentives offered by the internal remuneration system take into account risk, capital, liquidity and the probability of realizing profits as well as the point in time when realized.

As of the date of this Prospectus the members of the Risk Committee are Henning Giesecke, Hans-Hermann Lotter, Hermann Josef Lamberti, Horst Floriantschitz and Christian Lobner.

22.3.4.5 Committee for Management Board Matters

The Committee for Management Board Matters is *inter alia* a decision-making committee responsible for the exercise of representative rights pursuant to the Stock Corporation Act and is required to consult with respect to and manage the legal relationships between the Company and the members of the Management Board with the exception of the appointment and dismissal of the members of the Management Board.

As of the date of this Prospectus the members of the Committee for Management Board Matters are Hermann Josef Lamberti, Hans-Hermann Lotter and Henning Giesecke.

22.3.5 Supervisory Board Compensation

On February 27, 2017 the Shareholders' Meeting of the Company resolved on the remuneration of the Supervisory Board Members for the financial year 2017, 2018 and 2019. On June 6, 2019 the Shareholders' Meeting of the Company resolved on the remuneration of the members of the Supervisory Board effective as of and from July 1, 2019. The remuneration according to the shareholders' resolution consists of a fixed remuneration only with no variable compensation or attendance fees being granted.

The following table shows the remuneration which will be paid according to the above mentioned shareholder resolution:

	Total (in EUR per year)	
Function	**until June 30, 2019**	**Effective as July 1, 2019**
Chairman of the Supervisory Board	40,000 p.a.	90,000 p.a.
Deputy Chairman of the Supervisory Board	35,000 p.a.	75,000 p.a.
Member of the Supervisory Board	25,000 p.a.	60,000 p.a.

(Source: Company information)

The chairman of the Supervisory Board and the deputy chairman is not entitled to any fixed add-on remuneration for committee memberships or committee chairmanships and the other members of the Supervisory Board are entitled only once to the fixed add-on remuneration for committee memberships or committee chairmanships, irrespective of the number of member-ships and functions in the Committees.

None of the members of the Supervisory Board has been granted direct commitments in the form of defined benefit plans. Consequently, there are no amounts set aside or accrued by the Company to provide retirement or similar benefits.

Remuneration of members of the supervisory board of the Company amounted in total to approximately EUR 142,500 for the financial year 2017 and to approximately EUR 153,000 for the financial year 2018.

22.4 Duty of Loyalty and Care

Members of the Management Board and Supervisory Board owe a duty of loyalty and care to the Company. In carrying out their duties, members of the Management Board and Supervisory Board must exercise the standard of care of a prudent and diligent business person. Both boards are required to take into account a broad range of considerations when making their decisions, including the Company's interests and those of the Company's shareholders, employees, creditors and the public.

Under the Stock Corporation Act, shareholders and other parties are prohibited from giving instructions to the Management Board or the Supervisory Board and from using their influence to cause a member of the Management Board or Supervisory Board to act in a way that is harmful to the Company or its shareholders.

A controlling shareholder may not cause the Company to take measures disadvantageous to the Company or the Company's other shareholders. An individual shareholder or any other person exerting influence which causes a member of the Management Board or the Supervisory Board to act in a way that is unfavorable to the Company or the Company's shareholders may be liable for damages to the Company and the shareholders. Board members who have neglected their duties by taking such actions may be jointly and severally liable for damages to the Company.

In general, only the Company, and not an individual shareholder, has a direct recourse against the members of the Management Board and the Supervisory Board. The Company may waive the right to a recourse or settle the claim only if (i) five or more years have passed since the alleged breach of duty, (ii) the Company's shareholders approve the waiver or settlement at a Shareholders' Meeting by simple majority of the votes cast, and (iii) shareholders opposing such a shareholders' resolution do not hold, in the aggregate, 20% or more of the share capital and do not oppose and have their opposition formally recorded in the minutes maintained by an Austrian notary public.

22.5 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest

22.5.1 Activities Performed outside the Company

The following table sets out the names of companies and business partnerships, excluding the Company and its subsidiaries, of which each of the members of the Management Board and Supervisory Board has been a member of the administrative, management or supervisory boards or partner, as the case may be, at any time in the five years prior to the date of this Prospectus.

22.5.1.1 Members of the Management Board

Name	Name of the company	Position held	Position still held
Razvan Munteanu................................	Addiko Bank a.d Banja Luka	member of the supervisory board	yes
	Addiko Bank d.d. Sarajevo	member of the supervisory board	yes
	Raiffeisen Bank International Romania	member of the management board	no
Markus Krause	Addiko Bank d.d. Belgrade	member of the supervisory board	yes
	Sberbank Europe AG	chief risk officer	no
Csongor Bulcsu Németh......................	Addiko Bank d.d. Croatia	deputy chairman of the supervisory board	yes
	Sberbank Europe AG, Austria	member of senior management	no
	Sberbank Bosnia and Herzegovina	chairman of the supervisory board	no
	Sberbank Hungary	deputy chairman of the supervisory board	no
	Sberbank Slovakia	deputy chairman of the supervisory board	no
Johannes Proksch	Addiko Bank d.d. Ljubljana	chairman of the supervisory board	yes
	Addiko Bank ad Podgorica	chairman of the board of directors	yes
	CLEDOMKO Privatstiftung	member of the management board	yes
	HETA ASSET RESOLUTION AG (previously Hypo Alpe-Adria-Bank International AG and Hypo Group Alpe Adria AG)	chief financial officer	no

22.5.1.2 *Members of the Supervisory Board*

Name	Name of the company	Position held	Position still held
Hermann-Josef Lamberti	ING Group N.V., Amsterdam	member of the supervisory board	yes
	Airbus Group N.V., Amsterdam	member of the board of directors	yes
	Lefdal Data Mine, Oslo	member of the supervisory board	no
	Stonebranch Inc., Atlanta	member of the supervisory board	no
	Open-Xchange AG, Nurnberg	member of the supervisory board	no
	Frankfurt Technology Management GmbH, Frankfurt	managing director	yes
	Advent International GmbH	consultancy	yes
Hans-Hermann Lotter	Concardis GmbH, Eschborn	deputy chairman of the supervisory board	no
	Concardis Payment Group GmbH, Eschborn	deputy chairman of the supervisory board	no
	SHIP LuxCo 3 Sarl, Luxembourg	member of the supervisory board	no
	GFKL Financial Services AG, Essen	chairman of the supervisory board	no
	DOUGLAS HOLDING AG	deputy chairman of the supervisory board	no
	AI Alpine (Luxembourg) S.à r.l.	chairman of the board of directors	yes
	Gorenjska bank add, SI	member of the management board	no
	Eagle Eschborn GmbH, Hamburg	managing director	no
	Eagle Frankfurt GmbH	managing director	yes
	Eagle Germany GmbH, Eschborn	managing director	yes
	AI Lake (Luxembourg) S.à r.l.	managing director	yes
	Mobility Holding GmbH, Munich	chairman of the advisory board	yes
	Mobility Concept GmbH, Oberhaching	member of the advisory board	yes
	Advent Invernational GmbH	consultancy	yes
Henning Giesecke	Linde+Wiemann Holding SE	deputy chairman of the supervisory board	yes
	Endurance Capital AG	deputy chairman of the supervisory board	yes
	Alno AG; Pfullendorf	member of the supervisory board	no
	The Social Chain Group AG	chairman of the supervisory board	yes
	Kathrein SE	member of the supervisory board	yes
	EAA Erste Abwicklungsanstalt, Düsseldorf	member of the supervisory board	yes
	Airbus Bank GmbH	member of the supervisory board	yes
	Mc Kinsey	consultancy	no
	Albulus Advisors Germany GmbH	consultancy	no
	Advent International GmbH	consultancy	yes
	Hg Pooled Management	consultancy	yes
Dragica Pilipovic Chaffey	ODEA Bank, Istanbul	member of the board of directors	yes
	ENEF Equity Fund	Investment committee member	yes
	United Group RS doo Beograd	vice president, corporate affairs	yes
Horst Floriantschitz	-	-	-
Christian Lobner	-	-	-

22.5.2 *Existing Shares, Conversion and Option Rights held by Board Members*

Prior to completion of the Private Placement and the listing of the Existing Shares on the Vienna Stock Exchange, and as reported to the Company, no members of the Management Board or the Supervisory Board directly held any Existing Shares. As regards the investment of the Managers and the commitment of the Managers who are currently members of the Management Board in connection with the Private Placement, see "*22.2.4 Management Board Compensation*" above.

22.5.3 *Conduct of Board Members*

None of the current members of the Management Board or the Supervisory Board has, at any time in the five years prior to the date of this Prospectus:

- been convicted of any offences relating to fraud;
- been associated with any bankruptcy, receivership or liquidation as a member of the administrative, management or supervisory bodies or as senior manager;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of an issuer.

22.5.4 Conflicts of Interest

There are no arrangements or understandings with the shareholder, major customers or suppliers of the Company, or with other persons, pursuant to which any member of the Company's Supervisory Board or Managing Board was appointed a member of such corporate body.

Except as described in this section and in *"22.2.4 Management Board Compensation"* there are, to the best knowledge of the Company, no potential conflicts of interest of any members of the Managing Board or the Supervisory Board.

The Company is not aware of any interest of any member of the Supervisory Board or the Managing Board relating to unusual business transactions with the Company or the Group. The Company has no outstanding loans to and no guarantees on behalf of any members of the Supervisory Board or Managing Board.

There are no family ties between the members of the Management Board and the Supervisory Board.

22.6 Corporate Governance

The ACGC creates a body of rules and regulations for responsible management and guidance of companies in Austria. Its objective is to create sustained and long-term value and to increase transparency for all shareholders. It is based on international standards of good corporate governance as defined in the OECD rules on corporate governance and includes relevant provisions of the Stock Corporation Act, the Stock Exchange Act as well as the Capital Markets Act. The text of the ACGC is available at http://www.corporate-governance.at in German and English. The ACGC was published by the Austrian Working Group on Corporate Governance, a group of private organizations and individuals in 2002, and was most recently amended in January 2018.

The ACGC primarily applies to Austrian listed companies that undertake to adhere to its principles. In addition, the Vienna Stock Exchange requires compliance with the ACGC under provisions applicable for companies whose shares are traded on the Official Market (Prime Market segment).

The ACGC is based on statutory provisions of Austrian corporate, securities and capital markets law ("Legal Requirements", the ***L-Rules***). In addition, the ACGC contains rules considered to be part of common international practice, such as the principles set out in the OECD Principles of Corporate Governance and the recommendations of the European Commission. Non-compliance with these rules must be explained ("Comply or Explain", the ***C-Rules***).

The ACGC also contains rules that are voluntary and do not require explanation in case of deviations (the ***Recommendations***). The principal rules and recommendations of the ACGC include for instance:

- equal treatment of shareholders under equal circumstances;
- the management board's information and reporting duties should be determined by the supervisory board;
- remuneration for members of the management board should consider the scope of activities, responsibility and personal performance as well as the achievement of targets, the size and economic situation of the company and comprise fixed and business performance related components (based on long-term indicators); the total remuneration of the management board for a business year must be reported in the notes to the financial statement; the total remuneration for each individual member of the management board will be contained in the Corporate Governance Report (see below);
- stock option plans for members of the management board should be approved by the shareholders' meeting and be based on objective parameters defined in advance; subsequent changes to the parameters are not permitted; the number and distribution of options granted, the exercise price and the respective estimated values at the time they are issued and upon exercise will be reported in the annual report;
- a majority of the members of the supervisory board should be independent of the company and its management and the supervisory board should define the criteria that constitute independence;

- supervisory board committees need to be established, in particular an audit committee (responsible for monitoring the accounting process and or monitoring the efficacy of the internal control and risk management system, the independence and the activities of the auditor of the financial statements as well as for the approval of non-audit services), a remuneration committee (for remuneration and other issues with management board members) and a nomination committee (for succession planning in the management board); In the case of supervisory boards that do not have more than six members (including employees' representatives), the function of the remuneration committee and of the nomination committee may be assumed jointly by all members; the remuneration committee and the nomination committee may be identical;
- the supervisory board must be made up of at least 30% women and at least 30% men, provided the supervisory board consists of at least six members (shareholder representatives), and the staff representatives must consist of at least 20% female and male employees each;
- supervisory board members may not assume any functions on the boards of other enterprises that are competitors of the company;
- the number of members of the supervisory board (excluding employees' representatives) should be ten or less; Members of the supervisory board must not have more than eight mandates (function of chairperson must count double) as supervisory board members for listed companies.
- the company must prepare a Corporate Governance Report containing in particular the commitment to comply with the Austrian Code of Corporate Governance as well as a statement on any departures from the comply or explain principle of the ACGC; the Corporate Governance Report should be published on the company's website; this website will be mentioned in the management report; the company will have compliance with the C-Rules of the ACGC evaluated periodically, but at least every three years, by an external institution and a report on the findings of the evaluation is to be published in the Corporate Governance Report; the supervisory board must review the Corporate Governance Report within two months of receiving it; the supervisory board must make a statement on the Corporate Governance Report to the management board and report on it to the annual general meeting; every shareholder should have the right to request information on the Corporate Governance Report at the annual general meeting;
- the Company must disclose at the latest two trading days after it gains knowledge of the information changes in the shareholder structure, if, as a consequence of the acquisition or disposal of shares in the company, the percentage of shares representing voting rights held by a shareholder reaches, exceeds or falls below a certain threshold; the company must disclose on its website and in the annual report – if it has knowledge thereof – the current shareholder structure broken down by geographical origin and type of investor, any cross-holdings, the existence of syndicate agreements, restrictions on voting rights, registered shares and their related rights and restrictions; current changes in the voting rights must be disclosed without delay on the website of the company; the articles of association of the company must be disclosed on the website of the company.
- annual financial reports, half-yearly financial reports and quarterly reports (drawn up according to internationally recognized accounting standards) should be published within certain time periods and must remain publicly accessible for at least ten years;
- communication structures should be established to meet information needs of shareholders in a timely and adequate manner, in particular by using the internet; dates essential for shareholders should be communicated sufficiently, in advance; the company may be required to publish annual financial reports, half-yearly financial reports and any other interim reports in English and German, and will make these available on the company's website;
- any director's dealings should be disclosed on the company's website directly or by referring to the website of the FMA; and
- the independent auditors should in particular make regular assessments of the company's risk management.

As of the date of this Prospectus, the ACGC is not applicable to the Company.

However, as it is intended for the Existing Shares to be listed on the Official Market (Prime Market segment), the Company will attain to adhere to the ACGC after the first day of trading of the Existing Shares on the Official Market. The Company intends to comply the first day of trading the Existing Shares in full with all L-Rules and C-Rules of the ACGC.

23 Vienna Stock Exchange

The information relating to the Vienna Stock Exchange set out below is derived from information obtained from the Vienna Stock Exchange, in particular from the website of the Vienna Stock Exchange (http://www.wienerborse.at), the Vienna Stock Exchange monthly statistics of May 2019 (http://www.wienerborse.at/prices_statistics/statistics/monthly/monatsstatistik.html) and the FMA's 2018 annual report (http://www.fma.gv.at). The website of the Vienna Stock Exchange (http://www.wienerborse.at) contains further information about the Vienna Stock Exchange as well as a range of special services, such as quotations and ad hoc information about the companies listed on the Vienna Stock Exchange. The information contained on the Vienna Stock Exchange website and in the FMA's 2018 annual report is not part of or incorporated by reference into this Prospectus.

23.1 Organization and Market Segments General

23.1.1 General

The Vienna Stock Exchange, founded in 1771, is operated by an independent, privately owned stock corporation, Wiener Börse AG, based on a license under the Stock Exchange Act issued by the Federal Ministry of Finance. Members of the Vienna Stock Exchange include banks, foreign investment firms and other firms trading in securities, derivatives and money market instruments, registered either within or outside of the EEA. In addition to the securities exchange, the Vienna Stock Exchange also operates a commodities exchange. The Vienna Stock Exchange is supervised by the FMA. As the market and stock exchange supervisory authority, the FMA is responsible, in particular, for the supervision of the reporting requirements for reportable instruments in accordance with the Austrian Securities Supervision Act (*Wertpapieraufsichtsgesetz 2018*, the Securities Supervision Act) the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation (to the extent such infringements do not fall within the jurisdiction of the Austrian criminal courts), the monitoring of securities analysis concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, the stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication.

23.1.2 The Markets of the Vienna Stock Exchange

The Official Market operated by the Vienna Stock Exchange has been recognized as a "regulated market" pursuant to the MiFID II. In December 2004, the U.S. Securities Exchange Commission granted the Vienna Stock Exchange the status of a "Designated Offshore Securities Market" in accordance with the Securities Act.

As of May 31, 2019, shares of 64 companies have been listed on the Official Market. As of May 31, 2019, the market capitalization of all companies listed on the Official Market amounted to approximately EUR 128.03 billion (source: Vienna Stock Exchange, monthly statistics of May 2019).

The unregulated third market (the ***Third Market***) that existed prior to the Securities Supervision Act coming into force is operated by the Vienna Stock Exchange since November 1, 2007, in the form of a multilateral trading facility within the meaning of the Securities Supervision Act and the MiFID II. As of July 1, 2019 the Third Market was renamed to "Vienna MTF" (the ***Vienna MTF***). A multilateral trading facility is not a regulated market under the Stock Exchange Act and the MiFID II. It is a trading facility operated on the basis of a license from the FMA in accordance with the provisions of the Securities Supervision Act. However, on the basis of a special FMA approval, the operator of a regulated market, such as the Vienna Stock Exchange, is entitled to also operate a multilateral trading facility. Presently, the Vienna MTF is operated by Wiener Börse AG, which stipulated the "Terms and Conditions for Operation of the Vienna MTF" applicable to all participants of the Vienna MTF. The criminal offense of "misuse of insider information" and the administrative offense of "market manipulation" are also applicable to multilateral trading facilities.

By meeting the statutory criteria, securities are admitted to listing on the Vienna Stock Exchange and are divided into various trading segments. To be traded in a specific segment, certain non-statutory criteria must be met by the issuer of the securities, in addition to the statutory listing criteria as provided by the Stock Exchange Act. Compliance with these additional listing criteria is undertaken on a contractual basis between the relevant issuer and the Vienna Stock Exchange. The equity market is divided into the segments "Prime Market", "Standard Market" , "Direct Market Plus", "Direct Market" and "Global Market". The "Prime Market", where the Existing Shares are expected to be traded following completion of the Private Placement, represents the highest ranking market segment of the Vienna Stock Exchange and is comprised of shares in companies that agree to fulfill more stringent reporting, quality and disclosure requirements set out in the prime market regulation, a private law contract between the relevant issuer and Wiener Börse AG, apart from meeting the legal criteria for the admission to listing on the Official Market of the Vienna Stock Exchange as set out in the Stock Exchange Act. The admission criteria and ongoing obligations are specified in "the prime market rules" which can be retrieved from the website of the Vienna Stock Exchange (currently under https://www.wienerborse.at/handel/marktsegmentierung/equity-market-at/). To provide additional

liquidity, stocks traded in the Prime Market must be serviced by a trading participant who assumes the function of a specialist and has agreed to enter firm quotes into the trading system on a permanent basis. The trading platform for the Prime Market is the Xetra trading system with the trading procedure "continuous trading" in conjunction with several auctions (opening auction, intraday auction, closing auction). In the Prime Market, additional liquidity providers other than the designated specialists are encouraged to act as market makers in stocks already serviced by a specialist in order to increase the liquidity of the stock. The specialists' and the market makers' commitments must meet certain minimum requirements set up by the Vienna Stock Exchange.

The segments "Standard Market Continuous" and "Standard Market Auction" contain all stocks admitted to listing on the Official Market that do not meet the criteria for the Prime Market. The segment "Direct Market Plus" is comprised of shares in companies traded on the Vienna MTF which undertake to fulfill more stringent reporting, quality and disclosure requirements than those applicable under the "Rules for the Operation of the Vienna MTF". The segment "Direkt Market" contains all shares and other equities (e.g. participation certificates, profit-sharing rights, etc.) admitted to trading in the Vienna MTF that cannot be allocated to any other segment. The "Global Market" segment includes shares that are traded on the Vienna MTF and listed on at least one other stock exchange, and for which at least the applicant (or an exchange member named by the applicant) undertakes market making obligations.

23.1.3 The Austrian Traded Index

The Austrian Traded Index (the ***ATX***) is an index that contains shares listed in the Prime Market and is weighted according to the free float market capitalization in the companies contained therein. The ATX is designed as the underlying reference for Austrian stock trading, close to the market and transparent, and serves as a reference index for futures and options. The ATX consists of the most liquid and the highest capitalized stocks, based on free float, traded on the Prime Market. As of May 31, 2019, out of the 38 companies listed on the Prime Market, only 20 companies are included in the ATX (source: Vienna Stock Exchange). The ATX tracks the price trends of the most actively traded (and, thus, most liquid) and highly capitalized stocks in terms of free float on the Prime Market. This index is also available as a total return (***ATX TR***) or net total return index (***ATX NTR***). The base date of the ATX is January 2, 1991 and ATX is denominated in euro. The ATX is calculated, disseminated and licensed by the Vienna Stock Exchange on a real-time basis. The "ATX Prime" index contains all shares presently traded in the Prime Market segment.

23.1.4 Trading Volume

In 2018, the aggregate trading volume of the domestic and foreign shares listed on the Official Market of the Vienna Stock Exchange amounted to about EUR 69.1 billion (2017: EUR 66.3 billion, 2016: EUR 55.9 billion). As of May 31, 2019, a total of 66 companies were listed on the Prime Market, Standard Market Continuous and Standard Market Auction segments. Austrian companies comprised the large majority of these companies. As of May 31, 2019, the total market capitalization of all Austrian companies listed on the Prime Market, Standard Market Continuous and Standard Market Auction segments amounted to about EUR 104.5billion as compared to EUR 129.3 billion as of December 31, 2018 and EUR 96.2 billion as of December 31, 2017 (source: Vienna Stock Exchange, monthly statistics of May 2019, December 2018 and December 2017).

23.1.5 Trading and Settlement

Officially listed securities are traded both on and outside of the Vienna Stock Exchange.

Shares and other equity securities listed on the Vienna Stock Exchange are quoted in euro per share. The electronic trading system used by the Vienna Stock Exchange is Xetra® (Exchange Electronic Trading), the electronic trading system of Deutsche Börse AG. By this electronic system, all market participants have the same access to trading on the Vienna Stock Exchange regardless of their location. The settlement system uses automated netting procedures and daily mark-to-market evaluation of collateral requirements to further reduce transfer costs.

The settlement of transactions concluded on the Vienna Stock Exchange takes place outside the stock exchange. The Vienna Stock Exchange has appointed CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH (the ***CCP Austria***) to act as clearing agency pursuant to Section 9 para. 3 Stock Exchange Act and to ensure the clearing and settlement of eligible exchange transactions. CCP Austria acts as the responsible central counterparty for the clearing and risk management of all trades concluded on the Vienna Stock Exchange and assumes the fulfillment and default risk involved with the clearing and settlement of securities and derivatives transactions. These transactions are carried out T+2 on a delivery versus payment basis, with OeKB CSD acting on behalf of CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH as the central custodian and settlement bank. In case of non-delivery, the default of delivery mechanisms set out in the Rules for the Clearing and Settlement of Exchange Trades by CCP Austria (separation procedure, covering procedure and cash settlement) apply. Settlement terms of OTC transactions depend on the parties' agreement.

Trading can be suspended by the Vienna Stock Exchange if orderly stock exchange trading is temporarily endangered or if its suspension is necessary in order to protect the public interest. The electronic system provides for automatic volatility

interruptions and market order interruptions during auctions and for automatic volatility interruptions during continuous trading.

23.2 Supervision of Market Participants

As the market and stock exchange supervisory authority, the FMA is responsible, in particular, for supervision of the reporting requirements for reportable instruments in accordance with the Securities Supervision Act, the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation (to the extent such infringements do not fall within the jurisdiction of the Austrian criminal courts), the monitoring of securities analysis concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication, in particular, ad hoc disclosure obligations. The FMA is also responsible for the licensing of multilateral trading facilities, including the approval thereof, for stock exchange companies.

The FMA is further responsible for supervising the lawfulness of resolutions adopted by the executive bodies of the stock exchange operator, i.e., the Vienna Stock Exchange. For that purpose, it makes use of the so-called stock exchange commissioners (*Börsekommissäre*) pursuant to Section 98 Stock Exchange Act. The stock exchange commissioner and his deputies are appointed by the Minister of Finance, but act on behalf of the FMA and are bound by the instructions of the FMA, as the competent supervisory authority. The stock exchange commissioners (at present one stock exchange commissioner and two deputies) are to be invited to all shareholders' meetings, supervisory board meetings, all meetings of supervisory board committees with decision making power and meetings of the management board which decide on the admission of a member of the stock exchange, the suspension of stock exchange membership, the exclusion of stock exchange membership or the admission or withdrawal of admission to listing of negotiable instruments to the different types of trading. The stock exchange commissioners have the right to speak at any time if so requested. All minutes of the meetings of the bodies of the stock exchange operating company to which the stock exchange commissioners are invited must be sent to the stock exchange commissioners without delay. The stock exchange commissioners and their deputies have the right to visit trading sessions any time they wish. The stock exchange commissioner reviews all resolutions and decisions of the Vienna Stock Exchange and is entitled to object to any resolutions and decisions he considers to be in violation of applicable law. Any such objection by the stock exchange commissioner postpones the date as of which the resolution will take effect until the FMA reaches a decision on the matter.

24 Regulation of the Austrian Securities Market

The summary of Austrian securities markets regulation set forth below is for general information purposes only and contains certain significant issues of Austrian securities law and regulations. The summary does not purport to be a comprehensive description of all the topics discussed below.

24.1 General

The Austrian securities markets are regulated by a number of laws and regulations. The most important laws and regulations are the Stock Exchange Act, the Capital Markets Act or the directly applicable MAR. In addition, the Takeover Act applies to takeovers of shares of listed companies.

24.2 Notification and Disclosure of Shareholdings

If natural persons or legal entities (irrespective of whether domestic or foreign), directly or indirectly, acquire or sell shares in a stock corporation for which Austria is the home member state and the shares of which are listed on the Official Market of the Vienna Stock Exchange, then these persons or entities are obliged to notify the FMA, the Vienna Stock Exchange as well as the Company within two trading days after the acquisition or disposal of a major shareholding, provided that the proportion of the voting rights held reaches, exceeds or falls below a threshold of 4%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75% or 90%, respectively, as a consequence of the acquisition or disposal. The articles of association of a listed company can lower the reporting threshold to 3%. However, the Articles of Association of the Company do not provide for such reduced threshold. The notification period commences when the shareholder of a major shareholding gains, or should have gained, knowledge of the acquisition or sale.

The notification requirements of the Stock Exchange Act also apply to persons entitled to exercise voting rights in the Company in the following cases:

- voting rights of the other parties to a share pooling agreement with that person for the purpose of adopting a lasting common policy towards the management of the Company by voting shares in concert;
- voting rights attaching to shares that such person pledged as collateral, provided, that such person may exercise voting rights without the express instruction of the pledgee or can influence the pledgee's voting rights;
- voting rights attaching to shares that such person has a usufruct interest (*Fruchtgenussrecht*) in;
- voting rights exercised by an undertaking in which that person holds a direct or indirect controlling interest (as defined in the Takeover Act) or attributed to that person pursuant to the Takeover Act; and
- voting rights which may be exercised by that person without being shareholder or as proxy at its own discretion in the absence of specific instructions from the shareholders.

In addition, the disclosure requirements also apply to any person who directly or indirectly reaches, exceeds or falls below the above thresholds by holding certain financial or comparable instruments such as option rights, convertible bonds, futures or contracts for difference or certain swaps. In each case, rules on the aggregation of various positions in voting rights and financial instruments need to be observed.

The above thresholds are calculated based on all shares carrying voting rights even if the exercise thereof is suspended. The Company is also obligated to publish any changes in its share capital and the total number of voting rights at the end of the calendar month in which the respective change occurred.

Notification by the shareholder to the Company needs to include, inter alia, the number of voting rights held after the acquisition or disposal of shares, the chain of controlled undertakings through which voting rights are effectively exercised, the date on which the threshold was reached or exceeded as well as the identity of the shareholder and proxy. In case of financial instruments, the type of financial instrument as well as the expiration date/maturity, the exercise/conversion period/date as well as the number of shares and of voting rights that may be acquired if the instrument is exercised/converted must be disclosed.

The Company is required to disclose all information notified by a shareholder having reached or exceeded the above thresholds immediately, but no later than two trading days of being notified thereof.

In case the disclosure requirements are not complied with, voting rights may be temporarily suspended and administrative penalties may be imposed. If the disclosure requirements are violated by a natural person, such penalties can amount to up to the higher of (i) twice the benefit obtained or (ii) an amount of EUR 2,000,000. If the disclosure requirements are violated by a legal person, such penalties can amount to up to the higher of (i) 5% of the total annual turnover, (ii) twice the benefit obtained or (iii) an amount of EUR 10,000,000.

If the Company repurchases or disposes of its own shares it must publish the proportion of its own shares equaling, exceeding or falling below 5% or 10% of the voting rights without undue delay, but no later than two trading days of the purchase or disposal.

24.3 Managers' Transactions (Directors' Dealings)

Persons discharging managerial responsibilities (in particular members of the Management Board or Supervisory Board) of the Company must notify the Company and the FMA without undue delay, but not later than three business days after the date of existence of any transactions conducted on their own account relating to the Company's financial instruments such as shares, debt instruments, derivatives or other financial instruments linked to the Company's financial instruments traded on regulated markets, multilateral and organized trading facilities. This obligation is only applicable if the aggregate value of such transactions (including transactions of persons related to those with managerial responsibilities) exceeds EUR 5,000 per calendar year. The Company will ensure that such information is made public promptly and no later than three business days after the transaction in a manner which enables fast access to such information on a non-discriminatory basis. The form, content and type of disclosure of directors' dealings notifications are regulated by MAR and Commission implementing regulation (EU) 2016/523.

The same rules apply to persons who have a close relationship with persons undertaking managerial responsibilities, for example spouses, dependent children as well as any other family members who have lived in the same household for at least one year. Persons who have such close relationships are, in addition, legal persons, trusts or partnerships, the managerial responsibilities of which are discharged by a person discharging managerial responsibilities or by a person referred to in the previous sentence, or which is directly or indirectly controlled by such a person, or which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

Violations of directors' dealings constitute an administrative offence and may result in an administrative penalty imposed by the FMA in an amount of up to the three times the obtained benefit (including avoided losses) from the transaction or an amount of up to EUR 500,000 (EUR 1,000,000 in case of legal persons). In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

24.4 Insider Rules and Ad Hoc Publicity

24.4.1 Insider Rules

The MAR and the Stock Exchange Act prohibit the abuse of inside information.

Inside information is defined in the MAR as information of precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers, or one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments, because a reasonable investor would likely use such information as the basis for his/her investment decision.

Information must be deemed to be of a precise nature if it indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instruments.

An intermediate step in a protracted process must be deemed to be inside information if, by itself, it satisfies the criteria of inside information.

According to Section 163 Stock Exchange Act, an insider is any person who possesses inside information as a result of either (i) being a member of the administrative, management or supervisory body of the issuer; (ii) having a holding in the issuer, (iii) having access to the information through the practice of an employment or profession or performance of duties, or (iv) having obtained the information through criminal acts. If an insider is a legal rather than a natural person those persons who participate in the execution of the relevant transaction on behalf of such legal person are deemed insiders. Furthermore, any person who does not qualify as an insider will nevertheless be sanctioned under insider trading rules if such person knows or, but for gross negligence, should have known, that such information qualifies as inside information and makes use of such information in a penalized way.

Any person who possesses inside information and uses or intentionally attempts to use that information by acquiring or disposing of, for its own account or for the account of a third party, directly or indirectly, financial instruments to which that information relates, commits insider dealing. Using inside information by cancelling or amending an order for a financial instrument to which the information relates where the order was placed before the person concerned possessed the inside information, will also be considered to be insider dealing. Furthermore, a person must not recommend, on the basis of inside information, that another person acquires or disposes of financial instruments to which that information relates, or induce that person to make such a cancellation or amendment or to unlawfully disclose inside information. A violation of the prohibition

of insider dealing and unlawful disclosure of inside information is – depending on the circumstances - subject to (a) an administrative penalty of up to the higher of (i) three times the benefit (including losses avoided) obtained from the transaction or (ii) an amount of up to EUR 5,000,000 or (b) a criminal offence of up to five years' imprisonment. Legal persons using inside information in the aforementioned manner are subject to an administrative penalty of up to the higher of (i) 15% of the total annual turnover or (ii) three times the benefit (including losses avoided) obtained or (iii) an amount of up to EUR 15,000,000. In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

Market operators and investment firms that operate a trading venue will establish and maintain effective arrangements, systems and procedures aimed at preventing and detecting insider dealing, market manipulation and attempted insider dealing and market manipulation.

The MAR also requires the Company to draw up a list of all persons who have access to inside information and who are working for it under a contract of employment, or otherwise performing tasks through which they have access to inside information, such as advisers, accountants or credit rating agencies. The Company is required to regularly update this list and submit it to the FMA, whenever requested.

Pursuant to the Stock Exchange Act, the Company is inter alia obligated to:

- inform its employees and other persons providing services to it about the prohibition on the abuse of inside information;
- issue internal directives for the communication of information within the Company and monitor compliance; and
- take organizational measures to prevent the abuse of inside information or its disclosure to third parties.

The MAR for instance will require the Company to maintain insider lists. Therefore, the Company will be required to establish a register of persons working for them who have access to inside information, whether on a regular or on an occasional basis. The Company will be required to regularly update this register and submit it to the FMA, whenever requested.

Ad hoc Information

Furthermore, as the Existing Shares will be admitted to trading on the Official Market, the MAR will require the Company to disclose to the public without delay (*unverzüglich*) any inside information that directly concerns it on a non-discriminatory basis (so-called ad-hoc announcement). Material changes to published inside information must also be published and identified as such. Publication must be made through an EU-wide electronic information dissemination system. The Company may delay the public disclosure of inside information in order not to prejudice its legitimate interests, provided that (i) such delay of disclosure would not be likely to mislead the public and (ii) the Company is able to ensure confidentiality of such information. The Company is obligated to inform the FMA immediately after having published an ad-hoc announcement if it had delayed disclosure of the information.

24.5 Market Manipulation

Market manipulation, as defined in the MAR, refers to (i) entering into a transaction, placing an order to trade or any other behavior which, (a) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument a related spot commodity contract or an auctioned product based on emission allowances, or (b) secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level (unless the person entering into a transaction, placing an order to trade or engaging in any other behavior establishes that such transaction, order or behavior have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with MAR), and (ii) entering into a transaction, placing an order to trade or any other activity or behavior which affects or is likely to affect the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances, which employs a fictitious device or any other form of deception or contrivance, and (iii) disseminating information through the media, including the internet, or by any other means, which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument a related spot commodity contract or an auctioned product based on emission allowances, or secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level (including the dissemination of rumors, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading), and (iv) transmitting false or misleading information or providing false or misleading inputs in relation to a benchmark where the person who made the transmission or provided the input knew or ought to have known that it was false or misleading, or any other behavior which manipulates the calculation of a benchmark.

Market manipulation and intentionally attempted market manipulation is, depending on the circumstances, subject to (a) an administrative penalty of up to the higher of (i) to three times the benefit (including losses avoided) obtained from the transaction or (ii) an amount of up to EUR 5,000,000, or (b) a criminal penalty of up to five years' imprisonment. Legal

persons committing market manipulation in the aforementioned manner are subject to an administrative penalty of up to the higher of (i) three times the benefit (including losses avoided) obtained, (ii) 15% of the total annual turnover or (iii) an amount of up to EUR 15,000,000. In addition, the FMA may declare any pecuniary advantage attained by such transaction or trade order forfeited.

24.6 Takeover Act

The Takeover Act primarily applies to public offers for the acquisition of shares of Austrian stock companies which are admitted to trading on the Official Market of the Vienna Stock Exchange.

The Takeover Act distinguishes between voluntary public takeover offers (*freiwillige öffentliche Übernahmeangebote*), mandatory offers (*Pflichtangebote*) and voluntary offers to acquire control (*freiwillige Angebote zur Kontrollerlangung*). A mandatory offer must be made when a shareholder or a group of shareholders or any third person or persons acting in concert have gained a direct or indirect controlling interest over a listed company. A direct controlling interest is presumed in the case of a direct participation of more than 30% of the voting rights of the target company. An indirect controlling interest is presumed if a participation of more than 30% of the voting rights of the target company is held (i) through a listed stock corporation, which is directly controlled by the bidder or (ii) through another legal entity over which the bidder has a controlling influence. A participation of more than 30% of the voting rights is not deemed a controlling interest if it cannot convey control over a listed company or if the shareholder actually exercising control does not change from an economic point of view. This is the case if, for instance, another shareholder or group of shareholders holds at least the same percentage of voting rights as the bidder, if the shares do not convey the majority of votes due to the presence of other shareholders in past shareholders' meetings or if the articles of association provide for a maximum voting right (*Höchststimmrecht*) of up to 30%. An issuer may lower this 30% threshold in its articles of association. However, the Company has not provided for a lower threshold in its Articles of Association.

The Takeover Act provides for a "safe harbor" pursuant to which the acquisitions of voting rights not exceeding 30% cannot trigger a mandatory bid.

Under the "creeping-in" rule, the extension of an existing controlling interest will also trigger a mandatory offer, if a person with a controlling interest who does not have a majority of the voting rights of a listed company acquires an additional 2% or more of the voting rights within a period of twelve months. The "creeping-in" rule, accordingly, only applies to a shareholding between 30% and 50%.

In case of a "passive" acquisition of control, there is no requirement to launch a mandatory bid if the acquirer of a controlling interest could not reasonably expect the acquisition of control at the time of acquiring the participation. The voting rights exceeding a participation of 26% are suspended. The Austrian Takeover Commission (*Übernahmekommission*; the ***ATC***) may, upon application, impose conditions on the bidder instead of suspending voting rights. No relief from suspension of voting rights exceeding 30% of the share capital can be granted.

As a rule, the price for a voluntary public takeover offer can be freely determined. The offer price for a mandatory offer or a voluntary offer to acquire control must be equal to at least the volume-weighted average share price during the last six months before the day when the intention to make an offer is published and must be equal to at least the highest consideration paid or agreed to be paid by the bidder (or parties acting in concert) during the last twelve months before filing the offer with the ATC. In certain cases, an adequate price may apply and in certain other cases where there is a very small amount of trading in the shares the average share price may not be relevant (as determined by the Takeover Commission in 2013).

The articles of association of a stock corporation can, inter alia, stipulate that during the takeover process certain restrictions on transfer and voting rights with respect to shares of the target company are not applicable ("break through"). The acquirer of an interest of at least 75% of the share capital of a stock corporation can call a shareholders' meeting within six months of a takeover process. If, in such a shareholders' meeting, a vote is taken on changes to the articles of association (in particular, the abolition of transfer restrictions, voting right restrictions and delegation rights) or the recall or election of members of the supervisory board, restrictions on voting rights do not apply ("breakthrough-rule"). The Company's Articles of Association do not provide for such rules due to the lack of restrictions on the transfer of Existing Shares or on voting rights.

The Takeover Act requires that the bidder prepares offer documents to be examined by an independent expert, either a qualified auditor or a bank, before being filed with the ATC and the target company. The management board and the supervisory board of the target company must issue a statement on the offer, which is also subject to a mandatory examination by an independent expert. The works council also has the right to submit a public written statement on the takeover offer. Any higher offer or other competitive offer must follow the same rules. From publication of a bidder's intention to submit a public offer, the management board and the supervisory board of the target company generally may not undertake measures to jeopardize the offer. The bidder and the parties acting in concert must refrain from selling any shares in the target company and from purchasing target shares for a higher consideration than offered in the offer. Violation of any legal provision may result in the obligation to pay the difference between the price such shares have been purchased and/or sold at and the price offered in the bid to all shareholders who have accepted such bid, in the suspension of voting rights and in fines imposed by the ATC.

The time allowed for the acceptance of a bid is no less than two weeks and no more than ten weeks from the date of the publication of the offer document. In certain scenarios, including a mandatory bid, there is an additional acceptance period of three months following the publication of the result of the public bid.

The ATC controls the application of the Takeover Act and has the power to fine any party that commits infringements of the Takeover Act. In addition to other civil and administrative sanctions, violations of provisions of the Takeover Act can result in the suspension of voting rights of the violator's shares and, in the case of serious violations, suspension of other shareholder rights. The ATC may institute proceedings ex officio and is not subject to oversight by any other regulatory authority.

24.7 Squeeze-out of Minority Shareholders

Pursuant to Squeeze-out Act, a majority shareholder holding no less than 90% of the entire (voting and non-voting) share capital (reduced by treasury shares, if any) of a corporation may squeeze out the remaining shareholders at an equitable price. The squeeze-out right is general and is not limited to a preceding takeover offer. The minority shareholders are not entitled to block the squeeze-out but have the right of separate judicial review of the fairness of the compensation paid for their minority stake. If a squeeze-out follows a takeover offer, the consideration offered in the takeover bid is presumed to be fair where, through the acceptance of the offer, the bidder has acquired shares representing no less than 90% of the share capital entitled to vote in the target company.

24.8 Delisting

With the revision of the Stock Exchange Act (with effect as of January 3, 2018), a regular procedure for delisting of a company listed on the Official Market of the Vienna Stock Exchange was introduced in Austrian law.

Such procedure includes as pre-requisites inter alia the following:

- the shares must have been listed for at least three years;
- a shareholder's resolution with a three-fourth majority to delist the company;
- a mandatory takeover offer pursuant to the Takeover Act (see "23.6 Takeover Act") must have been launched within six months prior to the filing of the application for delisting and, thereby, granting the shareholders of the listed company the option to sell their shares at a price that meets the requirements of the Takeover Act as outlined below.

Also, to prevent circumvention of this new procedure by, e.g., causing a "cold delisting", the Stock Corporation Act, the Austrian Demerger Act (*Spaltungsgesetz*) and the Austrian EU-Merger Act (*EU-Verschmelzungsgesetz*) were amended also with effect as of January 3, 2018, to implement for various restructuring measures (e.g., the conversion of a listed stock corporation into a limited liability company that cannot be listed) the requirement of a mandatory takeover offer pursuant to the Takeover Act after the required shareholders' resolution to delist was adopted.

In the course of such mandatory takeover offers the offer price must be at least the higher of (i) any cash compensation granted by the bidder or parties acting in concert with the bidder for the target company's equity securities over the past twelve months prior to notification of the offer, or (ii) the volume weighted average price of the respective security over the six months preceding the day on which the bidder announces its intention to launch an offer or (iii) the volume weighted average price of the respective security over the five trading days preceding the day on which the bidder announces its intention to launch an offer. If the minimum price calculated as outlined above obviously is below the actual value of the company, the offer price must be set adequately. Thus, with the revision of the Stock Exchange Act and the amendment of the other legislation outlined above, shareholders in a company listed in the Official Market will in any event be granted adequate cash exit rights in the event of a delisting.

24.9 Short Selling

On March 24, 2012, Regulation (EU) No 236/2012 of the European Parliament and the Council of March 14, 2012 on short selling and certain aspects of Credit Default Swaps was published. The short selling regulation applies from November 1, 2012. According to the regulation, short selling may (subject to certain exemptions) be temporarily banned or restricted either by national regulators or by the European Securities and Market Authority. It provides a coordinated European framework on short selling that aims at greater transparency, increases the powers of regulators and addresses the specific risks of naked short selling by requiring that in order to enter a short sale, an investor must have borrowed the instruments concerned, entered into an agreement to borrow them, or have an arrangement with a third party to locate and reserve them for lending so that they are delivered by the settlement date.

24.10 Control of Accounting Act

On July 1, 2013, the Austrian Control of Accounting Act (*Rechnungslegungs-Kontrollgesetz*) entered into force. It ensures that financial information (annual reports as well as interim financial information) as well as certain other information published by entities having securities admitted to trading on a regulated market in Austria are compliant with national and international accounting standards. To this end, either the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für* Rechnungslegung), acting for the FMA, or the FMA directly, conducts audits either on a random basis or on a targeted basis when indications exist that accounting standards have been infringed. The FMA will issue a decree on any inaccuracies detected in the course of such audit which can be appealed before the independent Austrian Federal Court of Appeal (*Bundesverwaltungsgerichtshof*). In addition, inaccuracies detected may also be made public if the public interest to be informed about such findings overrides the respective entity's interest of keeping the findings confidential.

25 Taxation

25.1 Austrian Taxation Considerations

This section on taxation contains a brief summary of the Company's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Existing Shares in Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential shareholders. The following comments are rather of a general nature and included herein solely for information purposes. These comments are not intended to be, nor should they be construed to be, legal or tax advice. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the Existing Shares consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Existing Shares.

In this summary, Austrian legal concepts are expressed in English terms and not in the original German terms. The Austrian legal concepts concerned may not be identical to the concepts expressed in English terms.

The Company does not assume any responsibility for the withholding of tax at source.

25.1.1 General Remarks – Unlimited and limited (corporate) income tax liability

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Companies having their place of management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Companies having neither their place of management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability, Austria's right to tax may be restricted by double taxation treaties.

25.1.2 Income Tax and Corporate Income Tax

25.1.2.1 The requirements for classifying a payment as a dividend

For tax law purposes, whether an open profit distribution by an Austrian company may be treated as a dividend depends on the amount of the distributing company's "internal finance" (*Innenfinanzierung*) as well as on the amount of its capital contributions (*Einlagenstand*), so called "external finance" (*Außenfinanzierung*). To the extent the amount of the distributing company's "internal finance" is positive, the profit distribution may be treated as a dividend for tax law purposes unless the distributing company has also a positive capital contribution account and has opted for a tax treatment of the distribution as redemption of capital contributions (*Einlagenrückzahlung*). If the amount of the distributing company's "internal finance" is negative, the profit distribution has to be treated as redemption of capital contributions for tax purposes to the extent the distributing company's capital contributions account is positive. If the distributing company's capital contributions account is negative, the distribution has to be treated as an open profit distribution for tax law purposes to the extent the distributing company's "internal finance" is positive. If neither the amount of the distributing company's "internal finance" nor its capital contributions account is positive, the profit distribution is treated as a dividend for tax law purposes.

If a profit distribution is treated as redemption of capital contributions, it is deemed to be a sale (disposal) of the participation that reduces the shareholder's book value or acquisition costs of the share. To the extent the amount of the profit distribution exceeds the book value or acquisition costs of the shares, it leads to a capital gain.

25.1.2.2 Taxation of Dividends

Dividends distributed by an Austrian company are generally subject to Austrian withholding tax (*Kapitalertragsteuer*), levied at a general rate of 27.5%. The company, or the bank paying out the dividend on the company's behalf, is required to issue a

certificate to the shareholders showing the gross dividend, the tax withheld, the date of payment and the period in respect of which the dividend is payable, and also the tax office to which the tax withheld was remitted.

For individuals holding the Existing Shares who are subject to unlimited income tax liability, this 27.5% Austrian withholding tax is a final tax (*Endbesteuerung*), i.e. no income tax is levied over and above the amount withheld. Furthermore, the dividends do not have to be included in the shareholder's income tax return (*Einkommensteuererklärung*). However, upon application, the option exists to tax dividend income subject to the tax rate of 27.5% (together with other income subject to a special tax rate for income from financial assets) at the regular progressive income tax rate (so-called option for regular taxation, *Regelbesteuerungsoption*). Expenses incurred by the shareholder in connection with the Existing Shares (including interest expenses) may not be deducted for income tax purposes. This also applies if the option for regular taxation is exercised.

For corporate holders of the Existing Shares who are subject to unlimited corporate income tax liability, dividends derived from a participation in an Austrian company are exempt from corporate income tax. Such dividends distributed by the Company are generally subject to Austrian withholding tax; in case of corporations in the meaning of Sec. 1(1) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*, the ***Corporate Income Tax Act***) receiving the dividend payments, the Austrian withholding tax may be levied at a rate of 25% (instead of 27.5%). Any tax withheld is credited against the corporate income tax assessed; any excess amount may be reclaimed. No Austrian withholding tax has to be deducted from the dividends where a corporate shareholder subject to unlimited corporate income tax liability holds at least 10% of the share capital of the distributing company. Apart from interest expenses connected with the acquisition of Existing Shares from non-related parties, no expenses incurred by the corporate shareholder in connection with the Existing Shares may be deducted for corporate income tax purposes.

Private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*, the ***Private Foundations Act***) are subject to special provisions that exempt dividends from corporate income tax. Any tax withheld is credited against the corporate income tax assessed; excess amounts may be reclaimed.

For (individual and corporate) holders of the Existing Shares who are subject to limited (corporate) income tax liability, dividends distributed by an Austrian company are generally also subject to Austrian withholding tax; in case of corporations in the meaning of Sec. 1(1) Corporate Income Tax Act receiving the dividend payments, the Austrian withholding tax may be levied at a rate of 25% (instead of 27.5%). This Austrian withholding tax on dividend payments is a final tax (unless received via an Austrian permanent establishment), subject however to applicable double taxation treaties.

In general, Austrian double taxation treaties reduce Austria's right to tax. In this case any levied Austrian withholding tax exceeding the rate provided in the double taxation treaty will be refunded by the Austrian tax authorities upon request. In this respect, a shareholder of the Existing Shares will generally have to provide a certificate of residence issued by the tax authorities of its country of residence. The reclaim forms and instructions may be obtained from the website operated by the Austrian Federal Ministry of Finance (http://www.bmf.gv.at) (information on the website of the Austrian Federal Ministry of Finance is not incorporated by reference into this Prospectus). Tax treaty relief from Austrian withholding tax at source may only be granted by the distributing company if the requirements of the Austrian relief at source rules as set forth in the Ordinance of the Austrian Federal Minister of Finance on Tax Treaty Relief (*DBA-Entlastungsverordnung*) are met. However, even in this case, the distributing company is not obliged to grant tax treaty relief at source.

Dividends which are attributable to an Austrian permanent establishment (*Betriebsstätte*) of a company resident in an EU Member State or a company resident in an EEA member state are exempt from corporate income tax. Any tax withheld is credited against the corporate income tax assessed; any excess amount may be reclaimed.

Dividends paid to a company resident in an EU Member State, if it has one of the legal forms listed in the EU-Parent Subsidiary Directive (Council Directive 2011/96/EU as amended), are exempt from Austrian withholding tax if the EU resident company has held at least 10% of the share capital in the distributing company for an uninterrupted period of at least one year and meets certain additional (in particular anti-abuse) criteria.

Companies resident in an EU Member State or in an EEA member state may claim a refund of Austrian withholding tax levied on dividend distributions made by Austrian companies to the extent that such Austrian withholding tax may not be credited against the tax burden in the country of residence of the dividend recipient under the applicable double taxation treaty which fact must be proven by the companies claiming the refund.

25.1.2.3 Taxation of Capital Gains

For individuals subject to unlimited income tax liability, holding the Existing Shares as private (non-business) assets (*Privatvermögen*), capital gains realized upon a sale or another taxable disposal are subject to income tax. Realized capital gains qualifying as income from financial assets with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically income that is paid by an Austrian securities depository (*depotführende Stelle*) or by an Austrian paying agent (*auszahlende Stelle*) provided the non-Austrian securities depository is a non-Austrian branch or group company of such paying agent and processes the payment in cooperation with the paying agent, are subject to Austrian withholding tax at a rate of 27.5%. This 27.5% Austrian withholding tax is a final tax; no additional income tax is levied over and above the amount of

tax withheld. In the case of income from realized capital gains without an Austrian nexus, the income must be included in the income tax return and is subject to a special income tax rate of 27.5%. In both cases, the option exists to tax all income from financial assets subject to a special tax rate at the regular progressive income tax rate (so-called option for regular taxation).

Losses from the sale of Existing Shares which are held as private assets may only be offset against other investment income subject to a special tax rate in the meaning of Sec. 27a(1) of the Austrian Income Tax Act (*Einkommensteuergesetz*, the ***Income Tax Act***) (excluding, amongst others, interest income from savings accounts or other non-securitized debt claims against credit institutions (except for manufactured payments and lending fees) or distributions effected by foundations in the meaning of Sec. 27(5)(7) Income Tax Act) and must not be offset against any other income. Generally, a set-off of losses requires the filing of an income tax return with the competent tax office (*Verlustausgleichsoption*). However, the Austrian securities depositories will apply an automatic set-off of losses against investment income from securities accounts at the same securities depository (subject to certain limitations). In this case, the shareholder should receive a certificate showing, amongst other things, the deposit-related positive and negative income that has arisen during the respective calendar year and the total amount of negative income and credits that have been taken into account with respect to set-off of losses from his bank. A carry-forward of any such losses is not permitted.

For individual holders of the Existing Shares who are subject to unlimited income tax liability, holding the Existing Shares as business assets (*Betriebsvermögen*), capital gains realized upon a sale or another taxable disposal are subject to income tax. In the case of income from capital gains with an Austrian nexus (as described above), the income is subject to Austrian withholding tax at a rate of 27.5%. The capital gains must always be included in the income tax return, and are taxed at a flat (special) income tax rate of 27.5%, with any Austrian withholding tax being credited. In addition, the option exists to tax all income subject to a special tax rate for financial assets at the regular progressive income tax rate (so-called option for regular taxation, see already above). The 27.5% rate will not apply if generating this type of income constitutes a key area of the taxpayer's business activity. Write-downs to the going-concern value and losses derived from the sale or other taxable disposal of Existing Shares which are held as business assets must primarily be set off against positive income from either realized capital gains and write-ups of financial instruments and derivatives of the same business and only 55% of the remaining loss may be set off against any other income or carried forward to subsequent years.

For corporate holders of the Existing Shares who are subject to unlimited corporate income tax liability, capital gains realized upon the sale or other taxable disposal of the Existing Shares are taxed at the normal corporate income tax rate of 25%. Private foundations pursuant to the Private Foundations Act fulfilling the prerequisites contained in Sec. 13(3) and (6) Corporate Income Tax Act and holding the Existing Shares as a private asset are subject to interim taxation at a rate of 25% on income from realized capital gains in the Existing Shares. Interim tax does not become due insofar as distributions subject to Austrian withholding tax are made to beneficiaries in the same tax period. In the case of capital gains with an Austrian nexus (as described above), the income is, in general, subject to Austrian withholding tax of 27.5% (which can be reduced to 25%), which can be credited against the tax due. Dividends received by a private foundation holding the Existing Shares as a private asset are exempt from Austrian withholding tax pursuant to Sec. 94(12) Income Tax Act.

For corporate shareholders subject to unlimited income tax liability, write-downs of Existing Shares and losses derived from the sale of Existing Shares are subject to special provisions. First, the shareholder has to substantiate that the write-down or loss has no causal relationship with a tax-exempt dividend distribution. Otherwise, the write-down or loss would not be tax deductible. Second, the write-down or loss may also not be tax deductible insofar as there is an economic relationship with a capital contribution by an indirect shareholder. Third, if the corporate shareholder and the issuing company are part of the same tax group, the write-down or loss is not tax deductible. Fourth, if neither of these provisions applies the write-down or loss may generally only be deducted over a period of seven years if the Existing Shares are part of the fixed assets (*Anlagevermögen*) of the shareholder.

For (individual and corporate) holders of the Existing Shares who are subject to limited (corporate) income tax liability, capital gains realized upon a sale or other taxable disposal are generally only taxable if the shareholder has, at any point in time during the five years prior to the sale, held a participation of at least 1% or, alternatively, if the Existing Shares are attributable to an Austrian permanent establishment. Except for the case of an Austrian permanent establishment, most Austrian double taxation treaties defer the exclusive taxation right with respect to these capital gains to the shareholder's country of residence.

In all of the cases outline above, withdrawals and other transfers of the Existing Shares from the securities account (*Entnahmen oder sonstiges Ausscheiden aus dem Depot*), are in general deemed as a disposal of the Existing Shares (treated as a sale) upon which capital gains are realized. As an exception to this general rule, withdrawals and other transfers of the Existing Shares from the securities account are not treated as disposals (sales), provided that they do not lead to a restriction of Austria's taxing right with respect to the Existing Shares and if, in addition, specified exemptions pursuant to Sec. 27(6)(2) Income Tax Act will be fulfilled, such as the transfer of the Existing Shares to a securities account owned by the same taxpayer (i) with the same Austrian securities depository (bank), (ii) with another Austrian bank if the account holder has instructed the transferring bank to disclose the acquisition costs to the receiving bank or (iii) with a non-Austrian bank, if the account holder has instructed the transferring bank to transmit the pertaining information to the competent tax office or (iv) has, in the case of transfers from a foreign account, himself notified the competent Austrian tax office within a month; or (v) like the transfer without consideration to a securities account held by another taxpayer, if the fact that the transfer has been

made without consideration has been evidenced to the bank or the bank has been instructed to inform the Austrian tax office thereof or if the taxpayer has himself notified the competent Austrian tax office within a month.

Furthermore, any circumstances which lead to a restriction of Austria's taxing right with respect to the Existing Shares vis-à-vis other countries, including e.g. the transfer of the shareholder's tax residence (*Wegzug*) outside of Austria or the transfer of the Existing Shares to a non-Austrian resident individual or company without consideration (*unentgeltliche Übertragung*), are, in general, deemed as disposal of the Existing Shares resulting in capital gains taxation (exit taxation). In case an individual holding the Existing Shares as private assets transfers his or her tax residence outside of Austria to an EU Member State or a member state of the EEA or transfers the Existing Shares for no consideration to another individual resident in an EU Member State or a member state of the EEA, exit taxation can be deferred until the actual disposal of the Existing Shares upon application. In all other cases leading to a restriction of Austria's taxation right vis-à-vis an EU Member State or a member state of the EEA, the (individual or corporate) shareholder may apply for a payment of the triggered income tax in instalments over a period of seven years (as from January 1, 2019: five years). In the event that the Existing Shares represent current business assets (*Umlaufvermögen*), however, a payment period of two years applies instead.

25.1.2.4 Tax Cooperation Agreement Austria/Liechtenstein

The Treaty between Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation (the ***Tax Cooperation Agreement***) was revised with regard to the implementation of the AEOI-Agreement between Austria and Liechtenstein with effect from January 1, 2017. As a result certain accounts of tax transparent asset structures (*steuerlich transparente Vermögensstrukturen*) existing on December 31, 2016 and of non-transparent asset structures (*steuerlich intransparente Vermögensstrukturen*) may further be subject to the Tax Cooperation Agreement and exempt from AEOI. The Tax Cooperation Agreement provides that a Liechtenstein paying office (*Zahlstelle*) has to withhold a tax amounting to 25 or 27.5% on, inter alia, interest income, dividends and capital gains from assets booked with an account or deposit of such Liechtenstein, paying office or managed by a Liechtenstein paying office, if the relevant holder of such assets (mainly individuals on their own behalf and beneficial owners of assets, held by a company domiciled in Liechtenstein) is tax resident in Austria. For Austrian income tax purposes this withholding tax has the effect of final taxation regarding the underlying income if the Austrian Income Tax Act provides for the effect of final taxation for such income. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorizing the Liechtenstein, paying office to disclose to the competent Austrian authority the income and capital gains; these subsequently have to be included in the income tax return.

25.1.3 Inheritance and Gift Tax

25.1.3.1 Austria does not levy inheritance or gift tax.

However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to a foundation entry tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Entry Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in the event of a transfer mortis causa of financial assets within the meaning of Sec. 27(3) and (4) Income Tax Act (except for participations in companies) if income from such financial assets is subject to the special tax rate of 27.5% or 25%. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases. Since January 1, 2014, special provisions apply to entities falling under the scope of the Tax Cooperation Agreement.

In addition, a special notification obligation exists for gifts of money, receivables, shares in companies, participations in partnerships, businesses, movable tangible assets and intangibles. The notification obligation applies if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by the notification obligation. In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Entry Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred.

Further, it should be noted that gratuitous transfers of the Existing Shares may trigger income tax at the level of the transferor pursuant to Sec. 27(6)(1) and (2) Income Tax Act (see above).

25.1.4 Other Taxes

The sale and purchase of the Existing Shares is exempt from Austrian VAT with no right to deduct input VAT for related expenses.

Generally no Austrian stock exchange transfer tax or stamp duty is actually levied on the purchase or sale of shares in an Austrian company either having its seat or its place of management in Austria. Capital Contribution Tax (*Gesellschaftsteuer*) has been abolished in Austria with effect from January 1, 2016.

25.2 Certain U.S. Federal Income Tax Considerations for U.S. Holders

The following discussion is a general summary based on present law of certain U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of Existing Shares. This discussion is not a complete description of all tax considerations that may be relevant to a prospective investor and is not a substitute for tax advice. It addresses only U.S. Holders (as defined below) that purchase Existing Shares in the Private Placement, will hold Existing Shares as capital assets and use the U.S. dollar as their functional currency. This discussion does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including tax consequences applicable to U.S. Holders subject to special rules, such as banks and other financial institutions, insurance companies, dealers in currencies and securities, traders in securities that elect to mark-to-market, regulated investment companies, real estate investment trusts, tax-exempt entities, pass-through entities (including S-corporations), persons owning directly, indirectly or constructively 10% or more of the total combined voting power of the Company's voting stock or of the total value of the Company's share capital, U.S. expatriates, persons liable for alternative minimum tax, persons holding Existing Shares as part of a hedge, straddle, conversion, constructive sale or other integrated financial transaction or persons holding Existing Shares in connection with a permanent establishment or fixed base outside the United States. This summary also does not address U.S. federal taxes other than the income tax (such as estate or gift taxes) or U.S. state and local, or non-U.S. tax laws or considerations.

As used in this section, "U.S. Holder" means a beneficial owner of Existing Shares that is, for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organized under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of one or more U.S. persons and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income tax without regard to its source.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Existing Shares generally will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their own tax advisors regarding the specific U.S. federal income tax consequences to their partners of the partnership's acquisition, ownership and disposition of Existing Shares.

25.2.1 Dividends

Subject to the discussion below under "—Passive Foreign Investment Company Rules," the gross amount of any distribution of cash or property with respect to Existing Shares, including Austrian tax withheld therefrom, if any, should be included in a U.S. Holder's gross income as ordinary dividend income from foreign sources when received. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations. If the Company qualifies for benefits under the tax treaty between the United States and the Republic of Austria (the Treaty) and is not a PFIC in the year of distribution or in the preceding year, dividends on Existing Shares will qualify for the reduced rates applicable to qualified dividend income of certain eligible non-corporate U.S. Holders that satisfy a minimum holding period and other generally applicable requirements. The Company believes it will qualify for benefits under the Treaty.

Dividends paid in a currency other than U.S. dollars will be includable in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt whether or not the currency is converted into U.S. dollars or otherwise disposed of at that time. A U.S. Holder's tax basis in the non-U.S. currency will equal the U.S. dollar amount included in income. Any gain or loss realized on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount generally will be U.S. source ordinary income or loss. If dividends paid in a currency other than U.S. dollars are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

A U.S. Holder that is eligible for benefits under the Treaty may be able to claim a reduced rate of Austrian withholding tax on dividends received on Existing Shares. Each U.S. Holder should consult its own tax advisor about its eligibility for reduction of Austrian withholding tax. Subject to generally applicable limitations, a U.S. Holder may claim a deduction or a foreign tax credit only for Austrian tax withheld at the appropriate rate. However, a U.S. Holder will not be allowed a foreign tax credit for withholding tax it could have reasonably avoided by claiming benefits under the Treaty through appropriate procedures. See "*25.1.2.2 above"*—for a discussion of reclaim forms and instructions relating to Austrian withholding tax. In computing foreign tax credit limitations, non-corporate U.S. Holders eligible for the preferential tax rate applicable to qualified dividend income may take into account only the portion of the dividend effectively taxed at the highest applicable marginal rate. For purposes of the U.S. foreign tax credit limitation, dividends received with respect to the Existing Shares should generally constitute "passive category income." The rules governing foreign tax credits or deductions are complex and each prospective investor is urged to consult its own tax advisor regarding the availability of foreign tax credits or deductions under its particular circumstances.

25.2.2 Dispositions

Subject to the discussion below under "—Passive Foreign Investment Company Rules," a U.S. Holder generally will recognize capital gain or loss on the sale or other disposition of Existing Shares in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's adjusted tax basis in Existing Shares. Any gain or loss generally will be treated as arising from U.S. sources and will be long-term capital gain or loss if the U.S. Holder's holding period exceeds one year. A loss may nonetheless be a long-term capital loss regardless of a U.S. Holder's actual holding period to the extent the U.S. Holder has received qualified dividends eligible for reduced rates of tax prior to a sale or other disposition of its Existing Shares that exceeded 10% of such U.S. Holder's basis in its Existing Shares. Deductions for capital loss are subject to significant limitations.

The initial tax basis of a U.S. Holder's Existing Shares generally will be the U.S. dollar value of the purchase price paid in the Private Placement. If the Existing Shares are treated as traded on an "established securities market" at the time of the Private Placement, a cash basis U.S. Holder (or, if it elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the purchase price paid in the Private Placement by translating the amount paid in a currency other than U.S. dollars at the spot rate of exchange on the settlement date of the purchase. A U.S. Holder that receives a currency other than U.S. dollars on the sale or other disposition of Existing Shares will realize an amount equal to the U.S. dollar value of the currency received at the spot rate on the date of sale or other disposition (or, if the Existing Shares are traded on an "established securities market" at the time of disposition, in the case of cash basis and electing accrual basis U.S. Holders, the settlement date). A U.S. Holder that does not determine the amount realized using the spot rate on the settlement date will recognize foreign currency gain or loss if the U.S. dollar value of the currency received at the spot rate on the settlement date differs from the amount realized. A U.S. Holder will have a tax basis in the currency received equal to its U.S. dollar value at the spot rate on the settlement date. Any gain or loss realized on the settlement date or on a subsequent disposition or conversion of the non-U.S. currency for a different U.S. dollar amount generally will be U.S. source ordinary income or loss.

U.S. Holders that are eligible for the benefits of the Treaty should not be subject to any Austrian tax imposed on gain realized on the sale or other disposition of Existing Shares. Subject to applicable limitations, any Austrian tax imposed on capital gains in respect of the sale or other disposition of Existing Shares by a U.S. Holder that is not eligible for the benefits of the Treaty will be creditable against such U.S. Holder's federal income tax liability. However, since such capital gains will generally be income or loss from sources within the United States for foreign tax credit limitation purposes, a U.S. Holder may not be able to credit all or a part of such tax against its federal income tax liability.

25.2.3 Passive Foreign Investment Company Rules

In general, a non-U.S. corporation is a PFIC for any taxable year in which, taking into account a pro rata portion of the income and assets of 25% or more owned subsidiaries, either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the average value of its assets is attributable to assets that produce or are held to produce passive income. For this purpose, passive income generally includes, among other things, interest, dividends, rents, royalties and gains from the disposition of investment assets (subject to various exceptions) and property that produces passive income.

However, if a company is considered to be an active bank for purposes of the PFIC rules, its "banking income" is treated as active income even if it would otherwise be classified as passive income. The U.S. Internal Revenue Service (the ***IRS***) has issued a Notice and proposed regulations providing guidance for determining whether a non-U.S. bank will be considered active for purposes of the active banking income exception. Based on the Notice and these proposed regulations, the Company believes that is has not been a PFIC for its most recently completed taxable year and does to expect to be a PFIC for the current year or in the foreseeable future. However, the application of the active banking income exception is uncertain and guidance may change, possibly with retrospective effect. Accordingly, no assurance can be given that the Company has not been or will not be considered a PFIC in any given year.

If the Company were a PFIC for any taxable year in which a U.S. Holder holds Existing Shares, such U.S. Holder will be subject to additional taxes on any excess distributions and any gain realized from the sale or other taxable disposition of Existing Shares (including certain pledges) regardless of whether the Company continues to be a PFIC. A U.S. Holder will have an excess distribution to the extent that distributions on the Existing Shares during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or gain is allocated ratably over the U.S. Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the Company became a PFIC is taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

A U.S. Holder may be able to avoid some of the adverse impacts of the PFIC rules described above by electing to mark such U.S. Holder's Existing Shares to market annually. The election is available only if the Existing Shares are considered "marketable stock," which generally includes stock that is regularly traded in more than de minimis quantities on a qualifying exchange. If a U.S. Holder makes the mark-to-market election, any gain from marking the Existing Shares to market or from

disposing of them would be ordinary income. Any loss from marking the Existing Shares to market would be recognized only to the extent of unreversed gains previously included in income. Loss from marking the Existing Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark-to-market gains previously included in income. No assurance can be given that the Existing Shares will be traded in sufficient frequency and quantity to be considered "marketable stock" or whether the Vienna Stock Exchange is or will continue to be considered a qualifying exchange for purposes of the PFIC mark-to-market election. A valid mark-to-market election cannot be revoked without the consent of the IRS unless the Existing Shares cease to be marketable stock.

Each U.S. Holder is encouraged to consult its own tax advisor as to the Company's status as a PFIC and whether a mark-to-market election is available or desirable in their particular circumstances.

25.2.4 Medicare Tax on Net Investment Income

Certain non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to a 3.8% surtax tax on their "net investment income" (which generally includes, among other things, dividends on, and capital gain from the sale or other disposition of Existing Shares). Non-corporate U.S. Holders should consult their own tax advisors regarding the possible effect of such tax on their ownership and disposition of Existing Shares.

25.2.5 Reporting and Backup Withholding

Dividends on, and proceeds from the sale or other disposition of, Existing Shares may be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to reportable payments unless the holder makes the required certification, including providing its taxpayer identification number or otherwise establishes a basis for exemption. Any amount withheld may be credited against a U.S. Holder's U.S. federal income tax liability or refunded to the extent it exceeds the holder's liability, provided the required information is timely furnished to the IRS.

Certain U.S. Holders are required to report information with respect to Existing Shares not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors about these and any other reporting obligations arising from their investment in Existing Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE EXISTING SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

26 Selling Restrictions

United States

In the underwriting agreement, each of the Underwriters will undertake to refrain from (either by itself or through any of its affiliates nor any person acting on its or their behalf) (i) offering, selling, soliciting offers to buy or delivering the shares except (a) to any person in the United States, to such persons whom they reasonably believe to be QIBs (within the meaning of Rule 144A under the Securities Act) in transactions meeting the requirements of Rule 144A of the Securities Act or (b) in accordance with Rule 903 of Regulation S, and (ii) engaging in any directed selling efforts (as the term is defined in Regulation S of the Securities Act) with respect to these shares. These shares are not and will not be registered pursuant to the provisions of the Securities Act or with the securities regulators of the individual states of the United States and may only be offered or sold outside the United States in accordance with Regulation S under the Securities Act and in compliance with all other applicable U.S. legal regulations.

European Economic Area

Each of the Underwriters will represent to the Company and the Existing Shareholder that no shares which are the subject of the Private Placement outlined in this Prospectus will be offered to the public in any Relevant Member State which has implemented the Prospectus Directive. The Existing Shares may, however, be offered at any time in a Relevant Member State in accordance with the following exemptions listed in the Prospective Directive, provided these exemptions have been implemented in the Relevant Member State:

- offers of securities addressed solely to a legal entity which is a qualified investor as defined by the Prospectus Directive; or
- in all other cases of Article 3 of the Prospectus Directive, as implemented in the Relevant Member State.

These exemptions will apply only on condition that such an offer to sell shares does not require the publication of a prospectus or a prospectus supplement by the Company or any Underwriter pursuant to Article 3 of the Prospectus Directive.

For the purposes of this section, an "offer to the public" with respect to the Existing Shares in a Relevant Member State will mean a communication to persons in any form and by any means presenting sufficient information about the terms of the offer and the shares to be offered so as to enable an investor to decide whether to purchase or subscribe for these shares. As a result of the measures to implement the Prospectus Directive in such Member State, deviations may arise in this State. The term Prospectus Directive includes any amendment thereto, including the Directive 2010/73/EU which amends the Prospectus Directive to the extent implemented in the Relevant Member State and any and all relevant implementation measures in each Relevant Member State.

United Kingdom of Great Britain and Northern Ireland

Each of the Underwriters will represent to the Company and the Existing Shareholder that offers of the Existing Shares pursuant to the Private Placement are only being made to persons in the U.K. who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a Prospectus pursuant to Section 85 (1) of the Financial Services and Markets Act 2000. Any investment or investment activity to which this Prospectus relates is available only to, and will be engaged in only with, investment professionals falling within Article 19 (5), or high net worth entities falling within Article 49 (2), of the FSMA Order or other Relevant Persons under the FSMA Order. Persons who are not Relevant Persons should not take any action on the basis of this Prospectus and should not act or rely on it.

Serbia

Each of the Underwriters will represent to the Company and the Existing Shareholder that offers of the Existing Shares pursuant to the Private Placement are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Republic of Serbia to or for the benefit of any Serbian person or entity, and do not constitute an advertisement or offering of any securities in the Republic of Serbia within the meaning of Serbian securities laws. Information contained in this Prospectus is not intended for any persons in the Republic of Serbia, unless and to the extent they are otherwise permitted to access such information under Serbian laws.

Bosnia & Herzegovina

Each of the Underwriters will represent to the Company and the Existing Shareholder that offers of the Existing Shares pursuant to the Private Placement are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Bosnia & Herzegovina to or for the benefit of any person or entity in Bosnia & Herzegovina, and do not constitute an advertisement or offering of any securities in Bosnia & Herzegovina within the meaning of Bosnian securities laws. Information contained in this Prospectus is not intended for any persons in Bosnia & Herzegovina, unless and to the extent they are otherwise permitted to access such information under Bosnian laws.

Montenegro

Each of the Underwriters will represent to the Company and the Existing Shareholder that offers of the Existing Shares pursuant to the Private Placement are not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Montenegro to or for the benefit of any person or entity in Montenegro, and do not constitute an advertisement or offering of any securities in Montenegro within the meaning of the securities laws in Montenegro. Information contained in this Prospectus is not intended for any persons in Montenegro, unless and to the extent they are otherwise permitted to access such information under the laws of Montenegro.

27 Outlook

Outlook

Addiko Group believes that its new strategic focus on consumer and SME lending will support its goal of realizing a sustainable improvement in its profitability in the coming years.

Specifically, in the medium term, Addiko Group strives to (i) increase its gross performing loan book by a mid-single digit percentage on average each year; (ii) increase the share of focus loans in its overall gross performing loan book to 80%, and (iii) reach a loan / deposit ratio of approximately 100.0%. Such anticipated developments, would support Addiko Group's efforts to, in the medium term, (i) reach a NIM of approximately 4%, (ii) increase its fee income by a low-teen percentage; and (iii) maintain a cost of risk (over net loans) of approximately 1.6%. In addition, as part of its goals, Addiko Group seeks to achieve in the medium term (i) a cost-income ratio of below 45% and (ii) a return on average tangible equity @14.1% CET1 ratio of over 12%. The Company seeks to pay a dividend of EUR 40 million in 2019 and 2020, either from earnings, excess capital, or a combination of both, and 60% of its profits, if any, after tax (as determined in accordance with IFRS) in the years thereafter, subject to maintaining a minimum 16.1% total capital ratio as per the dividend policy previously adopted by the Management Board, which requires, among other things, that the payment of such dividends is consistent with its long-term and sustainable business and compliant with then applicable regulatory requirements. In regards to risks associated with regulatory requirements, see, in particular, "*3.3.4 Minimum requirements for own funds and eligible liabilities, both to be required by the relevant resolution authority under the BaSAG and the SRM Regulation, may adversely affect Addiko Group's profitability and ability to pay dividends.*"

Assuming the interest rate environment will not materially improve and EURIBOR 3M will level at 0% in the medium term, Addiko Group would expect its NIM to then be approximately 4% (and its return on average tangible equity @14.1% CET1 ratio to be around 10%). Further, Addiko sees a number of mitigating actions it can use to further support return on equity in case of lower rates, including charging fees on large deposits, increase in fees for accounts maintenance, further cost reductions, likely positive impact on cost of risk. In addition, lower rates imply lower cost of equity.

Addiko Group also expects to raise EUR 90 million of Tier 2 capital in the second half of financial year 2019 for purposes of optimizing its capital structure, subject to market conditions. Addiko Group would seek to distribute excess capital as a dividend to shareholders for the 2019 financial year, subject to approval by the regulator and the annual general meeting, which dividend would, if paid, be in addition to the potential EUR 40 million dividend targeted for such financial year, as described above in this subsection.

Furthermore, potential future benefits of deferred tax utilizations are not reflected in these Addiko Group targets. As of March 31, 2019, Addiko Group has EUR 22.3 million of deferred tax assets on balance sheet, of which EUR 16.7 million refer to tax losses carried forward. In addition, Addiko Group can further recognize deferred taxes on the balance sheet using its tax losses carried forward (total of EUR 821.8 million as of December 31, 2018, of which EUR 200.5 million refer to Slovenia, where Addiko Group expects to generate profits, i.e. recognize deferred tax assets to be thereafter utilized. Estimated cash benefit from off-balance sheet deferred taxes in Slovenia amounts to approximately EUR 30 million, calculated as EUR 200.5 million of tax losses and Slovenian tax rate of 19% resulting in approximately EUR 38 million of deferred taxes, of which EUR 8 million which are already recognized on the balance sheet). In Slovenia, the DTA utilisation is capped at 50% of tax payable. Addiko Group further expects its operating expenses for 2019 to continue the developments in 2018, largely as a result of additional cost reduction initiatives to be decided on in the second quarter of 2019 and implemented during the second half of 2019, with restructuring costs to be reflected in the half-year 2019 financial statements. The related impact resulting from predominantly back office optimization and branch closures of more than 180 FTE's and 8 branches, respectively, would lead to a reduction of the cost base in the 2020 financial year.

Addiko Group's targets do not constitute forecasts or projections, and in no event may Addiko Group be held responsible if the targets referred to herein are not met. Even if future results of Addiko Group meet the targets expressed herein, they may not be indicative of the results of any succeeding periods. See "*3.4.5 The Company's ability to pay dividends or to meet its targeted dividend payout ratio depends primarily on the inflow of funds from the Company's subsidiaries and it may not be able to pay dividends in future financial years, because it does not have any balance sheet profit available for distribution, due to limitations under applicable laws and regulations, because it decides to retain capital for acquisitions or for other reasons.*" and "*Forward Looking Statements*".

28 Statement pursuant to Commission Regulation (EC) No 809/2004 of 29 April 2004 and pursuant to Section 8 para. 1 Capital Markets Act

Addiko Bank AG with its corporate seat in Vienna, Austria, is responsible for this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

Addiko Bank AG

as issuer (*als Emittentin*)

Vienna, July 10, 2019

29 Defined Terms

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Consolidated Interim Report
Q1 2019

Key data based on the condensed consolidated financial statements drawn up in accordance with IFRS

EUR m

Selected items of the Profit or loss statement	1Q19	1Q18	Change (%)
Net banking income	60.4	52.1	15.9%
Net interest income	44.9	38.6	16.2%
Net fee and commission income	15.6	13.5	15.1%
Net result on financial instruments	3.3	70.5	-95.4%
Other operating result	-5.4	-6.4	-16.1%
Operating expenses	-48.3	-46.3	4.3%
Operating result before change in credit loss expense	**10.0**	**69.9**	**-85.7%**
Credit loss expenses on financial assets	3.7	10.9	-66.0%
Tax on income	-3.6	-4.6	-21.2%
Result after tax	**10.1**	**76.2**	**-86.8%**

Performance ratios	1Q19	1Q18	Change (pts)
annualised			
Net interest income/total average assets	3.0%	2.5%	0.50
Return on tangible equity	4.2%	6.6%	-2.37
Return on tangible equity (@14.1% CET1 Ratio)	5.5%	8.5%	-2.97
not annualised			
Cost/income ratio	80.0%	88.9%	-8.88
Cost of risk ratio	0.1%	0.2%	-0.15

Selected items of the Statement of financial position	Mar19	Dec18	Change (%)
Loans and advances to customers	3,864.9	3,787.3	2.0%
o/w gross performing loans	3,841.4	3,766.1	2.0%
Deposits of customers	4,855.5	4,836.7	0.4%
Equity	828.0	859.5	-3.7%
Total assets	6,108.4	6,152.1	-0.7%
Risk-weighted assets [1)]	4,599.8	4,545.0	1.2%

Balance sheet ratios	Mar19	Dec18	Change (pts)
Loan to deposit ratio	79.6%	78.3%	1.29
NPE ratio	5.5%	5.6%	-0.10
NPE coverage ratio	75.8%	75.4%	0.40
Liquidity coverage ratio	157.8%	149.7%	8.10
Common equity tier 1 ratio [1)]	17.5%	17.7%	-0.20
Total capital ratio [1)]	17.5%	17.7%	-0.16

1) The Group has adopted the EU's regulatory transitional arrangements for IFRS 9 Financial Instruments. These apply to RWAs, regulatory capital and related ratios throughout this report, unless otherwise stated

Disclaimer:
Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.
Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance.
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The tables in this report may contain rounding differences. Any data is presented on the Addiko Group level (referred to as Addiko Bank or the Group throughout the document) unless stated otherwise.

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Group Management Report

1. Overview of Addiko Bank

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. All in all, Addiko Group provides services to about 840.000 clients.

The Group's strategy is focused on these six markets in the CSEE region delivering core products and services relevant to Retail as well as Small and Medium Enterprises (SME) and Corporate customers, while also providing online deposit services in Austria and Germany. The areas of strategic focus are Consumer Lending, Payments and SME Banking.

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

2. General economic environment

2.1. Economic Development 1Q19

Growth momentum will remain quite strong by post-crisis standards across all countries of operation in 2019. However, the current economic cycle is likely to have peaked. Using an unweighted average, the pace of expansion is likely to be in the range of 2.5-3% in 2019-21 across the five countries, compared with 3-4% in 2016-18. Growth will be strongest in Serbia and Slovenia (around 3% per year on average) and weakest in Montenegro (a bit above 2%).

There are two key reasons for the moderately slower growth outlook: weaker activity in the euro area and some key drivers of global demand (especially China), and domestic capacity constraints (e.g. shortage of labour and high levels of capacity utilisation in industry after several years of strong growth). The most likely scenario is a continuation of still quite good growth, low inflation, and positive labour market developments.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and still ultra-loose ECB policy. Supply side factors in particular indicate that inflationary pressure will not emerge anytime soon. Real interest rates (adjusted for inflation) are negative in Slovenia and very low in Serbia. The exception is Montenegro, where monetary conditions are tighter. Across all countries of operation, inflation has picked up somewhat from 2014-16 levels (when many countries experienced a period of deflation) but will remain at historically low levels.

Although most Addiko countries of operation continue to have quite high official unemployment rates, these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth (Montenegro might be a partial exception to this).

All countries are at a fairly positive point in the credit cycle. Lending growth to the non-financial private sector is firmly positive in all countries, in the range of 3-10% per year. The strongest growth is in Serbia and Montenegro (both around 10% per year), with lending rising by around 6% in Bosnia and Herzegovina and a bit over 3% in Croatia and Slovenia (all data as of end-2018). In all five countries, credit demand from households appears to be considerably stronger than that from firms, which should continue to support private consumption growth.

The main determining factor for credit growth in the next 2-3 years in Addiko countries will be the stance of the ECB. A previous Vienna Institute for International Economic Studies in Austria (wiiw) study commissioned by Addiko found that the most important predictor of household loan growth in the five countries was the growth in the money supply in the euro area. This makes sense, considering the very strong trade and investment integration between Addiko countries and the bloc. To this end, the signs for credit growth are quite positive: the ECB remains in ultra-loose mode, and recent statements have suggested that any change is likely to be more in a dovish than hawkish direction.

Croatia will be one of the slower growing countries in the next 2-3 years, with the economy likely to expand by around 2.5% on average. Tourism will remain a key driver of growth. Outward migration and the ageing of the population will mean that labour acts as a constraint on growth. Euro accession in the next five years is likely. In this context, lending growth should remain quite positive, especially to households (currently rising by 4-5% per year).

In Slovenia growth will also slow, but at around 3% on average in 2019-21 it will be one of the best performing Addiko countries. The economy will continue to benefit from strong inflows of EU funds and rising wages on the back of labour market tightness. As a particularly export-reliant economy, Slovenia will be affected by weaker momentum in Germany and the euro area more broadly. Household demand for credit is likely to remain robust, albeit falling somewhat from current rates of 5-6% per year.

The Serbian economy had an excellent 2018, and although growth will slow, it will remain quite good by post-crisis

standards at around 3% on average in 2019-21. FDI inflows should continue to support investment, while rising wages will underpin private consumption growth. Positive reform momentum tied to the EU accession process will continue. Credit growth picked up strongly in 2018 on the back of higher confidence, and although the current growth rates of around 10% (over 12% for households) may not be sustained, the outlook for the next 2-3 years is positive.

In Bosnia and Herzegovina, political factors are likely to weigh on growth in 2019, but the outlook for 2020-21 is better. External factors remain important, with the economy benefitting from remittance inflows, tourism and export growth. Overall credit growth has slowed since mid-2017 but remains above 5% year on year (above 7% for households).

Growth in Montenegro has been particularly strong in recent years, but the outlook for 2019-21 is the weakest among Addiko countries of operation, reflecting the government's fiscal consolidation plan in the face of high public debt. Investment growth will slow but economic activity will continue to be supported by strong tourism inflows. Credit growth to households is likely to slow somewhat from current levels (around 12% year on year) but should remain quite robust in the next 2-3 years.

2.2. Market reports on Consumer Lending in CSEE

Addiko Bank AG commissioned two independent market reports with the aim of providing a detailed analysis of the Central and Southeast European Consumer Lending markets in which Addiko Bank operates. Both reports were published in March 2019 and are available in the Press Releases 2019 section of www.addiko.com.

The first, released by the Vienna Institute for International Economic Studies in Austria (wiiw), provides a detailed overview of the macroeconomic backdrop of the region, the banking market as well as the regulatory environment with a focus on unsecured consumer lending.

The second report published by Lafferty Group in the UK gets to the heart of the topic and analyses the unsecured consumer lending business opportunity in the region.

3. Significant events

3.1. Rating agency Moody's assigns first-time ba2 Baseline Credit Assessment to Addiko Bank AG

On 4 April 2019, Moody's Investors Service assigned for the first-time a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and a Ba2(cr)/NP(cr) Counterparty Risk Assessments to Addiko Bank AG. Concurrently, the rating agency assigned a Ba3 long-term and NP short-term de-posit ratings and counterparty risk ratings to Addiko. The outlook on Addiko's long-term deposit ratings is stable.

3.2. Digital transformation & building digital capabilities

In the first quarter 2019, Addiko launched their first digital branch in Croatia with completely digital credit processes, from requests to approvals without the need to go to the branch office. With Addiko Virtual Branch the bank is representing the banking of the future - completely digital, simple, practical, fast and tailored to the clients' wishes and needs.

Furthermore, the product "mKredit" is available in the Serbian market which allows customers to obtain a loan without visiting the branch office. The only prerequisite is a mobile phone with access to the Addiko mbanking application. In this way Addiko Bank justifies the role of a leader when it comes to introducing new services in digital banking in Serbia.

In addition, "Addiko Chat Banking", which was at YE18 already live in all Group countries except Slovenia, was introduced in 1Q19 now also in Slovenia. "Addiko Chat Banking" is an innovative and first ever Viber-based financial transaction service, which allows users to use different payments services like domestic payments transfers, peer-to-peer payments, or to get the latest info on Addiko offers.

Also in 2019 creating new digital capabilities is one of the strategic focus points of the Group. Addiko is investing a significant amount of resources in identifying innovative solutions that aim to solve specific customer problems.

3.3. Focus on improving customer experience

As part of its continuous focus on improving customer experience, Addiko's transactional net promoter score (NPS) platform started to operate in 2018, complementing the roll-out of the marketing NPS that has been live since 2017. The NPS is currently available in all markets with the exception of Serbia, which is in final testing.

The possibility to survey customer experience after individual interactions with Addiko allows to measure critical moments of the customer journey. The results show promising customer satisfaction levels, across all channels and customer touchpoints. More important, the measurements allow Addiko Bank to conduct continuous improvements of the services and products offered to its customers.

3.4. Financial performance in brief

The financials for the first quarter 2019 show again the continued progress of the deployment of Addikos strategy. Addiko posted an operating result before change in credit loss expense of EUR 10.0 million (1Q18: EUR 69.9 million). By taking into account adjusted items as described in detail in section 4.1. as well as considering separately gains from the sale of bonds in the current and previous reporting period an improvement in the underlying performance of the Group in comparison with the comparative reporting period is evident.

Net interest income on a reported basis increased by 16.2% to EUR 44.9 million (1Q18: EUR 38.6 million) with NIM at 3.0% (+50bp compared to 1Q18). By adjusting Tier 2 interest expenses in 1Q18 (EUR 3.6 million), as described in the analysis of the profit or loss statement (section 4.1), net interest income improved by 6.3% and the respective NIM increased by 27bp compared to 1Q18. The improved NII was driven by the increase in regular interest income from Consumer lending (11.9%) and supported by a further reduction of funding costs overcompensating the run-down of the healthy non-focus portfolio. The slight decline in the overall interest income compared with the previous quarter results of income from a large public entity of EUR 0.7 million recognised in 1Q18 as well as the reduced interest income on non performing loans as a consequence of the successful NPE reduction.

Net fee and commission income increased by 15.1% to EUR 15.6 million (1Q18: EUR 13.5 million) as a consequence of the higher growth in the Consumer and SME business, where the trend from YE18 continued due to new fee models and new product packages promoting increased payments activity through Addiko Bank's accounts. In addition, this development was supported by the acceleration of bancassurance activities.

The net result on financial instruments in 1Q19 benefited from an exceptional gain realised from the sale of a bond portfolio in the amount of EUR 3.7 million in comparison to a EUR 8.5 million bond gain included in 1Q18. In addition, in 1Q18 this position is significantly impacted by the EUR 190.0 million debt waiver from the shareholder AI Lake (Luxembourg) S.à r.l. in March 2018, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement and generating a positive income of EUR 61.0 million.

Operating expenses amounted to EUR -48.3 million at 1Q19, which is a slight increase compared to the comparative period (1Q18: EUR -46.3 million) reflecting investments to grow the business and enhance the digital capabilities of the Group enabling to provide simpler and faster customer experience.

Overall in 1Q19 income was growing faster than costs as adjusted net banking income increased by 8.5% and adjusted operating expenses by 2.0%. Adjusted jaws were therefore positive by 6.5%.

The development of the expected credit losses, which again saw net releases of EUR 3.7 million (1Q18: EUR 10.9 million), is positively influenced by repayments and re-migrations to a lower risk portfolio in the non focus segment Mortgage and Corporate. This effect is offset by allocations within the Consumer portfolio.

The progress in RoATE with 4.2% at 1Q19 compared to YE18 (6.6%) is a better reflection of the development of Addiko's performance, given that 1Q18 had particual adjusted items.

With regard to the development of the statement of financial positions, Addiko's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is shown by the increased share of these two segments to 57.8% of the gross performing loan book (1Q18: 52.9%) while the size of the overall loan book remained stable. The performance in new disbursements, which outperformed the market growth, in these focus segments over the last 12 months clearly highlights that Addiko is delivering on its business strategy, with an increase in the volumes of +14.3% in Consumer lending and +19.9% in the SME loan books.

The reduction of NPEs continued in the first quarter 2019, leading to a further decrease of the non-performing exposure to EUR 393.2 million (EUR 403.8 million at YE18). At 1Q19 the conservative risk profile is best reflected in an NPE coverage ratio of 75.8% (YE18: 75.4%) and a further reduced NPE ratio to 5.5% (YE18: 5.6%).

Despite the further reduction in average deposit pricing customer deposits remained stable at EUR 4,855.5 million (0.4% to EUR 4,836.7 million at YE18). The continuous improvements in the structure of customer deposits allows a slight reduction of excess liquidity while keeping very strong self-funding ratios (LTD r atio customers 1Q19: 79.6% (YE18: 78.3%)).

In the first quarter 2019 a dividend in the amount of EUR 50 million was distributed to the shareholder of Addiko Bank AG.

4. Financial development of the Group

4.1. Analysis of the profit or loss statement

Adjusted performance is computed by adjusting reported results for the effect of certain significant items, which distort period-on period comparison. The adjusted performance represents non-financial alternative performance measures which provides useful information to the reader of the financial statements by identifying and quantifying items which the management believes to be significant and providing insight into how management assesses period-on-period performance.

EUR m

	Reported		Adjustments		Adjusted	
	1Q19	1Q18	1Q19	1Q18	1Q19	1Q18
Net banking income	60.4	52.1	0.0	3.6	60.4	55.7
Net interest income	44.9	38.6	0.0	3.6	44.9	42.2
Net fee and commission income	15.6	13.5	0.0	0.0	15.6	13.5
Net result on financial instruments	3.3	70.5	0.0	-61.0	3.3	9.5
Other operating result	-5.4	-6.4	-1.3	0.0	-6.7	-6.4
Operating income	**58.3**	**116.2**	**-1.3**	**-57.4**	**57.0**	**58.8**
Operating expenses	**-48.3**	**-46.3**	**0.9**	**-0.2**	**-47.4**	**-46.5**
Operating result before change in credit loss expense	**10.0**	**69.9**	**-0.4**	**-57.6**	**9.6**	**12.3**
Credit loss expenses on financial assets	3.7	10.9	-0.3	-1.9	3.4	9.0
Operating result before tax	**13.7**	**80.8**	**-0.7**	**-59.5**	**12.9**	**21.3**
Tax on income	-3.6	-4.6	-0.9	-3.4	-4.5	-7.9
Result after tax	**10.1**	**76.2**	**-1.6**	**-62.9**	**8.5**	**13.3**

Reported net interest income amounts to EUR 44.9 million at 1Q19 compared to EUR 38.6 million at 1Q18. By taking adjustments in consideration, the net interest income increases from EUR 42.2 million at 1Q18 to EUR 44.9 million at 1Q19.

The **adjustments in net interest income** relate to expenses for the subordinated capital instruments, which were waived in 2018 in the amount of EUR 3.6 million.

The adjusted **net interest margin** amounts to 297bp at 1Q19, compared to 270bp 1Q18. This progress is a result of a continuous shift from non-focus assets i.e. Mortgage, Large Corporates and Public Finance towards Consumer and SME lending and also on an increase of the overall size of the loan portfolio.

Reported net fee and commission income increased by EUR 2.0 million to EUR 15.6 million (1Q18: EUR 13.5 million), with the difference being mainly driven by stronger income from account packages and bancassurance income as well as roll out of further functionalities for guarantee and trade finance products in the SME segment.

Reported net result on financial instruments is positive with EUR 3.3 million, mainly driven by the sale of debt instruments. The previous year result in 1Q18 of EUR 70.5 million is strongly effected by the EUR 190 million debt waiver from the shareholder AI Lake (Luxembourg) S.à r.l. in March 2018, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement generating a positive income of EUR 61.0 million and neutralised in the adjusted figures.

The **other operating result** as sum of other operating income and other operating expense shows an amount of EUR - 5.4 million compared to EUR -6.4 million at 1Q18. This position includes amongst others, the upfront booking of the full year impact of charges to the recovery and resolution fund in the amount of EUR -1.6 million (1Q18: EUR -2.3 million) as well as deposit guarantee costs in the amount of EUR -2.2 million (1Q18: EUR -2.3 million) at 1Q19.

The **adjustments in other operating result** include in 1Q19 the release of EUR 1.3 million in provisions for legal risks in connection with the active settlement strategy for long term lasting court cases (1Q18: EUR 0.0 million).

Reported operating expenses amount to EUR -48.3 million at the current reporting date (1Q18: EUR -46.3 million), whereas the personal expense included in 1Q18 a release of provision for variable payments in the amount of EUR 0.4 million as well as the other administrative expense was positively affected by a release of provision for onerous contracts in the amount of EUR 0.9 million. These effects did not occur in 1Q19 anymore. The residual increase of the

expenses is primarily reflecting investments to grow the business and enhance the digital capabilities of the group.

The **reported operating result before change in credit loss expenses** of EUR 10.0 million (1Q18: EUR 69.9 million) translate on an adjusted basis into EUR 9.6 million (1Q18: EUR 12.3 million).

Due to net releases, the **reported credit loss expenses** amounted to EUR 3.7 million (1Q18: EUR 10.9 million). The negative balance of allocation of provisions within the consumer portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non focus segment Mortgage and Corporate.

The **adjusted** development of **credit loss expenses on financial assets** relates to positive results from transactions with corporate clients where exposures would not be granted under the current Addiko risk strategy.

Reported taxes on income amount at 1Q19 to EUR -3.6 million compared to EUR -4.6 million at the end of the first quarter 2018.

The **adjusted taxes on income** reflects the theoretical tax burden of Addiko Group, without taking in consideration the recognition of deferred tax assets on tax loss carried forward.

4.2. Analysis of the consolidated statement of financial position

EUR m

	31.03.2019	31.12.2018	Change (%)
Assets			
Cash reserves	777.5	1,002.9	-22.5%
Financial assets held for trading	24.7	24.3	1.5%
Loans and receivables	3,879.2	3,792.9	2.3%
Loans and advances to credit institutions	14.4	5.6	>100%
Loans and advances to customers	3,864.9	3,787.3	2.0%
Investment securities	1,253.3	1,184.6	5.8%
Tangible assets	87.6	57.7	51.7%
Intangible assets	31.2	30.3	3.1%
Tax assets	24.0	28.3	-15.1%
Current tax assets	1.7	1.7	0.8%
Deferred tax assets	22.3	26.6	-16.1%
Other assets	25.3	25.5	-0.7%
Non-current assets and disposal groups classified as held for sale	5.5	5.7	-3.5%
Total assets	**6,108.4**	**6,152.1**	**-0.7%**

The statement of financial position of Addiko Group shows the simple and solid interest bearing asset structure: more than 63.3% of the investments are represented by customer loans and most of those are already in the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds.

In the first quarter 2019 the **total assets** of Addiko Group slightly decreased by EUR -43.8 million or -0.7% from EUR 6,152.1 million at YE18 to EUR 6,108.4 million. This reduction is mainly driven by the distribution to the shareholder of EUR 50.0 million and the related reduction of cash reserves.

The total risk, i.e. risk-weighted asshypo
ets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) increased to EUR 4,599.8 million (YE18: EUR 4,545.0 million) reflecting the increases of volumes in the focus segments.

Cash reserve decreased by EUR -225.4 million to EUR 777.5 million (YE18: EUR 1,002.9 million) at YE18, however still well above the minimum reserve requirements of EUR 276.7 million (YE18: EUR 316.5 million).

Overall **net receivables** (gross receivables less credit risk provisions) increased to EUR 3,879.2 million from EUR 3,792.9 million at year end 2018:

- Loans and receivables to credit institutions (net) increased by EUR 8.8 million to EUR 14.4 million (YE18: EUR 5.6 million).
- Loans and receivables to customers (net) increased to EUR 3,864.9 million (YE18: EUR 3,787.3 million). In line with the Group's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending.

The **investment securities** increased from EUR 1,184.6 million to EUR 1,253.3 million at 1Q19, which are largely invested in high rated government bonds and having a maturity of less than five years.

Tangible assets increased to EUR 87.6 million compared to EUR 57.7 million at YE18, which is mainly due to the implementation of IFRS 16, leading to the recognition of a right of use asset in the amount of EUR 29.8 million. Further details regarding the implementation of IFRS 16 are presented in the Note 2.1. IFRS 16 Leases.

Intangible assets increased to EUR 31.2 million (YE18: EUR 30.3 million) which reflects the further development of new e-banking applications and investments to enhance the Group digital capabilities.

Tax assets decreased to EUR 24.0 million (YE18: EUR 28.3 million), as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

Other assets remained stable with EUR 25.3 million (YE18: EUR 25.5 million) consisting mainly of advance payments in relation to IT projects aimed to increase operational efficiency.

The position **non-current assets and disposal groups classified as held for sale** slightly decreased from EUR 5.7 million to EUR 5.5 million at 1Q19 and includes mainly real estate assets.

EUR m

	31.03.2019	31.12.2018	Change (%)
Equity and liabilities			
Financial liabilities held for trading	3.6	2.1	70.0%
Financial liabilities measured at amortised cost	5,187.9	5,202.5	-0.3%
Deposits of credit institutions	272.8	324.4	-15.9%
Deposits of customers	4,855.5	4,836.7	0.4%
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.1%
Other financial liabilities	58.5	40.3	45.1%
Provisions	59.7	62.0	-3.7%
Tax liabilities	1.1	1.0	10.2%
Current tax liabilities	1.0	0.9	7.9%
Deferred tax liabilities	0.2	0.1	26.0%
Other liabilities	28.1	25.1	12.0%
Equity	828.0	859.5	-3.7%
Total equity and liabilities	**6,108.4**	**6,152.1**	**-0.7%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 5,187.9 million compared to EUR 5,202.5 million at year end 2018:

- Deposits of credit institutions decreased by EUR 51.7 million from EUR 324.4 million to EUR 272.8 million at 1Q19.
- Deposits of customers increased to EUR 4,855.5 million (YE18: EUR 4,836.7 million)
- Other financial liabilities increased from EUR 40.3. million at YE18 to EUR 58.5 million at 1Q19.

Provisions decreased from EUR 62.0 million at YE18 to EUR 59.7 million 1Q19. The development was primarily driven by releases of provisions for legal risks in connection with the successful settlement of some long term lasting court cases as well as reductions of provisions for loan commitments and guarantees granted.

Other liabilities amount to EUR 28.1 million (YE18: EUR 25.1 million) and include liabilities for salaries and salary compensations not yet paid as well as tax liabilities arising from VAT charges.

The development of **equity** from EUR 859.5 million to EUR 828.0 million is related to a dividend payment in the amount of EUR 50.0 million as well as impact from the total comprehensive income, which includes the profit of loss for the reporting period in the amount of EUR 10.1 million as well as changes in other comprehensive income in the amount of EUR 8.5 million. This change is mainly due to favourable market related movements from debt instruments measured at FVTOCI.

The **capital base** of Addiko Group is solely made up of CET1 following the Tier 2 waiver in 2018 and excluding retained earnings for the quarter stands at 17.5% (YE18: 17.7%) on a IFRS 9 transitional basis and 16.9% without applying IFRS 9 transitional rules (YE18: 16.9%), well above the Overall Capital Requirements of 15.2% (YE18: 14.6%). The OCR will decrease to 14.6% starting from the date the received decision will become effective, which requires separate communication by FMA and is expected in May 2019.

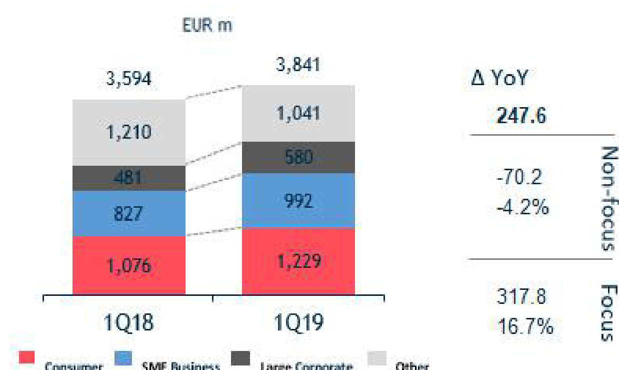
5. Segment reporting

EUR m

31.03.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	41.5	6.1	35.4	9.5	4.2	2.1	3.2	60.4
Net interest income [1]	31.2	6.1	25.2	5.5	2.8	1.7	3.6	44.9
o/w regular interest income [2]	30.6	8.2	22.5	7.0	3.7	1.4	5.0	47.7
Net fee and commission income	10.3	0.0	10.3	4.0	1.4	0.3	-0.4	15.6
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-5.4	-5.4
Operating income	**41.5**	**6.1**	**35.4**	**9.5**	**4.2**	**2.1**	**1.1**	**58.3**
Operating expenses	**-22.2**			**-5.8**	**-1.1**	**-0.6**	**-18.7**	**-48.3**
Operating result	**19.3**			**3.7**	**3.1**	**1.5**	**-17.6**	**10.0**
Change in CL	-1.5	3.0	-4.5	2.1	1.6	0.2	1.3	3.7
Operating result before tax	**17.8**			**5.8**	**4.7**	**1.6**	**-16.3**	**13.7**
Business volume								
Net loans and receivables [3]	2,057.8	858.8	1,199.0	994.4	603.9	195.4	27.8	3,879.2
o/w gross performing loans	2,075.7	846.7	1,229.1	991.5	580.2	193.9		3,841.4
Gross Disbursements [4]	157.8	2.4	155.4	144.6	55.1	0.4		357.9
Financial liabilities at AC [5]	2,759.0		2,759.0	604.9	415.5	579.7	828.8	5,187.9
RWA [6]	1,456.9	546.9	910.0	922.0	661.6	120.3	813.1	3,973.9
Key ratios								
Net interest margin (NIM) [7]	4.5%	1.7%	6.1%	2.4%	1.5%	1.4%		3.0%
Cost/income ratio [8]	53.5%			60.6%	26.0%	28.6%		80.0%
Cost of risk ratio	-0.1%	0.3%	-0.3%	0.1%	0.2%	0.1%		0.1%
Loan to deposit ratio [9]	74.6%			164.4%	145.3%	33.7%		79.6%
NPE ratio (CRB based) [10]	9.8%	14.1%	6.9%	4.5%	8.0%	4.2%		7.4%
NPE coverage ratio [11]	81.7%	74.6%	91.6%	62.1%	70.1%	75.3%		75.8%
NPE collateral coverage [12]	42.0%	59.5%	17.6%	63.6%	34.4%	51.3%		44.7%
Change CL/GPL (simply Ø) [13]	-0.1%	0.3%	-0.4%	0.2%	0.3%	0.1%		0.1%
Yield GPL (simply Ø) [14]	6.0%	3.8%	7.5%	2.9%	2.6%	2.9%		4.6%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution - explained in point 5.5 Corporate Center) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and Internal refinancing which relates to intra - bank transactions 5) Financial liabilities at AC at 1Q19 include the Direct deposits (Austria/Germany) amounting to EUR 433 million, EUR 273 million Deposits of credit institutions, EUR 123 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortized costs. Total bank: Net customer loans divided by customer deposits 10) Non performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / Non Performing Exposure 12) Collaterals allocated to non performing exposure / non performing exposure 13) Change in CL / simply Ø gross performing loans - not annualised due to volatilty within the year 14) Regular interest income annualised / simply Ø gross performing loans.

The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments of Addiko Bank and into non-focus segments, which are Large Corporates, Public Finance and Retail Mortgages. According to the Group's strategy a reduction of lower margin Mortgage lending and Public Finance is in process. This development can be seen by comparing the gross performing loans in the focus and non-focus assets:



Segment definition in brief:
Retail: including Mortgage and Consumer as product based segments.
Consumer: this segment includes both the consumer finance as well as the micro subsegment including private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue.
Mortgage: relating to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.
SME: within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Large Corporates: includes corporate clients with an annual gross revenue above EUR 40 million.
Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.
Corporate Center: this segment consists of Treasury business in the holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

5.1. Retail

EUR m

Retail			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	31.2	27.7	12.8%
o/w regular interest income	30.6	29.7	3.0%
Net fee and commission income	10.3	9.1	12.7%
Operating income	**41.5**	**36.8**	**12.8%**
Operating expenses	**-22.2**	**-21.9**	**1.6%**
Operating result	**19.3**	**15.0**	**29.0%**
Change in CL	-1.5	4.4	>100%
Operating result before tax	**17.8**	**19.3**	**-7.9%**
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	2,057.8	2,046.0	0.6%
o/w gross performing loans	2,075.7	2,032.4	2.1%
Gross Disbursements	157.8	152.3	3.6%
Financial liabilities at AC	2,759.0	2,737.5	0.8%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	4.5%	4.4%	0.16
CIR	53.5%	59.4%	-5.87
Cost of risk ratio	-0.1%	0.2%	-0.24
Loan to deposit ratio	74.6%	74.7%	-0.15
NPE ratio (CRB based)	9.8%	13.3%	-3.45
NPE coverage ratio	81.7%	81.7%	0.02
NPE collateral coverage	42.0%	44.2%	-2.22
Change CL/GPL (simply Ø)	-0.1%	0.2%	-0.29
Yield GPL (simply Ø)	6.0%	5.9%	0.06

EUR m

Consumer			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	25.2	21.4	17.3%
o/w regular interest income	22.5	20.1	11.9%
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	1,199.0	1,057.8	13.3%
o/w gross performing loans	1,229.1	1,075.7	14.3%
Gross Disbursements	155.4	149.2	4.1%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	6.1%	6.2%	-0.12
Change CL/GPL (simply Ø)	-0.4%	-0.2%	-0.13

EUR m

Mortgage			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	6.1	6.2	-2.8%
o/w regular interest income	8.2	9.7	-15.5%
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	858.8	988.2	-13.1%
o/w gross performing loans	846.7	956.7	-11.5%
Gross Disbursements	2.4	3.1	-23.3%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	1.7%	1.9%	-0.21
Change CL/GPL (simply Ø)	0.3%	0.7%	-0.36

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) Interest income Mortgages includes the total interest income plus FTP and asset contribution
2) See for explanation of NIM above.

Retail strategy

Addiko Bank's Retail Segment serves 813 thousand customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 197 branches and state of the art digital channels. Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner.
During the last period the number of customers has been reduced through the cleanup of inactive customer and pricing adjustment of high interest deposit products to optimize the structure of liabilities. The number of consumers collecting their regular income in an Addiko account utilised for regular payments has increased to 218 thousand in 1Q19 from 182 thousand in 1Q18.

In the Segment Retail the focus is on account packages for salary payments, regular transactions and on consumer lending. For the Micro customers the priority is to offer transactional services. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger with services such as Addiko Chat Banking on Viber and on-line account opening capabilities.

Mortgage lending is not in focus and primarily targets the retention of existing, profitable customers. Private individuals holding an account package for payments or an existing mortgage loan, can get upon demand mortgage loans, primarily for retention purposes. Given the non-focus status of the mortgage business, the product is not actively marketed.

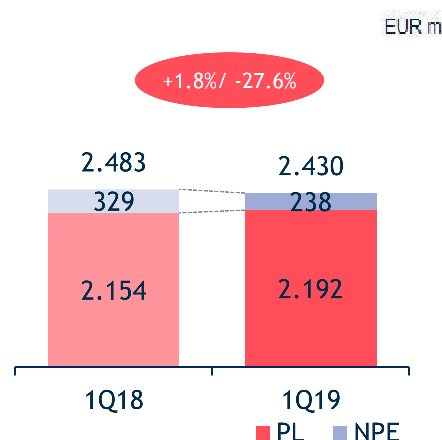
Retail 1Q19 Business review

The segment result is driven by the new business strategy to focus on the Consumer lending and payments, while reducing the mortgage portfolio.

During 1Q19 the Retail Segment generated EUR 41.5 million operating income and EUR 17.8 million operating result before tax while operating at a Cost-to-income ratio of 53.5%. In comparison to 1Q18 net interest income increased by EUR 3.5 million to EUR 31.2 million at a NIM of 4.5%. The net commission income increased by EUR 1.2 million to EUR 10.3 million in 1Q19, due to improving sales of account packages, payments and bancassurance. The operating expenses in 1Q19 were by EUR 0.3 million higher than in 1Q18. Operating result in 1Q19 was EUR 19.3 million, 29.0% higher than in 1Q18, driven by the 12.8% increase in Operating Income, partially offset by a 1.6% increase in operating expenses.
Operating result before tax amounts to EUR 17.8 million, which is 7.9% lower than in 1Q18 due higher risk provisions compared to last year.
The 1Q19 Retail gross performing loans increased by 2.1% vs a year ago, as the growth in cash loans more than compensated the shrinking non-focus mortgage book.

The table below, showing the development of the credit risk bearing exposure in 1Q19 for both Consumer lending and Mortgage loans, shows an increase of 1.8% of the performing part and a decrease of 27.6% of the non-performing part, evidencing the Group focus on the quality of the portfolio.

Development gross credit risk bearing exposure:



Simplifying product portfolio and exploiting Group synergies

Addiko Bank delivers on its brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers. Account packages are a cornerstone of this strategy. In the last year Addiko has launched new account packages in Croatia, Slovenia and Bosnia & Herzegovina and during 1Q19 the Group has sold 22 thousand account packages.

Standardising products and processes, and consolidating partners and vendors is another critical element of the Group's strategy. Addiko Group has started a strategic partnership with Uniqa Group and during 2018 successfully rolled out new Bancassurance products in all of its entities. As a consequence, Bancassurance Net Commission Income has increased to EUR 1.3 million, compared to EUR 0.3 million in 1Q18.

5.2. SME Business

EUR m

SME Business			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	5.5	5.8	-4.9%
o/w regular interest income	7.0	6.6	5.8%
Net fee and commission income	4.0	3.3	22.4%
Operating income	**9.5**	**9.1**	**4.9%**
Operating expenses	**-5.8**	**-5.6**	**2.9%**
Operating result	**3.7**	**3.5**	**8.2%**
Change in CL	2.1	2.2	-7.2%
Operating result before tax	**5.8**	**5.7**	**2.2%**
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	994.4	853.3	16.5%
o/w gross performing loans	991.5	827.1	19.9%
Gross Disbursements	144.6	113.8	27.0%
Financial liabilities at AC	604.9	533.8	13.3%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	2.4%	3.0%	-0.61
CIR	60.6%	61.7%	-1.18
Cost of risk ratio	0.1%	0.2%	-0.04
Loan to deposit ratio	164.4%	159.9%	4.53
NPE ratio (CRB based)	4.5%	5.7%	-1.25
NPE coverage ratio	62.1%	52.7%	9.33
NPE collateral coverage	63.6%	73.4%	-9.82
Change CL/GPL (simply Ø)	0.2%	0.3%	-0.06
Yield GPL (simply Ø)	2.9%	3.3%	-0.36

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

SME Strategy

Addiko Bank offers the full product suite to circa 13 thousand SME clients (companies with annual turnover between EUR 0.5 million and EUR 40 million) in the CSEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the "real economy" with working capital, investment loans and a strong focus on trade finance products.

All SME clients are served by relationship managers, located in 38 SME business centers across the countries where the bank is active. The role of the relationship managers is not only selling banking products but being the trusted financial advisor to the client and active partner in decision-making about financing.
Addiko strategy in SME business is to achieve primary bank status by providing services based on convenience,

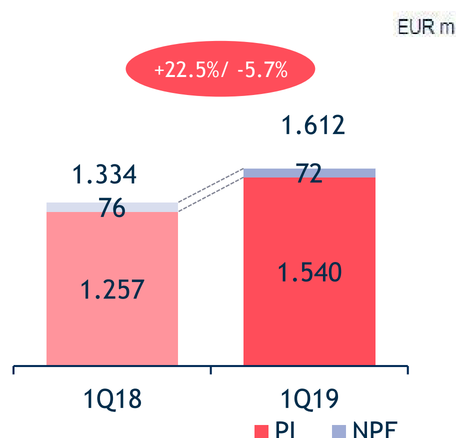
developing flexible solutions and products which are highly digitized and convenient.
To support this strategy, Addiko Bank is running a bank-wide project to build up a new digital customer experience platform which will make the SME clients' daily financial interactions easier by self-service capabilities. With enhanced digital services the Bank is planning to increase the commission income from account keeping services and trade finance, while the funding costs can be lowered by raising current account deposits. Addiko Bank also implements simple loan financing with market leader delivery times for the segment in order to fulfill its value proposition and to improve productivity.

SME 1Q19 Business review

In the first quarter 2019, the bank continued to grow the SME loan book by originating EUR 144.6 million of new loans, which translates into gross performing loan growth of 19.9% compared to the end of 1Q18 period. These results were delivered at a continued high focus on disciplined underwriting standards.

Net interest income amounts to EUR 5.5 million, with NIM at 2.4%. Both net interest income and NIM decreased comparing to 1Q18 due to lower margins achieved on new business. Net fee and commission income increased by 22.4% compared to 1Q18, mainly arising from payments and trade finance activities. The SME segment has generated EUR 3.7 million Operating result, 8.2% higher than in 1Q18. Result before tax improved to EUR 5.8 million, while operating at a Cost-to-income Ratio decreased to 60.6%.

Credit risk bearing exposure increased by EUR 278.3 million from 1Q18 to 1Q19, showing 22.5% growth of the performing part. The NPE part decreased by EUR 4.0 million compared with 1Q18, and remained on very low level, showing the overall excellent quality of the portfolio.



5.3. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	2.8	2.8	-1.7%
o/w regular interest income	3.7	3.2	15.4%
Net fee and commission income	1.4	1.5	-7.4%
Operating income	**4.2**	**4.3**	**-3.7%**
Operating expenses	**-1.1**	**-1.2**	**-9.1%**
Operating result	**3.1**	**3.1**	**-1.7%**
Change in CL	1.6	2.6	-36.8%
Operating result before tax	**4.7**	**5.7**	**-17.4%**
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	603.9	531.4	13.6%
o/w gross performing loans	580.2	481.1	20.6%
Gross Disbursements	55.1	39.2	40.6%
Financial liabilities at AC	415.5	479.0	-13.3%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	1.5%	1.4%	0.11
CIR	26.0%	27.5%	-1.55
Cost of risk ratio	0.2%	0.3%	-0.13
Loan to deposit ratio	145.3%	110.9%	34.41
NPE ratio (CRB based)	8.0%	18.9%	-10.96
NPE coverage ratio	70.1%	54.0%	16.03
NPE collateral coverage	34.4%	42.5%	-8.14
Change CL/GPL (simply Ø)	0.3%	0.5%	-0.26
Yield GPL (simply Ø)	2.6%	2.8%	-0.17

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Large Corporates Strategy

Addiko Bank services the largest local and international companies by centralized and specialized local teams supported by a strong expert unit. This way Addiko Bank is aiming to provide clients with seamless service of financing across the Group by top quality customer relationship managers.

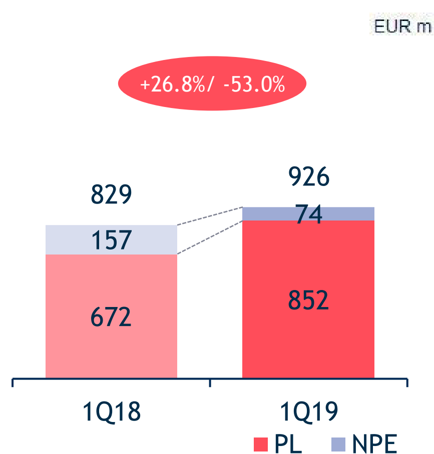
Addiko is not considering to significantly grow its lending portfolio given the highly competitive environment but will, as in the past, continue to serve selected clients where the risk reward matrix is favorable.

Large Corporates 1Q19 Business review

Net interest income amounts to EUR 2.8 million, similarly as it did in 1Q18. NIM improved to 1.5%, driven mainly by the decreased deposit pricing. Net fee and commission income decreased by 7.4% and amounts to EUR 1.4

million. As a result, the Large Corporates Segment has generated 3.7% less operating income in 1Q19 comparing to 1Q18, while Operating result did not change significantly. The Operating result before tax decreased due to EUR 1.0 million less Change in CL compared to 1Q18, amounts to EUR 4.7 million in 1Q19. Cost-to-income ratio of Large Corporates Segment improved to 26.0%. The Bank grew Large Corporates gross performing loans and advances by 20.6% during the last one year, the total performing segment's credit risk bearing exposure increased by 26.8%. The non-performing exposure decreased from EUR 156.7 million to EUR 73.7 million. Within the extraordinary administration procedures for a large Croatian retailer, a material amount of NPE was exchanged for equity shares and convertible bonds. Taking into account this transaction, ceteris paribus the NPE ratio at the end of March 2019 would decrease from 5.5% to 5.1%.

Development gross credit risk bearing exposure:



5.4. Public Finance

EUR m

Public Finance			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	1.7	2.7	-35.2%
o/w regular interest income	1.4	1.8	-22.9%
Net fee and commission income	0.3	0.2	28.6%
Operating income	**2.1**	**2.9**	**-29.8%**
Operating expenses	**-0.6**	**-0.7**	**-15.2%**
Operating result	**1.5**	**2.2**	**-34.4%**
Change in CL	0.2	1.3	-87.1%
Operating result before tax	**1.6**	**3.5**	**-53.4%**
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	195.4	253.7	-23.0%
o/w gross performing loans	193.9	253.2	-23.4%
Gross Disbursements	0.4	2.4	-81.8%
Financial liabilities at AC	579.7	654.7	-11.4%
Ratios (YTD)	**1Q19**	**1Q18**	**Change (pts)**
NIM [2]	1.4%	2.4%	-1.10
CIR	28.6%	23.7%	4.94
Cost of risk ratio	0.1%	0.4%	-0.37
Loan to deposit ratio	33.7%	38.7%	-5.04
NPE ratio (CRB based)	4.2%	1.3%	2.94
NPE coverage ratio	75.3%	42.7%	32.66
NPE collateral coverage	51.3%	62.9%	-11.68
Change CL/GPL (simply Ø)	0.1%	0.5%	-0.39
Yield GPL (simply Ø)	2.9%	2.7%	0.18

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Public Finance Strategy

Public Finance business focuses on the participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.

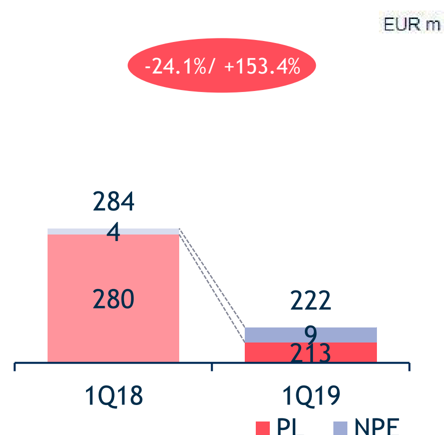
In the past years the Bank decreased the lending activity in this segment, as the segment is under serious price pressure. The Bank is focusing on maintaining the existing deposit volumes from Public Finance and provide account keeping services to these clients while lending in exceptional circumstances basis only.

Public Finance 1Q19 Business review

Net interest income amounts in 1Q19 to EUR 1.7 million, with NIM at 1.4%. The decrease in net interest income is due to a lowering of volume. Net fee and commission income increased to EUR 0.3 million. The Public Finance Segment has generated EUR 1.5 million operating result and EUR 1.6 million operating result before tax in 1Q19. Cost-to-income ratio increased slightly to 28.6% due to lowering of operating income, whereby the cost basis decreased also.

Due to the strategy to decrease the lending activity in this segment, credit risk bearing exposure of the segment further decreased, and amounts EUR 222.0 million. NPE ratio increase in 1Q19 is caused by a re-segmentation of a state owned Serbian company, which was previously segmented as Large Corporate.

Development gross credit risk bearing exposure:



5.5. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**1Q19**	**1Q18**	**Change (%)**
Net interest income [1]	3.6	-0.4	>100%
Net fee and commission income	-0.4	-0.6	-31.5%
Net result from financial instruments	3.3	70.5	-95.4%
Other operating result	-5.4	-6.4	-16.0%
Operating income	**1.1**	**63.1**	**-98.3%**
Operating expenses	**-18.7**	**-17.0**	**10.1%**
Operating result	**-17.6**	**46.1**	**>100%**
Change in CL	1.3	0.5	186.4%
Operating result before tax	**-16.3**	**46.6**	**>100%**
Business volume	**1Q19**	**1Q18**	**Change (%)**
Net loans and receivables	27.8	115.2	-75.9%
Financial liabilities at AC [2]	828.7	846.8	-2.1%

1) Net interest income = Customer Margin Assets plus Liabilities, including total interest income and expense as well as Fund Transfer Pricing. The Corporate Center Segment included Treasury. Therefore, the Net Interest income the CMA and CML as well as the Interest and Liquidity gap contribution and asset contribution (see explanation below) is included 2) Financial liabilities at AC at 1Q19 include the Direct deposits (Austria/Germany) amounting to EUR 433 million, EUR 273 million Deposits of credit institutions, EUR 123 million (Other).

Corporate Center Strategy

This segment consists of the treasury business as well as all headquarters and back-office functions in the countries and in the holding such as overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany in the holding.

The Treasury department's prime responsibilities comprise ALM steering and management of liquidity to fulfill the regulatory requirements, by focusing on Group wide liquidity management supporting subsidiaries in optimizing their funding mix and efficiently applying Addiko Group fund transfer pricing tools.

Corporate Center 1Q19 Business review

The segment reporting is showing combined numbers for treasury and central functions related positions.
The net interest income in the Corporate Center is including the following aspects: 1) the customer margin assets and liabilities of the treasury segment, 2) the interest and liquidity gap contribution (IGC) reduced by the distribution of the IGC to the market segments (see explanation in following point), 3) the re-allocation of deposit insurance costs from other operating result, 4) interest income and expense related to Tier 2 capital (valid for 1Q18) and 5) the consolidation of dividends.

Positive development in 2019 of net interest income against 1Q18 originates primarily from the cancellation of the Tier 2 instrument in 2018. Tier 2 capital was waived in March 2018. Additional positive contributor to the positive net interest income is the interest income from the group wide bond portfolio. The market value of the bond portfolios was EUR 1,218.8 million at 1Q19 mainly invested in government bonds of western and eastern European countries. Residual part of the bond portfolios consisted of securities of global operating financial institutions and highly rated corporate issuers.

The steep drop of net result from financial instruments is a result of the one off effect in March 2018 from the EUR 190.0 million debt waiver from the shareholder AI Lake (Luxembourg) S.à r.l. with a EUR 61.0 million income. In addition, this line item includes the result from selling bond positions which were lower in 1Q19 compared to 1Q18. The other operating result includes mainly incurred deposit insurance costs linked to the current status of volume and the full year impact of charges to the Single Recovery & Resolution Fund which is lower due to the decreased balance sheet of Addiko Bank AG in Austria. Restructuring expenses in previous year's first quarter belonging to personnel related accruals on Holding level. In addition, this position contains adjusting items concerning the legal provisions in connection with the active settlement strategy in the amount of EUR 1.3 million. Operating expenses include all headquarter and back-office costs for the countries as well as the holding which have not been allocated to the business segments.

Considering the above-mentioned adjustments, all relating exclusively to the Corporate Center Segment, the adjusted operating result before change in credit loss expense of the Group would reflect the development as in the table below.

EUR m

Addiko Group	1Q19	1Q18	Change (%)
Operating result (reported)	**10.0**	**69.9**	**-85.7%**
Adjustments	-0.4	-57.6	-99.3%
Operating result (adjusted)	**9.6**	**12.3**	**-22.3%**

Asset Contribution

Net interest income in 1Q19 in Corporate Center includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 10.2 million. The majority of the IGC in the amount of EUR 7.4 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extend of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP)

methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC would be approximately zero.
In reality a certain percentage of longer-term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from Segment Corporate Center to the originator of the IGC, i.e. the respective market segment.

6. Risk management

With respect to the explanations on financial and legal risk at Addiko Group as well as the goals and methods of risk management, please refer to the risk report section of the condensed consolidated interim financial statements.

7. Outlook

In the coming quarters, Addiko Bank will continue to execute on its strategy as a Consumer and SME specialist lender focused on the CSEE region.

Banking products and services will be continuously standardised supporting the delivery on the value proposition of convenience and speed. Digital capabilities are being enhanced while the approach to innovation, including partnerships with Fintechs, will continue to drive the digital agenda.

Rigorously managed risk-return profile and self-funding principle in each entity will remain focus elements for the year 2019.

Vienna, 14 May 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause | Johannes Proksch | Csongor Bulcsu Németh

Condensed consolidated Interim Financial Statements

Condensed consolidated Interim Financial Statements

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I. Condensed consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 31.03.2019	01.01. - 31.03.2018
Interest income calculated using the effective interest method		51.5	51.0
Other interest income		0.9	1.6
Interest expenses		-7.5	-14.0
Net interest income	**(5)**	**44.9**	**38.6**
Fee and commission income		18.7	16.8
Fee and commission expenses		-3.1	-3.3
Net fee and commission income	**(6)**	**15.6**	**13.5**
Net result on financial instruments	(7)	3.3	70.5
Other operating income	(8)	2.6	1.8
Other operating expenses	(8)	-8.0	-8.2
Operating income		**58.3**	**116.2**
Personnel expenses	(9)	-24.8	-24.4
Other administrative expenses	(10)	-19.0	-19.3
Depreciation and amortisation	(11)	-4.5	-2.7
Operating expenses		**-48.3**	**-46.3**
Operating result before change in credit loss expense		**10.0**	**69.9**
Credit loss expenses on financial assets	(12)	3.7	10.9
Operating result before tax		**13.7**	**80.8**
Tax on income	(13)	-3.6	-4.6
Result after tax		**10.1**	**76.2**
thereof attributable to equity holders of parent		10.1	76.2

	31.03.2019	31.03.2018
Result after tax attributable to ordinary shareholders (in EUR m)	10.1	76.2
Weighted-average number of ordinary shares at 31 March (in units of shares)	1,000.0	1,000.0
Earnings per share (in EUR)	**10,092.5**	**76,216.0**
Weighted-average number of ordinary shares at 31 March (in units of shares)	1,000.0	1,000.0
Diluted earnings per share (in EUR)	**10,092.5**	**76,216.0**

Earnings per share are equal to diluted earnings per share, because no conversion rights granted were outstanding during the 2019 and 2018 reporting periods.

Statement of other comprehensive income

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Result after tax	**10.1**	**76.2**
Other comprehensive income	**8.5**	**-8.7**
Items that will not be reclassified to profit or loss	**0.7**	**-0.2**
Fair value reserve - equity instruments	0.7	-0.2
Net change in fair value	0.8	-0.2
Income Tax	-0.1	0.0
Items that may be reclassified to profit or loss	**7.8**	**-8.5**
Foreign currency translation	-0.7	0.5
Gains/losses of the current period	-0.7	0.5
Reclassification amounts	0.0	0.0
Fair value reserve - debt instruments	8.6	-9.0
Net change in fair value	7.2	-3.8
Net amount transferred to profit or loss	2.6	-6.5
Income Tax	-1.2	1.3
Total comprehensive income for the year	**18.6**	**67.6**
thereof attributable to equity holders of parent	18.6	67.6

II. Condensed consolidated statement of financial position

EUR m

	Note	31.03.2019	31.12.2018
Assets			
Cash reserves	(14)	777.5	1,002.9
Financial assets held for trading	(15)	24.7	24.3
Loans and receivables	(16)	3,879.2	3,792.9
Loans and advances to credit institutions		14.4	5.6
Loans and advances to customers		3,864.9	3,787.3
Investment securities	(17)	1,253.3	1,184.6
Tangible assets	(18)	87.6	57.7
Property, plant and equipment		85.5	55.7
Investment property		2.0	2.0
Intangible assets		31.2	30.3
Tax assets		24.0	28.3
Current tax assets		1.7	1.7
Deferred tax assets		22.3	26.6
Other assets	(19)	25.3	25.5
Non-current assets and disposal groups classified as held for sale	(20)	5.5	5.7
Total assets		**6,108.4**	**6,152.1**
Equity and liabilities			
Financial liabilities held for trading	(21)	3.6	2.1
Financial liabilities measured at amortised cost	(22)	5,187.9	5,202.5
Deposits of credit institutions		272.8	324.4
Deposits of customers		4,855.5	4,836.7
Issued bonds, subordinated and supplementary capital		1.1	1.1
Other financial liabilities		58.5	40.3
Provisions	(23)	59.7	62.0
Tax liabilities		1.1	1.0
Current tax liabilities		1.0	0.9
Deferred tax liabilities		0.2	0.1
Other liabilities	(24)	28.1	25.1
Equity		828.0	859.5
thereof attributable to equity holders of parent		828.0	859.5
Total equity and liabilities		**6,108.4**	**6,152.1**

III. Condensed consolidated statement of changes in equity

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Impact of adopting IFRS 16	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Profit or loss after tax	0.0	0.0	0.0	0.0	10.1	10.1	0.0	10.1
Other comprehensive income	0.0	0.0	9.2	-0.7	0.0	8.5	0.0	8.5
Total comprehensive income	0.0	0.0	9.2	-0.7	10.1	18.6	0.0	18.6
Dividends paid	0.0	0.0	0.0	0.0	-50.0	-50.0	0.0	-50.0
Equity as at 31.03.2019	**195.0**	**476.5**	**14.6**	**-6.9**	**148.8**	**828.0**	**0.0**	**828.0**

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2018	**5.0**	**537.8**	**12.5**	**-7.9**	**296.7**	**844.0**	**0.0**	**844.0**
Impact of adopting IFRS 9	0.0	0.0	9.7	0.0	-42.1	-32.4	0.0	-32.4
Equity as at 01.01.2018	**5.0**	**537.8**	**22.2**	**-7.9**	**254.5**	**811.6**	**0.0**	**811.6**
Profit or loss after tax	0.0	0.0	0.0	0.0	79.3	79.3	0.0	79.3
Other comprehensive income	0.0	0.0	-9.2	0.5	0.0	-8.7	0.0	-8.7
Total comprehensive income	0.0	0.0	-9.2	0.5	79.3	70.6	0.0	70.6
Dividends paid	0.0	0.0	0.0	0.0	-170.0	-170.0	0.0	-170.0
Other changes	0.0	128.8	0.0	0.0	0.0	128.7	0.0	128.7
Equity as at 31.03.2018	**5.0**	**666.6**	**13.0**	**-7.3**	**163.7**	**841.0**	**0.0**	**841.0**

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption reduced equity by EUR -32.4 million.

With the purpose of strengthening the capital position of the Bank, its shareholder AI Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190 million, with the fair value of the instruments, net of direct attributable costs, of EUR 128.7 million being recognised as a direct capital contribution and presented in the line item “Other changes”.

IV. Condensed consolidated statement of cash flows

EUR m

	2019	2018
Cash reserves at the end of previous period (01.01.)	**1,002.9**	**1,285.9**
Result after tax	**10.1**	**76.2**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	**10.5**	**8.0**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-238.4	-82.5
Interests received	55.1	57.3
Interests paid	-8.4	-15.4
Dividends received	0.0	0.0
Cash flows from operating activities	**-171.0**	**43.6**
Proceeds from the sale of:	0.3	0.1
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	0.3	0.0
Payments for purchases of:	-4.0	-4.2
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	-4.0	-4.2
Other changes	0.1	0.2
Cash flows from investing activities	**-3.7**	**-3.9**
Dividends paid	-50.0	-170.0
Cash flows from financing activities	**-50.0**	**-170.0**
Effect of exchange rate changes	-0.7	0.5
Cash reserves at end of period (31.03.)	**777.5**	**1,156.1**

*The cash flows from operating activities include the principle portion of lease payments in the amount of EUR -1.3 million

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The 2018 capital increase in the amount of EUR 128.7 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a waiver of its entire provided Tier 2 capital and is therefore not presented as cash capital contribution.

V. Condensed notes

Group accounting policies

(1) Accounting principles

The condensed consolidated interim financial statements of Addiko Group for the period from 1 January to 31 March 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRS/SIC) as adopted by the European Union (EU) as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation) and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting".

The provisions of the new accounting standard for leases (IFRS 16) took effect on 1 January 2019. The adoption of IFRS 16 has resulted in changes of accounting policies for lease contracts. Further details of the specific IFRS 16 accounting policies, estimates and judgments applied in the current period and its quantitative and qualitative impact are described in more detail in the note (2) Application of new standards and amendments. Apart from adoption and impact of IFRS 16, the same estimates, judgments, accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements. As these interim financial statements do not include all information and disclosures required in the annual consolidated financial statements, this document should be read in conjunction with Addiko Bank's Group annual report as of 31 December 2018.

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

The figures in the interim consolidated financial statements are generally stated in millions of euros (EUR million); the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

(2) Application of new standards and amendments

Only new standards, interpretations and their amendments that are relevant for the business of Addiko Group are listed below. The impact of all other standards, interpretations and their amendments not yet adopted is not expected to be material.
The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2019:

Standard	Name	Description	Effective for financial year
IFRS 16	Leases (New Standard)	Replacing IAS 17	2019
IFRS 9	IFRS 9 Financial Instruments (Amendments)	Prepayment Features with Negative Compensation	2019
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long term Interests in Associates and Joint Ventures	2019
IAS 19	Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement	2019
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

2.1. IFRS 16 Leases

IFRS 16 "Leases" was published by the IASB in January 2016. IFRS 16 took effect on 1 January 2019, superseding the previous guidance IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces significant changes to lessee accounting and requires new disclosures of information on lease contracts.

2.1.1. Accounting policies

2.1.1.1. Leases in which Addiko Group is a lessee

At inception of a contract entered into on or after 1 January 2019, the Addiko Group assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Addiko Group obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Addiko Group has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Addiko Group also assess the right of use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognised off the statement of financial position and lease expenses are accounted on straight line basis over the remaining lease term.
Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see Note (3) "Use of estimates and assumptions/material uncertainties in relation to estimates").

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Under IFRS 16, lease incentives are recognised as part of the measurement of right of use assets and lease liabilities whereas under IAS 17 they resulted in recognition of a lease incentive liability and amortised as a reduction of rental expense on a straight line basis.

In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets. Previously under IAS 17 it was required to recognize a provision for onerous lease contracts.

IFRS 16 requires that a lessor recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor, rather than the maximum amount guaranteed as required by IAS 17.

2.1.1.2. Leases in which Addiko Group is a lessor

With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

2.1.1.3. Presentation in the financial statements

The Addiko Group as a lessee presents the right of use assets in the line item "Property, plant and equipment in tangible assets" in the statement of financial position. Right of use assets that meet the definition of investment property are presented in the line item "Investment property" in the statement of financial position. Lease liabilities are presented in the line item "Other financial liabilities" in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities in presented in the line item "Interest expenses" in the statement of profit or loss.

The Addiko Group as a lessor, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the line item “Other operating income” or "Other operating expense" and scheduled depreciation under “Depreciation and amortisation”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets.

2.1.2. Impact of application of IFRS 16 Leases

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either “operating” or “finance”. Instead, a right of use asset and a lease liability are recognised for all leases henceforth.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The list of practical expedients which the Addiko Group has made use is provided in 2.1.3. Transition and transitional disclosures.

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

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to EUR 35.5 million on an undiscounted basis under IAS 17, which the Addiko Group assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

The Addiko Group has only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -11 basis points due to an increase of the total assets in the amount of EUR 31.4 million (including prepayments) and an increase of lease liabilities in the amount of EUR 29.5 million.

Due to the strategic decision of Addiko Group to focus on core banking business, the leasing portfolio was reduced and therefore IFRS 16 did not have a material impact on accounting for Addiko Group as a lessor. The same provisions as under IAS 17 still apply under IFRS 16 to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognised.

The application of IFRS 16 has an impact on the consolidated statement of cash flow of the Addiko Group. Under IAS 17, all lease payments on operating leases were presented as part of cash flow from operating activities.

Under IFRS 16, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. Addiko Group has chosen to include the interest paid as as well as cash payments for the principal portion as part of operating activities.

2.1.3. Transition and transitional disclosures

The Addiko Group applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. There was no cumulative effect of adopting IFRS 16 to be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. For contracts under which the Addiko Group acts as lessee a right of use asset at the amount equal to the lease liability was recognised in the statement of financial position (subsequently right of use assets were adjusted for accruals and prepayments). The Addiko Group applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Addiko Group did not apply IFRS 16 to any leases on intangible assets. The Addiko Group used the exemptions for short term leases and leases of low value whereby the right of use asset is not recognised. For leases previously classified as operating leases under IAS 17, the applicable discount rate is the lessee's incremental borrowing rate determined at the date of initial application.

The Addiko Group applied the following practical expedients and exemptions:

- option which allows to adjust the right of use asset by the amount of provision for onerous leases recognised in the statement of financial position immediately before the date of initial application was applied
- practical expedients not to recognise right of use assets but to account for the lease expenses on straight line basis over the remaining lease term for short-term leases (12 month) and for leases for which the underlying asset is of low value were applied
- initial direct costs from the measurement of the right of use asset at the date of initial application were excluded
- the Addiko Group used a hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease

- non-lease components have to be separated from lease components (expedient not to separate non-lease components was not applied)
- contracts which were not classified as leases under IAS 17 in conjunction with IFRIC 4 were not reviewed under the definition of a lease in IFRS 16
- instead of performing an impairment review on the right of use assets at the date of initial application, the Addiko Group has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16

Reconciliation of undiscounted operating lease commitments acc. IAS 17 as of 31 December 2018 and lease liabilities acc. IFRS 16 recognised on 1 January 2019:

EUR m

	Carrying amount
Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018	**35.5**
(-) Discounting (using incremental borrowing rate as at 1 January 2019)	-1.5
Off-balance operating lease obligations (IAS 17) discounted	**34.0**
(+) Minimum lease payments on finance lease as at 31 December 2018	0.0
(-) Exemption for short-term leases	-0.7
(-) Exemption for leases of low-value assets	-3.1
(+/-) Extension and termination options reasonably certain to be exercised	-0.1
(+) Variable lease payments based on an index or a rate	0.2
(-) Residual value guarantees	-0.3
(+/-) Other	-0.5
Lease liabilities recognized as a result of the initial application of IFRS 16 as at 1 January 2019	**29.5**

Recognition of right of use assets at the date of initial application of IFRS 16:

EUR m

	Carrying amount
Right of use assets unadjusted as at 1 January 2019	**29.5**
(+) Prepayments and accruals	2.1
(-) Onerous contracts (IAS 37)	-0.2
Right of use assets recognized as a result of the initial application of IFRS 16 as at 1 January 2019	**31.4**

The recognised right of use assets relate to the following types of assets:

EUR m

	Carrying amount
Land and buildings	26.6
Property, plant and equipment	4.8
Total	**31.4**

The weighted average lessee´s incremental borrowing rate applied to lease liabilities on 1 January 2019 was 1.7% for land and buildings and 1.7% for property, plant and equipment.

2.2. IFRS 9 Financial Instruments

Based on the amendments of IFRS 9 introduced in 2017 financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.3. IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. This interpretation does not result in any significant changes within the Addiko Group.

2.4. IAS 28 Investments in Associates and Joint Ventures

The **IAS 28** amendments clarify that companies should account for long term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments to IAS 28 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.5. IAS 19 Employee benefits

The **IAS 19** amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments to IAS 19 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.6. Annual improvements to IFRS Standards 2015–2017 Cycle

The collection of **annual improvements to IFRSs 2015-2017** includes amendments to the following standards: IFRS 3 Business Combinations clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date. IFRS 11 Joint Arrangements clarifies that the party obtaining joint control of a business that is joint operation should not remeasure its previously held interest in the joint operation; IAS 12 Income Taxes clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity; IAS 23 Borrowing costs clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted. These amendments do not result in any significant changes within the Addiko Group.

There were no new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU which were not yet effective.

(3) Use of estimates and assumptions/material uncertainties in relation to estimates

The interim consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experience and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may

result in a significantly different measurement of credit risk provisions. Model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

Fair value of financial instruments

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. The input parameters used are based – whenever available – on observable market data. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

Deferred tax assets

Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans.

Provisions

Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows.

Lease contracts

The application of IFRS 16 requires the Addiko group to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Addiko Group comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Addiko Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Addiko Group is reasonably certain not to exercise that option. For lease contracts with indefinite term the Addiko Group estimates the length of the contract using the planning models.

The present value of the lease payments is determined using the incremental borrowing rate (discount rate) representing the risk free rate, adjusted by country default swap rates to be applicable for the country and currency of the lease contract and for similar tenor, adjusted by add-on based on mid-to-long credit facilities. The Addiko secured interest rate curve reflects a loan-to-value ratio of 60%. In general, the determination of the discount rates is based on an arm’s length pricing principal.

(4) Scope of consolidation

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Addiko Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

	31.03.2019 Fully consolidated	31.12.2018 Fully consolidated
Start of period (01.01.)	**7**	**7**
Newly included in period under review	0	0
Excluded in period under review	0	0
End of period	**7**	**7**
thereof Austrian companies	1	1
thereof foreign companies	6	6

Notes to the profit or loss statement

(5) Net interest income

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Interest income calculated using the effective interest method	**51.5**	**51.0**
Financial assets at fair value through other comprehensive income	4.4	3.8
Financial assets at amortised cost	46.9	47.1
Negative interest from financial liabilities	0.2	0.0
Other interest income	**0.9**	**1.6**
Financial assets held for trading	0.8	1.5
Other assets	0.1	0.1
Total interest income	**52.3**	**52.6**
Financial liabilities measured at amortised cost	-6.8	-13.0
o/w lease liabilites	-0.1	0.0
Financial liabilities held for trading	-0.3	-0.3
Negative interest from financial assets	-0.3	-0.7
Total interest expense	**-7.5**	**-14.0**
Net interest income	**44.9**	**38.6**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -6.8 million (1Q18: EUR -13.0 million) includes expenses of EUR -4.6 million (1Q18: EUR -7.6 million) related to customer deposits. In addition, this position also included the interest expense in the amount of EUR -3.6 million for Tier 2 capital (EUR 190.0 million) which was waived entirely in the first quarter 2018.

(6) Net fee and commission income

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Transactions	5.2	4.8
Accounts and Packages	4.4	4.3
Cards	3.0	3.0
FX & DCC	2.3	1.8
Securities	0.5	0.5
Bankassurance	1.3	0.4
Loans	0.7	0.6
Trade finance	1.1	0.9
Other	0.3	0.5
Fee and commission income	**18.7**	**16.8**
Cards	-1.4	-1.3
Transactions	-1.0	-0.9
Client incentives	0.0	-0.1
Securities	-0.1	-0.1
Accounts and Packages	-0.1	0.0
Bancassurance	0.0	-0.1
Other	-0.5	-0.8
Fee and commission expense	**-3.1**	**-3.3**
Net Fee and commission income	**15.6**	**13.5**

The fees and commission presented in this note include income of EUR 8.0 million (1Q18: EUR 8.0 million) and expenses of EUR -1.5 million (2018: EUR -1.3 million) relating to financial assets and liabilities not measured at FVTPL.

(7) Net result on financial instruments

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Held for trading financial instruments	-0.4	1.0
o/w exchange difference	2.8	-3.2
o/w gain or losses on financial instruments	-3.2	4.2
Financial assets at fair value through other comprehensive income	3.7	8.5
Financial liabilities measured at amortised cost	0.0	61.0
Total	**3.3**	**70.5**

(8) Other operating income and other operating expenses

	01.01. - 31.03.2019	01.01. - 31.03.2018
Other operating income	**2.6**	**1.8**
Release of provisions for legal cases	1.7	0.2
Gains from sale of non financial assets	0.1	0.0
Income from assets classified as held for sale and disposal groups	0.1	0.0
Reversal of impairment on non-financial assets	0.0	0.4
Other income	0.7	1.2
Other operating expenses	**-8.0**	**-8.2**
Restructuring expenses	-0.1	0.0
Allocation of provisions for legal cases	-1.3	-0.7
Impairment on non-financial assets	-0.1	0.0
Recovery and resolution fund	-1.6	-2.3
Deposit guarantee	-2.2	-2.3
Banking levies and other taxes	-1.0	-0.7
Other expenses	-1.7	-2.1
Total	**-5.4**	**-6.4**

The line item “Release of provisions for legal cases” contains in 2019 a release of legal provisions for successful settlement of long term lasting court cases in the amount of EUR 1.3 million (1Q18: EUR 0.0 million).

The line item “Allocation of provisions for legal cases” in the amount of EUR 1.3 milllion (1Q18: EUR 0.7 million) includes mainly the provision for a legal case, where the settlement is expected to take place in the second quarter 2019.

(9) Personnel expenses

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Wages and salaries	-17.7	-17.4
Social security	-3.5	-3.3
Variable payments	-2.6	-2.7
Other personal tax expenses	-0.6	-0.7
Voluntary social expenses	-0.2	-0.2
Expenses for retirement benefits	-0.1	-0.1
Expenses for severance payments	-0.1	-0.1
Income from release of other employee provisions	0.1	0.4
Other personnel expenses	0.0	-0.2
Total	**-24.8**	**-24.4**

(10) Other administrative expenses

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
IT expense	-8.6	-7.3
Premises expenses (rent and other building expenses)	-3.2	-4.6
Legal and advisory costs	-1.9	-2.4
Advertising costs	-2.5	-2.2
Other administrative expenses	-2.8	-2.7
Total	**-19.0**	**-19.3**

(11) Depreciation and amortisation

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Tangible assets	-3.1	-1.3
o/w right of use assets	-1.8	-
Intangible assets	-1.4	-1.4
Total	**-4.5**	**-2.7**

(12) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Change in CL on financial instruments at FVTOCI	**0.6**	**0.9**
Change in CL on financial instruments at amortised cost	**2.5**	**9.3**
Net allocation to risk provision	2.1	8.3
Proceeds from loans and receivables previously impaired	1.0	1.5
Directly recognised impairment losses	-0.6	-0.5
Net allocation of provisions for commitments and guarantees given	**0.6**	**0.6**
Total	**3.7**	**10.9**

The positive result is influenced by repayments and remigrations to a lower risk portfolio in the non focus segment Mortgage and Corporate. This effect is offset by allocations within the Consumer portfolio.

(13) Taxes on income

EUR m

	01.01. - 31.03.2019	01.01. - 31.03.2018
Current tax	-0.7	-4.3
Deferred tax	-2.9	-0.2
Total	**-3.6**	**-4.6**

Notes to the consolidated statement of financial position

(14) Cash reserves

EUR m

31.03.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	96.4	0.0	96.4
Cash balances at central banks	589.3	-3.1	586.2
Other demand deposits	95.1	-0.2	95.0
Total	**780.8**	**-3.3**	**777.5**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	105.2	0.0	105.2
Cash balances at central banks	790.9	-3.7	787.2
Other demand deposits	110.8	-0.3	110.5
Total	**1,006.9**	**-4.0**	**1,002.9**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 276.7 million (YE18: EUR 316.5 million).

14.1. Cash reserves at central banks and other demand deposits - development of ECL allowance

EUR m

	Stage 1
ECL allowance as at 01.01.2019	**-4.0**
Changes in the loss allowance	0.7
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.03.2019	**-3.3**

EUR m

	Stage 1
ECL allowance as at 01.01.2018	**-7.3**
Changes in the loss allowance	3.3
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.12.2018	**-4.0**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (12-month ECL). The overall reduction of the gross carrying amount during 2019 resulted also in the reduction of stage 1 loss allowances.

(15) Financial assets held for trading

EUR m

	31.03.2019	31.12.2018
Derivatives	**4.6**	**5.0**
Debt securities	**20.1**	**19.3**
Governments	20.1	19.3
Total	**24.7**	**24.3**

(16) Loans and receivables

The Addiko Group measures all loans and receivables at amortised cost.

16.1. Loans and advances to credit institutions

EUR m

31.03.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	14.4	0.0	14.4
Credit institutions	14.4	0.0	14.4
Total	**14.4**	**0.0**	**14.4**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	5.6	0.0	5.6
Credit institutions	5.6	0.0	5.6
Total	**5.6**	**0.0**	**5.6**

Loans and advances to credit institutions – development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Changes in the loss allowance	0.0	0.0	0.0	0.0	0.0
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.03.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-0.4**	**0.0**	**0.0**	**0.0**	**-0.4**
Changes in the loss allowance	0.2	0.0	0.0	0.0	0.2
Transfer between stages	0.3	-0.3	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.3	0.0	0.0	0.2
ECL allowance as at 31.12.2018	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

16.2. Loans and advances to customers

EUR m

31.03.2019	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,319.0	-17.9	-44.5	-166.9	-14.0	2,075.8
Non-financial corporations	1,749.3	-9.6	-6.3	-108.3	-0.3	1,624.7
Governments	124.3	-0.6	0.0	-0.8	0.0	122.9
Other financial corporations	42.2	-0.3	0.0	-0.4	0.0	41.5
Total	**4,234.8**	**-28.5**	**-50.8**	**-276.4**	**-14.3**	**3,864.9**

EUR m

31.12.2018	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,311.0	-19.3	-40.3	-171.5	-14.4	2,065.5
Non-financial corporations	1,688.9	-13.1	-7.1	-110.1	0.0	1,558.5
Governments	127.8	-0.9	0.0	-0.9	0.0	126.0
Other financial corporations	38.0	-0.4	0.0	-0.4	0.0	37.2
Total	**4,165.7**	**-33.8**	**-47.4**	**-282.8**	**-14.4**	**3,787.3**

16.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**
Changes in the loss allowance	7.3	-9.3	-2.3	0.4	-4.0
Transfer between stages	-5.9	5.0	0.9	0.0	0.0
Write-offs	0.0	0.0	7.3	0.2	7.5
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.0	-1.2	-0.1	-1.2
ECL allowance as at 31.03.2019	**-17.9**	**-44.5**	**-166.9**	**-14.0**	**-243.2**

Although overall gross carrying amount of loans remains on the same level in first quarter 2019, overall loss allowance for households slightly decreased, mainly driven by write offs of exposures in stage 3 (lifetime ECL impaired) and related loss allowances, as a result of debt sale and debt settlement activities. On the other hand migrations from stage 1 (12-month ECL) to stage 2 (lifetime ECL) increased the corresponding loss allowance in stage 2.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-22.8**	**-25.9**	**-246.8**	**-19.2**	**-314.7**
Changes in the loss allowance	3.8	-19.3	6.5	4.3	-4.7
Transfer between stages	-10.1	14.7	-4.6	0.0	0.0
Write-offs	0.1	0.1	88.7	1.1	90.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	1.2	-2.5	0.0	0.0	-1.3
Foreign exchange and other movements	8.4	-7.3	-15.2	-0.5	-14.7
ECL allowance as at 31.12.2018	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**

16.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**
Changes in the loss allowance	3.5	0.9	1.0	-0.3	5.0
Transfer between stages	-0.1	0.1	0.0	0.0	0.0
Write-offs	0.0	0.0	1.4	0.0	1.4
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	-0.1	-0.6	0.0	-0.6
ECL allowance as at 31.03.2019	**-9.6**	**-6.3**	**-108.3**	**-0.3**	**-124.6**

Although the overall gross carrying amount of loans and advances to non-financial corporations remains on the same level (with a slightly increasing trend) during first quarter 2019, the overall loss allowance within stage 1 and 2 reduced in the same time reflecting the improved quality of the portfolio per rating class. Additionally, the loss allowances in Stage 3 (lifetime ECL impaired) reduced during first qurater 2019 as a result of lower lower non performing exposure.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-13.1**	**-6.7**	**-149.9**	**0.0**	**-169.7**
Changes in the loss allowance	-1.3	9.4	-7.5	0.0	0.5
Transfer between stages	0.4	-10.0	9.6	0.0	0.0
Write-offs	0.0	0.0	33.7	0.0	33.7
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.6	0.0	0.0	0.0	0.7
Foreign exchange and other movements	0.3	0.2	4.0	0.0	4.5
ECL allowance as at 31.12.2018	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**

16.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**
Changes in the loss allowance	0.3	0.0	0.1	0.0	0.3
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.03.2019	**-0.6**	**0.0**	**-0.8**	**0.0**	**-1.5**

The overall gross carrying amount of loans and advances to general governments slightly decreased in first quarter 2019, especially for the stage 1 portfolio (12-month ECL), mainly driven by decrease of exposure within stage 1 (12-month ECL).

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-1.7**	**-0.1**	**-1.0**	**0.0**	**-2.7**
Changes in the loss allowance	0.6	0.0	0.1	0.0	0.7
Transfer between stages	0.1	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.1	0.0	0.0	0.0	0.1
Foreign exchange and other movements	0.0	0.1	0.0	0.0	0.1
ECL allowance as at 31.12.2018	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**

16.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**
Changes in the loss allowance	0.1	0.0	0.0	0.0	0.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.03.2019	**-0.3**	**0.0**	**-0.4**	**0.0**	**-0.7**

The overall loss allowance for other financial corporations remains on the same level, with a slight decrease in stage 1 (12-month ECL).

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-0.5**	**-0.5**	**-5.6**	**0.0**	**-6.6**
Changes in the loss allowance	0.1	0.5	0.0	0.0	0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	-0.1	0.0	0.0	0.0	-0.1
Foreign exchange and other movements	0.0	0.0	5.1	0.0	5.2
ECL allowance as at 31.12.2018	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**

(17) Investment securities

EUR m

	31.03.2019	31.12.2018
Fair value through other comprehensive income (FVTOCI)	1,236.7	1,168.0
Mandatorily at fair value through profit or loss (FVTPL)	16.6	16.7
Total	**1,253.3**	**1,184.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**
Changes in the loss allowance	0.6	0.0	0.0	0.0	0.6
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.03.2019	**-1.1**	**0.0**	**0.0**	**0.0**	**-1.1**

17.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.03.2019	31.12.2018
Debt securities	**1,218.8**	**1,150.9**
Governments	829.6	799.7
Credit institutions	273.3	264.0
Other financial corporations	55.3	27.1
Non-financial corporations	60.6	60.1
Equity instruments	**17.9**	**17.1**
Governments	13.2	13.1
Other financial corporations	4.4	3.6
Non-financial corporations	0.3	0.3
Total	**1,236.7**	**1,168.0**

17.2. Mandatorily at fair value through profit or loss (FVTPL)

EUR m

	31.03.2019	31.12.2018
Debt securities	**16.3**	**16.4**
Other financial corporations	16.3	16.4
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**16.6**	**16.7**

(18) Tangible assets

EUR m

	31.03.2019	31.12.2018
Land, buildings and plants	85.5	55.7
o/w right of use assets - land and buildings	25.3	-
o/w right of use assets - property, plant and equipment	4.6	-
Investment properties	2.0	2.0
Total	**87.6**	**57.7**

(19) Other assets

EUR m

	31.03.2019	31.12.2018
Prepayments and accrued income	12.9	13.8
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	5.2	5.4
Other remaining assets	7.2	6.3
Total	**25.3**	**25.5**

(20) Non-current assets and disposal groups classified as held for sale

In the current reporting period, this position mainly includes real estate assets in Croatia and Bosnia & Herzegovina, which are part of a Group project to dispose non-core assets and are already actively marketed.

EUR m

	31.03.2019	31.12.2018
Loans and receivables	0.1	0.1
Property plant and equipment	5.0	5.2
Other assets	0.4	0.5
Total	**5.5**	**5.7**

(21) Financial liabilities held for trading

EUR m

	31.03.2019	31.12.2018
Derivatives	3.6	2.1
Total	**3.6**	**2.1**

(22) Financial liabilities measured at amortised cost

EUR m

	31.03.2019	31.12.2018
Deposits	**5,128.3**	**5,161.1**
Deposits of credit institutions	272.8	324.4
Deposits of customers	4,855.5	4,836.7
Issued bonds, subordinated and supplementary capital	**1.1**	**1.1**
Debt securities issued	1.1	1.1
Other financial liabilities	**58.5**	**40.3**
o/w lease liabilities	28.5	-
Total	**5,187.9**	**5,202.5**

22.1. Deposits of credit institutions

EUR m

	31.03.2019	31.12.2018
Current accounts / overnight deposits	7.9	51.4
Deposits with agreed terms	264.8	255.7
Repurchase agreements	0.0	17.4
Total	**272.8**	**324.4**

22.2. Deposits of customers

EUR m

	31.03.2019	31.12.2018
Current accounts / overnight deposits	**2,505.3**	**2,430.8**
Governments	85.3	86.4
Other financial corporations	99.3	112.9
Non-financial corporations	646.8	677.3
Households	1,673.9	1,554.2
Deposits with agreed terms	**2,254.3**	**2,350.4**
Governments	172.3	199.8
Other financial corporations	175.9	169.7
Non-financial corporations	471.6	500.3
Households	1,434.5	1,480.6
Deposits redeemable at notice	**95.9**	**55.6**
Governments	3.3	4.1
Other financial corporations	56.8	18.6
Non-financial corporations	35.8	32.8
Total	**4,855.5**	**4,836.7**

22.3. Debt securities issued

EUR m

	31.03.2019	31.12.2018
Certificates of deposit	1.1	1.1
Total	**1.1**	**1.1**

(23) Provisions

EUR m

	31.03.2019	31.12.2018
Pending legal disputes and tax litigation	29.6	30.1
Commitments and guarantees granted	11.0	11.7
Provisions for variable payments	12.6	13.1
Pensions and other post employment defined benefit obligations	1.9	1.8
Restructuring measures	1.1	1.7
Other long term employee benefits	0.4	0.4
Other provisions	3.1	3.2
Total	**59.7**	**62.0**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

The line item "provision for variable payments" include long- and short-term bonus provision for key management as well as employees.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2019.

23.1. Provisions - development of loan commitments, financial guarantee and other commitments given

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**
Changes in the loss allowance	0.4	0.5	-0.2	0.0	0.6
Transfer between stages	-0.2	0.2	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.03.2019	**-2.8**	**-1.1**	**-7.1**	**0.0**	**-11.0**

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly de-creased in the first quarter 2019 as a result of the decrease within stage 1 (12-month ECL) and stage 2 (life-time ECL not credit impaired), while ECL allowance within stage 3 (lifetime ECL credit impaired) sligtly in-creased.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-2.6**	**-1.4**	**-6.2**	**0.0**	**-10.1**
Changes in the loss allowance	-0.9	-0.6	-0.3	0.0	-1.8
Transfer between stages	0.3	0.1	-0.4	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.2	0.1	0.0	0.0	0.3
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**

(24) Other liabilities

EUR m

	31.03.2019	31.12.2018
Deferred income	0.8	0.7
Accruals and other liabilities	27.3	24.3
Total	**28.1**	**25.1**

Accruals and other liabilities include liabilities for salaries and salary compensations not yet paid as well as tax liabilities arising from VAT charges. Furthermore, liabilities for software applications capitalized but not yet paid are included.

Segment Reporting

The Addiko Group’s segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting that is regularly reviewed by the chief operating decision makers (CODM) to assess the performance of the segments and make decisions regarding the allocation of resources. The segments of the Addiko Group are based on a combination between Customer types, which are Retail Customers, Small and Medium Enterprises, Corporate Clients and Public Clients and Business types, which are Consumer loans and Mortgage loans. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes and deposit volumes. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Group by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies, any deviation between the reported result and the segment result is described later on. The Addiko Group evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes because management believes that this information is the most relevant in evaluating the results of the respective segments.

Net interest income in Corporate Centre includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 10.2 million. The majority of the IGC in the amount of EUR 7.4 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on finanical instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

In reality a certain percentage of longer term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment.

The Addiko Group does not have revenues from transactions with one single external customer amounting to 10% or more of the Addiko Group´s total revenues.

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank’s Retail Segment serves just under 1 million customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 197 branches and state of the art digital channels.

For Private Individuals (PI) the focus is on daily banking services and consumer lending. In the Micro customer segment, the priority is offering transactional services.

SME Business: Addiko Bank offers the full product suite to circa 13 thousand SME clients (companies with annual turnover between EUR 0.5 and 40 million) in the SEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million. Addiko Bank services the largest local and international companies by centralised and specialised local teams supported by a strong expert unit from the Holding with investment loans, working capital loans and revolving loans.

Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in SEE countries as ministries of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

Segments overview

EUR m

31.03.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	41.5	6.1	35.4	9.5	4.2	2.1	3.2	60.4
Net interest income [1]	31.2	6.1	25.2	5.5	2.8	1.7	3.6	44.9
o/w regular interest income [2]	30.6	8.2	22.5	7.0	3.7	1.4	5.0	47.7
Net fee and commission income	10.3	0.0	10.3	4.0	1.4	0.3	-0.4	15.6
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-5.4	-5.4
Operating income	**41.5**	**6.1**	**35.4**	**9.5**	**4.2**	**2.1**	**1.1**	**58.3**
Operating expenses	**-22.2**			**-5.8**	**-1.1**	**-0.6**	**-18.7**	**-48.3**
Operating result	**19.3**			**3.7**	**3.1**	**1.5**	**-17.6**	**10.0**
Change in CL	-1.5	3.0	-4.5	2.1	1.6	0.2	1.3	3.7
Operating result before tax	**17.8**			**5.8**	**4.7**	**1.6**	**-16.3**	**13.7**
Business volume								
Net loans and receivables [3]	2,057.8	858.8	1,199.0	994.4	603.9	195.4	27.8	3,879.2
o/w gross performing loans	2,075.7	846.7	1,229.1	991.5	580.2	193.9		3,841.4
Gross Disbursements [4]	157.8	2.4	155.4	144.6	55.1	0.4		357.9
Financial liabilities at AC [5]	2,759.0		2,759.0	604.9	415.5	579.7	828.8	5,187.9
RWA [6]	1,456.9	546.9	910.0	922.0	661.6	120.3	813.1	3,973.9
Key ratios								
Net interest margin (NIM) [7]	4.5%	1.7%	6.1%	2.4%	1.5%	1.4%		3.0%
Cost/income ratio [8]	53.5%			60.6%	26.0%	28.6%		80.0%
Cost of risk ratio	-0.1%	0.3%	-0.3%	0.1%	0.2%	0.1%		0.1%
Loan to deposit ratio [9]	74.6%			164.4%	145.3%	33.7%		79.6%
NPE ratio (CRB based) [10]	9.8%	14.1%	6.9%	4.5%	8.0%	4.2%		7.4%
NPE coverage ratio [11]	81.7%	74.6%	91.6%	62.1%	70.1%	75.3%		75.8%
NPE collateral coverage [12]	42.0%	59.5%	17.6%	63.6%	34.4%	51.3%		44.7%
Change CL/GPL (simply Ø) [13]	-0.1%	0.3%	-0.4%	0.2%	0.3%	0.1%		0.1%
Yield GPL (simply Ø) [14]	6.0%	3.8%	7.5%	2.9%	2.6%	2.9%		4.6%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (consumer- mortgage and housing loans and corporate term loans, not including revolving loans) and internal refinancing (In) which relates to intra – bank transactions 5) Financial liabilities at AC at 1Q19 include the Direct deposits (Austria/Germany) amounting to EUR 433 million, EUR 273 million deposits of credit institutions, EUR 123 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualized on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortized costs. Total bank: Net customer loans divided by customer deposits 10) Non performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / non performing exposure 12) Collaterals allocated to non performing exposure / non performing exposure 13) Change in CL / Simply Ø gross performing loans - not annualized due to volatility within the year 14) Regular interest income annualized / simply Ø gross performing loans.

The business volumes presented in the table below show figures as of 31 March 2018.

EUR m

31.03.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	36.8	6.2	30.6	9.1	4.3	2.9	-1.0	52.1
Net interest income [1]	27.7	6.2	21.4	5.8	2.8	2.7	-0.4	38.6
o/w regular interest income [2]	29.7	9.7	20.1	6.6	3.2	1.8	5.0	46.3
Net fee and commission income	9.1	0.0	9.1	3.3	1.5	0.2	-0.6	13.5
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.5	70.5
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-6.4	-6.4
Operating income	**36.8**	**6.2**	**30.6**	**9.1**	**4.3**	**2.9**	**63.1**	**116.2**
Operating expenses	**-21.9**			**-5.6**	**-1.2**	**-0.7**	**-17.0**	**-46.3**
Operating result	**15.0**			**3.5**	**3.1**	**2.2**	**46.1**	**69.9**
Change in CL	4.4	6.8	-2.5	2.2	2.6	1.3	0.5	10.9
Operating result before tax	**19.3**			**5.7**	**5.7**	**3.5**	**46.6**	**80.8**
Business volume								
Net loans and receivables [3]	2,046.0	988.2	1,057.8	853.3	531.4	253.7	115.2	3,799.6
o/w gross performing loans	2,032.4	956.7	1,075.7	827.1	481.1	253.2		3,593.8
Gross Disbursements [4]	152.3	3.1	149.2	113.8	39.2	2.4		307.8
Financial liabilities at AC [5]	2,737.5		2,737.5	533.8	479.0	654.7	846.8	5,251.8
RWA [6]	1,494.4	661.5	832.9	878.5	619.1	148.3	834.4	3,974.7
Key ratios								
Net interest margin (NIM) [7]	4.4%	1.9%	6.2%	3.0%	1.4%	2.4%		2.5%
Cost/income ratio [8]	59.4%			61.7%	27.5%	23.7%		88.9%
Cost of risk ratio	0.2%	0.6%	-0.2%	0.2%	0.3%	0.4%		0.2%
Loan to deposit ratio [9]	74.7%			159.9%	110.9%	38.7%		75.2%
NPE ratio (CRB based) [10]	13.3%	16.8%	10.3%	5.7%	18.9%	1.3%		11.0%
NPE coverage ratio [11]	81.7%	73.7%	92.8%	52.7%	54.0%	42.7%		69.8%
NPE collateral coverage [12]	44.2%	57.4%	25.9%	73.4%	42.5%	62.9%		47.8%
Change CL/GPL (simply Ø) [13]	0.2%	0.7%	-0.2%	0.3%	0.5%	0.5%		0.3%
Yield GPL (simply Ø) [14]	5.9%	4.0%	7.7%	3.3%	2.8%	2.7%		4.7%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (consumer- mortgage and housing loans and Corporate term loans , not including revolving loans) and internal refinancing which relates to intra – bank transactions 5) EUR 846.8 million presented in Corporate Center contains: EUR 446 million deposits of customers in Holding, EUR 281 million deposits of credit institutions, EUR 120 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualized on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortized costs. Total bank: net customer loans divided by customer deposits 10) Non performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / non performing exposure 12) Collaterals allocated to non performing exposure / non performing exposure 13) Change in CL / Simply Ø gross performing loans - not annualized due to volatility within the year 14) Regular interest income annualized / simply Ø gross performing loans.

The net interest income breakdown explains the net interest income details per segment up to total bank. It lists all sub -positions of the net interest income including the customer margin assets & liabilities, the basic items within the interest Gap Contribution and Asset Contribution.

EUR m

31.03.2019	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**31.2**	**6.1**	**25.2**	**5.5**	**2.8**	**1.7**	**3.6**	**44.9**
o/w Interest income	**33.5**	**9.0**	**24.5**	**7.7**	**4.1**	**1.4**	**5.0**	**51.7**
o/w Regular interest income	30.6	8.2	22.5	7.0	3.7	1.4	5.0	47.7
o/w Interest income on NPE	0.8	0.6	0.2	0.3	0.2	0.0	0.0	1.3
o/w Interest like income	2.1	0.3	1.8	0.5	0.1	0.0	0.0	2.8
o/w Interest expenses	**-3.8**	**0.0**	**-3.8**	**-0.5**	**-0.4**	**-0.9**	**-1.4**	**-6.9**
o/w FTP (asset & liabilities)	**-4.3**	**-4.9**	**0.6**	**-2.3**	**-1.6**	**0.9**	**-2.8**	**-10.2**
o/w Interest gap contribution	**5.8**	**2.0**	**3.9**	**0.6**	**0.7**	**0.4**	**2.8**	**10.2**
o/w Asset contribution	5.8	2.0	3.9	0.6	0.7	0.4	-7.4	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	10.2	10.2

EUR m

31.03.2018	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**27.7**	**6.2**	**21.4**	**5.8**	**2.8**	**2.7**	**-0.4**	**38.6**
o/w Interest income	**32.7**	**10.6**	**22.1**	**7.5**	**4.3**	**2.4**	**5.0**	**51.9**
o/w Regular interest income	29.7	9.7	20.1	6.6	3.2	1.8	5.0	46.3
o/w Interest income on NPE	0.7	0.5	0.2	0.4	0.9	0.0	0.0	2.1
o/w Interest like income	2.2	0.4	1.9	0.5	0.1	0.6	0.0	3.5
o/w Interest expenses	**-5.9**	**0.0**	**-5.9**	**-0.4**	**-0.4**	**-1.4**	**-5.1**	**-13.3**
o/w FTP (asset & liabilities)	**-2.8**	**-5.5**	**2.6**	**-1.5**	**-1.3**	**1.7**	**-2.3**	**-6.2**
o/w Interest gap contribution	**3.7**	**1.2**	**2.6**	**0.2**	**0.2**	**0.0**	**2.0**	**6.2**
o/w Asset contribution	3.7	1.2	2.6	0.2	0.2	0.0	-4.2	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	6.2	6.2

The relation between net commission income and reportable segments can be seen in the tables below:

EUR m

31.03.2019	Retail*	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	2.2	2.0	0.4	0.3	0.2	5.2
Accounts and Packages	4.2	0.2	0.0	0.0	0.0	4.4
Cards	2.6	0.3	0.0	0.0	0.0	3.0
FX & DCC	1.3	0.8	0.1	0.0	0.1	2.3
Securities	0.0	0.0	0.5	0.0	0.0	0.5
Bancassurance	1.3	0.0	0.0	0.0	0.0	1.3
Loans	0.3	0.3	0.1	0.0	0.0	0.7
Trade finance	0.0	0.8	0.3	0.0	0.0	1.1
Other	0.3	0.0	0.0	0.0	0.0	0.3
Fee and commission income	**12.1**	**4.4**	**1.6**	**0.4**	**0.2**	**18.7**
Cards	-0.9	-0.2	0.0	0.0	-0.2	-1.4
Transactions	-0.7	-0.2	-0.1	0.0	0.0	-1.0
Client incentives	0.0	0.0	0.0	0.0	0.0	0.0
Securities	0.0	0.0	-0.1	0.0	0.0	-0.1
Accounts and Packages	0.0	0.0	0.0	0.0	-0.1	-0.1
Bancassurance	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.1	0.0	-0.1	0.0	-0.3	-0.5
Fee and commission expense	**-1.8**	**-0.4**	**-0.2**	**0.0**	**-0.6**	**-3.1**
Net fee and commission income	**10.3**	**4.0**	**1.4**	**0.3**	**-0.4**	**15.6**

*Subsegment Consumer contributed fully (100%) to the net fee and commission income of the Segment Retail

EUR m

31.03.2018	Retail*	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	2.3	1.8	0.4	0.2	0.1	4.8
Accounts and Packages	4.1	0.2	0.0	0.0	0.0	4.3
Cards	2.8	0.3	0.0	0.0	-0.1	3.0
FX & DCC	0.8	0.5	0.3	0.0	0.1	1.8
Securities	0.0	0.0	0.5	0.0	0.0	0.5
Bancassurance	0.4	0.0	0.0	0.0	0.0	0.4
Loans	0.3	0.2	0.1	0.0	0.0	0.6
Trade finance	0.0	0.7	0.2	0.0	0.0	0.9
Other	0.4	0.0	0.0	0.0	0.0	0.5
Fee and commission income	**11.0**	**3.7**	**1.7**	**0.3**	**0.2**	**16.8**
Cards	-1.0	-0.1	0.0	0.0	-0.1	-1.3
Transactions	-0.5	-0.3	-0.1	0.0	0.0	-0.9
Client incentives	0.0	0.0	0.0	0.0	0.0	0.0
Securities	0.0	0.0	-0.1	0.0	0.0	-0.1
Accounts and Packages	0.0	0.0	0.0	0.0	0.0	0.0
Bancassurance	-0.1	0.0	0.0	0.0	0.0	-0.1
Other	-0.2	0.0	0.0	0.0	-0.5	-0.8
Fee and commission expense	**-1.9**	**-0.4**	**-0.1**	**0.0**	**-0.8**	**-3.3**
Net fee and commission income	**9.1**	**3.3**	**1.5**	**0.2**	**-0.6**	**13.5**

*Subsegment Consumer contributed fully (100%) to the net fee and commission income of the Segment Retail

Geographical Segmentation

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia (ABC), Slovenia (ABS), Bosnia & Herzegovina with two entities in Banja Luka (ABBL) and Sarajevo (ABSA), Serbia (ABSE) and Montenegro (ABM). Therefore, the revenues are generated in the CSEE region. In Austria only online deposits for clients in Austria and Germany are provided. Customer groups are not aggregated and assigned to a single country but allocated to their respective countries on single entity level. The geographical segmentation of income from external customers is shown in compliance with IFRSs and does not reflect the Group's management structure, the Management believes that the business segmentation provides a more informative description of the Group's activities. The Reco Column includes mainly the intercompany reconciliation.

EUR m

31.03.2019	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	23.3	12.6	4.4	4.9	10.2	3.3	27.2	-25.4	60.4
Net interest income [1]	16.3	9.9	3.0	3.4	7.7	2.8	27.4	-25.5	44.9
o/w regular interest income [2]	18.3	10.0	3.7	3.6	9.2	3.2	28.9	-29.0	47.7
Net fee and commission income	7.1	2.7	1.4	1.5	2.5	0.5	-0.2	0.1	15.6
Net result on financial instruments	2.3	0.5	0.0	0.5	0.3	0.0	-0.2	-0.1	3.3
Other operating result	-2.2	-0.9	-0.2	-0.2	-0.4	-0.4	0.0	-1.0	-5.4
Operating income	**23.4**	**12.2**	**4.2**	**5.2**	**10.0**	**2.9**	**27.0**	**-26.6**	**58.3**
Operating expenses	**-13.6**	**-6.7**	**-3.7**	**-4.1**	**-7.6**	**-1.9**	**-10.6**	**-0.2**	**-48.3**
Operating result	**9.8**	**5.5**	**0.5**	**1.1**	**2.4**	**1.0**	**16.4**	**-26.8**	**10.0**
Change in CL	1.8	0.1	0.1	0.6	0.7	0.2	-0.1	0.2	3.7
Operating result before tax	**11.6**	**5.6**	**0.6**	**1.8**	**3.2**	**1.2**	**16.3**	**-26.6**	**13.7**
Total assets	**2,421.3**	**1,636.0**	**405.6**	**462.2**	**802.1**	**234.7**	**1,326.8**	**-1,180.4**	**6,108.4**
Business volume									
Net loans and receivables [3]	1,406.0	1,267.6	260.4	267.2	607.4	192.4	211.6	-333.3	3,879.2
o/w gross performing loans	1,340.6	1,167.2	259.8	262.9	614.8	196.1	0.0		3,841.4
Gross Disbursements	134.1	82.9	23.9	36.0	61.0	20.0	0.0		357.9
Financial liabilities at AC [4]	2,009.9	1,468.5	322.9	344.5	612.6	210.1	553.0	-333.7	5,187.9
RWA [5]	1,429.4	971.4	306.8	356.5	660.3	176.6	73.3		3,973.9
Key ratios									
Net interest margin (NIM)	2.7%	2.5%	3.0%	3.0%	3.8%	4.8%	8.4%		3.0%
Cost/income ratio [6]	58.3%	53.1%	83.9%	83.9%	74.5%	58.2%	38.9%		80.0%
Cost of risk ratio	0.1%	0.0%	0.0%	0.2%	0.1%	0.1%	-1.3%		0.1%
Loan to deposit ratio [7]	76.5%	95.3%	82.7%	78.7%	112.9%	96.5%			79.6%
NPE ratio (CRB based)	9.7%	2.3%	11.5%	15.0%	6.3%	7.2%			7.4%
NPE coverage ratio	73.7%	70.7%	85.4%	83.0%	68.7%	68.6%			75.8%
NPE collateral coverage	43.8%	57.8%	40.2%	30.9%	57.0%	52.1%			44.7%
Change CL/GPL (simply Ø)	0.1%	0.0%	0.1%	0.3%	0.1%	0.1%			0.1%
Yield GPL (simply Ø)	4.8%	3.3%	5.5%	5.3%	5.1%	6.7%			4.6%

1) Net Interest income for the respective country is according to the reported NII. 2) Regular interest income is related to booked interests from market segments excluding interest like income, interest income on NPE and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 433 million presented in ABH 5) Includes only credit risk (without application of IFRS 9 transitional rules) 6) CIR based on operating expenses divided by net banking income which represents net interest income and net fee and commission income 7) Net customer loans divided by customer deposits

EUR m

31.03.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	20.2	11.1	4.7	4.5	9.3	2.8	19.6	-20.1	52.1
Net interest income [1]	14.2	8.7	3.2	3.0	7.0	2.4	19.9	-19.9	38.6
o/w regular interest income [2]	18.9	9.2	3.8	3.5	8.0	3.1	25.6	-25.7	46.3
Net fee and commission income	5.9	2.4	1.6	1.4	2.3	0.4	-0.3	-0.2	13.5
Net result on financial instruments	2.4	4.8	0.0	0.0	1.2	0.0	62.4	-0.2	70.5
Other operating result	-1.3	-0.9	0.1	-0.4	-0.4	-0.3	-1.2	-2.0	-6.4
Operating income	**21.2**	**15.0**	**4.8**	**4.1**	**10.1**	**2.5**	**80.8**	**-22.3**	**116.2**
Operating expenses	**-13.5**	**-6.3**	**-3.5**	**-3.9**	**-7.2**	**-2.1**	**-11.5**	**1.7**	**-46.3**
Operating result	**7.7**	**8.7**	**1.3**	**0.2**	**2.9**	**0.4**	**69.3**	**-20.7**	**69.9**
Change in CL	4.3	0.6	-0.1	2.1	3.7	0.2	0.2	-0.1	10.9
Operating result before tax	**12.0**	**9.2**	**1.2**	**2.3**	**6.6**	**0.6**	**69.6**	**-20.8**	**80.8**
Total assets	**2,790.4**	**1,498.7**	**359.7**	**443.4**	**744.7**	**262.4**	**1,421.0**	**-1,314.3**	**6,206.0**
Business volume									
Net loans and receivables [3]	1,535.9	1,221.5	264.4	231.3	521.1	195.4	331.3	-501.3	3,799.6
o/w gross performing loans	1,325.6	1,086.0	259.3	229.7	500.7	192.5	0.0		3,593.8
Gross Disbursements	131.5	70.2	19.8	17.6	43.3	25.4	0.0		307.8
Financial liabilities at AC [4]	2,387.5	1,336.1	279.1	330.7	564.7	238.6	626.5	-511.4	5,251.8
RWA [5]	1,409.8	901.7	318.5	380.2	681.6	222.1	60.8		3,974.7
Key ratios									
Net interest margin (NIM)	2.0%	2.3%	3.5%	2.7%	3.7%	3.8%	5.5%		2.5%
Cost/income ratio [6]	67.0%	57.0%	73.5%	86.6%	77.7%	74.1%	58.5%		88.9%
Cost of risk ratio	0.2%	0.0%	0.0%	0.5%	0.5%	0.1%	1.0%		0.2%
Loan to deposit ratio [7]	67.1%	103.1%	99.5%	71.5%	102.2%	92.5%			75.2%
NPE ratio (CRB based)	11.8%	4.2%	14.4%	21.4%	15.3%	9.3%			11.0%
NPE coverage ratio	63.7%	67.5%	85.0%	85.3%	64.2%	55.4%			69.8%
NPE collateral coverage	43.2%	74.5%	44.4%	35.9%	50.3%	65.7%			47.8%
Change CL/GPL (simply Ø)	0.3%	0.1%	0.0%	0.9%	0.7%	0.1%			0.3%
Yield GPL (simply Ø)	5.2%	3.1%	5.9%	5.8%	4.9%	6.5%			4.7%

1) Net Interest income for the respective country is according to the reported NII. 2) Regular interest income is related to booked interests from market segments excluding interest like income, interest income on NPE and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 446 million presented in ABH 5) Includes only credit risk 6) CIR based on operating expenses divided by net banking income which represents net interest income and net fee and commission income 7) Net customer loans divided by customer deposits

Risk Report

(25) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the Groups creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Addiko Group to the overall controlling:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(26) Risk strategy & Risk Appetite Framework (RAF)

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

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

In the following chapters, the main risk categories are explained in more detail.

(27) Credit risk

27.1. Reconciliation between Financial instruments classes and Credit risk exposure

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

Breakdown of net exposure within the Group as at 31 March 2019:

EUR m

31.03.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1]	684.3	-3.3	681.0	0.0	0.0		684.3	681.0
Financial assets held for trading	24.7		24.7	0.0			24.7	24.7
Loans and receivables	3,871.4	-79.3	3,792.1	377.8	-290.6	87.2	4,249.2	3,879.2
of which credit institutions	14.4	0.0	14.4	0.0	0.0	0.0	14.4	14.4
of which customer loans	3,857.0	-79.3	3,777.7	377.8	-290.6	87.2	4,234.8	3,864.9
Investment securities[2]	1,249.4	-1.1	1,248.3	0.0	0.0	0.0	1,249.4	1,248.3
Other Assets - IFRS 5[3]	0.0	0.0	0.0	0.4	-0.3	0.1	0.4	0.1
On balance total	**5,829.8**	**-83.7**	**5,746.1**	**378.2**	**-291.0**	**87.2**	**6,208.0**	**5,833.3**
Off balance	960.8	-3.9	956.9	15.0	-7.1	7.9	975.8	964.8
ECL on FVTOCI debt securities[4]	-1.1	1.1	0.0	0.0	0.0	0.0	-1.1	0.0
Total	**6,789.4**	**-86.5**	**6,702.9**	**393.2**	**-298.1**	**95.2**	**7,182.7**	**6,798.1**
Adjustments[5]	-1.2		-1.2			0.0	-1.2	-1.2
Total credit risk exposure	**6,788.2**	**-86.5**	**6,701.7**	**393.2**	**-298.1**	**95.2**	**7,181.4**	**6,796.9**

1) The position does not include cash on hand in amount of EUR 96.4 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The position includes only loans and receivables. 4) The loss allowance on debt securities at FVTOCI is not presented for credit risk purposes as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments. 5) Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.

Breakdown of net exposure within the Group as at 31 December 2018:

EUR m

31.12.2018	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1]	901.7	-4.0	897.7				901.7	897.7
Financial assets held for trading	24.3		24.3				24.3	24.3
Loans and receivables	3,783.2	-81.3	3,701.9	388.1	-297.2	90.9	4,171.3	3,792.9
of which credit institutions	5.6	0.0	5.6	0.0	0.0	0.0	5.6	5.6
of which customer loans	3,777.6	-81.2	3,696.3	388.1	-297.2	90.9	4,165.7	3,787.3
Investment securities[2]	1,182.1	-1.7	1,180.4	0.0	0.0	0.0	1,182.1	1,180.4
Other Assets - IFRS 5[3]	0.0	0.0	0.0	0.4	-0.4	0.1	0.4	0.1
On balance total	**5,891.3**	**-87.0**	**5,804.3**	**388.5**	**-297.6**	**91.0**	**6,279.9**	**5,895.3**
Off balance	949.4	-4.8	944.6	15.2	-6.9	8.4	964.7	953.0
Total	**6,840.7**	**-91.8**	**6,748.9**	**403.8**	**-304.4**	**99.4**	**7,244.5**	**6,848.3**
Adjustments[4]	-8.8		-8.8			0.0	-8.8	-8.8
Total credit risk exposure	**6,831.9**	**-91.8**	**6,740.1**	**403.8**	**-304.4**	**99.4**	**7,235.7**	**6,839.5**

1) The position does not include cash on hand in amount of EUR 105.2 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The position includes only loans and receivables. 4) Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.

27.2. Allocation of credit risk exposure within the Group

Until 31 March 2019, the overall gross exposure within the Group decreased by EUR 54.2 million or 0.7%. The decrease mainly results from reduced exposures at Addiko Bank Croatia, Addiko Bank Serbia and Addiko Bank Montenegro and is partially offset by increased exposure on Addiko Holding, Addiko Bank Slovenia, Addiko Bank Sarajevo and Addiko Bank Banja Luka, with the increase of the exposure in the core segments Consumer Lending and SME not fully compensating the volume reduction in the non-core segments Public Finance, Mortgages and Corporate Center. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	31.03.2019	31.12.2018
Addiko Croatia	2,762.8	2,850.1
Addiko Slovenia	1,876.3	1,795.8
Addiko Serbia	989.8	1,044.0
Addiko in Bosnia and Herzegovina	1,042.0	1,026.4
Addiko Montenegro	260.7	271.2
Addiko Holding	249.9	248.3
Total	**7,181.4**	**7,235.7**

27.3. Credit risk exposure by rating class

At 31 March 2019 roughly 27.4% (YE18: 27.0%) of the exposure is categorised as rating classes 1A to 1E. This exposure majorly relates to receivables from financial institutions, sovereigns and private individuals.

During 1Q19 the NPE Stock slightly reduced by EUR 10.6 million, mainly in the consumer and mortgage portfolio, due to write offs driven by Addiko Bank Croatia as well as collection effects in all countries.

The following table shows the exposure by rating classes and market segment as at 31 March 2019:

EUR m

31.03.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	197.4	768.4	261.1	119.8	99.7	1.4	1,447.7
SME	155.7	766.6	563.1	53.5	71.8	1.2	1,611.9
Non-Focus	548.8	914.3	372.2	69.9	221.8	3.5	2,130.4
o/w Large Corporate	107.2	465.5	266.4	12.7	73.7	0.6	926.1
o/w Mortgage	390.2	346.5	56.8	47.3	138.7	2.9	982.3
o/w Public Finance	51.4	102.3	49.0	9.9	9.4	0.0	222.0
Corporate Center[1)]	1,069.2	791.9	130.4	0.0	0.0	0.0	1,991.5
Total	**1,971.0**	**3,241.3**	**1,326.8**	**243.1**	**393.2**	**6.0**	**7,181.4**

1) Corporate Center includes financial institutions considering National Bank exposure, deposits as well as securities.

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	197.5	786.5	212.4	114.6	103.6	0.3	1,415.0
SME	129.8	740.2	558.3	60.1	70.7	0.3	1,559.3
Non-Focus	563.9	881.9	381.8	84.9	229.5	3.8	2,145.8
o/w Large Corporates	111.2	416.8	267.6	26.9	81.0	3.5	907.0
o/w Mortgage	400.6	364.8	57.3	47.8	145.2	0.0	1,015.7
o/w Public Finance	52.2	100.3	57.0	10.1	3.4	0.3	223.2
Corporate Center[1)]	1,063.9	893.0	153.6	0.0	0.0	5.1	2,115.5
Total	**1,955.2**	**3,301.5**	**1,306.1**	**259.6**	**403.8**	**9.5**	**7,235.7**

1) Corporate Center includes financial institutions considering National Bank Exposure, deposits as well as securities.

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

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

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

27.4. Credit risk exposure by region

The Addiko Groups country portfolio focuses on Central and South Eastern Europe. The following table shows the breakdown of exposure by region within the Group (at customer level):

EUR m

	31.03.2019	31.12.2018
SEE	6,291.3	6,346.5
Europe (excl. CEE/SEE)	525.8	506.5
CEE	261.9	274.4
Other	102.5	108.2
Total	**7,181.4**	**7,235.7**

27.5. Exposure by business sector and region

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

The lower-risk business sector groups - financial institutions and the public sector - account for a share of 31.1% at 1Q19 (YE18: 32.1%). The well-diversified private customers sector accounts for a share of 25.8% (YE18: 25.6%).

EUR m

31.03.2019 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	1.9	1,847.6	0.6	0.1	1,850.2
Financial services	387.0	739.1	0.0	83.5	1,209.6
Public sector	114.9	646.4	261.3	0.0	1,022.5
Industry	12.7	968.7	0.0	5.7	987.2
Trade and commerce	0.0	739.8	0.0	4.7	744.6
Services	8.9	526.9	0.0	2.5	538.3
Real estate business	0.0	88.4	0.0	0.0	88.4
Tourism	0.0	119.0	0.0	0.0	119.0
Agriculture	0.0	78.8	0.0	0.0	78.8
Other	0.5	536.6	0.0	5.9	543.0
Total	**525.8**	**6,291.3**	**261.9**	**102.5**	**7,181.4**

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

EUR m

31.12.2018 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.1	1,846.2	0.6	0.1	1,849.0
Financial services	411.9	839.0	0.0	89.3	1,340.2
Public sector	72.3	635.4	273.8	0.0	981.5
Industry	13.4	948.3	0.0	5.8	967.5
Trade and commerce	0.0	749.0	0.0	4.7	753.7
Services	6.3	525.1	0.0	2.5	533.8
Real estate business	0.0	88.9	0.0	0.0	88.9
Tourism	0.0	106.4	0.0	0.0	106.4
Agriculture	0.0	75.5	0.0	0.0	75.5
Other	0.5	532.6	0.0	5.9	539.1
Total	**506.5**	**6,346.5**	**274.4**	**108.2**	**7,235.7**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Groups core countries in Central and South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Consumer business.

27.6. Presentation of exposure by overdue days

EUR m

31.03.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,311.5	41.0	7.6	3.6	84.0	1,447.7
SME	1,472.8	99.3	1.8	1.9	36.1	1,611.9
Non-Focus	1,875.8	64.8	10.3	1.3	178.1	2,130.4
o/w Large Corporate	853.2	17.2	0.0	0.0	55.7	926.1
o/w Mortgage	818.7	39.2	7.3	1.3	115.8	982.3
o/w Public Finance	204.0	8.4	3.0	0.0	6.6	222.0
Corporate Center	1,991.5	0.0	0.0	0.0	0.0	1,991.5
Total	**6,651.5**	**205.1**	**19.7**	**6.9**	**298.2**	**7,181.4**

EUR m

31.12.2018	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,285.1	33.3	5.2	3.1	88.2	1,415.0
SME	1,456.5	63.2	0.2	1.5	38.0	1,559.3
Non-Focus	1,911.7	43.0	7.7	3.2	180.2	2,145.8
o/w Large Corporates	830.4	15.2	1.0	0.0	60.4	907.0
o/w Mortgage	861.4	25.0	6.7	3.2	119.4	1,015.7
o/w Public Finance	219.8	2.9	0.0	0.0	0.4	223.2
Corporate Center	2,115.5	0.0	0.0	0.0	0.0	2,115.5
Total	**6,768.7**	**139.6**	**13.1**	**7.8**	**306.4**	**7,235.7**

27.7. Presentation of exposure by size classes

As of 31 March 2019 around 41.8% (YE18: 41.3%) of the exposure is found in the size range < EUR 1 million. The Group pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1,047.1 million (YE18: EUR 1,227.8 million) of exposure in the range > EUR 100 million is entirely attributable to National Banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

		31.03.2019		31.12.2018
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10.000	552.3	303,417	554.3	302,969
10.000-50.000	1,223.3	57,582	1,194.7	56,123
50.000-100.000	404.6	5,878	417.1	6,058
100.000-250.000	347.0	2,394	356.2	2,469
250.000-500.000	191.1	560	196.4	575
500.000-1.000.000	280.9	413	270.0	400
1.000.000-10.000.000	1,630.4	575	1,646.2	576
10.000.000-50.000.000	1,108.9	55	1,007.6	48
50.000.000-100.000.000	395.8	6	365.4	5
> 100.000.000	1,047.1	5	1,227.8	6
Total	**7,181.4**	**370,885**	**7,235.7**	**369,229**

27.8. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

		31.03.2019		31.12.2018
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	1,950.7	445.0	1,953.9	463.8
2A-2E	3,193.7	768.3	3,274.2	716.3
3A-3E	1,234.3	342.0	1,242.8	332.5
Watch	194.2	78.7	212.3	87.1
NPE	3.0	0.1	0.5	0.3
No rating	3.3	0.5	9.4	0.0
Total	**6,579.2**	**1,634.7**	**6,693.2**	**1,600.1**

The non-performing exposure stated in the table above primarily results from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant.

Overdue but not impaired financial assets:

EUR m

		31.03.2019		31.12.2018
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers				
- overdue to 30 days	195.2	75.6	125.8	48.5
- overdue 31 to 60 days	13.2	3.0	9.3	4.7
- overdue 61 to 90 days	3.8	0.7	4.3	1.5
- overdue 91 to 180 days	0.1	0.1	0.0	0.0
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.0	0.0	0.0	0.0
Total	**212.3**	**79.4**	**139.4**	**54.7**

Impaired financial instruments:

EUR m

Loans and advances to customers (on and off balance)	31.03.2019	31.12.2018
Exposure	389.9	403.1
Provisions	298.1	304.4
Collateral	175.4	183.1

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

27.9. Development of risk provisions

The positive development of the portfolio is mainly driven due to effects resulting from collection activities as well as remigrations to lower risk portfolio (migration from stage 2 to 1) within the Mortgage and Corporate segments, which resulted in releases of risk provisions. Additionally, releases within the Corporate Center recognized, mainly due to reductions of exposure towards the local National Bank in Bosnia and Herzegovina, which are partially offset by allocations within the Consumer portfolio.

27.10. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) remains on the same level (75.8%) compared to the YE18 (75.4%).

The following table shows the NPE and coverage ratio (NPE coverage ratio considers Stage 3 allowances, while NPE coverage ratio (incl collateral) additionally consideres collaterals):

EUR m

31.03.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,447.7	99.7	91.3	17.5	6.9%	91.6%	109.2%
SME	1,611.9	71.8	44.6	45.6	4.5%	62.1%	125.6%
Non Focus	2,130.4	221.8	162.2	112.7	10.4%	73.1%	124.0%
o/w Large Corporate	926.1	73.7	51.6	25.3	8.0%	70.1%	104.5%
o/w Mortgage	982.3	138.7	103.5	82.5	14.1%	74.6%	134.1%
o/w Public Finance	222.0	9.4	7.1	4.8	4.2%	75.3%	126.6%
Corporate Center	1,991.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,181.4**	**393.2**	**298.1**	**175.8**	**5.5%**	**75.8%**	**120.5%**
o/w Credit Risk Bearing	**5,297.8**	**393.2**	**298.1**	**175.8**	**7.4%**	**75.8%**	**120.5%**

The Credit Risk Bearing exposure does not include exposure towards National Banks as well as securities and derivatives.

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2018:

EUR m

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,415.0	103.6	94.4	18.2	7.3%	91.1%	108.7%
SME	1,559.3	70.7	45.0	48.3	4.5%	63.7%	132.0%
Non Focus	2,145.8	229.5	165.0	117.0	10.7%	71.9%	122.9%
o/w Large Corporates	907.0	81.0	56.8	28.0	8.9%	70.1%	104.6%
o/w Mortgage	1,015.7	145.2	106.8	86.8	14.3%	73.6%	133.4%
o/w Public Finance	223.2	3.4	1.4	2.2	1.5%	42.0%	108.4%
Corporate Center	2,115.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,235.7**	**403.8**	**304.4**	**183.5**	**5.6%**	**75.4%**	**120.8%**
o/w Credit Risk Bearing	**5,236.6**	**403.8**	**304.4**	**183.5**	**7.7%**	**75.4%**	**120.8%**

27.11. CHF portfolio

Following table shows the portion of the CHF loans as of 31 March 2019 and 31 December 2018:

EUR m

		31.03.2019		31.12.2018
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Bank Croatia	2,762.8	41.0	2,850.1	45.8
Addiko Bank Slovenia	1,876.3	76.1	1,795.8	79.5
Addiko Bank Serbia	989.8	87.9	1,044.0	91.9
Addiko Bank Sarajevo	563.9	12.8	553.1	14.2
Addiko Bank Banja Luka	478.1	6.3	473.3	6.9
Addiko Bank Montenegro	260.7	5.5	271.2	5.6
Addiko Holding	249.9	0.1	248.3	0.0
Total	**7,181.4**	**229.7**	**7,235.7**	**243.9**

During 1Q19, Addiko Group was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 243.9 million at the end of 2018 to EUR 229.7m at 31 March 2019.

(28) Market risk

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days.
The following table shows the value at risk of the relevant market risk factors at the 99.0% confidence level and with a holding period of one day.

EUR m

	31.03.2019	31.12.2018
Interest Rate Risk (Banking and Trading Book)	1.5	0.8
Credit Spread Risk	1.0	0.5
Foreign Exchange Risk	0.6	0.8
Equity Risk - Investments	0.0	0.0
Equity Risk – Client Default	0.0	0.0

The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so-called “stress tests” and analyzed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriate-ness and adjusted if required. Corresponding back-testing is performed on the applied methods and models for defined market risk factors and portfolios at Group level.

(29) Liquidity risk

The Addiko Group defines liquidity risk as the risk of not being able to meet fully or timely payment of due obligations, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

A bundle of different liquidity reserves ensures the Addiko Groups solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the Group holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

The majority of financing relies on collection of funds from Retail and Corporate customers.

In 2018, the Liquidity Coverage Ratio (LCR) went from its highest level of 232.5% in the 1Q18 and came to the level of 149.7% at year end 2018. Per 31 March 2019 the LCR is 157.8%.

(30) Operational risk

In accordance to Article 4 (52) of regulation (EU) No 575/2013 of the European parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Addiko Group defines operational risk as the risk of loss resulting from inadequate or failed internal pro-cesses, people and systems or from external events, and includes legal risk.

Apart from capital calculation based on gross income as a quantitative measure of operational risk, quantification of internal loss data, collected throughout the Group using a standardised methodology, is performed. Internal operational

risk loss data is collected and entered into a central database as well as relevant mitigation measures. Measurement of operational risk management also relies on qualitative approaches used to determine operational risk such as Risk and Control Self Assessment (RCSA).

Appropriate reporting mechanisms for the results and proposal for risk control derived from both quantitative and qualitative processes that support proactive management of operational risk are set-up.

Supplementary information

(31) Contingent liabilities and other liabilities not included in the statement of financial position

The following gross commitments not included in the statement of financial position existed at the reporting date:

EUR m

	31.03.2019	31.12.2018
Loan commitments, given	564.2	600.6
Financial guarantees, given	238.0	192.5
Other commitments, given	173.6	171.5
Total	**975.8**	**964.7**

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

In July 2018 the second instance verdict of the High Commercial Court in Croatia was published which has in principle a positive content for the consumers, declaring the F/X clause in CHF loans as void, whereas this verdict clearly explains that an evaluation on a case by case basis has to be made in separate individual consumer proceedings. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group's position in these legal disputes.

(32) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorised under the three levels of the fair value hierarchy:

Quoted prices in active markets (level I)
The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.

Value determined using non-observable parameters (level III)
This category includes financial instruments for which there are no observable market rates or prices.
The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not observable directly on the market.

Valuation models are regularly reviewed, validated and calibrated. All valuations are performed independently of the trading departments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under level II or level III depending on the input factors used.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques where expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

32.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value to their level in the fair value hierarchy.

EUR m

31.03.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	12.1	12.6	0.0	24.7
Derivatives	0.0	4.6	0.0	4.6
Debt securities	12.0	8.0	0.0	20.1
Investment securities mandatorily at FVTPL	16.3	0.0	0.3	16.6
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.3	0.0	0.0	16.3
Investment securities at FVTOCI	968.4	267.7	0.6	1,236.7
Equity instruments	13.4	4.0	0.6	17.9
Debt securities	955.1	263.7	0.0	1,218.8
Total	**996.8**	**280.3**	**0.9**	**1,278.0**
Liabilities				
Financial liabilities held for trading	0.0	3.5	0.0	3.6
Derivatives	0.0	3.5	0.0	3.6
Total	**0.1**	**3.5**	**0.0**	**3.6**

There were no transfers between level I and level II in 2019.

EUR m

31.12.2018.	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	13.4	10.9	0.0	24.3
Derivatives	0.0	5.0	0.0	5.0
Debt securities	13.4	6.0	0.0	19.3
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.4	0.0	0.0	16.4
Investment securities at FVTOCI	946.0	221.5	0.5	1,168.0
Equity instruments	13.2	3.3	0.5	17.1
Debt securities	932.7	218.1	0.0	1,150.9
Total	**975.7**	**232.4**	**0.9**	**1,208.9**
Liabilities				
Financial liabilities held for trading	0.0	2.1	0.0	2.1
Derivatives	0.0	2.1	0.0	2.1
Total	**0.1**	**2.1**	**0.0**	**2.1**

There were no transfers between level I and level II in 2018.

Non-trading financial assets at FVTPL classified in level III of the fair value hierarchy consist of equity instruments acquired principally for the purpose of selling or repurchasing them in the near future. Financial assets mandatorily at FVTOCI classified in level III of the fair value hierarchy consist of equity instruments where there is no trading intent and the market is very illiquid. For these instruments, no sensitivity disclosures are presented.

The reconciliation of the assets reported under level III as at 31 March 2019 was as follows:

EUR m

31.03.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	0.6	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	0.6
Equity instruments	0.6	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	0.6
Total	**0.9**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.9**

The reconciliation of the assets reported under level III as at 31 December 2018 was as follows:

EUR m

31.12.2018.	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Equity instruments	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Total	**3.5**	**0.0**	**0.7**	**0.0**	**0.0**	**0.0**	**-3.3**	**-0.1**	**0.9**

Securities in the amount of EUR 3.3 million were reclassified from level III to level II due to the reassessment of observability of market inputs for the pricing model.

Measurement methods used to determine the fair value of level II and level III items
The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

The following measurement techniques are applied to items that are measured internally based on models:

Present value of the future cash flows (discounted cash flow method)
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.

Option measurement models
The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items
Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer’s country and sector. This

applies to the risk premium of the Addiko Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments
Credit value adjustment (CVA) and debt value adjustment (DVA)
Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting
The Addiko Group measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

32.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognised financial instruments and assets not carried at fair value are compared to the respective fair values below:

EUR m

31.03.2019	Carrying amount	Fair Value*	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	777.5	777.5	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,879.2	4,142.8	263.5	0.0	0.0	4,142.8
Loans and receivables	3,879.2	4,142.8	263.5	0.0	0.0	4,142.8
Total	**4,656.8**	**4,920.3**	**263.5**	**0.0**	**0.0**	**4,142.8**
Liabilities						
Financial liabilities measured at amortised cost	5,187.9	5,222.3	-34.4	0.0	0.0	5,222.3
Deposits	5,128.3	5,162.7	-34.4	0.0	0.0	5,162.7
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	58.5	58.5	0.0	0.0	0.0	58.5
Total	**5,187.9**	**5,222.3**	**-34.4**	**0.0**	**0.0**	**5,222.3**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

EUR m

31.12.2018	Carrying amount	Fair Value*	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	1,002.9	1,002.9	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Loans and receivables	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Total	**4,795.7**	**4,936.4**	**140.6**	**0.0**	**0.0**	**3,933.5**
Liabilities						
Financial liabilities measured at amortised cost	5,202.5	5,238.2	-35.7	0.0	0.0	5,238.2
Deposits	5,161.1	5,197.0	-35.9	0.0	0.0	5,197.0
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	40.3	40.2	0.2	0.0	0.0	40.2
Total	**5,202.5**	**5,238.2**	**-35.7**	**0.0**	**0.0**	**5,238.2**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in CSEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from

the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists. The fair value of held-to-maturity financial assets was determined based on external price sources.

The management assessed that cash positions are approximate to their carrying amounts largely due to the short term maturities of these instruments.

32.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At 1Q19 the carrying amount of investment properties amounts to EUR 2.0 million (YE18: EUR 2.0 million), whereas the fair value amounts to EUR 2.1 million (YE18: EUR 2.1 million). All investment properties were classified in level III (YE18: level III).

(33) Derivative financial instruments

33.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

EUR m

	31.03.2019			31.12.2018		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**509.3**	**2.2**	**2.3**	**374.2**	**1.8**	**0.5**
OTC options	36.4	0.0	0.0	46.6	0.1	0.1
OTC other	472.8	2.1	2.3	327.6	1.7	0.4
b) Foreign exchange and gold						
OTC-products	**271.9**	**2.4**	**1.2**	**295.3**	**10.0**	**0.4**
OTC other	271.9	2.4	1.2	295.3	10.0	0.4

(34) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. 96.3% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 3.7% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (a globally active private equity investor) and the European Bank for Reconstruction and Development (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Key management positions at the Company or the parent company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the management boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

Business relations with related parties are as follows at the respective reporting date:

EUR m

31.03.2019	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.1	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.1	0.0
Financial liabilities	0.0	0.0	0.0	1.0	39.4
Deposits	0.0	0.0	0.0	1.0	39.4
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.1	0.0	0.0	0.0	0.0

EUR m

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.3	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.3	0.0
Financial liabilities	0.0	0.0	0.0	0.9	39.0
Deposits	0.0	0.0	0.0	0.9	39.0
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.2	0.0	0.0	0.0	0.0

(35) Own funds and capital management

35.1. Capital management

The capital management of the Addiko Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel III Pillar I) and the economic capital management approach (Basel III Pillar II) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by the Capital Requirements Regulation No. 575/2013 (CRR) and the Capital Requirements Directive (CRD IV). The CRD IV was enacted in national law in the Austrian Banking Act (BWG).

In terms of the calculation of risk weighted assets (RWA) at Group level (for regulatory reporting), the following approaches are applied:

- Standardised Approach for credit risk (SA-CR) and
- Standardised Approach (STA) for operational risk at the Addiko Group level

The Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the Group's business, to analyse changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilisations for each segment. The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar II capital guidance (risk coverage ratio) are set for the Addiko Group. In addition to the minimum capital ratios required by the regulators, the Addiko Group defines early warning and recovery levels in the Addiko Group's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Recovery and Resolution Act").

Additionally, the Capital Management Team tracks all new regulatory changes, e.g. MREL and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

35.2. ICAAP – Internal Capital Adequacy Assessment Process

Securing the Group's ability to bear economic risks forms a central part of steering activities within the Addiko Group; to which end the Group processes an institutionalised internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Addiko Group is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Integrated Risk Management and presented to the Group Risk Executive Committee (GREC), where they are discussed and, if required, measures are decided. In this regard, the GREC serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organisation and stress test assumptions) for the Group. Additionally, the report is submitted to the Management Board on a monthly basis and presented to the committees of the Supervisory Board.

35.3. Own funds and capital requirements

Own funds according to the CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk. The determination of eligible total capital in accordance with the applicable regulations is based on international accounting standards.
The regulatory minimum capital ratios including the regulatory buffers as of 31 March 2019 and 31 December 2018 amount to:

	31.03.2019			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**9.20%**	**10.70%**	**12.70%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.002%	0.002%	0.002%	0.002%
Overall Capital Requirement (OCR)	**11.702%**	**13.202%**	**15.202%**	**11.077%**	**12.577%**	**14.577%**

In addition to Pillar I minimum capital ratios, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2017 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group and AI Lake scopes of consolidation additional 4.7% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. At the beginning of January 2019, Addiko Bank AG received a decision as result of the 2018 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, the additional Pillar II requirement will decrease from 4.7% to 4.1%.

According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. The transitional provisions for capital conservation buffers, by way of derogation from the requirements under Section 23 BWG, are regulated in Section 103q (11) BWG as follows:

- for the period from 1 January 2016 until 31 December 2016: 0.625%;
- for the period from 1 January 2017 until 31 December 2017: 1.25%;
- for the period from 1 January 2018 until 31 December 2018: 1.875%;
- for the period from 1 Januar 2019: 2.5%

A breach of the combined buffer requirement (the CCB and the systemic risk buffer) would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

Addiko Bank is a member of the consolidated group headed by AI Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. AI Lake (Luxembourg) Holding S.à r.l. is the most senior parent company for which Addiko Bank AG as the primary credit institution according to the provisions of Section 59 BWG produces condensed consolidated interim financial statements. In accordance with Regulation (EU) No. 575/2013 (CRR), the regulatory reports have been provided at the level of both the Addiko Group and the AI Lake Group since 30 September 2015.

The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 31 March 2019 and 31 December 2018.

EUR m

Ref*		31.03.2019	31.12.2018
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	195.0	195.0
2	Retained earnings	615.3	561.0
3	Accumulated other comprehensive income (and other reserves)	7.7	-0.8
5	Minority interests (amount allowed in consolidated CET1)	0.0	0.0
5a	Independently reviewed profits net of any foreseeable charge or dividend	0.0	54.2
6	**CET1 capital before regulatory adjustments**	**818.0**	**809.5**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.3	-1.2
8	Intangible assets (net of related tax liability)	-31.2	-30.3
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-16.7	-19.0
[#]	IFRS 9 transitional rules	36.5	43.8
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-12.7**	**-6.7**
29	**Common Equity Tier 1 (CET1) capital**	**805.3**	**802.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**805.3**	**802.8**
60	Total risk weighted assets	4,599.8	4,545.0
	Capital ratios and buffers %		
61	CET1 ratio	17.5%	17.7%
63	TC ratio	17.5%	17.7%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

Total capital increased by EUR 2.5 million during the reporting period, reflecting the net impact of the following components:

- an increase by EUR 8.5 million of the other comprehensive income mainly due to the positive development of market values of debt instruments, partially compensated by a decrease of the foreign currency reserves;
- a negative impact of EUR -7.3 million in connection with the application of the IFRS 9 transitional capital rules, which prescribe that, starting with the 1 January 2019, the portion of the initial ECL which could be added back decreases from 95% to 85% (EUR -4.7 million). In addition, the IFRS 9 amount which could be added back to capital decreased compared with the beginning of the year following the dynamic component and the related development of Stage 1 and Stage 2 ECL in the first quarter (EUR -2.6 million);
- a decrease in regulatory deduction items in the amount of EUR 1.3 million as net impact of increase in investments in intangible assets (EUR -0.9 million); decrease in deferred tax assets on existing taxable losses (EUR 2.3 million) and increase of other regulatory value adjustment items (EUR -0.1 million);
- in accordance with CRR requirements Art. 26 (2) the 1Q19 interim profit in the amount of EUR 10.1 million was not included in the 1Q19 calculation.

Capital requirements (risk-weighted assets) based on a transitional basis

RWAs increased by EUR 54.8 million at the level of the Addiko Group during the reporting period. The development was primarily due to increase of the customer loan portfolio in connection with new business.

EUR m

Ref*		31.03.2019	31.12.2018
1	Credit risk pursuant to Standardised Approach	4,011.3	3,958.5
6	Counterparty credit risk	5.5	5.4
19	Market risk	175.2	173.2
23	Operational risk	407.9	407.9
Total risk exposure amount		**4,599.8**	**4,545.0**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Leverage ratio on a transitional basis

At the level of the Addiko Group the leverage ratio calculated in accordance with the CRD IV was 12.4% at 31 March 2019, up from 12.2% at 31 December 2018. The development was driven by growth in Tier 1 capital as well as a decrease in leverage exposure, primarily due to a decrease in balances at central banks.

EUR m

Ref*		31.03.2019	31.12.2018
20	Tier 1 capital	805.3	802.8
21	Total leverage ratio exposure	6,510.4	6,559.0
22	**Leverage ratio %**	**12.4%**	**12.2%**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Disclosures as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of Regulation (EU) No. 575/2013

EUR m

Ref*		31.03.2019	31.12.2018
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	805.3	802.8
2	CET1 capital as if IFRS 9 had not been applied	768.8	759.0
5	Total capital (TC)	805.3	802.8
6	TC as if IFRS 9 transitional rules had not been applied	768.8	759.0
	Risk-weighted assets (amounts) (RWAs)		
7	Total RWAs	4,599.8	4,545.0
8	Total RWAs as if IFRS 9 transitional rules had not been applied	4,562.4	4,501.3
	Capital ratios %		
9	CET1	17.5%	17.7%
10	CET1 as if IFRS 9 transitional rules had not been applied	16.9%	16.9%
13	TC	17.5%	17.7%
14	TC as if IFRS 9 transitional rules had not been applied	16.9%	16.9%
	Leverage ratio (LR)		
15	Total LR exposure (transitional definition)	6,510.4	6,559.0
16	LR	12.4%	12.2%
17	LR as if IFRS 9 transitional rules had not been applied	11.9%	11.7%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Addiko has opted at the level of the Addiko Group to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; plus
- any subsequent increase in expected credit losses in the non-credit-impaired (stage 1 and stage 2) booked thereafter.

Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs. While the adoption of these transitional capital rules has a negligible impact on CET1 capital, they would mitigate the impact on capital in adverse economic conditions.
Based on these transitional arrangements EUR 36.5 million (YE18: EUR 43.8 million) have been added back to Addiko Group CET1. This comprises EUR 37.6 million (YE18: EUR 45.5 million) in impairment allowances, less EUR 1.1 million (YE18: EUR 1.7 million) in deferred tax. The corresponding impact on RWAs is an increase of EUR 37.4 million (YE18: EUR 43.7 million).

(36) Events after the reporting date

On 25 April 2019 the Serbian Parliament adopted a CHF Conversion Law ("Lex Specialis"). The law came into effect on 8 May 2019. Pursuant to this Lex Specialis banks are ordered to convert all existing CHF Housing Loans into EUR loans (interest rates shall not exceed 3.4% plus 6M EURIBOR (variable) or 4% (fixed)) at a currency exchange rate as of 31 March 2019 and taking a 38% haircut on the outstanding amount (without penalty interests), whereas the Republic of Serbia participates with 17% on the haircut and the banks with 21% on the haircut.

The Lex Specialis imposes tight deadlines for offering conversion to clients, however Addiko Bank Serbia is confident to be able to fulfill all the required activities. On the basis of the current assessment, there is a loss potential in a single-digit million amount, which will be recognized as a credit-risk related loss. The amount of loans exposed to the Lex Specialis is limited – about EUR 87.9 million of on balance portfolio will be converted and exposed to haircut.

Within the extraordinary administration procedures for a large Croatian retailer, on 1 April 2019 a material amount of NPE was exchanged for equity shares and convertible bonds. Taking into account this transaction, ceteris paribus the NPE ratio at the end of March 2019 would decrease from 5.5% to 5.1%. In addition, on 7 May 2019 Addiko Bank d.d., Croatia concluded a contract for the disposal this exposure for a price above current carrying amount.

Vienna, 14 May 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause | Johannes Proksch | Csongor Bulcsu Németh

Review opinion

Report on the Review of the Interim Consolidated Financial Statements

To the Members of Management Board of Addiko Bank AG

Introduction
We have reviewed the accompanying condensed consolidated interim financial statements of Addiko Bank AG, Vienna, for the period from 1 January 2019 to 31 March 2019. These condensed consolidated interim financial statements comprise the consolidated statement of financial position as of 31 March 2019 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three-month period then ended and the condensed notes, summarizing significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRSs) for interim reporting as adopted by the EU.

Our responsibility is to express a conclusion on these consolidated interim financial statements. Our liability towards the Company and towards third parties is limited in accordance with § 275 para. 2 of the Austrian Commercial Code (UGB).

Scope of review
We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 “Principles of Engagements to Review Financial Statements” and with the International Standard on Review Engagements (ISRE 2410) “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Austrian Standards on Auditing and/or International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements does not give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) for interim reporting as adopted by the EU.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Consolidated Interim Report Q1 2019, but does not include the condensed interim consolidated financial statements and our report on the review.

Our conclusion on the condensed consolidated interim financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our review of the condensed consolidated interim financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the condensed consolidated interim financial statements or our knowledge obtained in the review or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Vienna, May 20, 2019

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits set within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures (not annualized)
CRB	Credit Risk Bearing
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR (“undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account”) and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
GCCR	Group Corporate Credit Risk
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”,

	“other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest but including gross amount of provisions of performing loans
GRRM	Group Retail Risk Management
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk
Jaws	Measures the difference between the rates of change in net banking income and operating expenses; positive jaws occur when the figures for the percentage change in income is higher than, or less negative than, the corresponding rate for operating expense
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank

NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where re-payment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been cov-ered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as re-maining financial intermediaries, financial auxiliaries and captive financial in-stitutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, in-cludes private entrepreneurs and profit-oriented entities with annual gross rev-enues of less than EUR 0.5 million
Risk-weighted assets	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as annualised adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
Return on tangible equity (@14.1% CET1 Ratio)	Calculated as adjusted result after tax (pre-tax result adjusted for non-recur-ring items, assuming a theoretical tax rate and costs for T2) over average tan-gible equity (i.e. shareholder equity reduced by intangible assets) excluding ex-cess capital over 14.1% CET1 ratio
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Rev-enues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to Large Corporates subsegment
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio	All the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR

Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 means instruments or subordinated loans with an original maturity of at least five years and do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet

Imprint

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Addiko Bank

Group Annual Report 2018

Key data based on the consolidated financial statements drawn up in accordance with IFRS

EUR m

Selected items of the Profit or loss statement	YE18	YE17	Change (%)	YE16	Change (%)
Net banking income	235.5	223.8	5.3%	208.7	12.8%
Net interest income	173.2	165.3	4.8%	158.8	9.1%
Net fee and commission income	62.4	58.5	6.7%	50.0	24.8%
Net result on financial instruments	70.0	9.7	>100%	20.3	>100%
Other operating result	-16.5	-6.5	>100%	-42.1	-60.7%
Operating expenses	-188.1	-190.1	-1.0%	-212.4	-11.5%
Operating result before change in credit loss expense	**100.9**	**36.9**	**>100%**	**-25.4**	**>100%**
Credit loss expenses on financial assets	2.8	-15.1	>100%	4.4	-36.8%
Tax on income	0.5	19.9	-97.4%	-2.9	>100%
Result after tax	**104.2**	**41.6**	**>100%**	**-23.9**	**>100%**

Performance ratios	YE18	YE17	Change (pts)	YE16	Change (pts)
Net interest income/total average assets	2.7%	2.4%	0.3	2.2%	0.6
Cost/income ratio	79.9%	84.9%	-5.1	113.6%	-33.7
Cost of risk ratio	0.1%	-0.3%	0.3	0.1%	0.0

Selected items of the Statement of financial position	YE18	YE17	Change (%)	YE16	Change (%)
Loans and advances to customers	3,787.3	3,691.9	2.6%	3,730.5	1.5%
Deposits of customers	4,836.7	4,933.8	-2.0%	4,435.6	9.0%
Equity	859.5	844.0	1.8%	994.7	-13.6%
Total assets	6,152.1	6,485.5	-5.1%	7,216.1	-14.7%
Risk-weighted assets	4,545.0	4,653.1	-2.3%	4,470.8	1.7%

Balance sheet ratios	YE18	YE17	Change (pts)	YE16	Change (pts)
Loan to deposit ratio (customers)	78.3%	74.8%	3.5	84.1%	-5.8
Non performing exposure ratio (CRB based)	7.7%	11.6%	-3.9	14.8%	-7.1
NPE coverage ratio	75.4%	67.0%	8.4	67.5%	7.9
Core Tier 1 ratio	17.7%	14.9%	2.8	15.0%	2.7
Total capital ratio	17.7%	17.1%	0.6	16.4%	1.3

Disclaimer:
Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.
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The tables in this report may contain rounding differences. Any data is presented on the Addiko Group level (referred to as Addiko Bank or the Group throughout the document) unless stated otherwise.

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Group Management Report

1. Overview of Addiko Bank

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. All in all, Addiko Group provides services to about 860.000 clients.

The Group's strategy is focused on these six markets in the CSEE region delivering core products and services relevant to Retail as well as Small and Medium Enterprises (SME) and Corporate customers, while also providing online deposit services in Austria and Germany. The areas of strategic focus are Consumer Lending, Payments and SME Banking.

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

2. General economic environment

Looking at the regional GDP, it is expected that strong above-trend YoY growth in Slovenia (4.5%) and Serbia (4.3%) will drive the CSEE average GDP towards 3.5% in 2018, while in 2019 a slight deceleration towards 3.0% is expected.

Monetary conditions will remain loose, while the 2019 inflation will remain similar (CSEE average around 1.5%), subdued by lower oil and import prices assumption, despite tighter labour markets.

Unemployment levels continue decreasing in all CSEE countries, with expected CSEE average around 9.2% in 2019, whereas Bosnia& Herzegovina is again expected to have the highest unemployment rate of more than 16%.

In Croatia, bank lending activity is expected to accelerate on solid economic prospects and investment growth, alongside a stronger labour market and private consumption outlook. Despite record low interest rates on savings, deposit growth is also expected to pick-up slightly amid ongoing economic recovery, improved labour market outlook and strong wage growth, additionally supported by high tourism and remittances inflows.

In Slovenia, private sector credit growth remains driven by improved employment conditions and disposable income growth, while solid investment outlook and export activity remain supportive of corporate loan demand. Deposit collection is set to moderate, owing to high base effects and stronger investment needs, in the environment of persistently low interest rates.

In Serbia, private sector will keep driving lending activity on the back of robust private consumption and investment outlook, with the latter particularly important for a more stable corporate lending recovery going forth. Deposit growth is expected to decelerate mostly owing to high base effects but also due to increased consumption and investment propensity in the environment of continuously low interest rates.

Besides positive labour market developments and private consumption outlook, credit activity in Bosnia & Herzegovina remains supported by increased business optimism and investment recovery, alongside further decline in interest rates. Meanwhile, improved consumption and investment outlook will bring about deposit growth moderation.

In Montenegro, credit activity will decelerate but nevertheless stay strong, supported by yet another record tourist season, alongside rising employment, soaring construction activity, falling interest rates and high bank liquidity. Deposit collection is also expected to slow down, amid high base effect and strong investments prospects.

3. Significant events

3.1. Organisational structure and Operating Model implementation

The implementation of the Operating Model continued during 2018 with further approvals of non-critical "Central Steering" and "Group Shared Services" received from the local regulators.

This operating model aims to raise levels of productivity and improved efficiency across the organisation while assuring local execution of all critical services. The "Central Steering" and "Group Shared Services" provide each Addiko entity a higher degree of specialisation and standardisation by sharing best practices and therefore raising the quality of service delivery and steering while reducing simultaneously the cost of delivery across the Group.

The operating model ultimately ensures a higher level of service quality across the six countries, increase operational stability and enabling full leveraging of investments at the Group level. Furthermore, it offers interesting perspectives for highly skilled staff and experts.

3.2. Digital transformation & building digital capabilities

Addiko Bank continued its digital efforts by launching two new key digital initiatives, namely a complete new group wide e-banking system for the Corporate and SME Segments, and a new group wide Business Process Management system.

The new e-banking system was launched for Corporate/SME clients in Croatia, Bosnia & Herzegovina and Serbia and incorporates valuable feedback received from customers. This platform was developed in an agile approach in close cooperation with the customers, leveraging the capabilities built in the group Digital Competence Center (DCC). It enables an easier handling of day to day tasks, allows customers to monitor their existing trade finance and loan products online and sets the stage for further convenient product initiatives coming to Addiko customers in the future.

In parallel, Addiko Bank also intensified its use of a business process management software which is integrated into its new technology architecture and proved the value of the open API (application processing interfaces) architecture to create an ecosystem with strategic partners. SME/Corporate Relationship Managers in Slovenia and Serbia will be able to digitally apply for a loan or a trade finance product on behalf of their customer, resulting in a very significant decrease of approval time for the clients. In a future release of the software, customers will be able to apply on their own for these products without the need to visit one of Addiko‘s SME centers.

Creating new digital capabilities is one of the strategic focus points of the Group. Addiko is investing a significant amount of resources in identifying innovative solutions that aim to solve specific customer problems. In pursuing this approach, Addiko is recognised as market leader in delivering convenient banking solutions to its customers in the countries of operation.

In addition, at Addiko Bank Croatia a FinTech screenscraping solution has been implemented, which is an integral part of Addikos Private Individuals loan Application Processing system. Furthermore, this system is used to mitigate the consequences of the suspension of the Credit Bureau in Croatia, which had stopped working due to concerns about its GDPR compliance. The new solution ensures real time access to transaction data of current accounts of new clients, even if they have bank accounts at other Croatian banks. Based on this transaction data, the income of the client is estimated as well as the exposure of existing loans, together with other risk related indicators. These parameters are used in the automated underwriting process.

3.3. Continuous cost management and efficiency gains

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

As a result of the ongoing cost improvement initiatives, a reduction of the operating expense of -1.0% was achieved on a YoY basis, despite additional investments performed to grow the business and enhance the Group digital capabilities. The Addiko Group is well positioned for further significant improvement of the overall efficiency and with positive effects on the cost-to-income ratio (CIR).

3.4. Focus on improving customer experience

As part of its continuous focus on improving customer experience, Addiko's transactional net promoter score (NPS) platform started to operate in 2018, complementing the roll-out of the marketing NPS that has been live since 2017.

The possibility to survey customer experience after individual interactions with Addiko allows to measure critical moments of the customer journey. First results show promising customer satisfaction levels, across all channels and customer touchpoints. More important, the measurements allow Addiko Bank to conduct continuous improvements of the services and products offered to its customers.

3.5. Review of the business strategy

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

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

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

Based on this approach, Addiko Bank reached its goal of transforming the business towards strategic core Segments with a focus on growing its Consumer and SME lending activities as well as payment services (its “focus areas”). Addiko Bank is focusing primarily on unsecured personal loans for consumers and working capital loans for its SME customers which are funded largely by retail deposits. The Addiko Group’s Mortgage portfolio, Public Finance and Large Corporates lending portfolios (its “non-focus areas”) were gradually reduced over time, with repayments by customers exceeding the new business generated in those areas, thereby providing liquidity and capital for the gradual growth in its Consumer and SME lending. Any new lending products in non-focus areas are offered on an opportunistic basis only, primarily to retain existing, profitable customers. Furthermore, the Group continued on its journey of building a distinctive operating model with digital capabilities.

Building on its successful initial strategy, Addiko will take further steps to become the go-to-bank for selected products with executional excellence, serving basic banking needs with convenient origination and prompt delivery. The banks straightforward proposition is communicated to customers in a clear and transparent manner.

3.6. Branches

At year end 2018 Addiko Group operates a total of 198 branches (2017: 199), whereas 57 (2017: 60) are located in Croatia, 20 (2017: 18) are located in Slovenia, 71 (2017: 72) are located in Bosnia & Herzegovina, 38 (2017: 38) are located in Serbia and 12 (2017: 11) are located in Montenegro. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

3.7. Financial performance in brief

After having delivered on the turnaround in 2017, Addiko continues its path towards achieving an appropriate return on equity and shows good progress by posting a YE18 operating result before change in credit loss expense of EUR 100.9 million (YE17: EUR 36.9 million), which for a better comparison with previous years requires the adjustment of certain impacts, as described in detail in section 4.1, leading to an adjusted operating result before change in credit loss expense in YE18 of EUR 43.0 million (YE17: EUR 24.0 million). The adjustments represent alternative performance measures which - if not adjusted - would distort the YoY comparison.

This positive development is the result of Addiko’s ongoing focus on changing the business composition predominantly from lower margin Mortgage lending and Public finance towards higher value added Consumer and SME lending. This is shown by the increased share of these two Segments to 56.2% of the gross performing loan book (YE17: 51.1%) while the size of the overall loan book remained stable. The performance in new disbursements, which outperformed the market growth, in these focus Segments over the last 12 months clearly highlights that Addiko is delivering on its business strategy, with an increase in the volumes of +15.6% in Consumer lending and +17.3% in SME loan books.

Net interest income on a reported basis increased to EUR 173.2 million (YE17: EUR 165.3 million) with NIM at 2.7% (+33bp compared to YE17). However, when excluding adjustments for interest expenses on Tier 2 (EUR 3.6 million) and others, as described in the analysis of the profit or loss statement (section 4.1), net interest income improved by 2.4% and the respective NIM to 2.8% as of YE18 (+28bp compared to YE17).

The positive development in NII is driven by the increase in interest income from Consumer lending (+28.7%) as well as the positive impact on interest expenses from the repricing of deposits (-22bp) overcompensating the run-down of the healthy non-focus portfolio.

Despite the further reduction in average deposit pricing during 2018 customer deposits only slightly decreased to EUR 4,836.7 million (-2.0% to EUR 4,933.8 million at YE17). The continuous improvements in the structure of customer deposits allows a slight reduction of excess liquidity while keeping very strong self-funding ratios (LTD Ratio customers YE18: 78.3% (YE17: 74.8%)).

Net fee and commission income increased by 6.7% to EUR 62.4 million (YE17: EUR 58.5 million) as a consequence of higher growth in the Consumer and SME business, which is due to new fee models and new product packages promoting increased payments activity through Addiko Bank's accounts. The acceleration of bancassurance activities, particularly tied with the Consumer lending activity also contributed to the net fee and commission income acceleration.

Operating income is significantly driven by the EUR 190.0 million debt waiver from the shareholder AI Lake

(Luxembourg) S.à r.l. in March 2018, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement and generating a positive income of EUR 61.0 million.

Operating expenses amounted to EUR -188.1 million at YE18, which is a reduction of EUR 2.0 million compared to the comparative period (YE17: EUR -190.1 million) which is a result of Addiko's Operating Model and tight cost management.

The performance in reduction of NPEs remains strong, driven by a focus on workout and collection as well as debt sales programs, leading to a 33.3% decline in the non-performing exposure to EUR 403.8 million (EUR 605.7 million at YE17). At year end 2018 the conservative risk profile is best reflected in an NPE coverage ratio of 75.4% (YE17: 67.0%) and a further reduced NPE ratio (Credit Risk Bearing based) to 7.7% (YE17: 11.6%). The development of the expected credit losses is positively influenced by successfully executed restructuring measures among larger individual customers as well as net release in the SME Segment. This effect is partially offset by charges in the focus Segment Consumer during 2018.

3.8. Adoption of IFRS 9

On 1 January 2018, IFRS 9, the new accounting standard for financial instruments, took effect. This replaces IAS 39, which was the previous accounting standard for measurements and classification of financial instruments. The regulations set out in the new standard are primarily reflected in the loan loss provisions, as they apply to impairment losses on financial assets measured at amortised cost or at fair value recognised directly in equity. Under IFRS 9 the impairment requirements also apply to credit commitments and financial guarantees. The model used to determine impairment losses also changes, from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected credit losses).

The new rules on valuation are by contrast of lesser significance. In total, additional EUR 22.9 million of financial instruments must be accounted for at fair value through profit and loss, representing 0.4% of the volume of financial instruments. The adoption results in an adjustment to equity of EUR -32.4 million; the effect on the CET1 ratio (without application of IFRS 9 transitional rules) amounts to around 70bp. Impairment losses increased by EUR 40.7 million (net of related DTA EUR 40.0 million). The effect on classification and valuation amounts to a positive effect of EUR 9.3 million (net of related DTL EUR 7.6 million).

3.9. Waiver of Tier 2 capital and increase in issued capital

With the purpose of strengthening the capital position of the Bank, its shareholder agreed to waive its entire Tier 2 capital in March 2018 in the amount of EUR 190.0 million, with the fair value of the instruments being recognised as a direct capital contribution and thus increasing the CET1. The difference between the carrying amount and the fair value of the instruments is recognised in the income statement and generates a positive income of EUR 61.0 million. Besides the positive impact on the capital position of the bank, Addiko is going to save interest payments in the amount of EUR 21.4 million per year. As part of this process the Company's share capital has been increased in amount of EUR 190.0 million by respectively reducing the capital reserve, which determines a clear improvement of the quality of the capital structure.

3.10. General Data Protection Regulation (GDPR)

The new EU Regulation on personal data (GDPR), which entered into force on 25 May 2018, implies that the rights of data subjects have been strengthened, and that data controllers and data processors are subject to new requirements when managing and handling personal data. Owing to the importance of this change in regulation, Addiko implemented well in advance a GDPR readiness program.

An important milestone was the appointment of the Data Protection Central Steering Function for the entire Group. This team handles and coordinates all data protection activities and reports relevant KPIs to the Management Board. On 25 May 2018 Addiko reported its compliance with the GDPR requirements in all acting countries.

Data protection also had a significant role in the Operating Model in which grounds for intra-group personal data sharing were laid.

3.11. Changes in the Management Board

Mr. Ulrich Kissing decided to resign as Chief Executive Officer (CEO) of Addiko Bank as per 31 March 2018 and as Member of the Management Board as per 30 June 2018. The Supervisory Board appointed Mr. Razvan Munteanu, Chief Retail Banking Officer (CRBO), as new Chief Executive Officer in addition to his current tasks. He started his new function on 1 April 2018.

Mr. Christian Kubitschek (CFO) resigned as member of the Management Board as per 29 November 2018 and Mr. Martin Thomas (COO) left the Management Board as per 31 December 2018 at the end of his term of office. In addition to his current tasks, Mr. Johannes Proksch (CTO) was appointed as

new Group CFO and took over the responsibilities of Mr. Kubitschek. The responsibilities of Mr. Martin Thomas have been assigned to the remaining board members.

Mr. Andrej Andoljšek has been appointed in June 2018 as new Chief Executive Officer of Addiko Bank Slovenia.

At Addiko Bank Serbia, Mr. Vojislav Lazarević has taken up the position as Chief Executive Officer in February 2018 and Nebojsa Pantelic started in September 2018 as Chief Retail Banking Officer.

At Addiko Bank Montenegro, Mr. Rade Bajic (CFO, CRO) and Mr. Milos Miketic (CRBO, CCBO) have been appointed in July 2018 as new Management Board members.

4. Financial development of the Group

4.1. Analysis of the profit or loss statement

EUR m

	Reported		Adjustments		Adjusted	
	YE18	YE17	YE18	YE17	YE18	YE17
Net banking income	235.5	223.8	3.6	7.3	239.1	231.1
Net interest income	173.2	165.3	3.6	7.3	176.7	172.6
Net fee and commission income	62.4	58.5	0.0	0.0	62.4	58.5
Net result on financial instruments	70.0	9.7	-61.0	-4.6	9.0	5.1
Other operating result	-16.5	-6.5	-1.7	-12.7	-18.2	-19.2
Operating income	**289.0**	**226.9**	**-59.1**	**-10.0**	**229.9**	**217.0**
Operating expenses	**-188.1**	**-190.1**	**1.2**	**-2.9**	**-186.9**	**-193.0**
Operating result before change in credit loss expense	**100.9**	**36.9**	**-57.9**	**-12.9**	**43.0**	**24.0**
Credit loss expenses on financial assets	2.8	-15.1	-0.5	26.4	2.3	11.3
Operating result before tax	**103.7**	**21.8**	**-58.3**	**13.5**	**45.4**	**35.3**
Tax on income	0.5	19.9	-15.0	-29.2	-14.5	-9.3
Result after tax	**104.2**	**41.6**	**-73.3**	**-15.7**	**30.9**	**25.9**

Net interest income amounts to EUR 173.2 million at YE18, compared to EUR 165.3 million at YE17. By taking adjustments in consideration, the net interest income increases from EUR 172.6 million at YE17 to EUR 176.7 million at YE18.

The **adjustments in net interest income** relate predominantly to expenses for subordinated capital instruments in the amount of EUR 3.6 million (YE17: EUR 19.3 million) and dividend income at YE17 in the amount of EUR 1.3 million from Addiko Invest d.d., Croatia which was generated, prior to the sale of the company. In addition, due to the implementation of IFRS 9 a comparability of the previous years figures is limited. A further adjustment reflects a shift from interest income to credit loss expenses on financial assets of EUR 10.3 million at YE17 to be consistent to the methodology used at YE18.

The adjusted **net interest margin** amounts to 280bp at YE18, compared to 252bp YE17. This progress is a result of a continuous shift from non-focus assets i.e. Mortgage, Large Corporates and Public Finance towards Consumer and SME lending based on a stable development of the overall size of the loan portfolio.

Net fee and commission income increased by EUR 3.9 million to EUR 62.4 million (YE17: EUR 58.5 million), with the difference being mainly driven by stronger income from maintenance fees for current accounts as well as account packages and bancassurance income.

Net result on financial instruments increased from EUR 9.7 million at YE17 to EUR 70.0 million at YE18.

The **adjustments in net result on financial instruments** were significantly driven by the EUR 190 million debt waiver from the shareholder Al Lake (Luxembourg) S.à r.l. in March 2018, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement generating a positive income of EUR 61.0 million.
In addition, at YE17 an amount of EUR 4.6 million of non-recurring income from the sale of debt instruments was recognised.

The **other operating result** as sum of other operating income and other operating expense shows an amount of EUR -16.5 million compared to EUR -6.5 million at YE17. This position includes the charges to the recovery and resolution fund in the amount of EUR -2.4 million (YE17: EUR -2.3 million) as well as deposit guarantee costs in the amount of EUR -8.8 million (YE17: EUR -8.4 million) at YE18.

The **adjustments in other operating result** include the release of EUR 3.7 million in provisions for legal risks in connection with the active settlement strategy for long term lasting court cases (YE17: EUR 9.9 million). In addition, at YE17 EUR 3.1 million in operating leasing business income was included, which was adjusted due to the advanced wind-down of the leasing portfolio and sale of the Croatian leasing entity in 2018.

Operating expenses declined from EUR -190.1 million at YE17 to EUR -188.1 million at the current reporting date. The above trend, under consideration of the additional investments performed during 2018 to grow the business and enhance the digital capabilities of the group, is evidence of the relentless focus on running the bank efficiently, while investing into technology and new products.

The **operating result before change in credit loss expenses** of EUR 100.9 million (YE17: EUR 36.9 million) translate into EUR 43.0 million (YE17: EUR 24.0 million) adjusted result and highlights the successful deployment of Addiko Banks underlying business strategy.

The development of **credit loss expenses on financial assets** (CL) is not comparable with previous year's figures due to the implementation of IFRS 9. The positive result of EUR 2.8 million at YE18 reflects releases relating to the successfully executed restructuring measures among larger individual customers primarily in the Corporate Segment as well as net release in the SME Segment and Mortgage Segment. This effect is partially offset by charges in the focus Segment Consumer.

The **adjusted** development of **credit loss expenses on financial assets** reflects the provisioning of interest income which was in prior periods treated as suspended income but is under IFRS 9 included in the exposure amount as fully provisioned. Additionally, in 2017 adjustments were made for the result of transactions originated before 2016 which would, under current Addiko risk and business strategy, not be made. This relates to results from transactions with corporate clients where exposures would not be granted under the current Addiko risk strategy, and debt sales of packaged NPEs in Retail which are also not part of the current risk strategy of the Group.

Taxes on income with EUR 0.5 million are significantly lower than the previous reporting period (YE17: EUR 19.9 million). This reflects the usage of tax losses carried forward which also allowed the recognition of deferred tax assets at YE17 and YE18.

The **adjusted taxes on income** reflects the theoretical tax burden of Addiko Group, without taking in consideration the recognition of deferred tax assets on tax loss carried forward and temporary differences. Deferred tax assets on losses carried forward are only recognised when the utilisation of tax losses by future tax profits is highly likely.

4.2. Analysis of the consolidated statement of financial position

Addiko Bank adopted the requirements of IFRS 9 "Financial Instruments" on 1 January 2018. The classification, measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial application. As permitted by IFRS 9, Addiko Bank has not restated comparative periods. Therefore, only the structure of the statement of financial position compared to YE17 was adjusted to the new requirements according to IFRS 9 and thus only limited comparability with the previous periods figures is given.

EUR m

	31.12.2018	31.12.2017	Change (%)
Assets			
Cash reserves	1,002.9	1,285.9	-22.0%
Financial assets held for trading	24.3	19.8	22.5%
Loans and receivables	3,792.9	3,757.2	0.9%
Loans and advances to credit institutions	5.6	65.3	-91.4%
Loans and advances to customers	3,787.3	3,691.9	2.6%
Investment securities*	1,184.6	1,276.8	-7.2%
Derivatives - Hedge accounting	0.0	0.1	-100.0%
Tangible assets	57.7	57.3	0.7%
Intangible assets	30.3	21.8	38.8%
Tax assets	28.3	22.3	27.2%
Current tax assets	1.7	1.6	7.8%
Deferred tax assets	26.6	20.6	28.8%
Other assets	25.5	24.8	2.7%
Non-current assets and disposal groups classified as held for sale	5.7	19.5	-70.8%
Total assets	**6,152.1**	**6,485.5**	**-5.1%**

*Includes the IAS 39 positions "available-for-sale financial assets "and "Held-to-maturity" at year end 2017

The **total assets** of Addiko Group decreased by EUR -333.4 million or -5.1% from EUR 6,485.5 million to EUR 6,152.1 million. This reduction is mainly driven by the distribution to the shareholder of EUR 170.0 million and the related

reduction of cash reserves and investment securities performed in 1Q18.

The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) decreased to EUR 4,545.0 million (YE17: EUR 4,653.1 million).

Cash reserve decreased by EUR 283.0 million to EUR 1,002.9 million (YE17: EUR 1,285.9 million) at YE18, however still well above the minimum reserve requirements of EUR 316.5 million (YE17: EUR 300.4 million).

Overall **net receivables** (gross receivables less credit risk provisions) slightly increased to EUR 3,792.9 million from EUR 3,757.2 million at year end 2017. Loans and receivables to credit institutions (net) decreased by EUR -59.7 million to EUR 5.6 million (YE17: EUR 65.3 million). Loans and receivables to customers (net) slightly increased to EUR 3,787.3 million (YE17: EUR 3,691.9 million). In line with the Group's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending.

The **investment securities** include at YE17 the positions financial assets "available-for-sale" in the amount of EUR 1,234.3 million and financial instruments "held-to-maturity" in the amount of EUR 42.5 million. Due to the transition to IFRS 9 those positions are shown cumulated in "Investment Securities", resulting in an amount of EUR 1,184.6 million at the end of 2018.

Tangible assets remained stable at EUR 57.7 million compared to EUR 57.3 million at YE17.

Intangible assets increased to EUR 30.3 million compared to (EUR 21.8 million) at YE17 due to the further development of new e-banking applications and investments to enhance the Group digital capabilities.

Tax assets increased to EUR 28.3 million (YE17: EUR 22.3 million), reflecting the recognition of deferred tax assets on temporary differences as well as on tax loss carried forward.

Other assets increased from EUR 24.8 million to EUR 25.5 million at YE18 reflecting advance payments in relation to IT projects aimed to increase operational efficiency.

The position **non-current assets and disposal groups classified as held for sale** decreased from EUR 19.5 million to EUR 5.7 million at YE18, due to the successful reduction of the loan portfolio reclassified in this position at YE17 which was subsequently sold in 2018. In addition, the sale of the last leasing company took place in 2018, which shows the successful wind-down of the non-core business areas.

EUR m

	31.12.2018	31.12.2017	Change (%)
Equity and liabilities			
Financial liabilities held for trading	2.1	1.8	19.8%
Financial liabilities measured at amortised cost	5,202.5	5,521.2	-5.8%
Deposits of credit institutions	324.4	341.6	-5.0%
Deposits of customers	4,836.7	4,933.8	-2.0%
Issued bonds, subordinated and supplementary capital	1.1	198.5	-99.5%
Other financial liabilities	40.3	47.3	-14.7%
Provisions	62.0	83.3	-25.7%
Tax liabilities	1.0	1.3	-25.2%
Current tax liabilities	0.9	0.9	-0.5%
Deferred tax liabilities	0.1	0.5	-72.8%
Other liabilities	25.1	33.8	-25.9%
Equity	859.5	844.0	1.8%
Total equity and liabilities	**6,152.1**	**6,485.5**	**-5.1%**

On the liabilities' side, **financial liabilities measured at amortised cost** decreased by EUR 318.7 million from EUR 5,521.2 million to EUR 5,202.5 million in the reporting period. The main decrease results from the waiver of the **supplementary capital** by the shareholder AI Lake (Luxembourg) S.à r.l. in the amount of EUR 190.0 million during 1Q18.

Deposits decreased by EUR 114.3 million to EUR 5,161.1 million at year end 2018 (YE17: EUR 5,275.4 million). This development is mainly driven by a reduction of deposits from customers to EUR 4,836.7 million (YE17: EUR 4,933.8 million) and deposits from banks which have been reduced from EUR 341.6 million at YE17 to EUR 324.4 million at the current reporting date.

Provisions decreased from EUR 83.3 million at YE17 to EUR 62.0 million YE18. The development was mainly driven by releases and utilisation of provisions for legal risks in connection with the successful settlement of some long term lasting court cases and the updated assessment of risks in connection with customer protection claims in the countries in which the Group operates. In addition, the decrease of restructuring provision reflects the well-advanced stage of the restructuring process.

The development of **equity** from EUR 844.0 million to EUR 859.5 million is related to a dividend payment in the amount of EUR 170.0 million as well as the initial IFRS 9 effect in the amount of EUR -32.4 million at 1 January 2018. Furthermore, a capital contribution of EUR 129.0 million was granted by AI Lake (Luxembourg) S.à r.l., by way of a waiver, in amount of EUR 190.0 million, of the existing Tier 2 supplementary capital, with the difference between the carrying amount and the fair value of the instruments in the amount of EUR 61.0 million being recognised in the income statement. The equity was affected by the total comprehensive income, which includes the profit of loss for the reporting period in the amount of EUR 104.2 million as well as changes in other comprehensive income in the amount of EUR -15.0 million. This change is due to valuation results from debt instruments measured at FVTOCI.

Since 2014, the Addiko Group has calculated its consolidated **regulatory capital** according to Basel III. The calculation follows the requirements as defined by the Capital Requirements Regulation (CRR). Addiko has elected to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. As at 31 December 2018, by taking into consideration the above described transitional rules, the total capital ratio (Basel III) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 17.7% (YE17: 17.1%), well above the legal minimum requirement of (8.0%). The total capital ratio calculated without applying IFRS 9 transitional rules would amount to 16.9%. While the adoption of the IFRS 9 transitional capital rules has a negligible impact on CET1 capital in 2018, it would mitigate the impact on capital in adverse economic conditions.

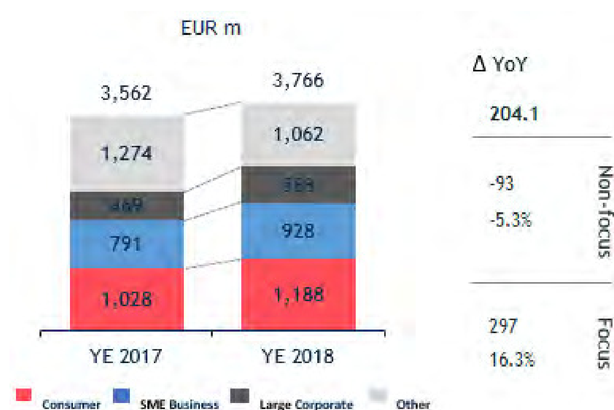
5. Segment reporting

EUR m

31.12.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	159.7	24.5	135.2	38.1	17.8	9.7	1.7	226.9
Net interest income[1)]	118.6	24.5	94.1	23.0	11.7	8.6	2.6	164.4
o/w regular interest income[2)]	121.4	36.5	84.9	27.6	14.2	6.3		169.5
Net fee and commission income	41.0	0.0	41.0	15.1	6.1	1.1	-0.9	62.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.0	70.0
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-7.8	-7.8
Operating income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**63.9**	**289.0**
Operating expenses	**-86.9**			**-21.9**	**-4.1**	**-2.3**	**-72.9**	**-188.1**
Operating result	**72.8**			**16.2**	**13.7**	**7.3**	**-9.0**	**100.9**
Change in CL	0.0	9.5	-9.5	-7.4	3.6	2.4	4.1	2.8
Operating result before tax	**72.8**			**8.8**	**17.3**	**9.7**	**-4.9**	**103.7**
Business volume								
Net loans and receivables[3)]	2,048.2	883.6	1,164.6	931.3	611.6	189.6	12.2	3,792.9
o/w gross performing loans	2,060.5	872.7	1,187.8	928.4	588.4	188.8		3,766.1
Financial liabilities at AC[4)]	2,756.9		2,756.9	605.4	426.6	616.0	797.7	5,202.5
RWA[5)]	1,445.8	561.5	884.2	883.4	652.3	113.9	819.5	3,914.8
Key ratios								
Net interest margin (NIM)[6)]	4.4%	1.8%	6.1%	2.7%	1.4%	1.7%		2.6%
Cost/income ratio[7)]	54.4%			57.6%	23.2%	24.1%		82.9%
Cost of risk ratio	0.0%	-0.9%	-0.7%	-0.5%	0.4%	1.1%		0.1%
Loan to deposit ratio[8)]	74.3%			153.8%	143.4%	30.8%		72.9%
NPE ratio (CRB based)[9)]	10.2%	14.3%	7.3%	4.5%	8.9%	1.5%		7.7%
NPE coverage ratio[10)]	80.9%	73.6%	91.1%	63.7%	70.1%	42.0%		75.4%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution - explained in point 5.5 Corporate Center) NII on segment level of EUR 164.4 million deviates from the reported NII by EUR 8.8 million in deposit insurance costs, re-allocated from other operating result 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from orgination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) EUR 797.7 million presented in Corporate Center contains: EUR 360 million Deposits of customers in Holding, EUR 324 million Deposits of credit institutions, EUR 113 million (Other) 5) Includes only credit risk (without application of IFRS 9 transitional rules) 6) Net interest margin on segment level is sum of interest income (without unwinding) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 7) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 8) Loans and receivables divided by financial liabilities at amortised costs 9) Non Performing Exposure/Credit Risk Exposure (on and off balance). NPE are loans defaulted, non-performing exposure (Gross Carrying Amount) 10) It is calculated with impairment losses set in relation to defaulted non-performing exposure

The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments of Addiko Bank and into non-focus segments, which are Large Corporates, Public Finance and Retail Mortgages. According to the Group's strategy a reduction of lower margin Mortgage lending and Public Ffinance is in process. This development can be seen by comparison of the gross performing loans in the focus and non-focus assets:



5.1. Retail

Segment definition in brief:
Retail: including Mortgage and Consumer as product based segments.
Consumer: this segment includes both the consumer finance as well as the micro subsegment including private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue.
Mortgage: relating to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.
SME: within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Large Corporates: includes corporate clients with an annual gross revenue above EUR 40 million.
Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.
Corporate Center: This segment consists of Treasury business in the holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

EUR m

Retail			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1]	118.6	103.2	15.0%
o/w regular interest income	121.4	116.4	4.3%
Commission Income	41.0	38.1	7.8%
Operating income	**159.7**	**141.2**	**13.1%**
Operating expenses	**-86.9**	**-89.4**	**-2.8%**
Operating result	**72.8**	**51.8**	**40.5%**
Change in CL	0.0	21.5	-99.9%
Operating result before tax	**72.8**	**73.3**	**-0.7%**
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	2,048.2	2,078.2	-1.4%
o/w gross performing loans	2,060.5	2,026.7	1.7%
Financial liabilities at AC	2,756.9	2,770.8	-0.5%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[3]	4.4%	4.1%	0.3
CIR	54.4%	63.3%	-8.9
Cost of risk ratio	0.0%	0.9%	-0.9
Loan to deposit ratio	74.3%	75.0%	-0.7
NPE ratio (CRB based)	10.2%	14.1%	-3.9
NPE coverage ratio	80.9%	78.0%	2.9

EUR m

Consumer			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1]	94.1	73.1	28.7%
o/w regular interest income	84.9	72.4	17.3%
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	1,164.6	1,030.2	13.0%
o/w gross performing loans	1,187.8	1,027.8	15.6%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[3]	6.1%	6.0%	0.1

EUR m

Mortgage			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[2]	24.5	30.0	-18.5%
o/w regular interest income	36.5	44.0	-17.0%
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	883.6	1,048.0	-15.7%
o/w gross performing loans	872.7	998.9	-12.6%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[3]	1.8%	2.0%	-0.2

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) Interest income Mortgages includes the total interest income plus FTP and asset contribution) 3) See for explanation of NIM above.

Retail strategy

Addiko Bank's Retail Segment serves 838 thousand customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 198 branches and state of the art digital channels. Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner.
During the last period the number of customers has been reduced through the cleanup of inactive customer and pricing adjustment of high interest deposit products to optimize the structure of liabilities. The number of consumers collecting their regular income in an Addiko account utilised for regular payments has increased to 224 thousand from 194 thousand in 2017.

In the Segment Retail the focus is on account packages for salary payments, regular transactions and on consumer lending. For the Micro customers the priority is to offer transactional services. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger with services such as Addiko Chat Banking on Viber and on-line account opening capabilities.

Mortgage lending is not in focus and primarily targets the retention of existing, profitable customers. Private individuals holding an account package for payments or an existing mortgage loan, can get upon demand mortgage loans, primarily for retention purposes. Given the non-focus status of the mortgage business, the product is not actively marketed.

Retail YE18 Business review

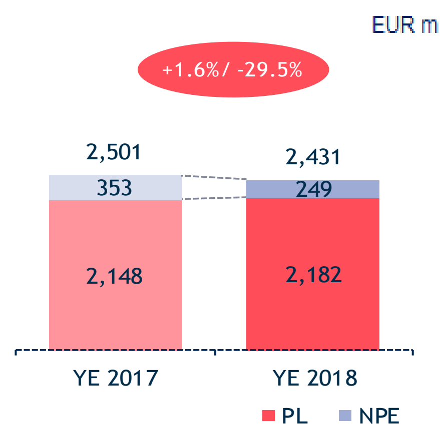
The segment result is driven by the new business strategy to focus on the Consumer lending and payments, while reducing the mortgage portfolio.

During 2018 the Retail Segment generated EUR 159.7 million operating income and EUR 72.8 million operating result before tax while operating at a Cost-to-income ratio of 54.4%. In comparison to 2017 net interest income increased by EUR 15.4 million to EUR 118.6 million at a NIM of 4.4%. The net commission income increased by EUR 2.9 million to EUR 41.0 million in 2018, due to improving sales of account packages, payments and bancassurance. The operating expenses in 2018 were by EUR 2.5 million lower than in 2017. Operating result in 2018 was EUR 72.8 million, 40.5% higher than in 2017, driven by the 13.1% increase in Operating Income and the 2.8% reduction in operating expenses.

Operating result before tax amounts to EUR 72.8 million, which is 0.7% lower than in 2017 due lower net releases of risk provision compared to last year.
The Retail gross performing loans increased by 1.7% during 2018, as the growth in cash loans more than compensated the shrinking non-focus mortgage book.

The table below, showing the development of the credit risk bearing exposure in YE18 for both Consumer lending and Mortgage loans, shows an increase of 1.6% of the performing part and a decrease of 29.5% of the non-performing part, evidencing the Group focus on the quality of the portfolio.

Development gross credit risk bearing exposure:



Simplifying product portfolio and exploiting Group synergies

Addiko Bank delivers on its brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers. Account packages are a cornerstone of this strategy. In the last year Addiko has launched new account packages in Croatia, Slovenia and Bosnia & Herzegovina and during 2018 the Group has sold 88 thousand account packages.

Standardising products and processes, and consolidating partners and vendors is another critical element of the Group's strategy. Addiko Group has started a strategic partnership with Uniqa Group and during 2018 successfully rolled out new Bancassurance products in all of its entities. As a consequence, Bancassurance Net Commission Income has increased to EUR 3.0 million, an over 160% increase compard to 2017.

5.2. SME Business

EUR m

SME Business			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1)]	23.0	24.2	-4.9%
o/w regular interest income	27.6	26.0	6.3%
Commission Income	15.1	14.3	5.6%
Operating income	**38.1**	**38.5**	**-1.0%**
Operating expenses	**-21.9**	**-21.8**	**0.5%**
Operating result	**16.2**	**16.7**	**-3.0%**
Change in CL	-7.4	-1.1	>100%
Operating result before tax	**8.8**	**15.5**	**-43.5%**
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	931.3	825.0	12.9%
o/w gross performing loans	928.4	791.2	17.3%
Financial liabilities at AC	605.4	572.3	5.8%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[2)]	2.7%	3.2%	-0.5
CIR	57.6%	56.7%	0.9
Cost of risk ratio	-0.5%	-0.1%	-0.4
Loan to deposit ratio	153.8%	144.2%	9.7
NPE ratio (CRB based)	4.5%	6.7%	-2.2
NPE coverage ratio	63.7%	50.0%	13.7

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

SME Strategy

Addiko Bank offers the full product suite to circa 12 thousand SME clients (companies with annual turnover between EUR 0.5 million and EUR 40 million) in the CSEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the “real economy” with working capital, investment loans and a strong focus on trade finance products.

All SME clients are served by relationship managers, located in 38 SME business centers across the countries where the bank is active. The role of the relationship managers is not only selling banking products but being the trusted financial advisor to the client and active partner in decision-making about financing.

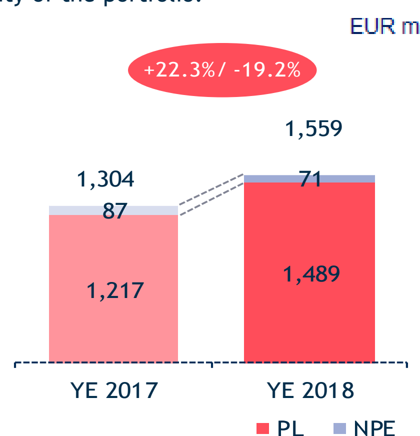
Addiko strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are highly digitized and convenient.
To support this strategy, Addiko Bank is running a bank-wide project to build out a new digital customer experience platform which will make the SME clients' daily financial interactions easier by self-service capabilities. With enhanced digital services the Bank is planning to increase the commission income from account keeping services and trade finance, while the funding costs can be lowered by raising current account deposits. Addiko Bank also implements simple loan financing with market leader delivery times for the segment in order to fulfill its value proposition and to improve productivity.

SME YE18 Business review

Net interest income amounts to EUR 23.0 million in 2018, with NIM at 2.7%. Both net interest income and NIM decreased comparing to 2017 due to lower margins on new business, and lower unwinding in 2018. Net fee and commission income increased by 5.6% compared to 2017 resulted in EUR 15.1 million in 2018. As a result, the SME Segment has generated in 2018 EUR 38.1 million operating income, 1.0% lower than in 2017. While NPE ratio decreased from 6.7% to 4.5%, cost of risk ratio remained relatively low at -0.5% in 2018 but increased compared to -0.1% in 2017. Change in CL in EUR -7.4 million in 2018 was a main driver of decreasing Operating result before tax, amounting at EUR 8.8 million, after reaching EUR 15.5 million in 2017. The increase of CL comparing YE17 with YE18 was mainly driven by additional allocations in Croatia due to entry of one group of borrowers into default.

In 2018, the Bank grew the SME performing loan book by EUR 137.2 million, which translates into loan growth of 17.3% compared to YE17. These results were delivered at a continued high focus on disciplined underwriting standards.

The below table shows the development of the credit risk bearing exposure up to YE18 with an EUR 272 million increase of the performing part. While the NPE part decreased by EUR 16 million compared with the YE17, and remained on very low level, showing the overall excellent quality of the portfolio.



5.3. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1]	11.7	14.5	-19.6%
o/w regular interest income	14.2	14.7	-3.3%
Commission Income	6.1	6.5	-5.8%
Other operating result	0.0	2.3	-100.0%
Operating income	**17.8**	**23.3**	**-23.7%**
Operating expenses	**-4.1**	**-4.3**	**-3.2%**
Operating result	**13.7**	**19.0**	**-28.3%**
Change in CL	3.6	-37.0	>100%
Operating result before tax	**17.3**	**-18.0**	**>100%**
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	611.6	524.1	16.7%
o/w gross performing loans	588.4	469.1	25.4%
Financial liabilities at AC	426.6	434.9	-1.9%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[2]	1.4%	2.2%	-0.7
CIR	23.2%	20.2%	2.9
Cost of risk ratio	0.4%	-4.7%	5.1
Loan to deposit ratio	143.4%	120.5%	22.9
NPE ratio (CRB based)	8.9%	19.0%	-10.1
NPE coverage ratio	70.1%	53.3%	16.8

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Large Corporates Strategy

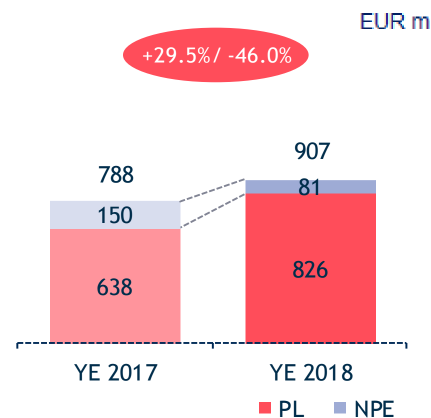
Addiko Bank services the largest local and international companies by centralized and specialized local teams supported by a strong expert unit. This way Addiko Bank is aiming to provide clients with seamless
service of financing across the Group by top quality customer relationship managers.

Addiko is not considering to significantly grow its lending portfolio given the highly competitive environment but will as in the past continue to serve selected clients where the risk reward matrix is favorable.

Large Corporates YE18 Business review

Net interest income amounts in 2018 to EUR 11.7 million, with NIM at 1.4%, dropping from 2.2% in 2017. Net fee and commission income decreased by 5.8% and amounts to EUR 6.1 million. As a result, the Large Corporates Segment has generated 23.7% less operating income in 2018 comparing to 2017. The Operating result before tax was positively impacted by the change of CL in 2018 in the amount of EUR 3.6 million, predominantly related to few larger recoveries from NPE portfolio in Slovenia and Serbia. This results in positive EUR 17.3 million result before tax in 2018 following the EUR 18.0 million loss in 2017. Cost-to-income ratio of Large Corporates Segment increased to 23.2%, although operating expenses decreased by EUR 0.2 million. The Bank grew Large Corporates loans and advances by 16.7%, while the deposit volume reduced to EUR 426.2 million.
The total performing segment's credit risk bearing exposure increased by 29.5% to EUR 826 million up to YE18, whereby the non-performing part further decreased from EUR 150 million to EUR 81 million.

Development gross credit risk bearing exposure:



5.4. Public Finance

Public Finance			EUR m
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1)]	8.6	15.4	-44.3%
o/w regular interest income	6.3	15.1	-58.6%
Net commission income	1.1	1.2	-8.4%
Operating income	**9.7**	**16.6**	**-41.8%**
Operating expenses	**-2.3**	**-2.7**	**-12.4%**
Operating result	**7.3**	**13.9**	**-47.4%**
Change in CL	2.4	1.5	61.2%
Operating result before tax	**9.7**	**15.4**	**-36.9%**
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	189.6	276.1	-31.3%
o/w gross performing loans	188.8	275.1	-31.4%
Financial liabilities at AC	616.0	703.1	-12.4%
Ratios (YTD)	**YE18**	**YE17**	**Change (pts)**
NIM[2)]	1.7%	2.6%	-0.8
CIR	24.1%	16.0%	8.1
Cost of risk ratio	1.1%	0.5%	0.6
Loan to deposit ratio	30.8%	39.3%	-8.5
NPE ratio (CRB based)	1.5%	1.4%	0.1
NPE coverage ratio	42.0%	48.4%	-6.4

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Public Finance Strategy

Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.

In the past years the Bank decreased the lending activity in this segment, as the segment is under serious price pressure. The Bank is focusing on maintaining the existing deposit volumes from Public Finance and provide account keeping services to these clients while lending on a selected basis only.

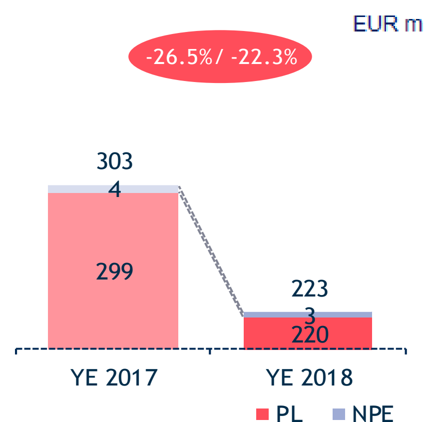
Public Finance YE18 Business review

Net interest income amounts in 2018 to EUR 8.6 million, with NIM at 1.7%. The decrease in net interest income is due to a lowering of volume. Net fee and commission income decreased to EUR 1.1 million. The Public Finance Segment has generated EUR 7.3 million operating result and EUR 9.7 million Operating result before tax in 2018.

Cost-to-income ratio increased slightly to 24.1% due to lowering of operating income whereby the cost basis decreased also.

Due to the strategy to decrease the lending activity in this segment, both the performing and NPE credit risk bearing exposure of the segment further decreased in 2018 respectively by EUR 79 million and EUR 1 million to a total volume of EUR 223 million.

Development gross credit risk bearing exposure:



5.5. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**YE18**	**YE17**	**Change (%)**
Net interest income[1)]	2.6	-0.2	>100%
Commission Income	-0.9	-1.6	41.2%
Net result from financial instruments	70.0	9.7	>100%
Other operating result	-7.8	-0.5	>100%
Operating income	**63.9**	**7.4**	**>100%**
Operating expenses	**-72.9**	**-71.9**	**1.3%**
Operating result	**-9.0**	**-64.5**	**86.1%**
Change in CL	4.1	0.0	>100%
Operating result before tax	**-4.9**	**-64.5**	**92.5%**
Business volume	**YE18**	**YE17**	**Change (%)**
Net loans and receivables	12.2	53.8	-77.3%
Financial liabilities at AC[2)]	797.7	1040.1	-23.3%

1) Net interest income = Customer Margin Assets plus Liabilities, including total interest income and expense as well as Fund Transfer Pricing. The Corporate Center Segment included Treasury. Therefore, the Net Interest income the CMA and CML as well as the Interest and Liquidity gap contribution and asset contribution (see explanation below) is included.2) Financial liabilities at AC include the Direct deposits (Austria/Germany) amounting to EUR 360.4 million as well as Funding lines.

Corporate Center Strategy

This segment consists of the treasury business as well as all headquarters and back-office functions in the countries and in the holding such as overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes in the holding direct deposit activities in Austria and Germany.

The Treasury department's prime responsibilities comprise ALM steering and management of liquidity to fulfill the regulatory requirements, by focusing on Group wide liquidity management supporting subsidiaries in optimizing their funding mix and efficiently applying Addiko Group fund transfer pricing tools.

Corporate Center YE18 Business review

The segment reporting is showing combined numbers for treasury and central functions related positions.
The net interest income in the Corporate Center is including the following aspects: 1) the customer margin assets and liabilities of the treasury segment, 2) the interest and liquidity gap contribution (IGC) reduced by the distribution of the IGC to the market segments (see explanation in following point), 3) the re-allocation of deposit insurance costs from other operating result, 4) interest income and expense related to Tier 2 capital and 5) the consolidation of dividends.
In the Corporate Center the net interest income at YE18 was EUR 2.6 million. Positive development in 2018 against YE17 originates primarily from less interest expenses for Tier 2 capital. Future interests of the Tier 2 capital were waived in March 2018. Additional positive contributor to the positive net interest income is the interest income from the group wide bond portfolio. The market value of the bond portfolios was EUR 1,150.9 million at YE18 of which 68.4% was invested in government bonds of western and eastern European countries. The remaining part of the bond portfolios consisted of securities of global operating financial institutions and highly rated corporate issuers.

The net result from financial instruments contains a large effect in the Corporate Center with a EUR 61.0 million income from the EUR 190.0 million debt waiver from the shareholder AI Lake (Luxembourg) S.à r.l. executed in March 2018. In addition, this line item includes the result from selling bond positions. The other operating result includes the full-year impact of charges to the Single Resolution Fund and of bank levies and supervisory charges as well as impairments on non-financial assets. In addition, this position contains adjusting items concerning the release of legal provisions for risks in connection with the active settlement strategy in the amount of EUR 3.7 million. Operating expenses include all headquarter and back-office costs for the countries as well as the holding which have not been allocated to the business segments.

Considering the above mentioned adjustments, all relating exclusively to the Corporate Center Segment, the adjusted operating result before change in credit loss expense of the Group would reflect the development as in the table below.

EUR m

Addiko Group	YE18	YE17	Change (%)
Operating result (reported)	**100.9**	**36.9**	**>100%**
adjustments	-57.9	-12.9	>100%
Operating result (adjusted)	**43.0**	**24.0**	**79.2%**

Asset Contribution

Net interest income in Corporate Centre includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 37.9 million. The majority of the IGC in the amount of EUR 23.8 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extend of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This

means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero.
In reality a certain percentage of longer term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from Segment Corporate Center to the originator of the IGC, i.e. the respective market segment

6. Analysis of non-financial key performance indicators

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

The performance and talent management frameworks are key processes used to identify, develop, reward and recognise high performance and talented employees. The two processes support Addiko Bank's journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

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

Several small scale efficiency and rightsizing programs continued in 2018. At year end 2018, the Addiko Group had 2,933 FTE's. In the upcoming period, the focus will be on elevating the cultural and business transformation of Addiko Bank ensuring that "Values and Behaviors" are integrated into daily performance. This will require effective HR metrics in place to ensure that the right employees hold key positions and that the Bank is developing critical skills needed to be a bank which is an innovation leader and a digital disruptor in the countries where it operates.

7. Internal Control System for accounting procedures

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

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

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

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

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

The internal control system of Addiko Group is built on a process-oriented approach. Addiko Group deploys control activities through process documentation which incorporates the tracking and documentation of each process, including the information about process flow according to the internally set up guidelines for process management.
The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of daily activities of Addiko Group as well as periodic

evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

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

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

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

8. Consolidated non-financial report

Pursuant to the Austrian Sustainability and Diversity Improvement Act (NaDiVeG), the consolidated non-financial statement, which has to be prepared in accordance with Section 267a Austrian Commercial Code (UGB), is issued as an independent non-financial report. The Report will be published online – at www.addiko.com - and also contains the disclosure for the parent company in accordance with Section 243b UGB.

9. Other disclosures

In relation to the required information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date please refer to note (91). With respect to the explanations on substantial financial and non-financial risk as well as the goals and methods of risk management please refer to the risk report. In addition, information on the use of financial instruments are presented in the note (60).

10. Research & Development

Addiko Bank does not conduct any research and development activities pursuant to section 267 Austrian Commercial Code (UGB).

11. Outlook

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

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

In 2019, the positive economic development of the CSEE region is expected to continue, reflected in solid and above EU average real GDP growth rates towards 3.0% and further decreasing unemployment levels in all CSEE countries. This growth path is likely to translate into further improving labour markets and increasing wages driving strengthened private consumption. The positive developments in private consumption are expected to support an ongoing shift towards unsecured lending, as observed over the past decade. Further FDI inflows and integration of CSEE SMEs in the global value chains, as well as growth in bilateral trade among CSEE countries and the rest of Europe are expected to continue benefiting SMEs in the region. The increasing digitalization in the digitally under-penetrated CSEE region with a low mobile banking usage of under 8% (vs. a 45% EU average) is expected to further support Addikos business model and strategy for years to come.

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

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

The continued improvements in the 2018 results reiterate that Addiko is well positioned as an innovative unsecured consumer & SME specialist lender in CSEE and to achieve long term sustainable profitability in a region dominated

by incumbent universal banks. The focus will stay on a rigorously managed risk-return profile and self-funding principle in each entity, while providing customers with fast and convenient straight-forward banking products and services.

Vienna, 26 February 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

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I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 31.12.2018	01.01. - 31.12.2017
Interest income calculated using the effective interest method		209.6	226.0
Other interest income		4.2	8.3
Interest expenses		-40.7	-68.9
Net interest income	**(28)**	**173.2**	**165.3**
Fee and commission income		76.5	71.3
Fee and commission expenses		-14.1	-12.8
Net fee and commission income	**(29)**	**62.4**	**58.5**
Net result on financial instruments	(30)	70.0	9.7
Other operating income	(31)	19.1	27.4
Other operating expenses	(31)	-35.7	-34.0
Operating income		**289.0**	**226.9**
Personnel expenses	(32)	-99.4	-97.4
Other administrative expenses	(33)	-78.0	-80.9
Depreciation and amortisation	(34)	-10.7	-11.7
Operating expenses		**-188.1**	**-190.1**
Operating result before change in credit loss expense		**100.9**	**36.9**
Credit loss expenses on financial assets	(35)	2.8	-15.1
Operating result before tax		**103.7**	**21.8**
Tax on income	(36)	0.5	19.9
Result after tax		**104.2**	**41.6**
thereof attributable to equity holders of parent		104.2	41.6

	2018	2017
Result after tax attributable to ordinary shareholders (in EUR m)	104.2	41.6
Weighted-average number of ordinary shares at 31 December (in units of shares)	1,000.0	1,000.0
Earnings per share (in EUR)	**104,200.0**	**41,600.0**
Weighted-average number of ordinary shares at 31 December (in units of shares)	1,000.0	1,000.0
Diluted earnings per share (in EUR)	**104,200.0**	**41,600.0**

Earnings per share are equal to diluted earnings per share, because no conversion rights granted were outstanding during the financial years 2018 and 2017.

Statement of other comprehensive income

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017*
Result after tax	**104.2**	**41.6**
Other comprehensive income	**-15.0**	**18.0**
Items that will not be reclassified to profit or loss	**0.3**	**0.0**
Fair value reserve - equity instruments	0.3	-
Net change in fair value	0.3	-
Income Tax	-0.1	0.0
Items that may be reclassified to profit or loss	**-15.3**	**18.0**
Foreign currency translation	1.8	13.2
Gains/losses of the current period	1.8	13.2
Reclassification amounts	0.0	0.0
Fair value reserve - debt instruments	-17.0	-
Net change in fair value	-12.9	-
Net amount transferred to profit or loss	-6.6	-
Income Tax	2.5	-
AFS financial assets	-	4.9
Gains/losses of the current period	-	14.8
Reclassification amounts	-	-8.5
Income Tax	-	-1.4
Total comprehensive income for the year	**89.2**	**59.6**
thereof attributable to equity holders of parent	89.2	59.6

*The presentation of taxes has been changed compared to the previous period, the position "income tax relating to items that may be reclassified to profit or (-) loss" is now called "income tax"

II. Consolidated statement of financial position

EUR m

	Note	31.12.2018	31.12.2017
Assets			
Cash reserves	(37)	1,002.9	1,285.9
Financial assets held for trading	(38)	24.3	19.8
Loans and receivables	(39)	3,792.9	3,757.2
Loans and advances to credit institutions		5.6	65.3
Loans and advances to customers		3,787.3	3,691.9
Investment securities	(40)	1,184.6	1,276.8
Derivatives - Hedge accounting		0.0	0.1
Tangible assets	(41)	57.7	57.3
Property, plant and equipment		55.7	55.3
Investment property		2.0	2.0
Intangible assets	(42)	30.3	21.8
Tax assets	(36)	28.3	22.3
Current tax assets		1.7	1.6
Deferred tax assets		26.6	20.6
Other assets	(44)	25.5	24.8
Non-current assets and disposal groups classified as held for sale	(45)	5.7	19.5
Total assets		**6,152.1**	**6,485.5**
Equity and liabilities			
Financial liabilities held for trading	(46)	2.1	1.8
Financial liabilities measured at amortised cost	(47)	5,202.5	5,521.2
Deposits of credit institutions		324.4	341.6
Deposits of customers		4,836.7	4,933.8
Issued bonds, subordinated and supplementary capital		1.1	198.5
Other financial liabilities		40.3	47.3
Provisions	(48)	62.0	83.3
Tax liabilities	(36)	1.0	1.3
Current tax liabilities		0.9	0.9
Deferred tax liabilities		0.1	0.5
Other liabilities	(49)	25.1	33.8
Equity	(50)	859.5	844.0
thereof attributable to equity holders of parent		859.5	844.0
Total equity and liabilities		**6,152.1**	**6,485.5**

III. Consolidated statement of changes in equity

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2018	**5.0**	**537.8**	**12.5**	**-7.9**	**296.6**	**844.0**	**0.0**	**844.0**
Impact of adopting IFRS 9	**0.0**	**0.0**	**9.7**	**0.0**	**-42.1**	**-32.4**	**0.0**	**-32.4**
Equity as at 01.01.2018	**5.0**	**537.8**	**22.2**	**-7.9**	**254.5**	**811.6**	**0.0**	**811.6**
Profit or loss after tax	0.0	0.0	0.0	0.0	104.2	104.2	0.0	104.2
Other comprehensive income	0.0	0.0	-16.7	1.8	0.0	-15.0	0.0	-15.0
Total comprehensive income	0.0	0.0	-16.7	1.8	104.2	89.2	0.0	89.2
Capital increases	190.0	-190.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	-170.0	-170.0	0.0	-170.0
Other changes	0.0	128.7	0.0	0.0	0.0	128.7	0.0	128.7
Equity as at 31.12.2018	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption reduced equity by EUR -32.4 million. More details on the adoption are available in note (2) "Application of new standards and amendments".

With the purpose of strengthening the capital position of the Bank, its shareholder AI Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190 million, with the fair value of the instruments, net of direct attributable costs, of EUR 128.7 million being recognised as a direct capital contribution and presented in the line item “Other changes”.

EUR m

	Subscribed capital	Capital Reserves	Available-for-sale reserves	Foreign currency reserve	Cumulated result and other reserves	**Equity holders of parent**	Non-controlling interests	**Total**
Equity as at 01.01.2017	**5.0**	**336.2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**
Profit or loss after tax	0.0	0.0	0.0	0.0	41.6	41.6	0.0	41.6
Other comprehensive income	0.0	0.0	4.9	13.2	0.0	18.0	0.0	18.0
Total comprehensive income	0.0	0.0	4.9	13.2	41.6	59.6	0.0	59.6
Dividends paid	0.0	0.0	0.0	0.0	-430.0	-430.0	0.0	-430.0
Other changes	0.0	201.6	0.0	0.1	18.0	219.7	0.0	219.7
Equity as at 31.12.2017	**5.0**	**537.8**	**12.5**	**-7.9**	**296.7**	**844.0**	**0.0**	**844.0**

In 2017 a capital contribution by the parent company in the amount of EUR 219.7 million was recognised in capital reserves and presented in the line item “Other changes”. This contribution resulted from a settlement of warranty claims of AI Lake (Luxembourg) S.à r.l. against the former parent company and was contributed on 6 February 2017.

IV. Consolidated statement of cash flows

EUR m

	2018	2017*
Cash reserves at the end of previous period (01.01.)	**1,285.9**	**1,878.2**
Result after tax	**104.2**	**41.6**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	**41.8**	**62.6**
Impairment of available for sale financial assets	-	0.4
Depreciation and amortisation	14.3	17.8
Change in risk provisions on financial instruments	-2.8	12.0
Change in other provisions	-2.6	-0.9
Gains (losses) from disposals of intangible assets, tangible fixed assets and investment securities	-10.3	-8.3
Investment securities	-9.0	-8.5
Intangible and tangible assets	-1.3	0.2
Issued bonds, subordinated and supplementary capital	-61.0	0.0
Subtotal	**41.8**	**62.6**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-421.3	-469.4
Loans and advances to credit institutions and customers	-282.4	-202.3
Investment securities	92.6	90.8
Financial assets held for trading	-4.5	-2.4
Other assets	-3.6	-23.4
Financial liabilities measured at amortised cost	-88.7	-230.0
Financial liabilities held for trading	0.3	-32.3
Provisions	-20.3	-22.6
Other liabilities from operating activities	-8.0	-4.2
Payments for taxes on income	-2.6	-1.3
Interests received	222.0	227.6
Interest paid	-40.3	-70.7
Dividends received	0.0	1.8
Cash flows from operating activities	**-93.6**	**-206.5**
Proceeds from the sale of:	2.2	43.8
Financial investments and participations	-	40.1
Tangible assets, investment properties and intangible assets	2.2	3.7
Payments for purchases of:	-23.9	-23.3
Financial investments and participations	-	-4.6
Tangible assets, investment properties and intangible assets	-23.9	-18.7
Other changes	0.6	11.4
Cash flows from investing activities	**-21.1**	**31.9**
Dividends paid	-170.0	-430.0
Cash flows from financing activities	**-170.0**	**-430.0**
Effect of exchange rate changes	1.6	12.2
Cash reserves at end of period (31.12.)	**1,002.9**	**1,285.9**

*To ensure comparability, the amount for off balance provision (EUR 1.3 million) was reclassified from "Change in other provisions" to "Change in risk provisions on financial instruments". In 2017, payments for and proceeds from Held-to-maturity investments were presented in the lines "Financial investments and participations". In addtion, the impairment of availabe for sale financial instruments was presented in prior year in the same line as depreciation and amortization and Investment Securities were presented as Finanical Assets.

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The 2018 capital increase in the amount of EUR 128.7 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a waiver of its entire provided Tier 2 capital and is therefore not presented as cash capital contribution, for further detail please see note (30.4). The same approach is relevant also for the EUR 219.7 million capital contribution granted in 2017, which is the result of a settlement agreement between AI Lake (Luxembourg) S.à r.l. and the previous parent company executed in a form of a debt waiver. It is therefore not presented as a cash capital contribution either.

V. Notes to the consolidated financial statements

Company

Addiko Group is a network of six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro under the umbrella of the joint holding company, Addiko Bank AG. The holding company AI Lake (Luxembourg) S.à r.l. as the direct parent company of Addiko Bank AG is indirectly owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development. Addiko Bank AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Vienna under company registration number FN 350921k. The Groups headquarter is located at Wipplingerstraße 34, 1010 Vienna, Austria.

The Group is focusing its business primarily on retail as well as small and medium-sized companies while also maintaining a strong foothold in local corporations. Starting in 2017, Addiko Group also provides online deposit services in Austria and Germany.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Addiko Bank AG website at www.addiko.com.

Group accounting policies

(1) Accounting principles

These consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRS/SIC) as adopted by the EU as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), and in compliance with the requirements of Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (53) Maturities pursuant to IAS 1.

The consolidated financial statements of Addiko Group is based on the reporting packages of all fully consolidated subsidiaries prepared according to uniform Group-wide standards and IFRS provisions. All subsidiaries prepare their financial statements as at 31 December. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 1, please refer to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption of IFRS 9 has resulted in changes of accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Further details of the specific IFRS 9 accounting policies, estimates and judgments applied in the current period and its quantitative and qualitative impact are described in more detail in the note (2) Application of new standards and amendments. Apart from adoption and impact of IFRS 9 as well as adoption of IFRS 15 Revenue from Contracts with Customers, the same estimates, judgments, accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements.

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments

of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

The figures in the consolidated financial statements are generally stated in millions of euros (EUR million); the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On 26 February 2019, the Management Board of Addiko Bank AG approved the consolidated financial statements as at 31 December 2018 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at 31 December 2018.

(2) Application of new standards and amendments

Only new standards, interpretations and their amendments that are relevant for the business of Addiko Group are listed below. The impact of all other standards, interpretations and their amendments not yet adopted is not expected to be material. The following standards, interpretations and amendments to existing standards were adopted first-time in the periods beginning on 1 January 2018:

Standard	Name	Description
IFRS 8	Operating Segments	Disclosures enabling to evaluate the nature and financial effects of the business activities in which an entity engages and the economic environment in which it operates
IAS 33	Earnings per share	Principles for the determination, calculation and presentation of basic and diluted earnings per share (EPS).

IFRS 8 sets out the requirements for disclosure of information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the identification of operating segments and the measurement of disclosed segment information. For further details regarding the segment reporting, see note (64).

For further details regarding the earnings per share, see note (8).

The Group is in scope of both IFRS 8 and IAS 33 due to the process of filing financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2018:

Standard	Name	Description	Effective for financial year
IFRS 9	Financial Instruments (New Standard)	Changes in the accounting and measurement of financial assets; replacing IAS 39	2018
IFRS 15	Revenue from Contracts with Customers (New Standard)	Replacing IAS 11 and IAS 18	2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration (New Interpretation)	Accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	2018
IAS 40	IAS 40 Investment Property (Amendments)	Transfers of Investment Property	2018
IFRS 1, IFRS 12, IAS 28	Annual Improvements to IFRS Standards 2014-2016 Cycle	IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2017/2018

2.1. IFRS 9 Financial Instruments

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

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

2.1.1. Classification and measurement

Business models

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

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above. In Addiko Group, two subsidiaries have classified part of their bond portfolios under Other business model, as such instruments are connected with the trading activities of the Group, especially in connection with customer business.

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

Contractual cash flow characteristics

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

In assessing whether the contractual cash flows are SPPI, Addiko Group considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration for the time value of money.

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

- The assessment of unilateral changes of margins and interest concluded that passing on costs related to the basic lending agreement, clauses designed to maintain a stable profit margin, and changes of the interest rate reflect the worsening of the credit rating, but are not SPPI harmful.
- The prepayment clauses are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.

- Other contingent payment features are typically side business clauses. The penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event.
- Project financing was assessed whether there is a reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates can contain interest mismatch features (fixation date is before the start of the period, reference rate´s tenor is different to the rate reset frequency, etc.). To assess whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), a quantitative benchmark test has to be performed.

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

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

Classification and measurement of financial assets and financial liabilities

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

- A financial asset is measured at amortised cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

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

A financial asset is recognised when Addiko becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss).
On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value

at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expenses on financial assets". The major volume of financial assets of the Addiko Group are measured at amortised cost.

Financial assets at fair value through other comprehensive income
A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the new expected credit loss (ECL) model.

Interest income is presented in the line " Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expense on financial assets ". The difference between fair value and amortised cost is presented in "Fair value reserve" in the consolidated statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

For equity instruments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line "Fair value reserve - equity instruments" in the statement of other comprehensive income without recycling in the statement of profit or loss.

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

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

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

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

The classification and measurement requirements for financial liabilities only slightly changed compared to IAS 39. The amendments to IFRS 9 "Prepayment features with negative compensation" issued in 2017 clarify the accounting for modification or exchange of financial liability measured at amortised cost that does not result in the derecognition. An entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange

in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount. It does not result in any changes and impact within Addiko Group.

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

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

2.1.2. Impairment

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

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

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

Overview ECL calculation

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

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

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

The PD (probability of default) parameters reflects the probability of default within a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by Addiko Bank internal model development unit. Generally, the models are country and segment specific whenever possible and plausible. For certain parts of the portfolio Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodological wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

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

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

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

Significant increase in credit risk

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

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

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

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

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

Addiko Group uses the definiton of default equal to CRR Article 178, as this is the industry standard and it allows consistency between entities and risk management processes. Determination that financial asset is credit-impaired is achieved through tracking of default criteria defined in Default detection and recovery policy.

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

Qualitative staging criteria:

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

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

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

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

Forward-looking information

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

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

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

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

	Baseline case		Optimistic case	Pessimistic case
	Next 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)				
Croatia	3.0	2.7	3.7	1.1
Slovenia	3.6	3.0	4.4	1.2
Bosnia & Herzegovina	3.5	2.9	3.8	1.7
Serbia	3.5	3.4	4.3	1.7
Montenegro	3.0	3.0	4.0	1.0
EMU	1.8	1.6	2.4	0.6
Unemployment Rate (ILO, average %)				
Croatia	9.0	8.3	7.4	10.4
Slovenia	5.2	4.7	4.1	6.4
Bosnia & Herzegovina	16.5	15.3	14.3	17.6
Serbia	10.9	10.2	9.1	12.3
Montenegro	15.4	14.7	13.9	16.9
EMU	7.5	6.8	5.9	8.4
Real-Estate (% of change)				
Croatia	3.7	2.5	3.5	1.0
Slovenia	3.5	2.5	3.7	1.6
EMU	2.0	1.2	2.3	0.6
CPI Inflation (average % YoY)				
Croatia	1.8	1.8	2.2	1.2
Slovenia	1.8	2.0	2.3	1.3
Bosnia & Herzegovina	2.0	2.1	2.4	1.5
Serbia	3.1	2.9	3.7	3.3
Montenegro	2.6	2.4	2.9	1.6
EMU	1.4	1.6	1.9	1.1

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

An **optimistic scenario** reflects a medium-term period (3 yrs) of above-trend growth, which slows closer to potential in the last two observed years of the forecast horizon. This scenario is grounded in historical experience and assumes adequate (monetary/fiscal) policy response that helps the economy to cool off gradually towards long-run and sustainable growth rate within the forecast period. This scenario also involves somewhat stronger demand-driven inflation pressures as well as stronger decline in unemployment towards its natural level (i.e. structural unemployment).

Baseline Scenario envisions the following; above-trend economic growth, with rotation from exports to consumer and investment, as well as looser fiscal policy, help lower unemployment and faster wage growth. It is crucial in external demand for CSEE exports. We see more structural reforms on country and EMU level. Benign funding conditions enable that the current recovery is sustainable and resistant to downside risks (trade wars, (geo)political concerns). ECB is delaying monetary policy normalisation due to insufficient recovery in inflation and the regional central banks follow suit with ample liquidity provision. Increasingly EU-integrated CSEE economies attract more FDIs and integrate into global value chains, leading to repricing of the growth potential. This together with fiscal and external leads to rating upgrades and lower interest rates. CSEE FX can appreciate slightly as well.

A **pessimistic scenario** reflects relatively manageable economic growth slowdown for up to two years, followed by a slightly slower pace of recovery in the subsequent years. This scenario is grounded in historical experience and assumes adequate (monetary/fiscal) policy response that help the economy return to a long-run, sustainable albeit slightly weaker and more balanced growth rate within the forecast period. In addition to the scenarios described below, we also apply other more pessimistic (adverse) scenarios that allow us to consider a broader range of possible outcomes for our credit portfolios.

Validation

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

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

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

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

Write-offs

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

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

In addition to the general derecognition criteria (see chapter "Derecognition and contract modification") the following specific criteria fulfilment would lead to the derecognition of financial assets:
- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings;
- Unsecured financial asset if no repayment occurred within the period of one year on observed financial asset;
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral:
  a. Real estate collateral, if no repayment occurred within 5 years
  b. By movables, if no repayment occurred within period of 2 years
  c. Other (i.e. not “a” or “b”), if no repayment occurred within period of 1 year;
- Financial assets which have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations;
- Financial asset for which the bank´s right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement;
- Other triggers were defined for financial assets that are treated as non-recoverable.

2.1.3. Derecognition and contract modification

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

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

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

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset under IFRS 9 Financial Instruments. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in stage 1. If the borrower is in default or the modification leads derecognition of original financial asset and to origination of new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favourable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:

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

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

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

2.1.4. Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: instead of the quantitative criterion (bandwidth of 80.0% to 125.0%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are allowed, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

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

2.1.5. Impact on capital

Addiko has elected to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. As a consequence the impact on capital resources of the implementation of IFRS 9 is limited to an increase in CET1 and total capital of 1 bp, compared with a reduction in CET1 and total capital of 70 bp as at 1 January 2018 in case of recognition of full impact on the day of adoption.
While the adoption of these transitional capital rules has a negligible impact on CET1 capital in 2018, they would mitigate the impact on capital in adverse economic conditions.

2.1.6. Transition

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

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

The new structure of the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows and relevant items in the notes reflect the new accounting categories in accordance with IFRS 9. The comparative period columns in the 2018 consolidated financial statements were adjusted to the new requirements according to IFRS 9 and IFRS 7 and thus only limited comparability with the previous periods figures is given. The comparative period information and disclosures in the notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before amendments resulting from IFRS 9).

2.1.7. Disclosure of financial impact of IFRS 9

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

EUR m

	Measurement category IAS 39	Carrying amount	Measurement category IFRS 9	Carrying amount
Financial Assets				
Cash reserves	Amortised cost (Loans and receivables)	1,285.9	Amortised cost	1,278.6
Financial assets held for trading	FVTPL (Held for trading)	19.8	FVTPL (Held for trading)	19.8
Loans and receivables to credit institutions	Amortised cost (Loans and receivables)	65.3	Amortised cost	64.9
Loans and advances to customers	Amortised cost (Loans and receivables)	3,691.9	Amortised cost	3,657.7
Derivatives – Hedge accounting	FVTPL (Hedging instruments)	0.1	FVTPL (Hedging instruments)	0.1
Investment Securities		1,276.8		1,286.1
	FVOCI (AFS)	1,234.3	FVOCI	1,262.5
	Amortised cost (Loans and receivables)	0.0	Amortised cost	0.7
	Amortised cost (HTM)	42.5	Amortised cost	0.0
	FVTPL (mandatorily)	0.0	FVTPL (mandatorily)	22.9
Total financial assets		**6,339.8**		**6,307.2**
Financial Liabilities				
Financial liabilities held for trading	FVTPL (Held for trading)	1.8	FVTPL (Held for trading)	1.8
Financial liabilities measured at AC	Amortised cost	5,521.2	Amortised cost	5,521.2
Total financial liabilities		**5,523.0**		**5,523.0**

Comments:

The loan portfolio classified as loans and advances according to IAS 39 was classified in the business model hold to collect, thus leading to no impact as these loans have been measured at amortised costs according to IFRS 9.

Financial assets held for trading continue to be measured at FVTPL.

The Addiko Group classified most debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities are measured at FVTOCI as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Debt securities that were classified as held to maturity under IAS 39 in the amount of EUR 42.5 million were reclassified to the category measured at FVTOCI costs under IFRS 9 as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

With regards to a portfolio of debt securities that were classified as available for sale under IAS 39 in the amount of EUR 18.3 million, the following reclassification took place under IFRS 9: EUR 17.6 million to the category measured mandatorily at FVTPL as this portfolio failed the SPPI test and EUR 0.7 million to the category measured at amortised costs as this portfolio is held within the business model hold to collect.
Securities which were classified as available for sale under IAS 39 and were reclassified to the category amortised costs under IFRS 9 in the amount of EUR 0.7 million matured during 2018.

Equity instruments that were classified as available-for-sale under IAS 39 in the amount of EUR 22.3 million were re-classified as follows: EUR 5.3 million to the category measured mandatorily at FVTPL due to the planned disposal in the near future (thereof EUR 5.0 million were disposed during 2018) and for EUR 17.0 million the option to measure them as FVTOCI was applied.

The original carrying amount under IAS 39 in the line "Financial liabilities measured at AC" that captures financial liabilities that continue to be measured at amortised costs consists of following items:

- deposits of credit institutions with a carrying amount of EUR 341.6 million
- deposits of customers with a carrying amount of EUR 4,933.8 million
- issued bonds, subordinated and supplementary capital with a carrying amount of EUR 198.5 million
- other financial liabilities with a carrying amount of EUR 47.3 million.

No further significant changes regarding classification arose based on both business model and the SPPI criteria.

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

EUR m

	Carrying amount IAS 39	Reclassification	Remeasurement	Carrying amount IFRS 9	Comment
Amortised cost	5,085.6	-41.8	-41.9	5,001.9	
Cash reserves	1,285.9	0.0	-7.3	1,278.6	
Loans and advances to credit institutions	65.3	0.0	-0.4	64.9	
Loans and advances to customers	3,691.9	0.0	-34.2	3,657.7	
Debt securities	0.0	0.7	0.0	0.7	1)
HTM securities	42.5	-42.5	0.0	0.0	2)
Fair value through profit or loss	19.9	22.9	0.0	42.8	3)
Fair value through OCI	1,234.3	18.9	9.3	1,262.5	
FVTOCI	0.0	1,253.2	9.3	1,262.5	4) a), b)
AFS	1,234.3	-1,234.3	0.0	0.0	5) a),b), c)
Total financial assets	**6,339.8**	**0.0**	**-32.6**	**6,307.2**	
Deferred tax			-1.0		
Off-balance loss allowances			1.2		
Total ECL impact on equity			**-32.4**		

Comments on reclassifications (to be indexed in the table):
1) Addition from AFS (IAS 39) EUR + 0.7 million
2) Subtraction to FVTOCI (IFRS 9) EUR -42.5 million
3) Addition from AFS (IAS 39) EUR +22.9 million
4) a) Addition from AFS (IAS 39) EUR +1,210.7 million
4) b) Addition from HTM (IAS 39) EUR + 42,5 million
5) a) Subtraction to FVTOCI (IFRS 9) EUR -1,210.7 million
5) b) Subtraction to FVTPL (IFRS 9) EUR - 22,9 million
5) c) Subtraction to amortised costs (IFRS 9) EUR - 0,7 million

There were no changes in classification and measurement of financial liabilities due to the adoption of IFRS 9.

Reconciliation of credit loss allowances:

EUR m

	31.12.2017 IAS 39/IAS 37	Suspended interest recognition	Remeasurement	Carrying amount IFRS 9
Cash reserves	0.0	0.0	-7.3	-7.3
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9	-418.7	-40.8	-34.6	-494.2
Available-for-sale debt securities under IAS 39 reclassified to at amortised cost under IFRS 9	0.0	0.0	0.0	0.0
Available-for-sale debt securities under IAS 39/Debt securities at FVTOCI under IFRS 9	0.0	0.0	-2.2	-2.2
Held-to-maturity under IAS 39 reclassified to Financial assets at FVTOCI under IFRS 9	0.0	0.0	0.0	0.0
Loan commitments and financial guarantees	-11.3	0.0	1.2	-10.1
Total	**-430.0**	**-40.8**	**-42.9**	**-513.8**
thereof ECL on loans and off-balance exposures			-40.7	-511.6
thereof ECL on debt securities			-2.2	-2.2

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

The column "Remeasurement" relates to changes in credit loss allowances that continue to stay in the impairment scope under IFRS 9 from 1.January 2018 (till 31 December 2017 under IAS 39 for financial assets and under IAS 37 for off-balance exposures).

Reconciliation of deferred taxes upon transition to IFRS 9

EUR m

	Closing balance 31.12.2017 IAS 39	Opening balance 01.01.2018 IFRS 9	Retained earnings	OCI
Changes in deferred tax assets	20.6	20.6	0.0	0.0
Changes in deferred tax liabilities	-0.5	-1.5	0.7	-1.7
Total	**20.2**	**19.1**	**0.7**	**-1.7**

Impact of IFRS 9 adoption on equity as at 1 January 2018: the net impact of adoption of IFRS 9 was EUR -32.4 EUR million (see III Consolidated statement of changes in equity):

EUR m

Component of equity	Impact
Other comprehensive income	9.7
Retained earnings	-42.1
Total	**-32.4**

EUR m

IFRS 9 effect	Impact
Remeasurement of financial assets	-32.6
Deferred taxes	-1.0
Off-balance loss allowances	1.2
Total	**-32.4**

EUR m

IFRS 9 effect	Impact
Equity under IAS 39	**844.0**
Changes in accounting for credit losses	-40.7
Changes in accounting of classification and measurement	9.3
Overall deferred taxes	-1.0
Total impact	**-32.4**
Equity under IFRS 9	**811.6**

2.2. IFRS 15 Revenue from Contracts with Customers

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

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

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

The clarifications to IFRS 15 add descriptions in the following areas: identifying performance obligations, principal versus agent considerations and licensing application guidance. Additionally, these amendments introduce practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented. These clarifications are effective for financial years beginning on or after 1 January 2018.

Addiko Group derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

2.3. IFRIC 22 – Foreign Currency Transactions and Advance Consideration

This interpretation clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. This standard does not result in any significant changes within the Addiko Group.

2.4. IAS 40 – Investment property

The amendment clarifies when assets are transferred to, or from, investment properties. According to these amendments, a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. The amendments apply for annual periods beginning on or after 1 January 2018. This standard does not result in any significant changes within the Addiko Group.

2.5. Annual improvements to IFRSs 2014-2016

The collection of **annual improvements to IFRSs 2014-2016** includes amendments to the following standards: IFRS 1 First-time Adoption of IFRS removes outdated exemptions for first-time adopters of IFRS; IFRS 12 Disclosure of Interests in Other Entities means that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution; IAS 28 Investments in Associates and Joint Ventures implicates that a venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. Further a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Amendments to IFRS 1 are effective for annual periods beginning on or after 1 January 2018, amendments to IFRS 12 are effective retrospectively for annual periods beginning on or after 1 January 2017 and amendments to IAS 28 are effective retrospectively for annual periods beginning on or after 1 January 2018.

The following new standards and interpretations issued by the IASB and adopted by the EU were not yet effective:

Standard	Name	Description	Effective for financial year
IFRS 16	Leases (New Standard)	Replacing IAS 17	2019
IFRS 9	IFRS 9 Financial Instruments (Amendments)	Prepayment Features with Negative Compensation	2019
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019

2.6. IFRS 16 Leases

IFRS 16 "Leases" was published by the IASB in January 2016. IFRS 16 will be effective from 1 January 2019, superseding the previous standards IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease.

2.6.1. General information

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either "operating" or "finance". Instead, a right-of-use asset and a lease liability are recognised for all leases henceforth. The right-of-use asset is initially measured at cost, which comprises the initial amount of the

lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position. With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset. Conceptually, lessee accounting and lessor accounting are thus divided, which may result in additional challenges in the implementation of the new provisions.

Recognising "right-of-use" assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss will be also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the "net interest income". Additionally, since the annual depreciation of right-of-use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating result before change in credit loss expense increases. The statement of cash flows will see a shift from cash flows from operating activities to cash flows from financing activities. While there is still the option to continue stating interest payments under cash flows from operating activities, it is mandatory to present the redemption of lease liabilities under cash flows from financing activities.

2.6.2. Leases in which Addiko Group is a lessor

Due to the strategic decision of Addiko Group to focus on core banking business, the leasing portfolio was reduced and therefore IFRS 16 will not have a material impact on accounting for Addiko group as a lessor. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognised.

2.6.3. Leases in which Addiko Group is a lessee

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

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to EUR 35.5 million on an undiscounted basis under IAS 17, which the Addiko Group assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

Based on available information, as of initial application date of IFRS 16, the Addiko Group expects only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -12 basis points due to an increase of the total assets in the amount of approximately EUR 32.0 million (including prepayments) and an increase of lease liabilities in the amount of EUR 30.1 million.

2.6.4. Transition

The Addiko Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. For contracts under which the Addiko Group acts as lessee a right-of-use asset at the amount equal to the lease liability will be recognised in the statement of financial position (subsequently right-of-use assets will be adjusted for accruals and prepayments). The Addiko Group will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Addiko Group will not apply IFRS 16 to any leases on intangible assets. The Addiko Group will use the exemptions for short term leases and leases of low value whereby the right-of-use-asset is not recognised. For leases previously classified as operating leases under IAS 17, the applicable discount rate will be the lessee’s incremental borrowing rate determined at the date of initial application.

2.7. IFRS 9 - Financial Instruments

Based on the amendments of IFRS 9 introduced in 2017 financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

2.8. IFRIC 23 - Uncertainty over Income Tax Treatments

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Group. The table also includes the expected effective dates:

Standard	Name	Description	Effective for financial year
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of busines	2020
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long term Interests in Associates and Joint Ventures	2019
IAS 19	Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement	2019
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework	2020
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019
IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	New definition of materiality	2020

The **IFRS 3** amendments provide application guidance to help distinguish between an acquisition of business and a purchase of group of assets that does not constitute a business. The amendments to IFRS 3 will be effective for accounting periods beginning on or after 1 January 2020.

The **IAS 28** amendments clarify that companies should account for long term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments to IAS 28 will be effective for accounting periods beginning on or after 1 January 2019.

The **IAS 19** amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments to IAS 19 will be effective for accounting periods beginning on or after 1 January 2019.

The amendments to references to the Conceptual Framework in IFRS Standards have been issued in March 2018. Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document *Updating References to the Conceptual Framework* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments will be effective for accounting periods beginning on or after 1 January 2020.

The collection of **annual improvements to IFRSs 2015-2017** includes amendments to the following standards: IFRS 3 Business Combinations clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date. IFRS 11 Joint Arrangements clarifies that the party obtaining joint control of a business that is joint operation should not remeasure its previously held interest in the joint operation; IAS 12 Income Taxes clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity; IAS 23 Borrowing costs clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted.

The **IAS 1 and IAS 8** amendments introduce the new definition of materiality. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The new definition of material and the accompanying explanatory paragraphs helps reporting entities to decide whether information should be included in their financial statements.

(3) Standards used for comparative periods

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

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

mature within a term customary in the market (regular way contracts) are recognised by the Addiko Group at the trade date.

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

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

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

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

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

Financial assets at fair value through profit and loss
a. Financial assets held for trading
Financial instruments that were acquired with the intent of reselling them within a short period of time or that are part of a portfolio with a short term profit objective have to be classified as held for trading, i.e. securities and receivables held for trading are reported under assets held for trading.

This item also includes positive fair values of derivatives not classified as hedging instruments. Therefore, both banking book derivatives and derivatives held for trading are reported under assets held for trading. On the other hand, derivatives that meet the requirements of IAS 39 for hedge accounting are reported under "Derivatives – hedge accounting". Financial assets held for trading are measured at fair value, which corresponds to the market price for listed products. Measurement techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not traded on an active market.

Realized gains and losses, results from foreign currency valuation as well as unrealized measurement results are reported in profit or loss in the result from trading as part of position "gains and losses on financial assets and liabilities". Interest income and expenses from financial assets held for trading as well as current dividends are shown in "net interest income".

b. Financial assets designated at fair value through profit or loss
Regardless of the intent to trade them, IAS 39 permits irrevocably designating financial instruments as "financial assets designated at fair value through profit or loss" when they are acquired (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial instrument contains one or more material separable embedded derivatives
- Through the fair value option, accounting mismatches can be avoided or significantly reduced, or
- A group of financial assets and/or financial liabilities is managed, and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation based on the first two characteristics results in an overall improvement in the presentation of the net assets and results of operations. This designation option cannot, however, be used for equity instruments that have no quoted

market price and whose fair value cannot be determined reliably. Designating financial instruments in this category makes it possible to represent economic hedging relationships without meeting the strict requirements for hedge accounting.

Financial instruments designated at fair value are measured at their fair value, corresponding to the quoted price in the case of listed financial instruments. For non-listed financial instruments, the fair value is established using the net present value method or other appropriate measurement techniques.

Realized gains and losses as well as unrealized measurement results are recorded through profit or loss under gains and losses on financial assets and liabilities, measured at fair value through profit or loss. Interest income and expenses as well as dividends on these financial instruments are included in "net interest income".

Held-to-maturity investments
This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group intends to and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. Measurement is at amortised cost, with premiums and discounts being allocated over the term through profit or loss using the effective interest method. Permanent impairment is included in the statement of financial position by reducing the carrying amount and in the income statement under "result on financial instruments not measured at fair value through profit or loss" as part of position "gains and losses on financial assets and liabilities".

Since new designations for this item are handled restrictively, the portfolio of the Addiko Group is small.

Loans and receivables
Loans and receivables are all non-derivative financial assets with fixed or determinable payments, which are not held for trading and not listed in an active market. They are measured at amortised cost using the effective interest method, with impairments reducing the carrying amount of the assets directly as credit risk provisions. Lease receivables are measured at present value less impairment.

This item mainly includes granted loans, lease receivables, overnight loans and term deposits as well as unquoted debt securities. Loans and receivables also include cash balances at central banks that are not daily due. They are reported including accrued interest after the deduction of impairment. Premiums and discounts are spread over the respective term and are also shown in "net interest income", which also includes interest income.

Default risks in the lending business are included in the category loans and receivables through the recognition of specific provisions and portfolio provisions for impairment losses and/or by recognising provisions for obligations not included in the statement of financial position.

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, taking pledged collateral into account.

Specific provisions for impairment losses are either calculated individually or based on a collective estimate (rules-based approach). For major customers, the expected future cash flows are individually estimated by the risk manager. A customer is considered major if the total receivable, defined as the sum of all receivables (both those included in the statement of financial position and those not included), exceeds an established materiality threshold. Otherwise, the customer is not considered significant and a rules-based approach is used to calculate the specific provision for impairment losses.

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognised as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognised if the present value of the agreed

cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses applied by the Group companies, receivables are grouped into homogeneous portfolios with comparable risk properties and the business not included in the statement of financial position is also taken into account.

Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses performed by the Group, receivables are grouped into homogeneous portfolios with comparable risk properties, whereas subsidiary specific data is also taken into account. For the purpose of obtaining a uniform and transparent approach, the portfolio provision assessment is done centrally, at the Group level, for all Addiko entities.

In addition to the exposure determining the portfolio provisions for impairment losses, the following parameters are also taken into account:

- The time elapsed between the occurrence and identification of the loss event (loss identification periods)
- The probability of default
- The loss given default

Basically, the Addiko Group assumes the following loss identification periods (known as LIP factors) for the determination of portfolio provisions for impairment losses after taking into account the customer segment and volume: 0.1 for banks and governments, 0.5 for corporate and retail customers. If local conditions demand, more conservative LIP factors (up to 1) can be applied.

Specific provisions for exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis. Such individually insignificant loans are grouped according to similar credit risk characteristics and impaired accordingly. Since the end of 2016, the assessment of collective impairment for specific provisions has been performed at the level of the Group for all Addiko subsidiaries. These exposures are impaired based on loss given default, which differs depending on the subsidiary and the segment.

Probabilities of default for the retail portfolio are determined by the realized historical default rates per subsidiary and segment. Probabilities of default for the non-retail portfolio are determined by the results of the respective rating models. For the non-retail portfolio, scaling factors for probabilities of default of the rating models are applied if there are significant differences between the realized historical default rates and the exposure-weighted probabilities of default of the rating models (per subsidiary and segment).

The realized historical default rates are determined by semi-annual averaging of realized one-year default rates calculated monthly. A default event is counted insofar as at least one default has occurred within a year according to the internal definition of default.

The realized historical default rates are recalculated/validated at least once a year. Should there be a need for changes, the parameters in the model are adjusted.

The loss given default rates are estimated per customer segment. To maintain consistency, these factors are also applied to determine impairment in the Collective Impaired model of the Addiko Group.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognised are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the expected loss and also based on the probability of default specific to each subsidiary and segment and the loss given default.

Available-for-sale financial assets
This category includes all non-derivative financial assets that are not assigned to any of the above-stated categories. Subsequent measurement is at fair value and the measurement result – after taking deferred taxes into account – is

included in other comprehensive income (OCI) without affecting profit or loss. Upon disposal, the difference to the carrying amount recorded in the remeasurement reserve is released to profit or loss. Impairment losses and any reversals of impairment are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are released over the respective term by means of the effective interest method. Impairment is also recognised in profit or loss.

The Addiko Group classifies most debt securities and other fixed-income securities as well as shares and other securities not bearing fixed interest as available for sale, as long as they are traded in an active market.

These investments are initially measured at their fair value (including transaction costs) which corresponds to their quoted price. Alternatively, the fair value is established on the basis of comparable instruments or by applying accepted measurement techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not included in cost. Subsequent measurement is based on the fair value (excluding transaction costs). In addition, long term investments as well as shares in non-consolidated subsidiaries are also classified as available-for-sale financial assets. Such equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairment.

The measurement result for this category – after taking deferred taxes into account – is included in other comprehensive income (OCI). In case of a significant or permanent impairment, impairment is recognised through profit or loss and reported under “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Reversals of impairment of debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the income statement but included in other comprehensive income (OCI). Gains and losses on disposal are also included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Foreign currency translation results are included in exchange differences of the result from trading for debt instruments, and in other comprehensive income (OCI) for equity instruments.

Revenues from fixed-income securities, including allocated premiums and discounts, as well as dividend income are included in “net interest income”. Current income from securities not bearing fixed interest (shares, investment funds, equity investments, etc.) are included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”.

For investments in equity instruments which are carried at fair value, a significant reduction in the fair value below cost indicates impairment. A decrease in the fair value by more than 20.0% below original cost or a permanent reduction in the market value below historical cost over a period of more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognised as an expense in the income statement.

Financial liabilities held for trading
Financial liabilities held for trading are generally measured at fair value. However, this item only includes derivatives at the reporting date.

Financial liabilities measured at amortised cost
This category encompasses financial liabilities, including debt securities issued, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are spread over the respective term using the effective interest method and reported under interest expenses.

Embedded derivatives
Structured finance products are characterized by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires a separation of the embedded derivative from the host contract if:

- The characteristics and risks of the embedded derivative are not closely linked to those of the host contract,
- The structured finance product is not already measured at fair value through profit or loss, and
- The design of the embedded derivatives meets the requirements for a derivative according to IAS 39.

Embedded derivatives that are separated are reported under financial assets held for trading. The measurement result is reported through profit or loss in the statement of comprehensive income. Embedded derivatives that are not required to be separated are measured together with the host contract according to the applicable general requirements of the category.

(4) Use of estimates and assumptions/material uncertainties in relation to estimates

The consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experience and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. Model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (2) 2.1. IFRS 9 Financial instruments and for the comparative period in note (3) Standards used for comparative periods as well as to the Risk Report under note (70) Development of provisions.

Fair value of financial instruments
Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. The input parameters used are based – whenever available – on observable market data. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

For further details regarding the measurement of financial instruments, see note (2) 2.1. IFRS 9 Financial instruments and for the comparative period the note (3) Standards used for comparative periods. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (60) 60.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (39) Loans and receivables as well as note (40) Investment securities.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans. For further details regarding tax loss carried forward please refer to note (36) Taxes on income.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (48).

(5) Scope of consolidation

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Addiko Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

	31.12.2018 Fully consolidated	31.12.2017 Fully consolidated
Start of period (01.01.)	**7**	**10**
Newly included in period under review	0	0
Excluded in period under review	0	-3
End of period (31.12.)	**7**	**7**
thereof Austrian companies	1	1
thereof foreign companies	6	6

(6) Basis of consolidation and business combinations

Business combinations are accounted for following the consolidation principles pursuant to IFRS 3 “Business Combinations”, using the acquisition method when control is transferred to the Group. According to this method, all assets and liabilities of the respective subsidiary are to be measured at fair value at the acquisition date. The cost of a business acquisition is calculated as the total of consideration transferred, measured at fair value at the acquisition date, and non-controlling interests in the entity acquired. Goodwill, if any, is initially measured at cost, calculated as the excess of the total consideration transferred as well as the amount of non-controlling interests in the identifiable assets and assumed liabilities acquired by the Group. If a negative difference remains after reassessment, it is recognised immediately in profit or loss.
IFRS 10 Consolidated Financial Statements defines the investor´s control over an investee in terms of the investor having all of the following:

- Power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee´s returns;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use the power over the investee to affect the amount of the investor´s returns.

Assessing the existence of control requires judgements, assumptions and estimates on power stemmimg from voting rights and contractual agreements, rights arising from the lending transactions which could lead to the Addiko Group having power over an investee.

The date of initial consolidation corresponds to the date when the Group acquires control over the entity in question. Subsidiaries acquired during the year are included in the Group statement of comprehensive income from the date of acquisition. The results of subsidiaries disposed of during the year are included in the statement of comprehensive income until the date of disposal.

If further investments are acquired in an already fully consolidated but not yet wholly-owned entity, any resulting differences are reported directly in equity as transaction with non-controlling interests.

Intra-group balances and transactions between consolidated subsidiaries are fully eliminated. In the same way, intragroup income and expenses are offset within the framework of expense and income consolidation.

The share of equity and results of the consolidated subsidiaries allocated to non-Group third parties is reported separately in equity and in profit or loss under non-controlling interests. A subsidiary's comprehensive income is attributed to non-controlling interests even if this results in a negative balance.

When Addiko Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss.

(7) Foreign currency translation

Foreign currency translation within the Addiko Group follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss.

Open forward transactions are translated at forward rates at the reporting date.

The assets and liabilities of foreign operations are translated into euros at the exchange rates prevailing at the reporting date. Income and expenses are translated using the average rates for the period, as long as they do not fluctuate markedly. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency translation. The amount for a foreign operation recorded in other comprehensive income (OCI) is to be reclassified into the statement of profit or loss in the event of the sale of the foreign operation.
Exchange differences attributable to non-controlling interests are shown under non-controlling interests.

The respective local currency is the functional currency for all entities.

The following exchange rates published by the European Central Bank or the Oesterreichische Nationalbank (OeNB) have been used for the currency conversion of the foreign financial statements:

Foreign currency translation Rates in units per EUR	Closing date 31.12.2018	Average 2018	Closing date 31.12.2017	Average 2017
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.41250	7.42030	7.44000	7.46522
Serbian dinar (RSD)	118.19460	118.28070	118.47270	121.39523

(8) Earnings per share

The Addiko Group presents basic and diluted earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares and increasing the weighted average number of ordinary shares outstanding by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(9) Net interest income

For all financial instruments measured at amortised cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (except of for purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).

Interest income from assets held for trading, as well as interest components of derivatives are presented in “net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “net result on financial instruments”.

Negative interest from financial assets and financial liabilities is presented in “net interest income”.

Dividend income is recognised at the time that a legal right to payment arises.

(10) Net fee and commission income

Fee and commission income and expense (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “net fee and commission income”.

In accordance with IFRS 15, income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees that are not an integral part of the effective interest rate of a financial instrument, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage and foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

Other fee and commission expenses relate mainly to transaction and service fees which are expensed as the services are received.

(11) Net result on financial instruments

Net result on financial instruments held for trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realized gains and losses from derecognition, the result from trading in securities and derivatives, any ineffective portions recorded in fair value and cash flow hedge transactions and foreign exchange gains and losses on monetary assets and liabilities. The Group has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income, expense and dividends, which are presented in "net interest income".

Net result on financial instruments at fair value through other comprehensive income and financial liabilities at amortised cost includes all gains and losses from derecognition. In the comparative period, gains and losses from derecognition as well as impairment from financial instruments available for sale and held to maturity were presented in "net result on financial instruments".

(12) Other operating income and other operating expenses

Other operating income and othe operating expenses reflect all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property, release and allocation for legal cases and income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the Single Resolution Fund).

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill (if any) and non-consolidated equity investments.

(13) Classes of financial instruments according to IFRS 7

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments. For details see note (2) 2.1. IFRS 9 Financial instruments and for the comparative period note (3) Standards used for comparative periods.

(14) Hedge accounting

Underlying transactions (usually receivables, securities and liabilities) can be subject to different measurement principles than hedging transactions (derivatives) which always belong to the category "at fair value through profit or loss". With the application of hedge accounting according to IAS 39, changes in value arising from changes in the market price of the underlying transaction are compensated through profit or loss by concluding an opposing hedging transaction.

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period, derivatives must be monitored continuously to ensure that they are effectively compensating for changes in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80.0% to 125.0%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

The Addiko Group only uses fair value hedges for hedge accounting. These serve to hedge changes in the market values of assets and liabilities (underlying transactions). The risks to be hedged are the interest risk and the foreign currency risk. If the hedging relationship is 100% effective, the measurement effects of the underlying transaction offset those of the hedging transaction and there is no effect on profit or loss. In the event of ineffectiveness within the accepted

range, such ineffectiveness is recognised in the result from hedge accounting as part of position “net result on financial instruments”.

(15) Leases

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

The lease contracts concluded by the Addiko Group as a lessor are mainly classified as finance leases. They are reported under loans and receivables in the statement of financial position at the net investment value (present value); see note (39) Loans and receivables. The lease payments received are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating leases concluded by the Addiko Group as a lessor when lease payments were agreed in a currency other than the functional currency of the lessor, an embedded foreign currency derivative is not separated when the currency in which lease payments are denominated is the functional currency of a lessee who is substantial counterparty to the lease contract, or when the currency in which lease payments are denominated is a currency that is commonly used in lease contracts in the economic environment in which the transaction takes place.

With the exception of real estate, leased assets are reported under the item “property, plant and equipment” in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the item “other operating income” or "other operating expense" and scheduled depreciation under “depreciation and amortisation”.

Real estate leased under an operating lease is reported in the statement of financial position under the item “investment properties” in tangible assets.

Assets not yet or no longer leased out are included in other assets. Impairment is included in the “other operating expenses”.

(16) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.

(17) Fiduciary transactions

Fiduciary transactions concluded by the Addiko Group in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(18) Financial guarantees

Financial guarantees are contracts that oblige the Addiko Group to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value less transaction

costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount determined in accordance with IFRS 9 (in the comparative period in accordance with IAS 37) and the unamortised balance of initially recognised premium.

(19) Cash reserves

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

(20) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (15) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at amortised cost. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. The following depreciation rates and expected useful lives are used:

Depreciation rate	in percent	in years
for immovable assets (buildings)	2 - 4%	25 - 50 yrs
for movable assets (plant and equipment)	5 - 33%	3 - 20 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are carried at amortised cost, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Group is reported separately under depreciation and amortisation in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under "other operating income" or "other operating expenses".

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “other operating income” or "other operating expenses". If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

(21) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation.

Scheduled amortisation is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortisation. The following amortisation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	14 -33%	3 -7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “other operating income” or " other operating expenses".

(22) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “tax assets” and “tax liabilities”. Current income taxes are determined according to the tax law regulations of the respective countries.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be available against which losses can be utilised. This assessment is made on tax plans which are based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period.

Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

The Group maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of the tax positions under discussion, audit, dispute or appeal with tax authorities. These provisions are made using the Group's best estimate of the amount expected to be paid based on an assessment of all relevant factors, which are reviewed at the end of each reporting period.

(23) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but no financial instruments.

Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

(24) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell. Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (45) Non-current assets and disposal groups classified as held for sale.

(25) Provisions

25.1. Provisions for retirement benefits and similar obligations

The Addiko Group maintains both defined contribution and defined benefit plans. Under defined contribution plans, a fixed contribution is paid to an external provider. These payments are recognised under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit obligations relate to pension commitments and severance obligations. These schemes are unfunded, i.e. all of the funds required for coverage remain within the Company.

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 1.97% as at 31 December 2018 (2017: 1.97%) and a salary increase of 3.0 % p.a. (2017: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2018 P generation mortality tables for salaried employees (2017: AVÖ 2008 P generation mortality tables for salaried employees). Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. Serbia is calculating with an actuarial interest rate of 5.25% (2017: 5.5%) while Slovenia is using 1.15% (2017: 1.0%). The fluctuation discounts amounts from 2.5%-6.0% (2017: 0.0%-4.3%) in Serbia and Slovenia.

The expenditure to be recognised through profit or loss consists of service cost reported under personnel expenses and interest expense which is recorded as such; actuarial gains and losses are reported under equity in other comprehensive income without affecting profit or loss.

25.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9 (in the comparative period in accordance with IAS 37).

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “Credit loss expenses on financial assets”.

25.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected. For disclosure of restructuring expenses, see note (31) Other operating income and other operating expenses.

25.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq.

(26) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognised at their nominal value, the liabilities at amortised cost.

(27) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Subscribed (registered) capital represents the amounts paid in by shareholders in accordance with the articles of association.

Capital reserve includes share premium which is the amount by which the issue price of the shares exceeded their nominal value. In addition, direct capital contributions are presented in this position.

Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income (in the comparative period the available-for-sale reserve includes the measurement results of financial assets classified as available for sale).

Foreign currency reserve includes the translation of financial statements of Addiko Group subsidiaries (for further detail, see note (7)).

The cumulative result includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reserves include the statutory reserves and the risk reserve.

Notes to the profit or loss statement

(28) Net interest income

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Interest income calculated using the effective interest method	**209.6**	**226.0**
AFS financial assets	-	15.7
Loans and receivables	-	207.3
Held-to-maturity investments	-	2.7
Financial assets at fair value through other comprehensive income	17.7	-
Financial assets at amortised cost	190.2	-
Derivatives - Hedge accounting, interest rate risk	0.0	0.3
Negative interest from financial liabilities	1.7	0.0
Other interest income	**4.2**	**8.3**
Financial assets held for trading	3.9	6.2
Other assets	0.3	0.3
Dividend income	0.0	1.8
Total Interest Income	**213.8**	**234.2**
Financial liabilities measured at amortised cost	-38.1	-64.8
Financial liabilities held for trading	-0.9	-2.2
Negative interest from financial assets	-1.7	-1.9
Total Interest Expense	**-40.7**	**-68.9**
Net Interest Income*	**173.2**	**165.3**

*The presentation of Net interest income was changed to reflect IFRS 9 categories of financial instruments as well as new disclosure requirements of IFRS 7.

Interest expense from financial liabilities measured at amortised cost also includes the Tier 2 capital which was increased in February 2017 by EUR 130.0 million to EUR 190.0 million. In the first quarter 2018 the shareholder agreed to perform a waiver of the entire Tier 2 capital.

Interest and similar income break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Derivatives - Trading	**3.6**	**6.1**
Debt securities	**17.9**	**18.5**
Governments	15.4	16.2
Credit institutions	1.6	1.6
Non-financial corporations	0.9	0.7
Loans and advances	**190.2**	**207.3**
Central banks	0.5	0.8
Governments	5.9	12.2
Credit institutions	0.4	0.4
Other financial corporations	0.9	1.6
Non-financial corporations	48.8	59.1
Households	133.6	133.2
Other assets	**0.3**	**0.3**
Derivatives - Hedge accounting, interest rate risk	**0.0**	**0.3**
Dividend income	**0.0**	**1.8**
Negative interest from financial liabilities	**1.7**	**0.0**
Central banks	1.7	0.0
Total	**213.8**	**234.2**

Interest expenses break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Derivatives - Trading	**-0.9**	**-2.2**
Deposits	**-34.4**	**-45.0**
Central banks	0.0	-0.2
Governments	-2.3	-0.7
Credit institutions	-1.0	-2.2
Other financial corporations	-1.3	-2.2
Non-financial corporations	-5.7	-7.1
Households	-24.2	-32.6
Issued bonds, subordinated and supplementary capital	**-3.7**	**-19.7**
Negative interest from financial assets	**-1.7**	**-1.9**
Debt securities	**-0.4**	**0.0**
Central banks	-0.4	0.0
Loans and advances	**-1.3**	**-1.9**
Central banks	-0.7	-1.0
Credit institutions	-0.6	-0.5
Other assets	-0.1	-0.4
Total	**-40.7**	**-68.9**

(29) Net fee and commission income

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017*
Transactions	21.1	21.2
Accounts & Packages	17.0	15.8
Cards	13.3	13.0
FX & DCC	11.0	8.9
Securities	2.0	2.3
Bancassurance	3.2	1.3
Loans	2.9	3.1
Trade finance	4.2	4.0
Other	1.7	1.6
Fee and commission Income	**76.5**	**71.2**
Cards	-6.3	-4.6
Transactions	-4.3	-4.5
Client incentives	-0.6	0.0
Securities	-0.5	-0.5
Accounts & Packages	-0.2	-0.4
Bancassurance	-0.2	-0.3
Other	-1.9	-2.5
Fee and commission Expense	**-14.1**	**-12.8**
Net fee and commission Income	**62.4**	**58.5**

*The presentation of the net fee and commission income in the 2018 consolidated financial statements has been updated in order to closely present the business steering of the Group. The previous periods have been restated accordingly to ensure the comparability.

The fees and commission presented in this note include income of EUR 33.2 million (2017: EUR 31.9 million) and expenses of EUR 6.1 million (2017: EUR 4.2 million) relating to financial assets and liabilities not measured at FVTPL.

(30) Net result on financial instruments

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Held for trading financial instruments	0.0	1.6
o/w exchange difference	11.8	-24.1
o/w gain or losses on financial instruments	-11.8	26.0
o/w results from hedge accounting	0.0	-0.2
Result of AFS financial assets	-	8.2
Held-to-maturity investments	-	-0.1
Financial assets at fair value through other comprehensive income	9.0	-
Financial liabilities measured at amortised cost	61.0	0.0
Total	**70.0**	**9.7**

30.1. Gains or losses on financial instruments held for trading, net

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Derivatives	-13.9	25.8
Debt securities	0.3	0.2
Other financial liabilities	1.8	0.0
Total	**-11.8**	**26.0**

30.2. Gains or losses on financial assets and liabilities held for trading, net - by risk

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Interest rate instruments and related derivatives	-1.4	9.0
Foreign exchange trading and derivatives related to foreign exchange and gold	-10.4	17.1
Credit risk instruments and related derivatives	-0.1	-0.4
Other	0.1	0.2
Total	**-11.8**	**26.0**

30.3. Result from hedge accounting

This is the result from hedge accounting based on the measurement of the hedging derivatives and the underlying transactions.

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Fair value changes of the hedging instrument (including discontinuation)	0.0	0.0
Fair value changes from underlying transaction hedged	0.0	-0.2
Total Interest Income	**0.0**	**-0.2**

30.4. Result on financial instruments not measured at fair value through profit or loss

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Gains or losses on financial assets and liabilites, measured at fair value through other comprehensive income	9.0	-
Gains or losses on financial assets and liabilites, measured at amortised cost	61.0	-
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	-	8.5
Impairment or reversal of impairment on available for sale financial assets	-	-0.4
Total	**70.0**	**8.1**

With the purpose of strengthening the capital position of the bank, its shareholder agreed to perform a waiver of its entire provided Tier 2 capital in March 2018 in the amount of EUR 190.0 million, with the fair value of the instruments being recognised as a direct capital contribution and thus increasing the Common Equity Tier 1. The difference between the carrying amount and the fair value of the instruments is recognised in the income statement, generating a positive income of EUR 61.0 million.

30.5. Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss - by instrument

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Equity instruments	0.0	0.1
Debt securities	9.0	8.4
Issued bonds, subordinated and supplementary capital	61.0	0.0
Total	**70.0**	**8.5**

30.6. Impairment or reversal of impairment on available-for-sale financial assets

EUR m

	01.01. - 31.12.2017
Expenses from impairment	-0.4
Total	**-0.4**

(31) Other operating income and other operating expenses

	01.01. - 31.12.2018	01.01. - 31.12.2017*
Other operating income	**19.1**	**27.4**
Release of provisions for legal cases	11.2	16.2
Gains from sale of non financial assets	1.4	0.0
Income from operating lease assets	0.0	3.1
Income from assets classified as held for sale and disposal groups	0.2	2.7
Reversal of impairment on non-financial assets	0.6	0.0
Other income	5.7	5.4
Other operating expenses	**-35.7**	**-34.0**
Expense incurred in earning the operating lease assets income	0.0	-0.2
Restructuring expenses	-2.8	-1.4
Allocation of provisions for legal cases	-5.6	-6.7
Impairment on non-financial assets	-5.6	-6.1
Resolution fund	-2.4	-2.3
Deposit guarantee	-8.8	-8.4
Banking levies and other taxes	-3.8	-2.9
Expense from assets classified as held for sale and disposal groups	0.0	-1.1
Other expenses	-6.8	-4.8
Total	**-16.5**	**-6.5**

*The presentation of other operating result was changed to gross presentation of other operating income and other operating expenses. Comparative figures were adjusted. The new presentation improves the understanding of the Bank's financial performance.

The line item "Release of provisions for legal cases" contains in 2018 a release of legal provisions for successful settlement of long term lasting court cases in the amount of EUR 3.8 million (2017: EUR 9.7 million). Furthermore, this position includes the positive impact from the updated assessment of risks in connection with customer protection claims in the countries in which the Group operates. For further details concerning legal risk, please refer to note (80) Legal risk.

The line items "Income from operating lease assets" and "Income from assets classified as held for sale and disposal groups" reflect the advanced wind down and deconsolidation of the Croatian leasing entity and consequently lower income from operating leasing assets as well as the positive effect from deconsolidation which was included at YE17.

The line item "Impairment on non-financial assets" includes in the current year impairment of intangible assets, which was driven by the delay in the implementation of specific IT projects for which licences were purchased in advance. The recoverable amount was determined with reference to the fair value less cost to sell, being higher compared with

the related value in use. The fair value was calculated based on the estimated costs that the purchased licence would have for the residual utilisation period, starting from the moment of expected final implementation of the relevant projects. Given the fact that the assets under consideration are specific assets, for which no transactions on the market are existing, the determination of the fair value is exteremely subjective and thus classified into level III.
In the previous year this line item included mainly impairment for real estate assets (2017: EUR 3.0 million). The main classes of assets which were affected by the impairment loss can be summarised as the intention to sell unused fixed assets and accordingly their re-measurement before classifying them based on IFRS 5 and by the recurring measurement for foreclosed assets at the balance sheet date.

The line item "Restructuring expenses" in the amount of EUR 2.8 milllion (2017: EUR 1.4 million) includes an ongoing restructuring plan in one of the countries where the Group operates as well as restructuring costs due to outsourcing activities.

(32) Personnel expenses

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017*
Wages and salaries	-70.2	-70.0
Social security	-13.9	-13.8
Variable payments	-9.9	-10.1
Other personal tax expenses	-2.6	-4.1
Voluntary social expenses	-1.1	-0.7
Expenses for retirement benefits	-0.4	-0.4
Expenses for severance payments	-0.5	-0.3
Income from release of other employee provisions	0.4	2.5
Other personnel expenses	-1.3	-0.7
Total	**-99.4**	**-97.4**

*Comparative period has been reclassified: wages and salaries increased by EUR 0.9 million whereas social security decreased by EUR 1.3 million and other personal tax expenses increased by 0.4 million.

(33) Other administrative expenses

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017*
IT expense	-29.9	-32.5
Premises expenses (rent and other building expenses)	-17.8	-18.8
Legal and advisory costs	-10.7	-7.9
Advertising costs	-8.3	-8.0
Other administrative expenses	-11.3	-13.8
Total	**-78.0**	**-80.9**

*The presentation of the administrative expenses in the 2018 financial statements has been updated in order to closely present the business steering of the group. The previous periods have been restated accordingly to ensure the comparability.

(34) Depreciation and amortisation

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Tangible assets	-5.1	-6.0
Investment properties	-0.1	-0.1
Intangible assets	-5.5	-5.7
Total	**-10.7**	**-11.7**

(35) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows in 2018:

EUR m

	01.01. - 31.12.2018
Change in ECL on financial instruments at FVTOCI	**0.5**
Change in ECL on financial instruments at amortised cost	**3.8**
Net allocation to risk provision	-1.0
Proceeds from loans and receivables previously impaired	6.0
Directly recognised impairment losses	-2.1
Net allocation of provisions for commitments and guarantees given	**-1.5**
Total	**2.8**

The positive development of the portfolio is mainly driven by the effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate Segment as well as net release in the SME Segment. This effect is partially offset by charges in the focus Consumer Segment.

Credit loss expenses on loans and receivables breaks down as follows in 2017:

EUR m

	01.01. - 31.12.2017
Loans and receivables	**-16.4**
Net allocation to risk provision	-22.8
Proceeds from loans and receivables previously impaired	9.7
Directly recognised impairment losses	-3.2
Net allocation of provisions for commitments and guarantees given	**1.3**
Total	**-15.1**

(36) Taxes on income

EUR m

	01.01. - 31.12.2018	01.01. - 31.12.2017
Current tax	-4.2	-2.1
Deferred tax	4.7	22.0
Total	**0.5**	**19.9**

The reconciliation from expected income tax to the effective tax is as follows:

EUR m

	31.12.2018	31.12.2017
Operating result before tax	**103.7**	**21.8**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	-25.9	-5.4
Tax effects		
from divergent foreign tax rates	6.4	3.1
from previous year	0.0	0.1
from foreign income and other tax-exempt income	1.1	0.6
from investment related tax relief and other reducing the tax burden	1.0	1.8
from non-tax deductibel expenses	-1.7	-0.4
from non-recognition of deffered tax assets on loss carry-forwards and temporary differences	14.1	-1.8
from the change of deferred taxes on loss carry-forwards and temporary differences	13.7	21.8
from non-recognition of deferred taxes because temporary differences	0.0	0.0
from other tax effects	-8.1	0.2
Actual income tax (effective tax rate: 0.5% (2017: 91.4%))	**0.5**	**19.9**

36.1. Deferred tax assets/liabilities

In the financial year 2018, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

EUR m

			2018			2017
	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)
Provisions for loans and advances	-0.7	-0.2	0.0	0.2	0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	1.2	0.2	0.0	0.5	0.9	0.0
Revaluations of AFS financial assets	-	-	-	-0.6	-0.2	0.2
Impairment on debt instruments at FVTOCI	-0.9	0.2	1.0	-	-	-
Hedge Accounting	0.1	0.0	0.0	0.0	0.0	0.0
Deferred revenue fee income	-0.3	0.6	0.0	0.0	-1.3	0.0
Other	8.1	-2.1	1.4	7.2	9.3	-1.6
Tax losses carried forward	19.0	6.0	0.0	13.0	13.0	0.0
Total deferred Tax	**26.5**	**4.7**	**2.4**	**20.2**	**22.0**	**-1.4**

The total YoY change in deferred taxes in the consolidated financial statements is EUR 6.3 million. Of this, EUR 4.7 million is reflected in the current income statement as deferred tax expense, and an amount of EUR 2.4 million is shown in other comprehensive income in equity. In addition, due to the initial implementation of IFRS 9, EUR -1.0 million was recognised directly in the opening balances in equity. The remainder of EUR 0.1 million is due to foreign-currency exchange differences.

The development of deferred taxes in net terms is as follows:

EUR m

	2018	2017
Balance at start of period (01.01.)	**20.2**	**-0.5**
Impact of adopting IFRS 9	**-1,0**	**-**
Tax income/expense recognised in profit or loss	4.7	22.0
Tax income/expense recognised in OCI	2.4	-1.4
Fx-difference	0.1	0.2
Balance at end of period (31.12.)	**26.5**	**20.2**

EUR m

	2018	2017
Deferred tax assets	26.6	20.6
Deferred tax liabilities	-0.1	-0.5
Total	**26.5**	**20.2**

The utilisation of the unused tax losses from previous years and their possibility to be carried forward can be seen in the table below:

EUR m

Tax losses per country as of 31.12.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate - current year	**18.0%**	**19.0%**	**10.0%**	**10.0%**	**15.0%**	**9.0%**	**25.0%**	
Total tax losses carried forward	**326.9**	**200.5**	**3.8**	**44.4**	**89.8**	**23.9**	**132.6**	**821.8**
thereof fully/ unlimited utilisable	0.0	200.5	0.0	0.0	0.0	0.0	132.6	333.1
thereof restricted utilisable	326.9	0.0	3.8	44.4	89.8	23.9	0.0	488.8
1st following year	19.0	0.0	0.0	0.0	16.9	1.2	0.0	37.1
2nd following year	307.9	0.0	0.0	41.6	60.7	14.4	0.0	424.6
3rd following year	0.0	0.0	3.8	2.8	12.2	8.3	0.0	27.1

EUR m

Tax losses per country as of 31.12.2017	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate	**18.0%**	**19.0%**	**10.0%**	**10.0%**	**15.0%**	**9.0%**	**25.0%**	
Total tax losses carried forward	**370.4**	**214.9**	**7.4**	**115.2**	**129.8**	**28.6**	**92.9**	**959.4**
thereof fully/ unlimited utilisable	0.0	214.9	0.0	0.0	0.0	0.0	92.9	307.9
thereof restricted utilisable	370.4	0.0	7.4	115.2	129.8	28.6	0.0	651.4
1st following year	43.6	0.0	0.0	58.5	40.0	2.6	0.0	144.7
2nd following year	19.0	0.0	0.0	8.7	16.9	2.1	0.0	46.7
3rd following year	307.9	0.0	0.0	45.2	60.7	14.4	0.0	428.1
4th following year	0.0	0.0	7.4	2.8	12.2	8.3	0.0	30.7
5th following year	0.0	0.0	0.0	0.0	0.0	1.2	0.0	1.2

Due to the fact that the subsidiaries recorded a series of taxable losses in the recent past, the criteria for recognising deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax assets is only allowed if there is convincing substantive evidence that sufficient taxable profits will be available in the future. Therefore, in 2017 a recognition of deferred tax assets on taxable losses was performed for the first time. In 2018, deferred tax assets on existing tax loss carryforwards in the amount of EUR 13.6 million (2017: EUR 13.0 million) and EUR 0.3 million (2017: EUR 8.8 million) on temporary differences as well as a utilisation of tax loss carried forward of EUR 7.6 million was recognised in the Group. The recognition is based on the successful turnaround process initiated by the new ownership, which led the Group back to the market by implementing a new business strategy, raising the efficiency of operations and the quality service level.

Notes to the consolidated statement of financial position

(37) Cash reserves

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash	105.2	0.0	105.2
Cash balances at central banks	790.9	-3.7	787.2
Other demand deposits	110.8	-0.3	110.5
Total	**1,006.9**	**-4.0**	**1,002.9**

EUR m

31.12.2017	Gross carrying amount	Portfolio risk provisions	Carrying amount (net)
Cash	98.5	0.0	98.5
Cash balances at central banks	964.5	0.0	964.5
Other demand deposits	222.8	0.0	222.8
Total	**1,285.9**	**0.0**	**1,285.9**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 316.5 million (2017: EUR 300.4 million).

37.1. Cash reserves at central banks and other demand deposits - development of gross carrying amount

EUR m

	Stage 1
Gross carrying amount at 01.01.2018	**1,187.3**
Changes in the gross carrying amount	-292.6
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	6.9
Gross carrying amount at 31.12.2018	**901.7**

37.2. Cash reserves at central banks and other demand deposits - development of ECL allowance

EUR m

	Stage 1
ECL allowance at 01.01.2018	**-7.3**
Changes in the loss allowance	3.3
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.12.2018	**-4.0**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (12-month ECL). The overall reduction of the gross carrying amount during 2018 resulted also in the reduction of stage 1 loss allowances.

(38) Financial assets held for trading

EUR m

	31.12.2018	31.12.2017
Derivatives	**5.0**	**14.5**
Debt securities	**19.3**	**5.4**
Governments	19.3	5.4
Total	**24.3**	**19.8**

(39) Loans and receivables

The Addiko Group measures all loans and receivables at amortised costs.

39.1. Loans and advances to credit institutions

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	5.6	0.0	5.6
Credit institutions	5.6	0.0	5.6
Total	**5.6**	**0.0**	**5.6**

Loans and advances to credit institutions – development of gross carrying amount

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**65.5**	**0.0**	**0.0**	**0.0**	**65.5**
Changes in the gross carrying amount	-60.3	0.0	0.0	0.0	-60.3
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.4	0.0	0.0	0.0	0.4
Gross carrying amount at 31.12.2018	**5.6**	**0.0**	**0.0**	**0.0**	**5.6**

Loans and advances to credit institutions – development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-0.4**	**0.0**	**0.0**	**0.0**	**-0.4**
Changes in the loss allowance	0.2	0.0	0.0	0.0	0.2
Transfer between stages	0.3	-0.3	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.3	0.0	0.0	0.2
ECL allowance as at 31.12.2018	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	65.5	0.0	-0.2	65.3
Total	**65.5**	**0.0**	**-0.2**	**65.3**

EUR m

	As at 01.01.2017	Foreign-exchange-differences	Allocations	Releases	Utilisation	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2017
Portfolio provisions	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2
Total	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**

39.2. Loans and advances to customers

EUR m

31.12.2018	Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Carrying amount (net)
Households	2,311.0	-19.3	-40.3	-171.5	-14.4	2,065.5
Non-financial corporations	1,688.9	-13.1	-7.1	-110.1	0.0	1,558.5
Governments	127.8	-0.9	0.0	-0.9	0.0	126.0
Other financial corporations	38.0	-0.4	0.0	-0.4	0.0	37.2
Total	**4,165.7**	**-33.8**	**-47.4**	**-282.8**	**-14.4**	**3,787.3**

Loans and advances to customers - development of gross carrying amount and expected credit loss

39.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,898.3**	**130.0**	**307.1**	**26.1**	**2,361.5**
Changes in the gross carrying amount	90.3	-31.1	5.5	-3.3	61.4
Transfer between stages	-197.8	190.4	7.4	0.0	0.0
Write-offs	-0.7	-0.3	-110.1	-1.1	-112.2
Foreign exchange and other movements	-9.6	7.7	2.4	-0.2	0.3
Gross carrying amount at 31.12.2018	**1,780.5**	**296.6**	**212.3**	**21.6**	**2,311.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-22.8**	**-25.9**	**-246.8**	**-19.2**	**-314.7**
Changes in the loss allowance	3.8	-19.3	6.5	4.3	-4.7
Transfer between stages	-10.1	14.7	-4.6	0.0	0.0
Write-offs	0.1	0.1	88.7	1.1	90.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	1.2	-2.5	0.0	0.0	-1.3
Foreign exchange and other movements	8.4	-7.3	-15.2	-0.5	-14.7
ECL allowance as at 31.12.2018	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**

The overall gross carrying amount of loans and advances to households remained on the same level in 2018, while the transfer from stage 1 (12-month ECL) to stage 2 (lifetime ECL not credit impaired) was the biggest driver of increase in loss allowance measured on Lifetime ECL. Additional slight downward impact on ECL for this segment was a result of recalibration of PD models based on current data time series done at the end of 2018. Reduced stage 3 (lifetime ECL impaired) loss allowances are mainly driven by write offs of household loans as a result of debt sale and debt settlement activities. POCI relate to non performing exposure in CHF, which were subject to conversion law in Croatia and decreased during the financial year due to amortization and settlement.

39.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,297.3**	**62.4**	**243.6**	**0.0**	**1,603.3**
Changes in the gross carrying amount	211.9	-29.8	-28.9	0.0	153.3
Transfer between stages	-32.6	30.7	1.9	0.0	0.0
Write-offs	0.0	0.0	-35.1	0.0	-35.2
Foreign exchange and other movements	-2.1	-0.7	-29.7	0.0	-32.5
Gross carrying amount at 31.12.2018	**1,474.4**	**62.6**	**151.8**	**0.0**	**1,688.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-13.1**	**-6.7**	**-149.9**	**0.0**	**-169.7**
Changes in the loss allowance	-1.3	9.4	-7.5	0.0	0.5
Transfer between stages	0.4	-10.0	9.6	0.0	0.0
Write-offs	0.0	0.0	33.7	0.0	33.7
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.6	0.0	0.0	0.0	0.7
Foreign exchange and other movements	0.3	0.2	4.0	0.0	4.5
ECL allowance as at 31.12.2018	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**

The overall gross carrying amount of loans and advances to non-financial corporations remained on the same level in 2018 as a result of increase of the gross carrying amount measured on 12-month basis and decrease of stage 3 gross carrying amount (lifetime ECL credit impaired). This decrease was mainly driven by write-offs within stage 3 (lifetime ECL credit impaired). Based on the write-offs also the loss allowances within stage 3 decreased, while the loss allowances within stage 1 (12-month ECL) and stage 2 (lifetime ECL not credit impaired) remain on the same level in 2018. Update of macro economic models and forecasts performed had only slight impact on the ECL values.

39.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**132.6**	**3.2**	**2.7**	**0.0**	**138.5**
Changes in the gross carrying amount	-10.6	-0.1	-0.2	0.0	-10.9
Transfer between stages	2.8	-2.8	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.2	0.0	0.0	0.0	0.2
Gross carrying amount at 31.12.2018	**125.0**	**0.3**	**2.5**	**0.0**	**127.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-1.7**	**-0.1**	**-1.0**	**0.0**	**-2.7**
Changes in the loss allowance	0.6	0.0	0.1	0.0	0.7
Transfer between stages	0.1	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.1	0.0	0.0	0.0	0.1
Foreign exchange and other movements	0.0	0.1	0.0	0.0	0.1
ECL allowance as at 31.12.2018	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**

The overall gross carrying amount of loans and advances to general governments slightly decreased in 2018 especially for the stage 1 portfolio (12-month ECL). Loss allowances also decreased in 2018 mainly driven by decrease of exposure within stage 1 (12-month ECL).

39.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**31.9**	**7.7**	**8.3**	**0.0**	**47.9**
Changes in the gross carrying amount	4.2	-7.5	-16.0	0.0	-19.3
Transfer between stages	-0.1	-0.1	0.2	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	1.7	-0.1	7.8	0.0	9.4
Gross carrying amount at 31.12.2018	**37.6**	**0.0**	**0.4**	**0.0**	**38.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-0.5**	**-0.5**	**-5.6**	**0.0**	**-6.6**
Changes in the loss allowance	0.1	0.5	0.0	0.0	0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	-0.1	0.0	0.0	0.0	-0.1
Foreign exchange and other movements	0.0	0.0	5.1	0.0	5.2
ECL allowance as at 31.12.2018	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**

The overall gross carrying amount of loans and advances to other financial corporations decreased in 2018 driven by a reduction of the gross carrying amount within stage 2 and stage 3 (where ECL is measured on lifetime basis), while the gross carrying amount measured on 12-month basis shows an increase. Based on that also the loss allowances decreased within stage 2 and stage 3 (ECL measured on lifetime basis), while the loss allowances within stage 1 (12-month ECL) remain on the same level in 2018.

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**
General governments	138.5	-1.0	-0.6	136.9
Other financial corporations	46.2	-3.9	-0.7	41.6
Non-financial corporations	1,604.2	-142.0	-14.4	1,447.8
Households	2,321.5	-234.6	-21.4	2,065.5
Total	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**

EUR m

	As at 01.01.2017	Foreign-exchange-differences	Allocations	Releases	Utilisation	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2017
Specific provisions	-503.4	6.7	-138.9	127.4	69.8	0.0	9.2	47.6	-381.5
Portfolio provisions	-31.9	-0.3	-22.0	10.7	8.6	0.0	0.3	-2.5	-37.2
Total	**-535.3**	**6.4**	**-160.9**	**138.1**	**78.4**	**0.0**	**9.5**	**45.1**	**-418.7**

(40) Investment securities

EUR m

	31.12.2018	31.12.2017
Fair value through other comprehensive income (FVTOCI)	**1,168.0**	**-**
Mandatorily at fair value through profit or loss (FVTPL)	**16.7**	**-**
AFS financial assets	-	1,234.3
Held-to-maturity investments	-	42.5
Total	**1,184.6**	**1,276.8**

Investment securities - development of gross carrying amount (Debt Securities)

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,247.7**	**0.0**	**0.0**	**0.0**	**1,247.7**
Changes in the gross carrying amount	-98.5	0.0	0.0	0.0	-98.5
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	3.4	0.0	0.0	0.0	3.4
Gross carrying amount at 31.12.2018	**1,152.6**	**0.0**	**0.0**	**0.0**	**1,152.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-2.2**	**0.0**	**0.0**	**0.0**	**-2.2**
Changes in the loss allowance	0.7	0.0	0.0	0.0	0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	-0.2	0.0	0.0	0.0	-0.2
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**

40.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.12.2018
Debt securities	**1,150.9**
Governments	799.7
Credit institutions	264.0
Other financial corporations	27.1
Non-financial corporations	60.1
Equity instruments	**17.1**
Governments	13.1
Credit institutions	0.0
Other financial corporations	3.6
Non-financial corporations	0.3
Total	**1,168.0**

The following table shows equity investment securities designated to be measured at FVTOCI and their fair values:

EUR m

	31.12.2018
Slovenian Bank Resolution Fund	13.1
VISA Inc	3.3
Other equity instruments	0.6
Total	**17.1**

40.2. Mandatorily at fair value through profit or loss (FVTPL)

EUR m

	31.12.2018
Debt securities	**16.4**
Other financial corporations	16.4
Equity instruments	**0.3**
Non-financial corporations	0.3
Total	**16.7**

40.3. Available-for-sale financial assets

EUR m

	31.12.2017
Equity instruments	**22.3**
Debt securities	**1,212.0**
Governments	831.9
Credit institutions	312.2
Other financial corporations	25.7
Non-financial corporations	42.2
Total	**1,234.3**

40.4. Held-to-maturity investments

EUR m

	31.12.2017
Debt securities	**42.5**
Governments	38.6
Non-financial corporations	3.9
Total	**42.5**

(41) Tangible assets

EUR m

	31.12.2018	31.12.2017
Land, buildings and plants	55.7	55.3
Investment properties	2.0	2.0
Total	**57.7**	**57.3**

(42) Intangible assets

EUR m

	31.12.2018	31.12.2017
Goodwill	0.0	0.0
Purchased software	29.5	21.3
Other intangible assets	0.7	0.5
Total	**30.3**	**21.8**

(43) Development of tangible and intangible assets

43.1. Development of cost and carrying amounts

EUR m

31.12.2018	Land and buildings	Equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2018	**96.9**	**90.2**	**4.3**	**103.5**	**294.9**
Foreign exchange differences	0.2	0.2	0.0	0.2	0.6
Additions	2.4	4.2	0.0	17.2	23.9
Disposals	-0.9	-6.9	-0.1	-0.7	-8.5
Other changes	0.0	-0.6	0.0	0.6	0.0
Acquisition cost 31.12.2018	**98.6**	**87.2**	**4.3**	**120.7**	**310.8**
Cumulative depreciation 31.12.2018	-54.8	-75.3	-2.2	-90.4	-222.8
Carrying amount 31.12.2018	**43.9**	**11.9**	**2.1**	**30.3**	**88.0**

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2017	**109.3**	**94.2**	**5.3**	**93.4**	**302.3**
Foreign exchange differences	1.0	1.5	0.0	1.2	3.7
Additions	2.9	3.8	0.1	11.8	18.7
Disposals	-2.2	-9.2	-0.3	-2.9	-14.6
Other changes	-14.2	-0.1	-0.9	0.0	-15.3
Acquisition cost 31.12.2017	**96.9**	**90.2**	**4.3**	**103.5**	**294.9**
Cumulative depreciation 31.12.2017	-52.6	-79.2	-2.3	-81.6	-215.7
Carrying amount 31.12.2017	**44.3**	**11.0**	**2.0**	**21.8**	**79.1**

43.2. Development of depreciation and amortisation

EUR m

31.12.2018	Land and buildings	Equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2018	**-52.5**	**-79.2**	**-2.3**	**-81.6**	**-215.7**
Foreign exchange differences	-0.1	-0.2	0.0	-0.1	-0.4
Disposals	0.2	6.8	0.0	0.7	7.7
Scheduled depreciation	-2.0	-3.1	-0.1	-5.5	-10.7
Impairment	-0.4	-0.1	0.0	-4.3	-4.8
Other changes	0.0	0.1	0.0	-0.1	0.0
Write-ups	0.0	0.4	0.1	0.6	1.2
Cumulative depreciation 31.12.2018	**-54.8**	**-75.3**	**-2.2**	**-90.4**	**-222.8**

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2017	**-54.2**	**-81.4**	**-2.8**	**-76.1**	**-214.6**
Foreign exchange differences	-0.5	-1.3	0.0	-0.9	-2.7
Disposals	1.5	8.0	0.1	1.2	10.8
Scheduled depreciation	-2.2	-3.8	-0.1	-5.7	-11.8
Impairment	-5.3	-0.7	0.0	-0.1	-6.2
Other changes	8.0	0.1	0.4	0.0	8.6
Write-ups	0.1	0.0	0.0	0.0	0.1
Cumulative depreciation 31.12.2017	**-52.5**	**-79.2**	**-2.3**	**-81.6**	**-215.7**

(44) Other assets

EUR m

	31.12.2018	31.12.2017
Prepayments and accrued income	13.8	8.4
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	5.4	4.8
Other remaining assets	6.3	11.6
Total	**25.5**	**24.8**

(45) Non-current assets and disposal groups classified as held for sale

In the current reporting period, this position mainly includes real estate assets in Croatia and Bosnia & Herzegovina, which are part of a Group project to dispose non-core assets and are already actively marketed. It can be seen that the disposal of non-performing loans and receivables in Croatia and Serbia was successfully completed at the end of 2018.

EUR m

	31.12.2018	31.12.2017
Loans and receivables	0.1	13.0
Property plant and equipment	5.2	5.2
Investment properties	0.0	0.5
Other assets	0.5	0.9
Total	**5.7**	**19.5**

(46) Financial liabilities held for trading

EUR m

	31.12.2018	31.12.2017
Derivatives	2.1	1.8
Total	**2.1**	**1.8**

(47) Financial liabilities measured at amortised cost

EUR m

	31.12.2018	31.12.2017
Deposits	**5,161.1**	**5,275.4**
Deposits of credit institutions	324.4	341.6
Deposits of customers	4,836.7	4,933.8
Issued bonds, subordinated and supplementary capital	**1.1**	**198.5**
Debt securities issued	1.1	1.7
Subordinated and supplementary capital	0.0	196.9
Other financial liabilities	**40.3**	**47.3**
Total	**5,202.5**	**5,521.2**

The reduction of the subordinated and supplementary capital refers to the fact that the shareholder agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190.0 million, with the fair value of the instruments, net of direct attributable costs, being recognised as a direct capital contribution and thus increasing the capital reserves by EUR 128.8 million. The difference between the carrying amount and the fair value of the instruments is recognised in the income statement generating a positive income of EUR 61.0 million. At YE17 the subordinated and supplementary capital includes EUR 6.9 million in accrued interests from the Tier 2 capital. Other financial liabilities mainly include transaction in relation to credit cards as well as liabilities to suppliers.

47.1. Deposits of credit institutions

EUR m

	31.12.2018	31.12.2017
Current accounts/overnight deposits	51.4	32.3
Deposits with agreed terms	255.7	309.3
Repurchase agreements	17.4	0.0
Total	**324.4**	**341.6**

47.2. Deposits of customers

EUR m

	31.12.2018	31.12.2017
Current accounts/overnight deposits	**2,430.8**	**2,113.9**
Governments	86.4	38.3
Other financial corporations	112.9	182.0
Non-financial corporations	677.3	663.3
Households	1,554.2	1,230.3
Deposits with agreed terms	**2,350.4**	**2,731.6**
Governments	199.8	120.0
Other financial corporations	169.7	179.3
Non-financial corporations	500.3	609.6
Households	1,480.6	1,822.6
Deposits redeemable at notice	**55.6**	**67.6**
Governments	4.1	7.2
Other financial corporations	18.6	8.8
Non-financial corporations	32.8	18.3
Households	0.0	33.3
Repurchase agreements	**0.0**	20.7
Non-financial corporations	0.0	20.7
Total	**4,836.7**	**4,933.8**

47.3. Debt securities issued

EUR m

	31.12.2018	31.12.2017
Subordinated liabilities	**0.0**	**196.9**
Supplementary capital	0.0	196.9
Debt securities issued	**1.1**	**1.7**
Certificates of deposit	1.1	1.7
Total	**1.1**	**198.5**

(48) Provisions

EUR m

	31.12.2018	31.12.2017
Pending legal disputes and tax litigation	30.1	45.5
Commitments and guarantees granted	11.7	11.3
Provisions for variable payments	13.1	11.2
Pensions and other post employment defined benefit obligations	1.8	1.9
Restructuring measures	1.7	3.4
Other long term employee benefits	0.4	0.4
Other provisions	3.2	9.6
Total	**62.0**	**83.3**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes. More detailed explanations on the legal disputes that are the subject of these provisions are presented in note (79) Risks in the portfolio relating to historical interest rate directives, and in note (80) Legal risks.

The line item "provision for variable payments" include long- and shortterm bonus provision for key management as well as employees.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

Details regarding restructuring measures are presented in note (25.3) Provisions for restructuring. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2019.

In the previous year, other provisions mainly included provisions for onerous contracts in the amount of EUR 3.0 million, which was fully utilised in the current year.

48.1. Provisions – development of loan commitments, financial guarantee and other commitments given

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2018	**779.5**	**19.0**	**21.5**	**0.0**	**819.9**
Changes in the nominal value	159.2	-7.3	-7.7	0.0	144.2
Transfer between stages	-16.0	14.5	1.5	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.5	0.0	0.0	0.0	0.5
Nominal value at 31.12.2018	**923.3**	**26.1**	**15.2**	**0.0**	**964.7**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-2.6**	**-1.4**	**-6.2**	**0.0**	**-10.1**
Changes in the loss allowance	-0.9	-0.6	-0.3	0.0	-1.8
Transfer between stages	0.3	0.1	-0.4	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.2	0.1	0.0	0.0	0.3
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**

The overall nominal value of loan commitments, financial guarantee and other commitments increased in 2018 mainly driven by an increase of nominal value measured on 12-month basis, while the increase within stage 2 (lifetime ECL not credit impaired) is offset by the decreases of the nominal value within stage 3 (lifetime ECL credit impaired). The increase of the overall nominal value is reflected in increase of the ECL allowance in 2018.

EUR m

	As at 01.01.2017	Foreign-exchange-differences	Allocations	Releases	Utilisation	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2017
Specific provisions	-8,4	-0,1	-3,1	5,5	0,0	0,0	0,0	0,0	-6,1
Portfolio provisions	-4,2	0,0	-10,1	9,1	0,0	0,0	0,0	0,0	-5,2
Total	**-12,6**	**-0,1**	**-13,2**	**14,5**	**0,0**	**0,0**	**0,0**	**0,0**	**-11,3**

48.2. Provisions - development of other provisions

EUR m

	Carrying amount 01.01.2018	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2018
Pensions and other post employment defined benefit obligations	1.9	0.0	0.2	-0.2	-0.1	0.0	1.8
Other long term employee benefits	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Restructuring measures	3.4	0.0	1.0	-2.5	-0.2	0.0	1.7
Pending legal disputes and tax litigation	45.5	0.0	5.6	-11.2	-11.2	1.3	30.1
Provision for variable payments	11.2	0.0	9.3	-6.9	-0.4	0.0	13.1
Other provisions	9.6	0.0	2.0	-3.5	-3.6	-1.3	3.2
Total	**72.0**	**0.1**	**18.1**	**-24.4**	**-15.5**	**0.0**	**50.3**

EUR m

	Carrying amount 01.01.2017	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2017
Pensions and other post employment defined benefit obligations	2.1	0.0	0.2	-0.2	-0.1	0.0	1.9
Other long term employee benefits	0.4	0.0	0.1	0.0	-0.1	0.0	0.4
Restructuring measures	7.2	0.0	0.9	-4.8	0.0	0.0	3.4
Pending legal disputes and tax litigation	64.0	0.3	6.7	-9.3	-16.2	0.0	45.5
Provision for variable payments	8.6	0.0	9.1	-4.6	-1.9	0.0	11.2
Other provisions	17.3	0.2	1.0	-8.3	-2.1	1.6	9.6
Total	**99.7**	**0.5**	**17.9**	**-27.2**	**-20.4**	**1.6**	**72.0**

48.3. Provisions - development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarised.

EUR m

	2018	2017
Present value of the defined benefit obligations as of 01.01	**1.9**	**2.1**
+ Current service cost	0.2	0.3
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	0.0	-0.1
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	-0.1
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes from experience assumptions	0.0	0.0
- Payments from the plan	-0.2	-0.4
+ Past service cost	0.0	0.0
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	-0.1	0.0
Present value of the defined benefit obligations as of 31.12	**1.8**	**1.9**

Due to the low amount of personnel provisions for the Addiko Group as at 31 December 2018, further disclosures according to IAS 19 are omitted.

(49) Other liabilities

EUR m

	31.12.2018	31.12.2017
Deferred income	0.7	1.4
Accruals and other liabilities	24.3	32.4
Total	**25.1**	**33.8**

Accruals and other liabilities include liabilities for salaries and salary compensations not yet paid as well as tax liabilities arising from VAT charges. Furthermore, liabilities for software applications capitalized but not yet paid are included.

(50) Equity

EUR m

	31.12.2018	31.12.2017
Equity holders of parent	**859.5**	**844.0**
Subscribed capital	195.0	5.0
Capital reserves	476.5	537.8
Fair value reserve	5.4	-
AFS reserves	-	12.5
Foreign currency reserve	-6.1	-7.9
Cumulative results and other reserves	188.7	296.7
Non-controlling interest	**0.0**	**0.0**
Total	**859.5**	**844.0**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at 31 December 2018. The total amount of EUR 195.0 million (2017: EUR 5.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 1,000 (2017: 1,000) no-par registered shares. The proportionate amount of the share capital per share amounts EUR 195.0 thousand (2017: EUR 5.0 thousand). In 2018, the Company's share capital was increased in amount of EUR 190.0 million, which was performed as result of a conversion of parts of the existing capital reserve.

The capital reserves include contributions from shareholders that do not represent subscribed capital. In 2017 a capital contribution by the parent company in the amount of EUR 219.7 million resulted from a settlement of warranty claims of AI Lake (Luxembourg) S.à r.l. against the former parent company, whereby in the same year EUR 18.1 million were rebooked from the capital reserve to the position "Cumulative results and other reserves". In 2018 AI Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190 million, with the fair value of the instruments, net of direct attributable costs, EUR 128.7 million being recognised as well as a direct capital contribution.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income (in the comparative period the available for sale reserve includes the measurement results of financial assets classified as available for sale).

Cumulative results and other reserves represent accumulated net profit brought forward as well as income and expenses recognised in other comprehensive income. This position also includes the liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 50.0 million in the financial year 2018. In the next General Assembly, a proposal will be made to distribute an amount of EUR 50.0 million by the Company. The dividend per share will be EUR 50.0 thousand (2017: EUR 170.0 thousand). The dividends have not been recognised as liability and there are not tax consequences.

(51) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Addiko Group due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Addiko Group contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers, and debt securities issued. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity investments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries and for the acquisition of subsidiaries.

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Supplementary information required by IFRS

(52) Analysis of remaining maturities

EUR m

Analysis of remaining maturity as at 31.12.2018	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash reserves	686.3	301.1	8.5	6.7	0.1	1,002.9
Financial assets held for trading	0.0	0.8	3.6	19.2	0.7	24.3
Financial assets mandatorily at fair value through profit or loss	0.0	16.4	0.0	0.0	0.3	16.7
Financial assets at fair value through other comprehensive income	27.3	33.5	46.6	851.8	208.8	1,168.0
Financial assets at amortised cost	167.0	156.7	511.6	1,243.4	1,714.2	3,792.9
Total	**880.6**	**508.4**	**570.4**	**2,121.1**	**1,924.2**	**6,004.7**
Financial liabilities held for trading	0.0	0.5	0.0	0.7	0.8	2.1
Financial liabilities measured at amortised cost	2,258.7	769.2	1,006.9	724.8	442.9	5,202.5
Total	**2,258.8**	**769.7**	**1,006.9**	**725.5**	**443.7**	**5,204.6**

EUR m

Analysis of remaining maturity as at 31.12.2017	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash reserves	985.5	290.9	5.0	3.2	1.3	1,285.9
Financial assets held for trading	0.1	1.7	6.7	9.4	2.0	19.8
Available-for-sale financial assets	103.2	42.9	118.8	798.7	170.7	1,234.3
Loans and receivables	347.0	83.6	520.0	1,191.1	1,615.4	3,757.2
Held-to-maturity investments	0.0	0.0	0.0	30.9	11.6	42.5
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	0.1
Non-current assets and disposal groups classified as held for sale	1.0	15.0	3.5	0.0	0.0	19.5
Total	**1,436.8**	**434.2**	**654.0**	**2,033.3**	**1,801.1**	**6,359.3**
Financial liabilities held for trading	0.0	1.4	0.1	0.1	0.1	1.8
Financial liabilities measured at amortised cost	1,776.6	898.2	1,300.6	785.5	760.3	5,521.2
Total	**1,776.6**	**899.7**	**1,300.7**	**785.6**	**760.4**	**5,523.0**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(53) Maturities pursuant to IAS 1

EUR m

31.12.2018	up to 1 year	over 1 year
Cash reserves	996.0	6.9
Financial assets held for trading	4.4	19.9
Financial assets mandatorily at fair value through profit or loss	16.4	0.3
Financial assets at fair value through other comprehensive income	107.4	1,060.6
Financial assets at amortised cost	835.3	2,957.6
Tangible assets	7.5	50.2
Intangible assets	2.4	27.9
Tax assets	4.0	24.3
Current tax assets	0.8	0.9
Deferred tax assets	3.2	23.4
Other assets	19.9	5.6
Non-current assets and disposal groups classified as held for sale	5.7	0.0
Total	**1,998.9**	**4,153.2**
Financial liabilities held for trading	0.6	1.5
Financial liabilities measured at amortised cost	4,034.8	1,167.7
Provisions	34.8	27.1
Tax liabilities	0.9	0.1
Current tax liabilities	0.9	0.0
Deferred tax liabilities	0.0	0.1
Other liabilities	23.5	1.5
Total	**4,094.6**	**1,198.0**

EUR m

31.12.2017	up to 1 year	over 1 year
Cash reserves	1,281.4	4.5
Financial assets held for trading	8.5	11.3
AFS financial assets	264.9	969.4
Loans and receivables	950.7	2,806.5
Held-to-maturity investments	0.0	42.5
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	57.3
Intangible assets	0.3	21.5
Tax assets	4.4	17.9
Current tax assets	1.6	0.0
Deferred tax assets	2.7	17.9
Other assets	17.1	7.8
Non-current assets and disposal groups classified as held for sale	19.5	0.0
Total	**2,546.7**	**3,938.8**
Financial liabilities held for trading	1.5	0.3
Financial liabilities measured at amortised cost	3,975.5	1,545.8
Provisions	37.3	46.1
Tax liabilities	1.2	0.2
Current tax liabilities	0.9	0.0
Deferred tax liabilities	0.3	0.2
Other liabilities	33.6	0.2
Total	**4,049.0**	**1,592.4**

(54) Finance leases from the view of Addiko Group as lessor

Receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2018	31.12.2017
Minimum lease payments (agreed instalments + guaranteed residual value)	0.7	2.4
Unguaranteed residual value (+)	0.0	0.0
Gross investment value (=)	0.7	2.4
up to 1 year	0.4	1.0
from 1 to 5 years	0.3	1.5
over 5 years	0.0	0.0
Unrealized financial income (interest) (-)	0.0	-0.1
Net investment value (=)	0.7	2.3
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	0.7	2.3
up to 1 year	0.4	0.9
from 1 to 5 years	0.3	1.4
over 5 years	0.0	0.0

Assets leased under finance leases (leased assets) break down as follows:

	31.12.2018	31.12.2017
Other movables	0.7	2.3
Total	**0.7**	**2.3**

(55) Operating leases

55.1. Operating leases from the view of Addiko Group as lessor

The future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2018	31.12.2017
up to 1 year	0.2	0.2
from 1 year to 5 years	0.0	0.0
more than 5 years	0.0	0.0
Total	**0.2**	**0.2**

The breakdown of minimum lease payments from non-cancellable operating leases, by leased assets, is as follows:

EUR m

	31.12.2018	31.12.2017
Investment properties	0.2	0.2
Total	**0.2**	**0.2**

55.2. Operating leases from the view of Addiko Group as lessee

The Group leases the majority of its offices and branches under various rental agreements. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. For further details regarding the provision for onerous contracts please refer to note (48). The lease agreements do not include any clauses that impose any restrictions on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2018	31.12.2017
up to 1 year	8.2	8.0
from 1 year to 5 years	21.0	22.2
more than 5 years	6.4	9.1
Total	**35.5**	**39.3**

(56) Assets/liabilities denominated in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

EUR m

	31.12.2018	31.12.2017*
Assets	2,198.4	2,328.1
Liabilities	1,510.2	1,589.1

*In 2018, the amount of liabilities denominated in foreign currencies included also equity in foreign currency, which was excluded in the 2018 consolidated financial statement as well as in the comparative figures.

The majority of the difference between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(57) Return on total assets

As at 31 December 2018, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 1.7% (2017: 0.3%). The ratio is calculated by taking the result after tax for the year divided by total assets at the reporting date.

(58) Transfer of financial assets - repurchase agreements

At year-end 2018, the following repurchase commitment from repurchase agreements included in the statement of financial position existed:

EUR m

31.12.2018	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilites	Of which: repurchase agreements
Financial assets at fair value through other comprehensive income	23.7	23.7	17.4	17.4
Debt securities	23.7	23.7	17.4	17.4
Total	**23.7**	**23.7**	**17.4**	**17.4**

EUR m

31.12.2017*	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilites	Of which: repurchase agreements
AFS financial assets	20.9	20.9	20.7	20.7
Debt securities	20.9	20.9	20.7	20.7
Total	**20.9**	**20.9**	**20.7**	**20.7**

*Comparative figures for transfer of financial assets arising from direct repo transactions were added.

(59) Contingent liabilities and other liabilities not included in the statement of financial position

The following gross commitments not included in the statement of financial position existed at the reporting date:

EUR m

	31.12.2018	31.12.2017
Loan commitments, granted	600.6	512.3
Financial guarantees, given	192.5	135.6
Other commitments, given	171.5	171.9
Total	**964.7**	**819.9**

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

In July 2018 the second instance verdict of the High Commercial Court in Croatia was published which has in principle a positive content for the consumers, declaring the F/X clause in CHF loans as void, whereas this verdict clearly explains that an evaluation on a case by case basis has to be made in separate individual consumer proceedings. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

(60) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorised under the three levels of the fair value hierarchy:

Quoted prices in active markets (level I)

The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.

Value determined using non-observable parameters (level III)
This category includes financial instruments for which there are no observable market rates or prices.
The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not observable directly on the market.

Valuation models are regularly reviewed, validated and calibrated. All valuations are performed independently of the trading departments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under level II or level III depending on the input factors used.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques where expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

Hedge accounting
Within the scope of hedge accounting, the Addiko Group uses only fair value hedges to hedge the market values of financial instruments. Receivables hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the receivable. The hedge serves above all to minimize the market value risk caused by interest rate changes.

As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.
For this purpose, the Addiko Group established the expected series of payments for each financial instrument and discounted it at a rate based on market data.

60.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value to their level in the fair value hierarchy.

EUR m

31.12.2018	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	13.4	10.9	0.0	24.3
Derivatives	0.0	5.0	0.0	5.0
Debt securities	13.4	6.0	0.0	19.3
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Debt securities	16.4	0.0	0.0	16.4
Equity instruments	0.0	0.0	0.3	0.3
Investment securities at FVTOCI	946.0	221.5	0.5	1,168.0
Equity instruments	13.2	3.3	0.5	17.1
Debt securities	932.7	218.1	0.0	1,150.9
Total	**975.7**	**232.4**	**0.9**	**1,208.9**
Liabilities				
Financial liabilities held for trading	0.0	2.1	0.0	2.1
Derivatives	0.0	2.1	0.0	2.1
Total	**0.1**	**2.1**	**0.0**	**2.1**

There were no transfers between level I and level II in 2018.

EUR m

31.12.2017	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	4.5	15.3	0.0	19.8
Derivatives	0.0	14.5	0.0	14.5
Debt securities	4.5	0.9	0.0	5.4
AFS financial assets	898.6	332.1	3.6	1,234.3
Equity instruments	18.3	0.4	3.6	22.3
Debt securities	880.3	331.7	0.0	1,212.0
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**903.1**	**347.6**	**3.6**	**1,254.3**
Liabilities				
Financial liabilities held for trading	0.0	1.8	0.0	1.8
Derivatives	0.0	1.8	0.0	1.8
Total	**0.0**	**1.8**	**0.0**	**1.8**

There were no transfers between level I and level II in 2017.

The level III position "available-for-sale financial assets" includes at year end 2017 EUR 3.6 million in equity instruments, which in accordance with IAS 39.46.b were measured at cost. Due to the move to IFRS 9, as of 1 January 2018 AFS financial assets in the level III category we reclassified as follows: EUR 3.3 million to financial assets at FVTOCI and EUR 0.3 million to financial assets mandatorily at FVTPL. Equity instruments in the new categories are measured at fair value, as IFRS 9 removed an exemption allowing the measurement of certain non-traded equity instruments at costs. For these instruments, no sensitivity disclosures are presented. Non-trading financial assets at FVTPL classified in level III of the fair value hierarchy consist of equity instruments acquired principally for the purpose of selling or repurchasing them in the near future. Financial assets mandatorily at FVTOCI classified in level III of the fair value hierarchy consist of equity instruments where there is no trading intent and the market is very illiquid.

The reconciliation of the assets reported under level III as at 31 December 2018 was as follows:

EUR m

31.12.2018	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Equity instruments	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Total	**3.5**	**0.0**	**0.7**	**0.0**	**0.0**	**0.0**	**-3.3**	**-0.1**	**0.9**

Securities in the amount of EUR 3.3 million were reclassified from level III to level II due to the reassessment of observability of market inputs for the pricing model.

The reconciliation of the assets and liabilities reported under level III as at 31 December 2017 was as follows:

EUR m

31.12.2017	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
AFS financial assets	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.6	3.5
Equity instruments	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.6	3.5
Total	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**3.5**
Liabilities									
FVTPL financial liabilities	25.0	0.0	0.0	0.0	0.0	0.0	0.0	-25.0	0.0
Other financial liabilities	25.0	0.0	0.0	0.0	0.0	0.0	0.0	-25.0	0.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-25.0**	**0.0**

The reduction of "Financial liabilities designated at fair value through profit or loss" (FVTPL) is due to the repayment of financial liabilities as part of the settlement process with the previous owner during the first quarter 2017 and is therefore not disclosed as "disposal".

Measurement methods used to determine the fair value of level II and level III items
The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

The following measurement techniques are applied to items that are measured internally based on models:

Present value of the future cash flows (discounted cash flow method)
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.

Option measurement models
The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items
Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. This applies to the risk premium of the Addiko Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments
Credit value adjustment (CVA) and debt value adjustment (DVA)
Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting
The Addiko Group measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

60.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognised financial instruments and assets not carried at fair value are compared to the respective fair values below:

EUR m

31.12.2018	Carrying amount	Fair Value*	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	1,002.9	1,002.9	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Loans and receivables	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Total	**4,795.7**	**4,936.4**	**140.6**	**0.0**	**0.0**	**3,933.5**
Liabilities						
Financial liabilities measured at amortised cost	5,202.5	5,238.2	-35.7	0.0	0.0	5,238.2
Deposits	5,161.1	5,197.0	-35.9	0.0	0.0	5,197.0
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	40.3	40.2	0.2	0.0	0.0	40.2
Total	**5,202.5**	**5,238.2**	**-35.7**	**0.0**	**0.0**	**5,238.2**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

EUR m

31.12.2017	Carrying amount	Fair Value*	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	1,285.9	1,285.9	0.0	0.0	0.0	0.0
Loans and receivables	3,757.2	3,932.2	175.0	0.0	0.0	3,932.2
Held-to-maturity investments*	42.5	51.8	9.3	0.0	51.8	0.0
Non-current assets and disposal groups classified as held for sale	19.5	19.5	0.0	0.0	0.0	19.5
Total	**5,107.0**	**5,291.4**	**184.5**	**0.0**	**51.8**	**3,953.8**
Liabilities						
Financial liabilities measured at amortised cost	5,521.2	5,477.1	44.1	0.0	0.0	5,477.1
Deposits	5,275.4	5,292.3	-16.9	0.0	0.0	5,292.3
Issued bonds, subordinated and supplementary capital	198.5	137.6	61.0	0.0	0.0	137.6
Other financial liabilities	47.3	47.3	0.0	0.0	0.0	47.3
Total	**5,521.2**	**5,477.1**	**44.1**	**0.0**	**0.0**	**5,477.1**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in CSEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists. The fair value of held-to-maturity financial assets was determined based on external price sources.

The management assessed that cash positions are approximate to their carrying amounts largely due to the short term maturities of these instruments.

60.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At YE18 the carrying amount of investment properties amounts to EUR 2.0 million (2017: EUR 2.0 million), whereas the fair value amounts to EUR 2.1 million (2017: EUR 2.1 million). All investment properties were classified in level III (2017: level III).

(61) Offsetting financial assets and financial liabilities

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognised financial assets and financial liabilities. Also reported are the amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the statement of financial position.

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position where Addiko has currently an enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The impact of offsetting is presented in the line "Amounts that are set off for financial instruments I". The impact of potential offsetting if all set-off rights would be exercised is presented in the line "Net amounts of financial instruments I and II (c-d)".

EUR m

31.12.2018	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II)*	**3.4**	**9.7**	**13.2**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**3.4**	**9.7**	**13.2**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	1.7	0.0	1.7
Amounts related to financial collateral (including cash collateral)	0.5	0.0	0.5
Amounts related to non-cash financial collateral received (excluding cash collateral)	0.0	9.7	9.7
e) Net amounts of financial instruments I and II (c-d)	**1.2**	**0.0**	**1.2**

*Financial instruments I: Financial assets that are already offset in the statement of financial position.
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

31.12.2018	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II)*	**1.7**	**17.4**	**19.1**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**1.7**	**17.4**	**19.1**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	1.7	0.0	1.7
Amounts related to financial collateral (including cash collateral)	0.0	0.0	0.0
Amounts related to non-cash financial collateral pledged (excluding cash collateral)	0.0	17.4	17.4
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

*Financial instruments I: financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

31.12.2017*	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II)**	**12.8**	**6.4**	**19.2**
b) Amounts that are set off for financial instruments I	1.4	0.0	1.4
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**11.4**	**6.4**	**17.7**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	6.4	6.4
Amounts related to financial collateral (including cash collateral)	6.8	0.0	6.8
Amounts related to non-cash financial collateral received (excluding cash collateral)	0.0	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**4.6**	**0.0**	**4.6**

*Comparative figures for offsetting arising from reverse repo transactions were added.
**Financial instruments I: Financial assets that are already offset in the statement of financial position.
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

31.12.2017*	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II)**	**1.4**	**20.7**	**22.1**
b) Amounts that are set off for financial instruments I	1.4	0.0	1.4
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.0**	**20.7**	**20.7**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	20.7	20.7
Amounts related to financial collateral (including cash collateral)	0.0	0.0	0.0
Amounts related to non-cash financial collateral pledged (excluding cash collateral)	0.0	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

*Comparative figures for offsetting arising from direct repo transactions were added.
**Financial instruments I: financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position.

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other.

Repurchase agreements qualify as potential offsetting agreements.
Since such offsetting cannot be performed in the ordinary course of business but only in case following an event of default, insolvency or bancruptcy or following other predetermined events, these are not offset in the statement of financial position.

(62) Derivative financial instruments

62.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

EUR m

	31.12.2018			31.12.2017		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**374.2**	**1.8**	**0.5**	**384.1**	**1.5**	**0.2**
OTC options	46.6	0.1	0.1	50.1	0.2	0.2
OTC other	327.6	1.7	0.4	334.1	1.3	0.1
b) Foreign exchange and gold						
OTC-products	**295.3**	**10.0**	**0.4**	**378.0**	**13.0**	**1.5**
OTC other	295.3	10.0	0.4	378.0	13.0	1.5

62.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2018			31.12.2017		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**0.0**	**0.0**	**0.0**	**9.0**	**0.1**	**0.0**
OTC other	0.0	0.0	0.0	9.0	0.1	0.0
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
FAIR VALUE HEDGES	**0.0**	**0.0**	**0.0**	**9.0**	**0.1**	**0.0**

(63) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company AI Lake (uxembourg) S.à r.l. 96.1% o AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 3.9% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (a globally active private equity investor) and the European Bank for Reconstruction and Development (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Key management positions at the Company or the parent company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the management boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

Business relations with related parties are as follows at the respective reporting date:

EUR m

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.3	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.3	0.0
Financial liabilities	0.0	0.0	0.0	0.9	39.0
Deposits	0.0	0.0	0.0	0.9	39.0
Debt securities issued	0.0	0.0	0.0	0.0	0.0
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.2	0.0	0.0	0.0	0.0

EUR m

31.12.2017*	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	1.2	6.1
Debt securities	0.0	0.0	0.0	0.0	6.1
Loan and advances	0.0	0.0	0.0	1.2	0.0
Financial liabilities	196.9	0.0	0.0	1.7	5.1
Deposits*	0.0	0.0	0.0	1.7	5.1
Other financial liabilities	196.9	0.0	0.0	0.0	0.0
Other liabilities	0.2	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	0.0	0.0	0.0	0.1	0.0
Loan commitments, financial guarantees and other commitments received	0.0	0.0	0.0	0.0	0.0

*The comparative period has been adjusted: deposits against key personnel of the institution or its parent were published in the 2017 consolidated financial statements in the amount of EUR 4.3 million

EUR m

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-3.6	0.0	0.0	0.0	-0.4
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	-0.1
Other administrative expenses	-0.8	0.0	0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-4.4**	**0.0**	**0.0**	**0.0**	**-0.3**

EUR m

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.2
Interest expenses	-19.2	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	-0.2	0.0	0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-19.4**	**0.0**	**0.0**	**0.0**	**0.2**

*The comparative period has been adjusted: interest and similar income was shifted from associates and joint ventures to other related parties; interest expenses against key personnel of the institution or its parent were published in the 2017 consolidated financial statements in the amount of EUR -0.1 million

Remuneration received by key members of management within the Addiko Group are presented as follows:

EUR m

	31.12.2018	31.12.2017
Short term employee benefits	8.7	10.1
Post-employment benefits	0.0	0.0
Other long term benefits	1.4	1.0
Termination benefits	0.7	0.0
Share-based payments	0.0	0.0
Total	**10.9**	**11.1**

The figures presented in the table above are based on the amounts paid or payable in the respective reporting period. The termination benefits reported for the 31 December 2018 do not include EUR 0.6 million contractually agreed compensations, which will be paid out in the following year.

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (88) Relationships with members of the Company's Boards.

(64) Segment Reporting

The Addiko Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting that is regularly reviewed by the chief operating decision makers (CODM) to assess the performance of the segments and make decisions regarding the allocation of resources. The segments of the Addiko Group are based on a combination between Customer types, which are Retail Customers, Small and Medium Enterprises, Corporate Clients and Public Clients and Business types, which are Consumer loans and Mortgage loans. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes and deposit volumes. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Group by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies, any deviation between the reported result and the segment result is described later on. The Addiko Group evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes because management believes that this information is the most relevant in evaluating the results of the respective segments.

Net interest income in Corporate Centre includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 37.9 million. The majority of the IGC in the amount of EUR 23.8million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on finanical instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

In reality a certain percentage of longer term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is redistributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment.

The Addiko Group does not have revenues from transactions with one single external customer amounting to 10% or more of the Addiko Group´s total revenues.

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank's Retail Segment serves just under 1 million customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 198 branches and state of the art digital channels.

For Private Individuals (PI) the focus is on daily banking services and consumer lending. In the Micro customer segment, the priority is offering transactional services.

SME Business: Addiko Bank offers the full product suite to circa 12 thousand SME clients (companies with annual turnover between EUR 0.5 and 40 million) in the SEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million. Addiko Bank services the largest local and international companies by centralised and specialised local teams supported by a strong expert unit from the Holding with investment loans, working capital loans and revolving loans.

Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in SEE countries as ministries of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany. Furthermore, impairment on non-financial assets in the amount of EUR 5.6 million (2017: EUR 6.7 million) are included.

Segments overview

EUR m

31.12.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	159.7	24.5	135.2	38.1	17.8	9.7	1.7	226.9
Net interest income[1]	118.6	24.5	94.1	23.0	11.7	8.6	2.6	164.4
o/w regular interest income[2]	121.4	36.5	84.9	27.6	14.2	6.3		169.5
Net fee and commission income	41.0	0.0	41.0	15.1	6.1	1.1	-0.9	62.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.0	70.0
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-7.8	-7.8
Operating income	**159.7**	**24.5**	**135.2**	**38.1**	**17.8**	**9.7**	**63.9**	**289.0**
Operating expenses	**-86.9**			**-21.9**	**-4.1**	**-2.3**	**-72.9**	**-188.1**
Operating result	**72.8**			**16.2**	**13.7**	**7.3**	**-9.0**	**100.9**
Change in CL	0.0	9.5	-9.5	-7.4	3.6	2.4	4.1	2.8
Operating result before tax	**72.8**			**8.8**	**17.3**	**9.7**	**-4.9**	**103.7**
Business volume								
Net loans and receivables[3]	2,048.2	883.6	1,164.6	931.3	611.6	189.6	12.2	3,792.9
o/w gross performing loans	2,060.5	872.7	1,187.8	928.4	588.4	188.8		3,766.1
Financial liabilities at AC[4]	2,756.9		2,756.9	605.4	426.6	616.0	797.7	5,202.5
RWA[5]	1,445.8	561.5	884.2	883.4	652.3	113.9	819.5	3,914.8
Key ratios								
Net interest margin (NIM)[6]	4.4%	1.8%	6.1%	2.7%	1.4%	1.7%		2.6%
Cost/income ratio[7]	54.4%			57.6%	23.2%	24.1%		82.9%
Cost of risk ratio	0.0%	-0.9%	-0.7%	-0.5%	0.4%	1.1%		0.1%
Loan to deposit ratio[8]	74.3%			153.8%	143.4%	30.8%		72.9%
NPE ratio (CRB based)[9]	10.2%	14.3%	7.3%	4.5%	8.9%	1.5%		7.7%
NPE coverage ratio[10]	80.9%	73.6%	91.1%	63.7%	70.1%	42.0%		75.4%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from orgination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) EUR 797.7 million presented in Corporate Center contains: EUR 360 million Deposits of customers in Holding, EUR 324 million Deposits of credit institutions, EUR 113 million (Other) 5) Includes only credit risk (without application of IFRS 9 transitional rules) 6) Net interest margin on segment level is sum of interest income (without unwinding) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 7) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 8) Loans and receivables divided by financial liabilities at amortised costs 9) Non Performing Exposure/Credit Risk Exposure (on and off balance). NPE are loans defaulted, non-performing exposure (Gross Carrying Amount) 10) It is calculated with impairment losses set in relation to defaulted non-performing exposure

EUR m

31.12.2017	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	141.2	30.0	111.2	38.5	21.0	16.6	-1.8	215.5
Net interest income[1)]	103.2	30.0	73.1	24.2	14.5	15.4	-0.2	157.0
o/w regular interest income[2)]	116.4	44.0	72.4	26.0	14.7	15.1		172.1
Net fee and commission income	38.1	0.0	38.1	14.3	6.5	1.2	-1.6	58.5
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	9.7	9.7
Other operating result	0.0	0.0	0.0	0.0	2.3	0.0	-0.5	1.8
Operating income	**141.2**	**30.0**	**111.2**	**38.5**	**23.3**	**16.6**	**7.4**	**227.0**
Operating expenses	**-89.4**			**-21.8**	**-4.3**	**-2.7**	**-71.9**	**-190.1**
Operating result	**51.8**			**16.7**	**19.0**	**13.9**	**-64.5**	**36.9**
Change in CL	21.5			-1.1	-37.0	1.5	0.0	-15.1
Operating result before tax	**73.3**			**15.5**	**-18.0**	**15.4**	**-64.5**	**21.8**
Business volume								
Net loans and receivables[3)]	2,078.2	1,048.0	1,030.2	825.0	524.1	276.1	53.8	3,757.2
o/w gross performing loans	2,026.7	998.9	1,027.8	791.2	469.1	275.1		3,562.0
Financial liabilities at AC[4)]	2,770.8		2,770.8	572.3	434.9	703.1	1,040.1	5,521.2
RWA[5)]	1,485.2	692.1	793.1	857.6	568.2	180.3	968.5	4,059.6
Key ratios								
Net interest margin (NIM)[6)]	4.1%	2.0%	6.0%	3.2%	2.2%	2.6%		2.3%
Cost/income ratio[7)]	63.3%			56.7%	20.2%	16.0%		88.2%
Cost of risk ratio	0.9%			-0.1%	-4.7%	0.5%		-0.3%
Loan to deposit ratio[8)]	75.0%			144.2%	120.5%	39.3%		68.1%
NPE ratio (CRB based)[9)]	14.1%	18.5%	10.0%	6.7%	19.0%	1.4%		11.6%
NPE coverage ratio[10)]	78.0%	71.6%	89.2%	50.0%	53.3%	48.4%		67.0%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from orgination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) EUR 1,040 million presented in Corporate Center contains: EUR 409 million Deposits of customers in Holding, EUR 342 million Deposits of credit institutions, EUR 190 million Tier 2, EUR 99 million (Other) 5) Includes only credit risk 6) Net interest margin on segment level is sum of interest income (without unwinding) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 7) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 8) Loans and receivables divided by financial liabilities at amortised costs 9) Non Performing Exposure/Credit Risk Exposure (on and off balance). NPE are loans defaulted, non-performing exposure (Gross Carrying Amount) 10) It is calculated with impairment losses set in relation to defaulted non-performing exposure

The segment result is reconciled with the Profit or loss statement as follows:

EUR m

	YE18	YE17
Net interest income according to segment report	164.4	157.0
Deposit insurance	8.7	8.3
Net interest income according to profit or loss statement	**173.2**	**165.3**

EUR m

	YE18	YE17
Other operating result according to segment report	-7.8	1.8
Deposit insurance	-8.7	-8.3
Sum other operating income and other operating expense according to profit or loss statement	**-16.5**	**-6.6**

The relation between net commission income and reportable segments can be seen in the tables below:

EUR m

31.12.2018	Retail *	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	9.6	8.1	1.9	0.9	0.6	21.1
Accounts and Packages	16.2	0.7	0.1	0.0	0.0	17.0
Cards	11.7	1.5	0.3	0.0	-0.2	13.3
FX & DCC	6.9	2.4	1.1	0.1	0.5	11.0
Securities	0.0	0.0	2.0	0.0	0.0	2.0
Bancassurance	3.2	0.0	0.0	0.0	0.0	3.2
Loans	1.2	1.3	0.4	0.1	0.0	2.9
Trade finance	0.1	2.9	1.1	0.2	0.0	4.2
Other	1.4	0.2	0.1	0.0	0.0	1.7
Fee and commission income	**50.2**	**17.1**	**7.1**	**1.2**	**1.0**	**76.5**
Cards	-5.1	-0.7	-0.2	0.0	-0.3	-6.3
Transactions	-2.6	-1.1	-0.3	-0.1	-0.2	-4.3
Client incentives	-0.6	0.0	0.0	0.0	0.0	-0.6
Securities	0.0	0.0	-0.3	0.0	-0.1	-0.5
Accounts and Packages	0.0	0.0	0.0	0.0	-0.2	-0.2
Bancassurance	-0.2	0.0	0.0	0.0	0.0	-0.2
Other	-0.6	-0.1	-0.2	0.0	-1.1	-1.9
Fee and commission expense	**-9.2**	**-2.0**	**-1.0**	**-0.2**	**-1.9**	**-14.1**
Net fee and commission income	**41.0**	**15.1**	**6.1**	**1.1**	**-1.0**	**62.4**

*Subsegment Consumer contributed fully (100%) to the net commission income of the Segment Retail

EUR m

31.12.2017	Retail*	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	10.2	7.7	1.8	1.0	0.6	21.2
Accounts and Packages	15.0	0.7	0.1	0.0	0.0	15.8
Cards	11.5	1.4	0.3	0.0	-0.2	13.0
FX & DCC	5.0	2.0	1.3	0.1	0.5	8.9
Securities	0.1	0.1	2.1	0.0	0.0	2.3
Bancassurance	1.4	0.0	0.0	0.0	-0.1	1.3
Loans	1.1	1.5	0.4	0.1	0.0	3.1
Trade finance	0.1	2.7	1.2	0.1	0.0	4.0
Other	1.3	0.2	0.1	0.0	0.0	1.6
Commission Income	**45.5**	**16.2**	**7.3**	**1.3**	**0.9**	**71.2**
Cards	-4.0	-0.6	-0.2	0.0	0.2	-4.6
Transactions	-2.4	-1.1	-0.2	-0.1	-0.7	-4.5
Client incentives	0.0	0.0	0.0	0.0	0.0	0.0
Securities	0.0	-0.1	-0.3	0.0	-0.1	-0.5
Accounts and Packages	-0.2	0.0	0.0	0.0	-0.1	-0.4
Bancassurance	-0.3	0.0	0.0	0.0	0.0	-0.3
Other	-0.5	0.0	0.0	0.0	-1.9	-2.5
Commission Expense	**-7.5**	**-1.9**	**-0.8**	**-0.1**	**-2.5**	**-12.8**
Net Commission Income	**38.1**	**14.3**	**6.5**	**1.2**	**-1.6**	**58.5**

*Subsegment Consumer contributed fully (100%) to the net commission income of the Segment Retail

Geographical Segmentation

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia (ABC), Slovenia (ABS), Bosnia & Herzegovina with two entities in Banja Luka (ABBL) and Sarajevo (ABSA), Serbia (ABSE) and Montenegro (ABM). Therefore, the revenues are generated in the CSEE region. In Austria only online deposits for clients in Austria and Germany are provided. Customer groups are not aggregated and assigned to a single country but allocated to their respective countries on single entity level. The geographical segmentation of income from external customers is shown in compliance with IFRSs and does not reflect the Group's management structure, the Management believes that the business segmentation provides a more informative description of the Group's activities. The Reco Column includes mainly the intercompany reconciliation.

EUR m

31.12.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	90.3	48.9	19.2	18.9	38.6	12.3	34.2	-26.7	235.5
Net interest income[1]	62.3	39.0	12.9	12.4	28.7	10.4	34.3	-26.9	173.2
o/w regular interest income[2]	66.3	35.4	15.0	12.8	27.0	12.9			169.5
Net fee and commission income	28.0	9.9	6.3	6.4	9.8	1.9	-0.1	0.2	62.4
Net result on financial instruments	2.0	5.4	0.0	0.2	1.4	0.0	94.2	-33.3	70.0
Other operating result	-6.8	-2.3	-0.5	-1.6	-1.7	-1.1	-7.9	5.3	-16.5
Operating income	**85.5**	**52.0**	**18.7**	**17.5**	**38.2**	**11.2**	**120.4**	**-54.7**	**289.0**
Operating expenses	**-54.5**	**-25.1**	**-14.3**	**-15.9**	**-27.8**	**-8.2**	**-41.4**	**-0.8**	**-188.1**
Operating result	**31.0**	**26.9**	**4.4**	**1.5**	**10.5**	**3.1**	**79.0**	**-55.5**	**100.9**
Change in CL	-4.1	2.4	-1.2	6.1	1.9	-0.9	-1.1	-0.2	2.8
Operating result before tax	**26.9**	**29.3**	**3.2**	**7.7**	**12.3**	**2.2**	**77.9**	**-55.7**	**103.7**
Total assets	**2,470.6**	**1,603.7**	**405.3**	**455.4**	**846.8**	**237.9**	**1,306.2**	**-1,173.7**	**6,152.1**
Business volume									
Net loans and receivables[3]	1,363.6	1,240.2	264.7	253.2	620.7	185.7	191.5	-326.7	3,792.9
o/w gross performing loans	1,312.9	1,128.8	259.1	248.7	631.2	185.5			3,766.1
Financial liabilities at AC[4]	2,064.0	1,431.9	323.5	340.1	660.0	213.8	505.4	-336.3	5,202.5
RWA[5]	1,374.4	920.2	320.7	344.3	719.6	187.3	48.6	-0.4	3,914.8
Key ratios									
Net interest income/total average assets	2.3%	2.5%	3.4%	2.7%	3.5%	4.1%			2.7%
Cost/income ratio[6]	60.4%	51.3%	74.6%	84.4%	72.0%	66.7%			79.9%
Cost of risk ratio	-0.2%	0.2%	-0.3%	1.5%	0.2%	-0.4%			0.1%
Loan to deposit ratio[7]	66.1%	86.6%	81.8%	74.5%	94.0%	86.8%			72.9%
NPE ratio (CRB based)[8]	10.1%	2.4%	11.7%	14.8%	6.0%	8.7%			7.7%
NPE coverage ratio	73.0%	70.4%	84.7%	86.8%	67.3%	62.3%			75.4%

1) Net Interest income for the respective country is according to the reported NII. No reallocation of deposit insurance costs from other operating result. The position other operating result is also according to the reported result on country level 2) Regular interest income is related to booked interests from market segments excluding interest like income, unwinding and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 360.4 million presented in ABH 5) Includes only credit risk (without application of IFRS 9 transitional rules) 6) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 7) Based on net loans and advances and deposits including credit institutions 8) Non Performing Exposure/Credit Risk Exposure (on and off balance). NPE are loans defaulted, non-performing exposure (Gross Carrying Amount)

EUR m

31.12.2017	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	97.0	43.1	19.7	19.7	37.9	10.1	-4.1	0.4	223.8
Net interest income[1]	70.4	33.8	13.6	13.8	28.5	8.5	-3.5	0.3	165.3
o/w regular interest income[2]	78.0	32.0	14.5	12.1	23.8	11.7			172.1
Net fee and commission income	26.6	9.4	6.1	6.0	9.4	1.6	-0.6	0.2	58.5
Net result on financial instruments	3.8	0.8	0.0	-0.1	1.6	0.1	203.9	-200.4	9.7
Other operating result	-5.4	-1.0	-1.6	-1.0	0.9	-0.3	-0.5	2.3	-6.5
Operating income	**95.4**	**43.0**	**18.2**	**18.6**	**40.4**	**9.8**	**199.2**	**-197.7**	**226.9**
Operating expenses	**-56.3**	**-25.2**	**-15.5**	**-16.9**	**-29.2**	**-8.4**	**-45.4**	**6.9**	**-190.1**
Operating result	**39.1**	**17.8**	**2.7**	**1.7**	**11.2**	**1.4**	**153.8**	**-190.7**	**36.9**
Change in CL	-19.8	1.6	2.7	1.6	-0.5	-1.3	0.1	0.5	-15.1
Operating result before tax	**19.3**	**19.4**	**5.4**	**3.3**	**10.6**	**0.1**	**153.9**	**-190.2**	**21.8**
Total assets	**2,842.5**	**1,535.6**	**363.7**	**456.4**	**794.5**	**264.4**	**1,535.5**	**-1,307.2**	**6,485.5**
Business volume									
Net loans and receivables[3]	1,476.0	1,186.1	270.2	234.8	537.3	199.8	331.6	-478.5	3,757.2
o/w gross performing loans	1,319.3	1,064.0	262.2	224.0	502.1	190.4			3,562.0
Financial liabilities at AC[4]	2,433.5	1,384.0	279.4	335.3	603.9	234.4	758.7	-507.9	5,521.2
RWA[5]	1,429.3	884.2	325.7	402.8	725.2	226.9	65.5		4,059.6
Key ratios									
Net interest income/total average assets	2.5%	2.3%	3.7%	3.1%	3.6%	3.3%			2.4%
Cost/income ratio[6]	58.1%	58.4%	78.8%	85.6%	77.2%	83.8%			84.9%
Cost of risk ratio	-1.0%	0.1%	0.7%	0.4%	-0.1%	-0.5%			-0.3%
Loan to deposit ratio[7]	60.7%	85.7%	96.7%	70.0%	89.0%	85.3%			68.1%
NPE ratio (CRB based)[8]	12.9%	4.1%	15.6%	22.0%	14.6%	12.2%			11.6%
NPE coverage ratio	61.2%	65.0%	84.4%	84.3%	60.6%	55.7%			67.0%

1) Net Interest income for the respective country is according to the reported NII. No reallocation of deposit insurance costs from other operating result. The position other operating result is also according to the reported result on country level 2) Regular interest income is related to booked interests from market segments excluding interest like income, unwinding and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 392.4 million presented in ABH 5) Includes only credit risk 6) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 7) Based on net loans and advances and deposits including credit institutions 8) Non Performing Exposure/Credit Risk Exposure (on and off balance). NPE are loans defaulted, non-performing exposure (Gross Carrying Amount)

Risk Report

(65) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Addiko Group to the bank's overall controlling:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(66) Risk strategy & Risk Appetite Framework (RAF)

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

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

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

(67) Risk organisation

Ensuring adequate risk management structures and processes is in the responsibility of the Group's Chief Risk Officer (CRO), who is a member of the Addiko Bank AG Management Board. The CRO acts independently of market and trading units, with a focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2018, the following organisational units were operative:

Corporate Credit has the responsibility for credit risk management for all non-Retail customer segments i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns) and Corporate Center. That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management, as well as a governance role over units covering operative credit risk management for SME/Large Corporates in Addiko subsidiaries.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings with all entities of the Addiko Group ensures that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This enables that the risk appetite of the lending products are in line with the risk appetite of the Group.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing and coordination of national bank examinations, represents a regulatory SPOC function, and coordinates Risk Management units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Model and Credit Risk Portfolio Management oversees the credit risk model landscape from a portfolio management perspective. It makes sure that applied models fulfill expected quality standards, while fitting within the model architecture also in terms of budget and strategy. This allows for an early strategic repositioning of future lending activities.

Risk Validation provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is a fully independent GSS unit that monitors model performance and stability; reviews model relationships and tests model outputs against outcomes.

Risk Quantification & Reporting was established in 2018. It provides services which are connected with the automated creation of standardised and regulatory risk reports and supports other group risk stakeholders with regards to preparing and maintaining risk databases and setting up technical solutions jointly with the IT units. The function is situated in Austria and works closely with local Credit Risk functions across the Addiko network.

Market Risk & Liquidity Risk oversees activities related to market risk (foreign exchange risk, interest rate risk, credit spread risk and equity risk) and the bank's liquidity risk. The team is partially situated in Austria and Slovenia and works closely with locally based Market and Liquidity Risk teams in each of the countries.

Operational Risk provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

Fraud Management coordinates the activities of the fraud managers in Addiko subsidiaries with the goal of guaranteeing a linear approach to the entire process of Fraud Management. Addiko fraud managers are risk managers in that they operate by means of risk management assessment, they identify the possible criticalities in business processes and products that can be exploited to commit frauds, and they propose and monitor the necessary anti-fraud controls.

The respective country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country.

(68) Internal risk management guidelines

The Addiko Group defines Group wide standard risk management guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing guidelines are reviewed yearly to determine whether an update is required. This ensures that the actual and documented processes match.

The Addiko Group has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

(69) Credit risk

69.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Addiko Group. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilized collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

69.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a Group wide instruction on authority levels as defined by the Management and Supervisory Boards, credit decisions are made by the Supervisory Board, Management Board and Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Addiko Group and the highest body for making credit decisions, subordinated only to the Management Board.

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Management Board is required for issues of fundamental importance.

69.3. Risk measurement

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

69.4. Risk limitation

The steering of total Group wide commitments with an individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

In Addiko limits within financial institutions segment are set and monitored independently by a responsible unit. If limits are exceeded, this is communicated immediately to operative risk unit as well as front office and reported to the Group Risk Executive Committee. In all other segments, limit control is carried out through a Group wide authorization level policy ("Pouvoir-Ordnung"). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded. The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

69.5. Reconciliation between Financial instruments classes and Credit risk exposure

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

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

EUR m

31.12.2018	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1]	901.7	-4.0	897.7				901.7	897.7
Financial assets held for trading	24.3		24.3				24.3	24.3
Loans and advances	3,783.2	-81.3	3,701.9	388.1	-297.2	90.9	4,171.3	3,792.9
of which credit institutions	5.6	0.0	5.6	0.0	0.0	0.0	5.6	5.6
of which customer loans	3,777.6	-81.2	3,696.3	388.1	-297.2	90.9	4,165.7	3,787.3
Investment securities[2]	1,182.1	-1.7	1,180.4	0.0	0.0	0.0	1,182.1	1,180.4
Other Assets - IFRS 5[3]	0.0	0.0	0.0	0.4	-0.4	0.1	0.4	0.1
On balance total	**5,891.3**	**-87.0**	**5,804.3**	**388.5**	**-297.6**	**91.0**	**6,279.9**	**5,895.3**
Off balance	949.4	-4.8	944.6	15.2	-6.9	8.4	964.7	953.0
Total	**6,840.7**	**-91.8**	**6,748.9**	**403.8**	**-304.4**	**99.4**	**7,244.5**	**6,848.3**
Adjustments[4]	-8.8		-8.8			0.0	-8.8	-8.8
Total credit risk exposure	**6,831.9**	**-91.8**	**6,740.1**	**403.8**	**-304.4**	**99.4**	**7,235.7**	**6,839.5**

1) The position does not include cash on hand in amount of EUR 105.2 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The position includes only loans and receivables. 4) Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.

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

EUR m

31.12.2017	Performing			Non Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash reserves[1]	1,187.3		1,187.3				1,187.3	1,187.3
Financial assets held for trading	19.8		19.8				19.8	19.8
Loans and advances	3,622.5	-37.2	3,585.3	553.4	-381.5	171.9	4,175.9	3,757.2
of which credit institutions	65.5	-0.2	65.3	0.0	0.0	0.0	65.5	65.3
of which customer loans	3,557.0	-37.0	3,520.0	553.4	-381.5	171.9	4,110.4	3,691.8
Available-for-sale financial assets and Held-to-maturity investments[2]	1,267.6	0.0	1,267.6	0.0	0.0	0.0	1,267.6	1,267.6
Other Assets - IFRS 5[3]	0.0	0.0	0.0	30.9	-17.8	13.0	30.9	13.0
On balance total	**6,097.3**	**-37.2**	**6,060.1**	**584.3**	**-399.4**	**184.9**	**6,681.6**	**6,245.0**
Off balance	798.5	-5.2	793.3	21.4	-6.1	15.3	819.9	808.6
Total	**6,895.8**	**-42.4**	**6,853.4**	**605.7**	**-405.5**	**200.2**	**7,501.5**	**7,053.6**
Adjustments[4]	-3.4		-3.4			0.0	-3.4	-3.4
Total credit risk exposure	**6,892.4**	**-42.4**	**6,850.0**	**605.7**	**-405.5**	**200.2**	**7,498.1**	**7,050.2**

1) The position does not include cash on hand in amount of EUR 98.5 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The position includes only loans and receivables. 4) Adjustments include other exposures which are not considered as credit risk relevant exposure towards third party.

69.6. Allocation of credit risk exposure within the Group

During 2018, the overall gross exposure within the Group decreased by EUR 262.4 million or 3.5%. The decrease mainly results from reduced exposures at Addiko Bank Croatia, Addiko Bank Montenegro and on Addiko Holding level, with the increase of the exposure in the core segments Consumer Lending and SME not fully compensating the volume reduction in the non-core segments Public Finance and Retail Mortgages. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	31.12.2018	31.12.2017
Addiko Croatia	2,850.1	3,152.0
Addiko Slovenia	1,795.8	1,710.6
Addiko Serbia	1,044.0	957.4
Addiko in Bosnia and Herzegovina	1,026.4	1,005.4
Addiko Montenegro	271.2	295.9
Addiko Holding	248.3	376.7
Total	**7,235.7**	**7,498.1**

69.7. Credit risk exposure by rating class

At 31 December 2018 roughly 27.0% (YE17: 29.1%) of the exposure is categorised as rating classes 1A to 1E. This exposure majorly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2018 is mainly influenced by an increase due to capitalization of suspended interests due to the IFRS 9 implementation and reductions resulting from the executed portfolio sale at Addiko Bank Croatia in February, restructuring efforts at Addiko Bank Serbia for one big ticket and write offs in Addiko Bank Serbia and Addiko Bank Montenegro as well as collection effects in all countries. Taking all these effects into consideration the overall non-performing exposure decreased during 2018 by EUR 201.9 million.

The following table shows the exposure by rating classes and market segment as at 31 December 2018:

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPL	No rating	Total
Consumer	197.5	786.5	212.4	114.6	103.6	0.3	1,415.0
SME	129.8	740.2	558.3	60.1	70.7	0.3	1,559.3
Non-Focus	563.9	881.9	381.8	84.9	229.5	3.8	2,145.8
o/w Large Corporates	111.2	416.8	267.6	26.9	81.0	3.5	907.0
o/w Mortgage	400.6	364.8	57.3	47.8	145.2	0.0	1,015.7
o/w Public Finance	52.2	100.3	57.0	10.1	3.4	0.3	223.2
Corporate Center[1)]	1,063.9	893.0	153.6	0.0	0.0	5.1	2,115.5
Total	**1,955.2**	**3,301.5**	**1,306.1**	**259.6**	**403.8**	**9.5**	**7,235.7**

1) Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities.

EUR m

31.12.2017	1A-1E	2A-2E	3A-3E	Watch	NPL	No rating	Total
Consumer	274.8	591.4	184.1	105.3	128.2	1.7	1,285.4
SME	86.8	600.7	469.0	57.7	87.5	3.7	1,305.4
Non-Focus	1,035.2	1,309.8	431.2	88.6	378.9	2.0	3,245.8
o/w Large Corporates	86.9	303.7	260.9	16.8	150.0	2.0	820.3
o/w Mortgage	442.7	408.6	82.6	57.1	224.5	0.1	1,215.6
o/w Public Finance	505.6	597.5	87.7	14.7	4.3	0.0	1,209.8
Corporate Center[1)]	783.2	654.9	203.4	8.3	11.1	0.6	1,661.6
Total	**2,180.1**	**3,156.7**	**1,287.7**	**259.8**	**605.7**	**8.0**	**7,498.1**

1) Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities.

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

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

Addiko applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	734.9	44.8	0.0	0.7	780.4
2A-2E	1,783.5	92.9	0.0	1.6	1,878.0
3A-3E	824.8	62.1	0.0	0.1	887.1
Watch	64.3	159.1	0.5	0.0	223.9
NPE	0.0	0.0	366.4	19.1	385.5
No rating	10.0	0.7	0.1	0.0	10.8
Total gross carrying amount	**3,417.5**	**359.6**	**367.0**	**21.6**	**4,165.7**
Loss allowance	-33.8	-47.4	-282.8	-14.4	-378.4
Carrying amount	**3,383.8**	**312.2**	**84.2**	**7.1**	**3,787.3**

Loans and advances to banks at amortised cost:

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	4.0	0.0	0.0	0.0	4.0
2A-2E	1.7	0.0	0.0	0.0	1.7
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**5.6**	**0.0**	**0.0**	**0.0**	5.6
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**5.6**	**0.0**	**0.0**	**0.0**	5.6

Debt instruments measured at FVTOCI:

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	748.0	0.0	0.0	0.0	748.0
2A-2E	400.7	0.0	0.0	0.0	400.7
3A-3E	3.9	0.0	0.0	0.0	3.9
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**1,152.6**	**0.0**	**0.0**	**0.0**	**1,152.6**
Loss allowance	-1.7	0.0	0.0	0.0	-1.7
Carrying amount	**1,150.9**	**0.0**	**0.0**	**0.0**	**1,150.9**

Commitments and financial guarantees given:

EUR m

31.12.2018.	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	163.4	0.5	0.0	0.0	163.8
2A-2E	521.3	1.1	0.0	0.0	522.4
3A-3E	231.0	1.7	0.0	0.0	232.6
Watch	6.9	22.8	0.0	0.0	29.7
NPE	0.0	0.0	15.2	0.0	15.2
No rating	0.8	0.1	0.0	0.0	0.9
Total gross carrying amount	**923.3**	**26.1**	**15.2**	**0.0**	**964.7**
Loss allowance	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**
Carrying amount	**920.3**	**24.3**	**8.4**	**0.0**	**953.0**

69.8. Credit risk exposure by region

The Addiko Group's country portfolio focuses on Central and South Eastern Europe. The following table shows the breakdown of exposure by region within the Group (at customer level):

EUR m

	31.12.2018	31.12.2017
SEE	6,346.5	6,425.8
Europe (excl. CEE/SEE)	506.5	698.5
CEE	274.4	220.0
Other	108.2	153.7
Total	**7,235.7**	**7,498.1**

69.9. Exposure by business sector and region

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

The lower-risk business sector groups - financial institutions and the public sector - account for a share of 32.1% at YE18 (YE17: 37.8%). The well-diversified private customers sector accounts for a share of 25.6% (YE17: 25.1%).

EUR m

31.12.2018 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.1	1,846.2	0.6	0.1	1,849.0
Financial services	411.9	839.0	0.0	89.3	1,340.2
Public sector	72.3	635.4	273.8	0.0	981.5
Industry	13.4	948.3	0.0	5.8	967.5
Trade and commerce	0.0	749.0	0.0	4.7	753.7
Services	6.3	525.1	0.0	2.5	533.8
Real estate business	0.0	88.9	0.0	0.0	88.9
Tourism	0.0	106.4	0.0	0.0	106.4
Agriculture	0.0	75.5	0.0	0.0	75.5
Other	0.5	532.6	0.0	5.9	539.1
Total	**506.5**	**6,346.5**	**274.4**	**108.2**	**7,235.7**

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

EUR m

31.12.2017 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.3	1,880.8	0.6	0.2	1,883.8
Financial services	571.0	1,039.4	0.0	121.6	1,732.0
Public sector	110.0	757.1	219.2	16.7	1,103.0
Industry	14.5	738.7	0.0	2.0	755.3
Trade and commerce	0.0	664.1	0.0	4.8	668.8
Services	0.0	539.2	0.1	2.5	541.7
Real estate business	0.0	99.8	0.0	0.0	99.8
Tourism	0.0	87.6	0.0	0.0	87.6
Agriculture	0.0	73.6	0.0	0.0	73.6
Other	0.7	545.6	0.2	6.0	552.5
Total	**698.5**	**6,425.8**	**220.0**	**153.7**	**7,498.1**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Group's core countries in Central and South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail business.

69.10. Presentation of exposure by overdue days

EUR m

31.12.2018	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,285.1	33.3	5.2	3.1	88.2	1,415.0
SME	1,456.5	63.2	0.2	1.5	38.0	1,559.3
Non-Focus	1,911.7	43.0	7.7	3.2	180.2	2,145.8
o/w Large Corporates	830.4	15.2	1.0	0.0	60.4	907.0
o/w Mortgage	861.4	25.0	6.7	3.2	119.4	1,015.7
o/w Public Finance	219.8	2.9	0.0	0.0	0.4	223.2
Corporate Center	2,115.5	0.0	0.0	0.0	0.0	2,115.5
Total	**6,768.7**	**139.6**	**13.1**	**7.8**	**306.4**	**7,235.7**

EUR m

31.12.2017	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,142.8	26.7	6.8	3.6	105.4	1,285.4
SME	1,232.0	28.5	0.4	0.7	43.7	1,305.4
Non-Focus	2,959.3	20.5	5.9	8.5	251.5	3,245.8
o/w Large Corporates	746.2	3.2	0.0	5.2	65.6	820.3
o/w Mortgage	1,003.6	17.2	5.7	3.3	185.8	1,215.6
o/w Public Finance	1,209.5	0.1	0.2	0.0	0.1	1,209.8
Corporate Center	1,647.8	7.4	0.0	0.0	6.3	1,661.6
Total	**6,982.0**	**83.2**	**13.1**	**12.8**	**407.0**	**7,498.1**

69.11. Presentation of exposure by size classes

As 31 December 2018 around 41.3% (YE17: 40.1%) of the exposure is found in the size range < EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1,227.8 million (YE17: EUR 1,565.7 million) of exposure in the range > EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

Size classes	Exposure EUR m	31.12.2018 GoBs	Exposure EUR m	31.12.2017 GoBs
< 10,000	554.3	302,969	539.3	314,296
10.000-50.000	1,194.7	56,123	1,100.7	50,381
50.000-100.000	417.1	6,058	490.4	7,109
100.000-250.000	356.2	2,469	426.3	2,973
250.000-500.000	196.4	575	207.9	601
500.000-1.000.000	270.0	400	244.4	356
1.000.000-10.000.000	1,646.2	576	1,353.1	476
10.000.000-50.000.000	1,007.6	48	1,043.8	52
50.000.000-100.000.000	365.4	5	526.5	8
> 100,000,000	1,227.8	6	1,565.7	7
Total	**7,235.7**	**369,229**	**7,498.1**	**376,259**

69.12. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2018 Collateral	Exposure	31.12.2017 Collateral
1A-1E	1,953.9	463.8	2,179.3	417.0
2A-2E	3,274.2	716.3	3,136.6	738.1
3A-3E	1,242.8	332.5	1,262.5	400.7
Watch	212.3	87.1	217.1	105.3
NPE	0.5	0.3	2.6	1.0
No rating	9.4	0.0	8.0	0.6
Total	**6,693.2**	**1,600.1**	**6,806.1**	**1,662.6**

The non-performing exposure stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant.

Overdue but not impaired financial assets:

EUR m

	Exposure	31.12.2018 Collateral	Exposure	31.12.2017 Collateral
Loans and advances to customers				
- overdue to 30 days	125.8	48.5	75.8	23.9
- overdue 31 to 60 days	9.3	4.7	8.1	2.6
- overdue 61 to 90 days	4.3	1.5	4.3	1.2
- overdue 91 to 180 days	0.0	0.0	0.1	0.1
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.0	0.0	0.3	0.3
Total	**139.4**	**54.7**	**88.5**	**28.0**

The primary reason for not taking into account ECL Stage 3 for the exposures over 90 days is that, after performing an impairment test, there is no need for a ECL Stage 3 for impairment losses through primary and secondary cash flows.

Impaired financial instruments:

EUR m

Loans and advances to customers (on- and off- balance)	31.12.2018	31.12.2017
Exposure	403.1	603.4
Provisions	304.4	405.5
Collateral	183.1	288.4

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

69.12.1. FORBEARANCE

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Forbearance measures and risks are monitored by the operative risk units responsible for corporate and retail as a part of the regular semi-annual review. Additionally, forbearance measures represent a trigger event in order to perform impairment tests in accordance with IFRS requirements.
The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2018. The off-balance positions only include loan commitments.

	OPENING balance 01.01.2018	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2018
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	5.0	0.0	-3.0	0.0	0.0	0.0	2.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.3	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	115.4	30.4	-43.5	-18.4	0.0	-9.6	74.3
Households	43.0	12.7	-11.2	0.0	0.1	-3.5	41.1
Loans and advances	**163.4**	**43.4**	**-57.7**	**-18.4**	**0.1**	**-13.1**	**117.6**
Loan commitments given	0.4	0.2	-0.1	0.0	0.0	-0.2	0.3

The following table shows the forbearance status in the course of the year 2017:

EUR m

	OPENING balance 01.01.2017	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	Other changes (+/-)	CLOSING balance 31.12.2017
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	9.6	2.2	-2.7	0.0	0.1	-4.1	5.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	10.6	0.0	-10.6	0.0	0.0	0.0	0.0
Non-financial corporations	175.1	30.2	-104.9	0.2	3.0	11.7	115.4
Households	70.2	10.5	-40.1	0.3	1.2	0.9	43.0
Loans and advances	**265.4**	**42.9**	**-158.3**	**0.5**	**4.3**	**8.5**	**163.4**
Loan commitments given	0.9	0.1	-0.4	0.0	0.0	-0.2	0.4

The forbearance exposure was as follows in 2018:

EUR m

	Closing Balance 31.12.2018	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	2.0	0.0	0.0	2.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.2	0.0
Non-financial corporations	74.3	10.4	1.1	62.8	2.1
Households	41.1	13.1	0.7	27.2	0.4
Loans and advances	**117.6**	**23.6**	**1.8**	**92.3**	**2.6**

The forbearance exposure was as follows in 2017:

EUR m

	Closing Balance 31.12.2017	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	5.0	2.8	0.0	2.2	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	115.4	22.1	0.2	93.1	3.9
Households	43.0	13.9	0.7	28.4	0.8
Loans and advances	**163.4**	**38.8**	**0.9**	**123.7**	**4.7**

Following table shows the collateral allocation for the forbearance exposure at the YE 2018:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.2	2.2	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporates	20.3	19.0	0.3	0.0	0.0	1.0
Medium and Small Corporate	32.7	23.9	1.8	0.2	1.0	5.8
Retail	26.1	4.4	20.9	0.2	0.6	0.0
Total	**81.3**	**49.5**	**23.0**	**0.4**	**1.6**	**6.8**

Following table shows the collateral allocation for the forbearance exposure at the YE 2017:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof Commercial Real Estate (CRE)	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.7	2.4	0.0	0.0	0.0	0.4
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporates	41.7	40.6	0.0	0.1	0.0	1.0
Medium and Small Corporate	44.2	37.3	1.7	0.4	0.8	4.2
Retail	27.3	5.5	20.7	0.4	0.6	0.1
Total	**116.0**	**85.8**	**22.4**	**0.8**	**1.3**	**5.7**

69.12.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2018, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 5.9 million (2017: EUR 5.7 million), of which EUR 0.5 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfillment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

(70) Development of risk provisions

70.1. Method of calculating risk provisions

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

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

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

For the part of the non performing porfolio where the exposure at default (EAD) on group of borrowers level is below a certain country specific materiality threshold the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and entity.
For further detail on risk provisions, please refer to the subchapter 2.1.2. Impairment in the note (2) Application of new standards and amendments.

70.2. Development of risk provisions

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

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

The introduced daily monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the early collections result and a significant reduction of the NPE portfolio. The positive, decreasing trend in terms of the NPE ratio was continuous throughout 2018 in the Retail segment. The decrease was also experienced in absolute figures. One of the largest contributions came from Croatia through a debt sale initiative and also through upgrading of Mortgage loans from NPE to PE status. Another favorable effect was realized by repayments and debt settlements as a result of the strong collection performance. A further decrease in NPEs is expected for 2019, although as the stock is shrinking the rate of decrease is expected to slow down.

70.3. Changes in the calculation of portfolio risk provisions

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

70.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) increased from 67.0% to 75.4% during 2018 mainly driven by the debt sale / settlement activities as well as due to the restucturing of a big ticket at Addiko Bank Slovenia and Addiko Bank Serbia as well as due to the additional risk provision requirements at Addiko Bank Croatia.

The following table shows the NPE and coverage ratio (coverage ratio 1 considers Stage 3 allowances, while coverage ratio 2 additionally consideres collaterals):

EUR m

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	1,415.0	103.6	94.4	18.2	7.3%	91.1%	108.7%
SME	1,559.3	70.7	45.0	48.3	4.5%	63.7%	132.0%
Non Focus	2,145.8	229.5	165.0	117.0	10.7%	71.9%	122.9%
o/w Large Corporates	907.0	81.0	56.8	28.0	8.9%	70.1%	104.6%
o/w Mortgage	1,015.7	145.2	106.8	86.8	14.3%	73.6%	133.4%
o/w Public Finance	223.2	3.4	1.4	2.2	1.5%	42.0%	108.4%
Corporate Center	2,115.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,235.7**	**403.8**	**304.4**	**183.5**	**5.6%**	**75.4%**	**120.8%**
o/w Credit Risk Bearing	**5,236.6**	**403.8**	**304.4**	**183.5**	**7.7%**	**75.4%**	**120.8%**

The Credit Risk Bearing exposure does not include exposure towards national bank as well as securities and derivatives.

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

EUR m

31.12.2017	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	1,285.4	128.2	114.3	28.6	10.0%	89.2%	111.5%
SME	1,305.4	87.5	43.7	63.2	6.7%	50.0%	122.2%
Non Focus	3,245.8	378.9	242.9	194.9	11.7%	64.1%	115.6%
o/w Large Corporates	820.3	150.0	80.0	67.3	18.3%	53.3%	98.2%
o/w Mortgage	1,215.6	224.5	160.8	124.8	18.5%	71.6%	127.2%
o/w Public Finance	1,209.8	4.3	2.1	2.7	0.4%	48.4%	112.0%
Corporate Center	1,661.6	11.1	4.6	2.5	0.7%	41.8%	64.2%
Total	**7,498.1**	**605.7**	**405.5**	**289.2**	**8.1%**	**67.0%**	**114.7%**
o/w Credit Risk Bearing	**5,203.1**	**605.6**	**405.5**	**289.2**	**11.6%**	**67.0%**	**114.7%**

The increase in coverage ratio predominantly results from the executed debt sale at Addiko Bank Croatia as well as the recognition of the suspended interests as part of the 100.0% provisioned NPE exposure, in connection with the implementation of IFRS 9.

(71) Measurement of real estate collateral and other collateral

The Group wide control of real estate pledged as collateral is of crucial importance, as this constitutes the majority of all collaterals obtained and internally reported.
Pursuant to the Addiko Group Collateral Policy and also Group Real Estate Valuation Standard, all the real estate has to be regularly monitored and its value regularly re-assessed, and that is being done annually for all commercial real-estate, and at least once in three years for residential real estate. The valuation of all commercial real estate is performed on an individual level if the market value is above EUR 1.0 million, pursuant to the Addiko Group Real Estate Valuation Standard. The market value of the ones with smaller value is re-assesed using certain statistical methods and tools.

Thresholds for individual market value reassessments for residential real estate are smaller, and those amount to EUR 700,000 if the RRE is located inside capital cities and to EUR 400,000 if the RRE is located elsewhere. The market value of residential real estate above those values is also individually reassessed.

The internal collateral values (ICV) are shown in the following table for 31 December 2018 as well as 31 December 2017:

EUR m

Collateral Distribution	31.12.2018	31.12.2017
Exposure	7,235.7	7,498.1
Internal Collateral Value (ICV)	1,837.9	1,978.9
therof CRE	681.0	741.5
thereof RRE	730.6	858.8
thereof financial collateral	23.6	39.1
thereof guarantees	282.6	219.9
thereof other	120.0	119.5
ICV coverage rate	**25.4%**	**26.4%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals within other financial instruments). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estates given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail (prime focus on consumer loans). Collateral coverage did decrease slightly, but no significant decrease/change happened.

The table below provides an analysis of the current fair value of collateral held and credit enhancements for Stage 3 assets in accordance with IFRS 7R35K(c).

Dependent on the value of collateral, some Stage 3 exposures may not have individual ECLs when the expected discounted cash flows from realisation of collateral is greater that the outstanding amount, even if the expected discounted cash flows from realisation of collateral is forecasted using multiple economic scenarios. However, the Stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

EUR m

	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	**388.6**	**51.8**	**0.4**	**67.8**	**3.8**	**0.0**	**-3.5**	**120.3**	**268.3**	**297.2**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.9
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Non-financial corporations	151.8	23.1	0.4	23.9	3.7	0.0	-0.3	50.9	100.9	110.1
Households	233.9	28.6	0.0	43.9	0.0	0.0	-3.2	69.4	164.5	185.9
Committments and financial guarantees	**15.2**	**0.0**	**0.0**	**1.7**	**1.3**	**2.8**	**0.0**	**5.8**	**9.5**	**6.9**
Loan committments given	2.3	0.0	0.0	0.3	0.0	0.0	0.0	0.3	1.9	1.1
Financial guarantees given	5.0	0.0	0.0	0.8	1.2	0.2	0.0	2.2	2.7	2.9
Other committments given	8.0	0.0	0.0	0.6	0.1	2.5	0.0	3.3	4.8	2.8

The expected discounted cash flows from realisation of collateral presented in the above table are determined - for the not individually impaired loans - as difference between the outstanding amount and the ECL calculated on the portfolio principle and for this reason do not correspond to the collateral values presented in the previous tables.

(72) Market risk

72.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Addiko Group places a special emphasis on identifying, measuring, analyzing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

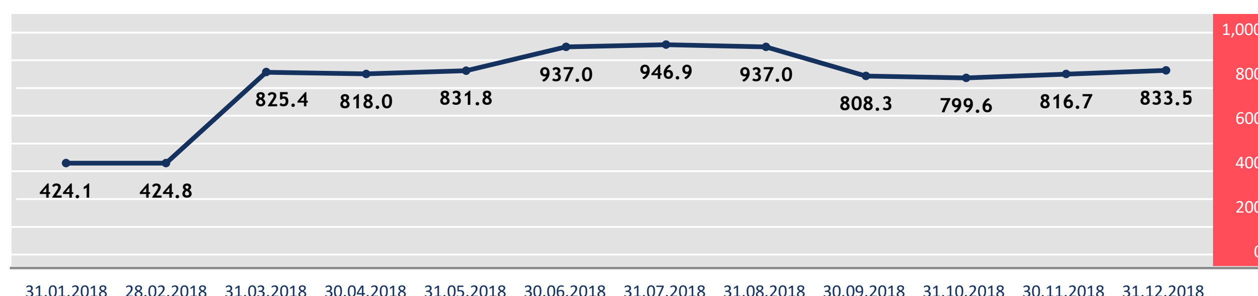
72.2. Risk measurement

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

72.3. Overview - market price risk

72.3.1. INTEREST RATE RISK

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group in 2018 (comparable VaR figure as at 31 December 2017: EUR 0.4 million).
The interest rate gap profile for the Addiko Group contains all interest rate-relevant items (whether included in the statement of financial position or not) with their next interest rate fixing date and/or their replicated interest sensitivity. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest rate gap profiles of local banks are consolidated at Group level and combined into the Group interest rate gap profile. All interest-bearing items in the statement of financial position are taken as the basis for calculating interest-rate risk and thus limited risks. Any non-interest-bearing items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.
Development in interest risk for the Addiko Group in 2018:



The trading items of the Addiko Group were relatively stable in 2018. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are

determined on the basis of the Group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.5% on average in 2018 as compared to 3.2% on average in 2017).

Regulatory requirements state that the proportion of interest risk – in the form of the standardised 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well-balanced. Non-interest-bearing (NIB) positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

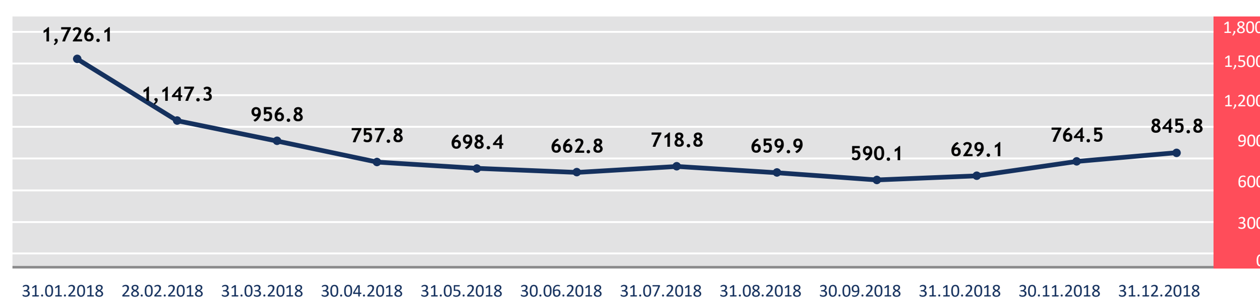
The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2018 amounts to EUR -0.3 million (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2017 was EUR -0.1 million.

72.3.2. FOREIGN EXCHANGE RISK

The database for determining the value at risk for foreign exchange risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign exchange risk thereby covers the entire FX risk of the Addiko Group. The main foreign exchange risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at 31 December 2018 is roughly EUR 603.7 million (volume per 31 December 2017 of approx. EUR 640.0 million), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign exchange risk was approximately EUR 0.8 million per day as at 31 December 2018 (value at risk as at 31 December 2017: EUR 1.6 million), at a confidence interval of 99.0%. The limit of EUR 2.0 million was adhered to as at 31 December 2018.

Development in foreign exchange risk of the Addiko Group in 2018:

Open Foreign Currency Position Risk – VaR (99 %, 1 day)
EUR thousand



Aside from foreign exchange risk from operating activities, the Addiko Group is also exposed to an additional foreign exchange risk from the consolidation of Addiko Bank AG's strategic investment in Addiko a.d. Beograd (volume of approx. EUR 182.3 million) and Addiko d.d. Zagreb (volume of approx. EUR 385.2 million) as recorded in the statement of financial position. The strategic currency risk thus represents the majority of the risk in open currency items at the Addiko Group. In addition to monitoring VaR in respect of foreign currency, the Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on monthly basis within the Group Asset Liability Committee.

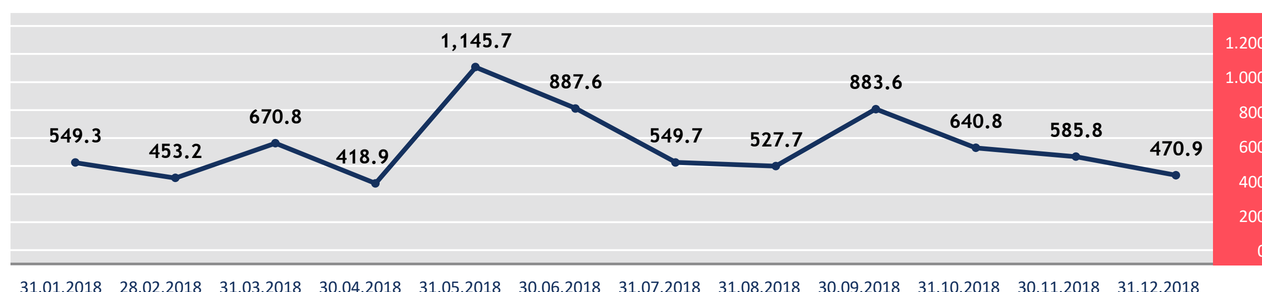
72.3.3. EQUITY RISK

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Addiko Group makes a distinction between equity risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity risks from an investment point of view (investments). The value at risk for the equity risk (customer default) at the Addiko Group amounted to EUR 4,701.0 as at 31 December 2018 (value at risk as at 31 December 2017: EUR 4,272.0) with a one-day holding period and a confidence level of 99.0% and EUR 775.0 (value at risk as at 31 December 2017: EUR 2,488.0) for the equity risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at 31 December 2018 and therefore also no major concentration risk exists here.

72.3.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.5 million at 31 December 2018 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2017: EUR 0.3 million). The limit of EUR 2.5 million was adhered to as at 31 December 2018. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, the Addiko Group also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

Development in credit spread risk at the Addiko Group in 2018:



(73) Liquidity risk

73.1. Definition

The Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

73.2. General requirements

At the Addiko Group, liquidity controlling and management at Group level are the responsibility of Group Balance Sheet Management & Treasury. It is here that the steering of situational and structural liquidity and the coordination of funding potential at Group level takes place. The local treasury units are responsible for operational liquidity steering and liquidity offset. The liquidity risk control at Group level is the responsibility of CS Market & Liquidity Risk. At a local

level, the respective risk control units are in charge. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The Addiko Group has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

73.3. Risk control

A bundle of different liquidity reserves ensures the Addiko Group's solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

In 2018, the Liquidity Coverage Ratio (LCR) went from its highest level of 232.5% in the first quarter and came to the level of 147.8% in September 2018. In the second half of the year, it was stable around 150%.

Per December 2018, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	424.7
Securities eligible for Repo	451.2
Credit Claims eligible for Central Bank or Repo	0.0
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	142.9
Counterbalancing Measures	
Other liquefiable Assets (short-, medium-term)	0.0
Committed/Required Credit Lines	0.0
New Issuance and Securitization	0.0
Total Counterbalancing Capacity	**1,018.8**

In 2017, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	484.1
Securities eligible for Repo	493.1
Credit Claims eligible for Central Bank or Repo	1.3
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	95.4
Counterbalancing Measures	
Other liquefiable Assets (short-, medium-term)	0.0
Committed/Required Credit Lines	0.0
New Issuance and Securitization	0.0
Total Counterbalancing Capacity	**1,073.9**

Liquidity Controlling for the Addiko Group is carried out at a local level on the one hand (in particular for HRK and RSD) as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

Any occurring gaps in pre-defined time buckets are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for the proper liquidity management. The liquidity reserves are subjected to a

regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured as well that general regulatory requirements in the legal entities countries are adhered too.

73.4. Overview - liquidity situation

The liquidity situation of the Addiko Group in 2018 was characterised by a liquidity surplus. All liabilities and obligations were met without the need to draw liquidity reserves. Any capital market activities were not necessary as a result therefore.

During the financial year, the Addiko Group recorded a stable level of deposits around EUR 5.2 billion. The collection on deposits in the Austrian market successively increased during the reported year.
Additionally, the bank started its activities with repurchase agreements on the Austrian market. This step increased the available sources of funding activities. Based on anticipated inflows and outflows, a stable liquidity position is also expected for the year 2019.
The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding activities of the group are a-vista-, term-deposits and equities. The most important currency in funding (more than 70%) is EUR, followed by HRK and BAM. Both, products and currencies are tracked through different time buckets and time frames.

In addition, the Group is monitoring the impact of customers with high volume business regarding the Addiko Group´s concentration risk: the biggest ten counter-parties are financial institutes (banking institutes), corporate clients and institutional (non-financial) clients which are compared against the volume of total deposits.

Below is a breakdown of maturities for the financial liabilities of the Addiko Group, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day,
- For the rest of primary funds is decisive only the contracted due date. Equity components, tangible and intangible assets, provisions, tax, impairment and positions not relevant to liquidity are not represented.

EUR m

31.12.2018.	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash reserves	996.0	6.7	0.1	1,002.9
Financial assets held for trading	4.4	19.2	0.7	24.3
Financial assets mandatory at FV through profit or loss	16.4	0.0	0.3	16.7
Financial assets at FV through other comprehensive income	107.4	851.8	208.8	1,168.0
Financial assets at amortised cost	835.3	1,243.4	1,714.2	3,792.9
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0
Non-current assets and disposal groups classified as held for sale	5.7	0.0	0.0	5.7
Subtotal	**1,955.6**	**2,121.1**	**1,933.7**	**6,010.4**
Financial liabilities				
Financial liabilities held for trading	0.6	0.7	0.8	2.1
Financial liabilities designated at FVtP&L	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised costs	4,034.8	724.8	442.9	5,202.5
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0
Subtotal	**4,035.4**	**725.5**	**443.7**	**5,204.6**
Total	**-2,079.8**	**1,395.6**	**1,490.0**	**805.8**

As at 31 December 2018 assets relevant to liquidity at the Addiko Group came to EUR 6,010.4 million. The main item of EUR 3,792.9 million is attributable to “Financial assets at amortised cost”, which therefore represent 63.1% of assets. Liabilities totaled EUR 5,204.6 million.

EUR m

31.12.2017.	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash reserves	1,281.4	3.2	1.3	1,285.9
Financial assets held for trading	8.5	9.4	2.0	19.8
Available-for-sale financial assets	264.9	798.7	170.7	1,234.3
Loans and advances	950.7	1,191.1	1,615.4	3,757.2
Held-to-maturity investments	0.0	30.9	11.6	42.5
Non-current assets and disposal groups classified as held for sale	19.5	0.0	0.1	19.5
Subtotal	**2,525.0**	**2,033.3**	**1,801.1**	**6,359.3**
Financial liabilities				
Financial liabilities held for trading	1.5	0.1	0.1	1.8
Financial liabilities designated at FVtP&L	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised costs	3,975.5	785.5	760.3	5,521.2
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0
Subtotal	**3,977.0**	**785.6**	**760.4**	**5,523.0**
Total	**-1,452.0**	**1,247.7**	**1,040.7**	**836.3**

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book (hedge accounting): Hedge transactions with regard to asset items of the statement of financial position (e.g. fixed rate bonds)
- Market risk steering B2B: Back-to-back transactions by the Addiko Bank AG on the basis of the hedge requirement of the individual subsidiaries
- Market risk steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

EUR m

31.12.2018.	1 Y -2019	2 Y -2020	3 Y -2021	4 Y -2022	5 Y -2023	> 5 Y (> 2023)	Total
Netto-Cashflow-Derivatives*							
Bank book	-0.2	-0.2	-0.4	0.0	0.0	0.0	-0.7
Market Risk Steering B2B	0.3	0.2	0.1	0.1	0.0	0.0	0.8
Market Risk Steering FX	3.1	-0.3	0.0	0.0	0.0	0.0	2.8
Total	**3.2**	**-0.3**	**-0.2**	**0.0**	**0.1**	**0.1**	**2.8**

*Relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at 31 December 2018 the simulated total of cash flows from derivatives relevant to liquidity was EUR 2.8 million.

EUR m

31.12.2017.	1 Y -2018	2 Y -2019	3 Y -2020	4 Y -2021	5 Y -2022	> 5 Y (> 2022)	Total
Netto-Cashflow-Derivatives*							
Bank book	-1.4	-0.3	0.0	0.0	0.3	0.3	-1.2
Market Risk Steering B2B	0.4	0.4	0.2	0.1	0.0	0.0	1.2
Market Risk Steering FX	7.2	4.9	0.0	0.0	0.0	0.0	12.0
Total	**6.1**	**5.0**	**0.2**	**0.1**	**0.3**	**0.3**	**12.1**

*Relevant to liquidity

As at 31 December 2017 the simulated total of cash flows from derivatives relevant to liquidity was EUR 12.1 million.

(74) Operational risk

74.1. Definition

The Addiko Group defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

74.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture. As a pro-active partner to senior management, ORM's value lies in supporting and challenging senior management to align the business control environment with the bank's strategy by measuring and mitigating risk loss exposure, contributing to optimal return for stakeholders.

A robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk provides a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored risk mitigation actions.

Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

74.3. Risk monitoring

Operational Risk Management reports on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Board Audit Committee in order to provide an overview of the operational risk situation to the management to enable the related risk steering and to integrate the operational risk management into the bank processes.

74.4. Exposure & capital overview

Operational risk, in its cyclical process, shows changes in loss realisation thus impacting operational risk management which is visible through the loss collection and risk and control self-assessment processes, the two most important tools in operational risk management.

The operational risk with regard to the Pillar 1 capital requirement is calculated using the Standardised Approach based on operating income (using relevant indicator and multiplier for relevant business lines). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes operational risk sub-types which the Bank considers material under Pillar 2.

(75) Object risk

Object risk at the Addiko Group covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

The capital requirements for object risk are calculated according to the methodology of the Standardised Approach and included in the ICAAP evaluation. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(76) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk
- Risk arising from excessive debt
- Macro-economic risks
- Systemic risks
- Business risk/Strategic risk

For material “Other risks”, economic capital is considered in the risk bearing capacity calculation.

(77) Historical unilateral interest change clause risks

In 2018, a Group wide amount in dispute of EUR 49.8 million was related to retail F/X, unilateral interest change disputes or claims for payment.

Monitoring and provisioning of legal risks
Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group wide monitoring of such legal disputes has been intensified as a consequence of the increasing number of regulations on handling foreign currency loans in the Central and South Eastern European countries (e.g. “forced conversion”).

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions
Particularly in the past ten years, numerous private customers in Central and South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organisations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

Currently, there are indications that the courts — due to the significant increase in value of the CHF — may change their judgments in CHF loan proceedings, rule in favor of the complaining customer and permit a termination of CHF loan agreements. The first final verdict in this respect was passed by a second-instance court in Novi Sad in September 2016.

The court rejected the appeal lodged by Erste Bank Beograd and confirmed the first-instance verdict according to which the CHF loan agreement may be terminated due to changed circumstances. One of the Serbian banks also faces a similar court verdict at the second-instance court in Beograd, where the first-instance verdict originally decided in favor of the bank was set aside. Furthermore, the first-instance court was ordered by the second-instance court to determine whether a considerable increase in the CHF exchange rate occurred during the term of the loan.

The Serbian Supreme Court envisaged for 2017 an opinion regarding CHF loans but only announced in 2017 that due to the “Venetian Rules” it abstained from such general opinion but will decide on a case by case basis. In 2018 the Commercial Court in Nis requested the Supreme Court to render a decision to resolve the issue regarding F/X loans specifically regarding the changed circumstances argument. The Commercial Court in Nis is of the opinion that the changed circumstances argument is void and F/X loans are not to be terminated due to changed circumstances. The Supreme Court has still not respond to the request.

Numbers regarding changed circumstances did not increase significantly (18 new cases in 2018), while loan processing fees and claims in connection with loans secured by insurances by the National Housing Insurance Corporation regarding insurance fees paid by the borrowers are rising (443, of which 349 filed in 2018). It is expected that more borrowers will file a claim in this regard since the Supreme Court rendered an opinion on this issue stating that banks should have clearly stated which costs are included in the loan processing fee.

As for the subsidiary bank in Serbia, there have not been any legislative initiatives yet, but there have been regulatory initiatives. In Serbia, the National Bank of Serbia issued binding recommendations to all banks back in May 2013 stating that customers who took out CHF loans must be granted certain relief (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. Furthermore, the National Bank of Serbia’s “Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans”, which came into force in March 2015, provides for four contract amendment models (e.g. conversion into EUR based on certain criteria) which the bank must offer to customers who have taken out residential construction loans in foreign currencies and intend to convert their repayment instalments. Addiko Bank a.d. in Serbia has already fulfilled the implementation obligations resulting from the regulatory measures. However, it should be noted that only a small number of all borrowers accepted the offer. Legislative regulations are not expected in Serbia due to little media and political interest.

The subsidiary bank in Slovenia, Addiko Bank d.d. Ljubljana, has 32 ongoing legal disputes in connection with CHF loans. Addiko Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, as first-instance courts in similar proceedings against other Slovenian banks have passed verdicts in favor of the banks and the Slovenian Supreme Court rendered verdicts which give clearer guidance regarding the information and notification duty of banks regardingcurrency risks. While the regulatory authority (Slovenian central bank) and the Slovenian ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against the Addiko subsidiary bank; neither are there plans for any corresponding legal amendments.

So far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. In any case, the resulting potential effects are investigated independently at bank level and are compensated for in compliance with the measures taken at Group level. Recently the Slovenian “Efektiva” tried to introduce a Conversion Law. The Slovenian Parliament voted against the application of such law.

In Bosnia and Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia and Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented the CHF Loan Settlement Project BiH. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards the conversion of CHF into the national currency BAM. Since then numbers of new claims in this regard significantly decreased and requests for conversion/ restructuring of loans increased. Until 30 November 2018, 84% of the customers

requested a conversion, of which 76% were converted and 8% were closed with-out conversion. The number of claims in this respect has therefore decreased considerably.

In Bosnia and Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighboring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia and Herzegovina entity, which was emphasized by the Bosnian government besides the danger of BIT proceedings costs as in Croatia and Montenegro. In November 2017, the national parliament rejected a revised draft for the proposal for a law on the forced conversion of CHF loans into the national currency in its first reading.

In Croatia, the Supreme Court ruled in favor of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favor of the plaintiff, the bank consumer association "Potrošač", in respect of the unlawfulness of the unilateral interest rate adjustment clause. Eight Croatian banks are affected by this ruling, including Addiko Bank d.d. in Zagreb, which has lodged an extraordinary appeal against it via constitutional claim, which was rejected as groundless, along with the constitutional claims filed by other Croatian banks. At third instance, the second-instance verdict was confirmed in all respects, with the addition that the borrowers participating in the class action cannot exert any direct claims from the verdict but have to file individual complaints. Udruga "Potrošač" also filed a constitutional claim, objecting the decision of the Supreme Court regarding the F/X clause. The constitutional court accepted Udruga "Potrošač"'s claim and ordered a retrial. The constitutional court used the same reasoning for its decision as the European Court of Human Rights in its decision C-186/16 dated 20 September 2017. Eventually, the High Commercial Court Zagreb rendered its verdict in June 2018 declaring also the CHF F/X clause as null and void. All banks filed legal remedies with the Supreme Court and/or Constitutional Court.

Although this verdict is binding to all lower courts still each borrower has to claim individually and prove the preconditions. The borrowers included in the class action cannot exert any direct claims from the verdict but have to file individual complaints.

Currently, 799 proceedings are pending against the Croatian subsidiary bank, of which 556 proceedings are at first or second instance regarding F/X or unilateral interest change clauses. Only 111 out of those 556 proceedings are related to the F/X clause. At first instance, civil courts have passed opposing verdicts in cases where plaintiffs concluded supplementary agreements on loan conversion pursuant to the consumer loan law: On the one hand, decisions were taken in favor of the bank, as from the point of view of the court, consumers having given their consent to convert the loan in line with the consumer loan law are no longer entitled to seek legal remedy for reimbursement of overpaid interest. On the other hand, decisions were taken in favor of the plaintiff, as according to the court, the consumer loan law deals with currency issues and not with unilateral interest rate adjustments. Therefore, the latter would have to be decided by a court on a case-by-case basis. The second instance courts have up to this moment in several decisions confirmed that the plaintiffs who converted their loans are not entitled to ask for reimbursement of overpaid interest and that the consumers who converted their loans are not entitled to ask for reimbursement of overpaid interest, either.

In 2015, the Croatian banks, including Addiko Bank d.d. Zagreb, filed an objection with the constitutional court against the third-instance verdict, in which objection they requested the review of constitutionality of the provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act, which regulate the conversion of CHF loans. The unlawfulness of the unilateral interest rate adjustment clause had been confirmed. In April 2017, the constitutional court rejected their claim as groundless and confirmed that the concerned provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act are constitutional.

The amendment to the consumer protection credit law passed in Croatia, according to which the exchange rate between HRK and CHF was fixed at 6.39% for a period of one year, ended on 27 January 2016. Addiko Bank d.d. in Croatia extended the period of the fixed exchange rate until 1 April 2016 on a voluntary basis. Furthermore, the Croatian subsidiary has concluded supplementary agreements on loan conversion under consumer loan credit law with a majority of its CHF borrowers in 2016 (the respective legal amendment became effective as at 30 September 2016). Also in the case of the Croatian Addiko Bank d.d. together with seven other banks, an objection was filed with the constitutional court, claiming the abovestated law to be unconstitutional. In April 2017, the constitutional court rendered a verdict against the

Croatian banks, confirming the law. Regarding the Conversion Law, a BIT proceeding against the Republic of Croatia was commenced before the ICSID in Washington in September 2017.

No significant developments are to be reported with regard to Addiko Bank a.d. in Montenegro. The first instance verdict in the class action was successfully appealed by plaintiffs and the second instance referred the case for retrial to the first instance.

National legislators and the respective national regulators have also increasingly taken action regarding the issue of foreign currency loans. This tendency has been considerably reinforced as a consequence of the abandonment of the exchange rate cap in January 2015. Starting in Montenegro, the national legislator has passed regulations on handling foreign currency loans which are meant to protect the borrower from the consequences of the abandonment of the exchange rate cap. At bank level, legislative intervention has a negative effect on the operative banking business and results in considerable losses. Also against the Republic of Montenegro, a BIT proceedings with the ICSID in Washington was commenced in September 2017.

On 23 September 2016, the law amending the CHF loan conversion law came into effect. Under this law, ongoing and already repaid loans are to be converted, not making a difference as to whether loans were repaid as scheduled or paid back due to distrainment orders. If, due to the conversion (as prescribed by law), it turns out that the customer has paid too much, the bank is required to reimburse the customer. Additionally, the bank may not charge a contractual penalty for the conversion. Furthermore, the bank is required to offer recalculation to those customers who have not accepted a conversion so far.

In accordance with the law amending the CHF loan agreement conversion law into EUR, the subsidiary bank in Montenegro has converted the respective loans and performed recalculations. The bank therefore acted in full compliance with legal provisions.

EUR m

		31.12.2018		31.12.2017
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Croatia	2,850.1	45.8	3,152.0	66.5
Addiko Slovenia	1,795.8	79.5	1,710.6	91.9
Addiko Serbia	1,044.0	91.9	957.4	114.5
Addiko in Bosnia and Herzegovina	1,026.4	21.1	1,005.4	46.4
Addiko Montenegro	271.2	5.6	295.9	6.9
Addiko Holding	248.3	0.0	376.7	5.0
Total	**7,235.7**	**243.9**	**7,498.1**	**331.2**

In 2018, the Addiko Group was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 331.2 million at the end of 2017 to EUR 243.9 million at the end of 2018. Furthermore, also the CHF loans which were classified to NPE reduced from EUR 113.5 million at the end of 2017 to EUR 53.4 million at the end of 2018.

(78) Legal risks

The overall number of passive legal disputes increased in 2018. There is one major passive legal disputes pending within the Addiko Group (legal passive disputes with an amount in dispute exceeding EUR 15.0 million), a decrease by nine cases compared to 2017, whereas the biggest case with an amount in dispute of approx. EUR 29 million was closed in 2018. Some of these cases were settled by exercising the active settlement strategy, for others final verdicts in favor of Addiko Bank AG's subsidiaries could be obtained, which is a result of joint efforts and collaboration by Addiko Bank AG and its respective subsidiaries. The majority of pending proceedings relate to the Croatian subsidiary. In the Republic of Serbia loan processing fees disputes increased significantly in 2018.
The majority of pending proceedings are related to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries which are described in more detail under Note "Historical unilateral interest change clause risks".

The increase in the numbers of pending cases shows that although the amount in dispute decreased again, there is a future risk of increasing numbers of proceedings due to changed court practice and new laws (e.g. conversion laws, amendments to consumer credit acts, consumer protection acts).

Across the Addiko Group, a centralized legal data base has been established, which enables monitoring and steering by Addiko Bank AG, i.e. the holding company, as well as early perception of possible new developments and reasonings in the jurisdictions the Addiko Group is doing business in. Besides, other monitoring and steering tools have been implemented to establish and secure reliable data quality and dispute handling quality, and to monitor daily litigation work and the development of court cases.

Capital Management

(79) Own funds and capital management

79.1. Capital management

The capital management of the Addiko Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel III Pillar I) and the economic capital management approach (Basel III Pillar II) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by the Capital Requirements Regulation No. 575/2013 (CRR) and the Capital Requirements Directive (CRD IV). The CRD IV was enacted in national law in the Austrian Banking Act (BWG).

In terms of the calculation of risk weighted assets (RWA) at Group level (for regulatory reporting), the following approaches are applied:

- Standardised Approach for credit risk (SA-CR) and
- Standardised Approach (STA) for operational risk at the Addiko Group level

The Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the Group's business, to analyse changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilisations for each segment. The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar II capital guidance (risk coverage ratio) are set for the Addiko Group. In addition to the minimum capital ratios required by the regulators, the Addiko Group defines early warning and recovery levels in the Addiko Group's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Recovery and Resolution Act").

Additionally, the Capital Management Team tracks all new regulatory changes, e.g. MREL and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

79.2. ICAAP - Internal Capital Adequacy Assessment Process

Securing the Group's ability to bear economic risks forms a central part of steering activities within the Addiko Group; to which end the Group processes an institutionalized internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Addiko Group is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates,

etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Integrated Risk Management and presented to the Group Risk Executive Committee (GREC), where they are discussed and, if required, measures are decided. In this regard, the GREC serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organisation and stress test assumptions) for the Group. Additionally, the report is submitted to the Management Board on a monthly basis and presented to the committees of the Supervisory Board.

79.3. Own funds and capital requirements

Own funds according to the CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk. The determination of eligible total capital – including the 2018 profit – in accordance with the applicable regulations is based on international accounting standards.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2017 and 31 December 2018 amount to:

	31.12.2017			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	2.70%	3.70%	4.90%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**7.20%**	**9.70%**	**12.90%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	1.250%	1.250%	1.250%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.001%	0.001%	0.001%	0.002%	0.002%	0.002%
Overall Capital Requirement (OCR)	**8.451%**	**10.951%**	**14.151%**	**11.077%**	**12.577%**	**14.577%**

In addition to Pillar I minimum capital ratios, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2017 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group and AI Lake scopes of consolidation additional 4.7% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. At the beginning of January 2019, Addiko Bank AG received a decision as result of the 2018 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, the additional Pillar II requirement will decrease from 4.7% to 4.1%.

According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. The transitional provisions for capital conservation buffers, by way of derogation from the requirements under Section 23 BWG, are regulated in Section 103q (11) BWG as follows:

- for the period from 1 January 2016 until 31 December 2016: 0.625%;
- for the period from 1 January 2017 until 31 December 2017: 1.25%;
- for the period from 1 January 2018 until 31 December 2018: 1.875%.

A breach of the combined buffer requirement (the CCB and the systemic risk buffer) would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

The Company is a member of the consolidated group headed by AI Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. AI Lake (Luxembourg) Holding S.à r.l. is the most senior parent company for which Addiko Bank AG as the primary credit institution according to the provisions of Section 59 BWG produces consolidated financial statements.

In accordance with Regulation (EU) No. 575/2013 (CRR), the regulatory reports have been provided at the level of both the Addiko Group and the Al Lake Group since 30 September 2015.

The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 31 December 2018 and 31 December 2017.

EUR m

Ref*		31.12.2018 ADDIKO	31.12.2017 ADDIKO	31.12.2018 Al Lake	31.12.2017 Al Lake
	Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	195.0	5.0	42.0	54.3
2	Retained earnings	561.0	792.8	724.1	704.9
3	Accumulated other comprehensive income (and other reserves)	-0.8	4.6	11.2	22.1
5	Minority interests (amount allowed in consolidated CET1)	0.0	0.0	0.0	0.0
5a	Independently reviewed profits net of any foreseeable charge or dividend	54.2	-68.1	-12.3	62.5
6	**CET1 capital before regulatory adjustments**	**809.5**	**734.4**	**765.0**	**843.8**
	CET1 capital: regulatory adjustments				
7	Additional value adjustments	-1.2	-4.4	-1.2	-4.3
8	Intangible assets (net of related tax liability)	-30.3	-21.8	-30.3	-21.8
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-19.0	-12.8	-19.0	-10.3
[#]	IFRS 9 transitional rules	43.8	0.0	41.9	0.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-6.7**	**-39.1**	**-8.6**	**-36.4**
29	**Common Equity Tier 1 (CET1) capital**	**802.8**	**695.3**	**756.4**	**807.5**
	Tier 2 (T2) capital: instruments and provisions				
58	**Tier 2 (T2) capital**	**0.0**	**100.0**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**802.8**	**795.3**	**756.4**	**807.5**
60	Total risk weighted assets	4,545.0	4,653.1	4,604.9	4,671.0
	Capital ratios and buffers %				
61	CET1 ratio	17.7%	14.9%	16.4%	17.3%
63	TC ratio	17.7%	17.1%	16.4%	17.3%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

CET1 capital at the level of the Addiko Group increased by EUR 107.5 million during the reporting period, due to:

- a capital contribution of EUR 68.4 million by the parent company Al Lake (Luxembourg) S.à r.l. by way of a waiver in the amount of EUR 100.0 million of the existing Tier 2 supplementary capital, with the difference between the carrying amount and the fair value of the instruments being recognised in the income statement and thus included in the regulatory capital as part of the audited year end result;
- a net impact of EUR 11.2 million from the implementation of IFRS 9 under consideration of the transitional capital rules published by the EU on 21 December 2017;
- an increase in regulatory deduction items in the amount of EUR 11.4 million in connection with increase in investments in intangible assets (EUR 8.4 million); increase in deferred tax assets on existing taxable losses (EUR 6.2 million) and decrease of other regulatory value adjustment items (EUR 3.2 million);
- a decrease by EUR -15.1 million of the other comprehensive income mainly due to the disposal of debt instruments and recognition in profit and loss of the corresponding capital reserves and negative changes of market values, partially compensated by an increase of the foreign currency reserves;
- the inclusion of the audited year end result of EUR 104.2 million, net of EUR 50.0 million in foreseeable dividends.

Total capital at the level of the Addiko Group increased during the reporting period by EUR 7.5 million as the positive changes of the CET1 capital were compensated by the waiver in the amount of EUR 100.0 million of the Tier 2 supplementary capital performed by the parent company AI Lake (Luxembourg) S.à r.l. in February 2018 as described above.

Capital requirements (risk-weighted assets) based on a transitional basis

RWAs decreased by EUR 108.1 million at the level of the Addiko Group during the reporting period. The decrease was primarily due to RWA initiatives and asset quality improvements.

EUR m

Ref*		31.12.2018 ADDIKO	31.12.2017 ADDIKO	31.12.2018 AI Lake	31.12.2017 AI Lake
1	Credit risk pursuant to Standardised Approach	3,958.5	4,059.6	3,965.2	4,092.6
6	Counterparty credit risk	5.4	8.7	5.4	8.7
19	Market risk	173.2	176.3	173.2	176.3
23	Operational risk	407.9	408.4	461.0	393.4
Total risk exposure amount		**4,545.0**	**4,653.1**	**4,604.9**	**4,671.0**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Leverage ratio on a transitional basis

At the level of the Addiko Group the leverage ratio calculated in accordance with the CRD IV was 12.2% at 31 December 2018, up from 10.4% at 31 December 2017. The development was driven by growth in Tier 1 capital as well as a decrease in leverage exposure, primarily due to a decrease in balances at central banks and investment securities.

EUR m

Ref*		31.12.2018 ADDIKO	31.12.2017 ADDIKO	31.12.2018 AI Lake	31.12.2017 AI Lake
20	Tier 1 capital	802.8	695.3	756.4	807.5
21	Total leverage ratio exposure	6,559.0	6,665.3	6,567.0	6,723.9
22	**Leverage ratio %**	**12.2%**	**10.4%**	**11.5%**	**12.0%**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Disclosures as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of Regulation (EU) No. 575/2013

EUR m

Ref*		31.12.2018 ADDIKO	31.12.2017 ADDIKO	31.12.2018 AI Lake	31.12.2017 AI Lake
	Available capital (amounts)				
1	Common Equity Tier 1 (CET1) capital	802.8	695.3	756.4	807.5
2	CET1 capital as if IFRS 9 had not been applied	759.0	695.3	714.5	807.5
5	Total capital (TC)	802.8	795.3	756.4	807.5
6	TC as if IFRS 9 transitional rules had not been applied	759.0	795.3	714.5	807.5
	Risk-weighted assets (amounts) (RWAs)				
7	Total RWAs	4,545.0	4,653.1	4,604.9	4,671.0
8	Total RWAs as if IFRS 9 transitional rules had not been applied	4,501.3	4,653.1	4,561.2	4,671.0
	Capital ratios %				
9	CET1	17.7%	14.9%	16.4%	17.3%
10	CET1 as if IFRS 9 transitional rules had not been applied	16.9%	14.9%	15.7%	17.3%
13	TC	17.7%	17.1%	16.4%	17.3%
14	TC as if IFRS 9 transitional rules had not been applied	16.9%	17.1%	15.7%	17.3%
	Leverage ratio (LR)				
15	Total LR exposure (transitional definition)	6,559.0	6,665.3	6,567.0	6,723.9
16	LR	12.2%	10.4%	11.5%	12.0%
17	LR as if IFRS 9 transitional rules had not been applied	11.7%	10.4%	11.0%	12.0%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Addiko has opted at the level of the Addiko Group to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; plus
- any subsequent increase in expected credit losses in the non-credit-impaired (stage 1 and stage 2) booked thereafter.

Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs. While the adoption of these transitional capital rules has a negligible impact on CET1 capital in 2018, they would mitigate the impact on capital in adverse economic conditions.
Based on these transitional arrangements EUR 43.8 million have been added back to Addiko Group CET1. This comprises EUR 45.5 million in impairment allowances, less EUR 1.7 million in deferred tax. The corresponding impact on RWAs is an increase of EUR 43.7 million. The impact of these adjustments is an increase of:

- 0.8bp in the Group's CET1 ratio; and
- 0.7bp in the Group's leverage ratio

Supplementary information required by Austrian Law

(80) Assets pledged as collateral

Assets in the amount of EUR 5.0 million (2017: EUR 5.5 million) were pledged as collateral for own debts to third parties at terms which are usual and customary for such activities. These are cash collaterals pledged as collateral in relation to derivatives. Collaterals in the amount of EUR 23.7 million (2017: EUR 20.9 million) were pledged as a result of repurchase agreements. Securities with a notional amount of EUR 0.0 million (2017: EUR 9.5 million) were deposited with Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding asset was recognised in the Addiko Group's statement of financial position.

(81) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2018			31.12.2017		
	thereof listed	thereof unlisted	Total	thereof listed	thereof unlisted	Total
Financial assets held for trading						
Debt securities	13.4	6.0	19.3	4.5	0.9	5.4
Financial assets mandatorily at fair value through profit or loss						
Equity instruments	0.0	0.3	0.3	-	-	-
Debt securities	0.0	16.4	16.4	-	-	-
Available-for-sale financial assets						
Equity instruments	-	-	-	0.2	22.1	22.3
AFS-other participations (associated companies 0% -20%)	-	-	-	0.2	3.7	3.9
AFS-shares and other not fixed-interest securities	-	-	-	0.0	18.4	18.4
Debt securities	-	-	-	1,074.3	137.7	1,212.0
Financial assets at fair value through other comprehensive income						
Equity instruments	0.1	17.0	17.1	-	-	-
Debt securities	941.3	209.6	1,150.9	-	-	-
Financial assets at amortised cost						
Held-to-maturity investments						
Debt securities	-	-	-	42.5	0.0	42.5

(82) Expenses for the auditor

The following expenses for the group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna were incurred in the reporting period:

EUR m

	31.12.2018	31.12.2017*
Audit fees for the annual financial statements	**-0.2**	**-0.2**
Expenses for the current year	-0.2	-0.2
Expenses relating to the previous year	0.0	0.0
Fees for other services	**-0.5**	**-0.3**
Other assurance services	-0.5	-0.3
Other services	0.0	0.0
Total services	**-0.7**	**-0.5**

*Comparative period has been adjusted: Other services decreased by EUR 0.8 million

The audit expenses incurred in the financial year 2018 include the gross audit fee (including VAT) as well as the related cash expenditure.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) financial statements as well as the costs of the consolidated financial statements themselves.

(83) Trading book

The volume of the trading book of Addiko Group breaks down as follows:

EUR m

	31.12.2018	31.12.2017
Derivatives in trading book (nominal)	363.0	296.2
Debt securities (carrying amount)	19.3	5.4
Trading book volume	**382.3**	**301.6**

(84) Employee data

	31.12.2018	31.12.2017
Employees at closing date (Full Time Equivalent - FTE)	2,933	2,953
Employees average (FTE)	2,944	3,052

(85) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent institution:

in TEUR

	31.12.2018		31.12.2017	
	Severance payments	Pensions	Severance payments	Pensions
Members of Management Board	48.2	0.0	60.0	36.0
Key management personnel	51.6	8.3	50.8	6.0
Other employees	221.7	51.4	230.8	61.8
Total	**321.5**	**59.7**	**341.6**	**103.8**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 221.7 thousand (2017: EUR 230.8 thousand).

(86) Relationship with members of the Company's Boards

86.1. Advances, loans and liabilities with regard to Board members

As at 31 December 2018, the Addiko Bank AG Boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

86.2. Breakdown of remuneration received by Board members of the ultimate Group parent institution

in TEUR

	31.12.2018	31.12.2017
Management Board	**5,278.8**	**5,607.0**
thereof ongoing payments	5,278.8	5,607.0
Supervisory Board	**153.0**	**142.5**
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	**401.2**	**0.0**
Total	**5,833.0**	**5,749.5**

The members of the Management Board and Supervisory Board are stated in note (89) Boards and Officers of the Company.

(87) Boards and Officers of the Company

1 January to 31 December 2018

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Dragica Pilipović-Chaffey

Delegated by the Works Council:
Horst Floriantschitz
Christian Lobner

Federal Supervisory Authorities

State Commissioner:
Judith Schmidl (until 31.12.2018)

Deputy State Commissioner:
Vanessa Koch

Management Board

Razvan Munteanu, Chairman of the Management Board (since 01.04.2018)
Ulrich Kissing, Chairman of the Management Board (until 31.03.2018 Chairman of the Management Board, until 30.06.2018 Member of the Management Board)
Johannes Proksch, Member of the Management Board
Markus Krause, Member of the Management Board
Csongor Bulcsu Németh, Member of the Management Board
Martin Stefan Thomas, Member of the Management Board (until 31.12.2018)
Christian Kubitschek, Member of the Management Board (until 29.11.2018)

(88) Scope of consolidation

The consolidated group of companies as defined under IFRS as at 31 December 2018 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	100.0	31.12.2018	CI
Addiko Bank d.d.	Zagreb	100.0	100.0	31.12.2018	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	100.0	31.12.2018	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2018	CI
Addiko Bank d.d.	Sarajevo	100.0	100.0	31.12.2018	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8	99.8	31.12.2018	CI

(89) Events after the reporting date

At the beginning of January 2019, Addiko Bank AG received a decision with regard to the adequacy of its own funds as well as the proceedings with regard to the Group's liquidity (Joint Risk Assessment & Decision Process - JRAD) from the Austrian Financial Market Authority (FMA). Pursuant to this decision, own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, Addiko Bank AG is required to maintain a Total Capital Ratio (TCR) of 12.1% (2017: 12.7%), a Tier 1 ratio of 10.1% (2017: 10.7%) and a CET 1 ratio of at least 8.6% (2017: 9.2%) at holding level as well as at the level of the Addiko Group and AI Lake scopes of consolidation. Additionally, the capital conservation buffer is to be taken into account, which increases by 0.625% each year, starting at 0.625% in 2016 and scheduled to reach 2.5% in 2019.

Vienna, 26 February 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Johannes Proksch

Markus Krause

Csongor Bulcsu Németh

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, 26 February 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Audit opinion

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Addiko Bank AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

- Measuring expected credit losses of financial instruments both without significantly increased credit risk ("stage 1") as well as with significantly increased credit risk ("stage 2")
  Description of the individual key audit matter

Description of the individual key audit matter

IFRS 9 "Financial Instruments" includes extensive revision regarding impairment of financial instruments to be applied on January 1, 2018. As of December 31, 2018 volume of gross book values of financial instruments in stage 1 and stage 2 amounts to EUR 6,840.7 Mio. The associated risk provisions for Stage 1 and Stage 2 amount to EUR 91.8 Mio. The measurement of expected credit losses of financial instruments shall consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions. This requires making assumptions, discretionary decision making and estimations as well as complex data preparation- and -analysis procedures for individual customer groups, especially regarding estimations of probabilities of default (PD) and loss given default (LGD).

We refer to the notes of the consolidated financial statements, section „2.1 IFRS 9 Financial Instruments" as well as detailed amounts in section "69.5. Reconciliation between Financial instruments classes and Credit risk exposure".
Given the importance for the consolidated financial statements and the significant uncertainty of estimations as well as complexity involved in assessing the required parameters PD and LGD, we identified expected credit losses of financial assets in stage 1 and stage 2 as a key audit matter.

Our response

In order to evaluate adequacy of booked risk provisions, we identified the bank's methods for measurement of expected credit losses and assessed its compliance with the requirements of IFRS 9. We evaluated design, implementation and effectiveness of the controls relevant to the assessment of significant parameters used for measurement of expected credit losses. We critically reviewed models and concepts for measuring expected credit losses and re-performed calculations to assess significant parameters. We tested that measurement of expected credit losses considered these parameters as well as all relevant financial instruments.

- Impairment of non-performing loans and advances (including relevant off-balance-sheet items) ("Stage 3")

Description of the individual key audit matter

As at December 31, 2018, non-performing loans and advances (including relevant off-balance-sheet items) before impairment amount to EUR 403.8 million. Corresponding risk provisions amount to EUR 304.4 million.

Addiko Bank AG uses model-based risk provisioning for insignificant non-performing loans and advances, whereas for significant non-performing loans and advances risk provisions are calculated on an individual basis.

We refer to the disclosures in section "2.1 IFRS 9 Financial Instruments", section "70.1. Method of calculating risk provisions" as well as detailed amounts in section "69.5. Reconciliation between Financial instruments classes and Credit risk exposure".

As determining the impairment of non-performing loans and advances (including relevant off-balance-sheet items) in all models relevant for non-performing financial instruments represents an estimate that is significantly impacted by the identification of the loss event, the estimate of the expected cash flows and/or the identification of the calculation parameters used to assess those expected cash flows, we identified the amount of impairment of non-performing loans and advances (including relevant off-balance-sheet items) as a key audit matter.

Audit approach

In order to assess the appropriateness of the stage 3-risk provisions, we reviewed the significant processes and models within credit risk management as well as a selection of individual loans. We identified and tested the significant controls in place for credit approval, continuous monitoring and especially in the early detection process for borrowers potentially at risk of default. We checked a selection of audit relevant controls with regard to the correct application of rating models and measurement of collateral. Moreover, we critically assessed if loss events were identified in their entirety. For this reason we examined loans and receivables not identified as non-performing by bank's management with respect to events with significant negative impact on the recovery of those loans.

We checked the design and implementation of a selection of audit relevant controls with regard to the assessment of the reliability of the models used in calculating model-based stage 3 risk provisions (back testing, continuous monitoring and validation of models and parameters on a regular basis; re-estimate and recalibration, if required, based on updated time series). We re-performed the submitted analyses of back testing and re-estimates.

We checked the appropriateness of individual stage 3-risk provisions based on a selected sample. We critically assessed the estimated cash flows from expected redemptions and collateral proceeds and re-calculated the present value.

- Deferred tax assets from losses carried forward and other deductible temporary differences

Description of the individual key audit matter

As at December 31, 2018, the Addiko Bank Group capitalized deferred tax assets. MEUR 19 million out of them refers to deferred tax assets from losses carried forward as well as EUR 7.6 million of deferred tax assets from other deductible temporary differences.

Deferred tax assets may only be recognized in the balance sheet to the extent that sufficient taxable results will be available in the future against which unrealized tax losses as well as other deductible temporary differences can be used. Substantiation of sufficiency of future taxable results is based on corporate planning and related tax planning.

Expected taxable results are subject to a high degree of discretion. Slight changes to these assumptions will lead to significantly deviating results.

We refer to the disclosures in section “36.1. Deferred tax assets/liabilities”.

Due to the sensitivity of the model and the high degree of discretion involved in the assumptions, we identified the capitalization of deferred tax assets from losses carried forward and other deductible temporary differences as a key audit matter.

Audit approach

We critically assessed the assumptions and estimates used to determine the significant parameters and input factors. We compared the assumptions used for future taxable results with past performance and past planning accuracy. We discussed the figures and planning assumptions used with management and responsible employees. Plausibility checks were performed using internal and external forecasts.
Furthermore, we verified the existence and amount of the available tax losses carried forward using external confirmations. In addition, we analyzed and re-performed the assumptions with regard to the realizability of deductible temporary differences.

Other Information

Management is responsible for the other information. The other information comprises all information in the consolidated non-financial report, which we obtained prior to the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. With respect to the information in the consolidated management report beyond the consolidated non-financial statement we refer to the section “Report on the Audit of the Consolidated Management Report”.

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

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

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

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

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

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The consolidated non-financial statement included in the consolidated management report is not subject to our audit; our respective responsibilities are described in the section "Other Information".

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements .

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidate financial statements, we have not identified material misstatements in the consolidated management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on November 27, 2017 and commissioned by the supervisory board on November 27, 2017 to audit the consolidated financial statements for the financial year then ending December 31, 2018. We have been auditing the Group uninterrupted since the financial year ending December 31, 2014.

We confirm that our opinion expressed in the section "Report on the Audit of the Consolidated Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit..

Vienna, February 28, 2019

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p. Certified public accountant	ppa. Monika Dabrowska m.p. Certified public accountant

The consolidated financial statements baring our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281 (2) Austrian Business Code apply to other version.

Report of the Supervisory Board

Dear Shareholders,

after the successful turnaround in the financial year 2017, the Addiko Group focused on the further implementation of its business strategy, particularly on financing for private individuals in the form of consumer lending and SME financing in Central and South Eastern Europe. The year 2018 once more saw a growth in revenue and thus a further significant step towards a sustainable and appropriate return on equity.

Based on the milestones defined in 2017, the business strategy was refined in the course of the annual discussions and assessments in 2018. The focus segments Consumer and SME financing reported significant growth in the reporting year, while sustainable cost efficiency and a balanced risk portfolio continued to be of importance. Also, in 2018, The subsidiary banks were able to finance themselves independently in their respective markets and increase their profitability once more.

The Addiko Group offers convenient and quick banking services to its customers and puts a particular emphasis on innovative digital solutions in its business activities.

As with the previous product portfolio in the Retail segment, online & mobile banking services for small and medium-sized enterprises were further improved in the course of the ongoing digitization of business processes. Simultaneously, digital solutions to capture customer feedback were implemented in order to use the findings made for further measures to enhance individual customer satisfaction and thus the commercial success.

With its operating model, the Addiko Group adopts a modern approach and aims to raise levels of productivity and improved efficiency across the organisation while assuring local execution of all critical services. The "Central Steering" and "Group Shared Services" provide each Addiko entity a higher degree of specialisation and standardisation by sharing best practices and therefore raising the quality of service delivery and steering while reducing simultaneously the cost of delivery across the Group.

A strict risk management on the back of a robust risk strategy contributes to an appropriate balance between risk and return. In this way, the Addiko Group is able to actively manage and optimally monitor all risks.

The positive development of the result was supported by further cost management improvements made in 2018.

Within the context of a capital adjustment, the share capital of Addiko Bank AG was increased from EUR 5 million to EUR 195 million using existing reserves.

Activities of the Supervisory Board

During the reporting year, the Supervisory Board performed all of the duties incumbent upon it in a highly conscientious manner and in accordance with the law, the Company’s statutes and its own terms of reference.

It held seven meetings in total in the financial year 2018 and assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the meetings of the Supervisory Board and its Committees, the Management Board reported in depth on the Addiko Group’s financial situation and business performance. The Management Board discussed in detail strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, the Supervisory Board undertook the measures necessary to assure that the governance of the Addiko Group’s affairs was lawful, compliant and appropriate.

The Supervisory Board had formed the following six standing Committees:

- the Audit and Compliance Committee (which held four meetings in 2018)
- the Credit Committee (which held seven meetings in 2018),
- the Risk Committee (which held five meetings in 2018),
- the Nomination Committee (which held two meetings in 2018),
- the Remuneration Committee (which held two meetings in 2018) and
- the Committee for Management Board Matters (which held four meetings in 2018).

Based on the amendment to the Austrian Banking Act (BWG) dated 10 November 2017 (Austrian Federal Legal Gazette (BGBl.) No. 149/2017), the Nomination Committee and the Remuneration Committee of the Supervisory Board were dissolved by resolution of the Supervisory Board dated 9 May 2018.

The Chairman of the Supervisory Board, as well as the Chairmen of the Committees of Addiko Bank AG's Supervisory Board were in regular contact with the Management Board.

The Supervisory Board, within quarterly meetings, was regularly informed on the following topics: business performance in the previous quarter, financial performance, risk development and significant issues, as well as major areas of litigation. Between the quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of monthly business reports. In addition, the Supervisory Board has also received regular reports of key executives, especially the Compliance and Internal Audit Officer.

Personnel matters

The Management Board of Addiko Bank AG was reduced from seven to four members in the financial year 2018.

- Mr. Ulrich Kissing resigned as chairman of the Management Board as per 31 March 2018 and as member of the Management Board as per 30 June 2018;
- Mr. Christian Kubitschek resigned as member of the Management Board as per 29 November 2018;
- Mr. Martin Thomas left the Management Board as per 31 December 2018 at the end of his term of office.

Mr. Razvan Munteanu was appointed as chairman of the Management Board as per 1 April 2018. Mr. Csongor Nemeth, Mr. Markus Krause and Mr. Johannes Proksch remained as members of the Management Board.

The Supervisory Board of Addiko Bank AG remained unchanged in the financial year 2018 and consists of six members, thereof two delegated by the Workers Council.

Separate and Consolidated Financial Statements 2018

Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, Austrian company registration number 36059d, audited the Separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of the Addiko Group as at 31 December 2018, issuing unqualified audit opinions. Pursuant to statutory provisions, the Management Report and the Group Management Report have been audited as to whether they are consistent with the Separate and Consolidated Financial Statements and prepared in accordance with the applicable legal requirements. The Consolidated Non-Financial Report was read and considered not to be materially inconsistent with the Consolidated Financial Statements nor to be materially misstated.

The Separate Financial Statements of Addiko Bank AG were prepared in accordance with the regulations of the Austrian Banking Act (BWG) and – where applicable – with the provisions of the Austrian Commercial Code (UGB). The Consolidated Financial Statements of Addiko Group were prepared in accordance with IFRS as adopted by the EU and in compliance with the requirements under Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG). The Annual Report, the Group Annual Report, the Consolidated Non-Financial Report and the Management Board's proposal for the allocation of the annual profit 2018 – all prepared by the Management Board – were discussed in detail with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on 1 March 2019.

At the meeting, the aforementioned Committee inter alia resolved to propose approving the Separate Financial Statements of Addiko Bank AG by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on 1 March 2019. At this meeting, the Separate and Consolidated Financial Statements 2018 were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and appropriate.

The Management Report of Addiko Bank AG, as well as that of the Addiko Group and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated a net profit for the year in the amount of EUR 50.0 million in the financial year 2018. At the next General Assembly, a proposal will therefore be made to distribute an amount of EUR 50.0 million by the Company as a dividend.

The result of the examination is that the Supervisory Board had no objections to the Financial Statements, the Consolidated Financial Statements and the audit performed by the auditor.

The Supervisory Board, therefore, concurred with the results of the audit on 1 March 2019 and approved the Separate Financial Statements of Addiko Bank AG. The Separate Financial Statements have, therefore, been adopted.

The Supervisory Board would like to express thanks to the members of the Management Board and to the entire staff for their outstanding commitment and excellent achievements in 2018 and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti
Chairman of the Supervisory Board

Vienna, 1 March 2019

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Big ticket	The industry recognised term for loans larger than average in the portfolio
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Cost/income Ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of Risk Ratio	Risk Provisions/Credit Risk Bearing Exposures
CRB	Credit Risk Bearing
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
EMU	Economic and Monetary Union
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
GCCR	Group Corporate Credit Risk
GDP	Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted)
GDPR	General Data Protection Regulation
Gross Performing Loans	Volume of performing exposure without deduction of risk provisions
GRRM	Group Retail Risk Management
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group

	members, and are provided and charged to the respective receiving Group member
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk
ILO	International Labor Organisation
IMF	The International Monetary Fund is an international organisation that aims to promote global economic growth and financial stability, to encourage international trade, and to reduce poverty
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
Leverage Ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loan to Deposit Ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of Net interest income and Net fee and commission income
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE Ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non Performing Exposure/Credit Risk Exposure (on and off balance)
NPE Coverage Ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro,

	Includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to Large Corporates subsegment
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 means instruments or subordinated loans with an original maturity of at least five years and do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet

Imprint

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Addiko Bank

Group Annual Report 2017

Addiko Bank

Key data based on the consolidated financial statements drawn up in accordance with IFRS

EUR m

	2017	2016
Selected items of the Profit or loss statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	165.3	158.8
Net fee and commission income	58.5	50.0
Other operating income	3.2	-21.7
Operating expenses	-190.1	-212.4
Operating result	**36.9**	**-25.4**
Impairment or reversal on loans and receivables	-15.1	4.4
Result after tax	**41.6**	**-23.9**
Selected items of the Statement of financial position	**31.12.**	**31.12.**
Loans and advances to customers	3,691.9	3,730.5
Deposits of customers	4,933.8	4,435.6
Equity	844.0	994.7
Total assets	6,485.5	7,216.1
Risk-weighted assets	4,653.1	4,470.8
Key ratios	**1.1.-31.12.**	**1.1.-31.12.**
Cost/income ratio	83.8%	113.6%
Net interest margin	2.4%	2.2%
Bank-specific figures	**31.12.**	**31.12.**
Core Tier 1 ratio	14.9%	15.0%
Total capital ratio	17.1%	16.4%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	2,953	3,152
Number of locations	199	202

Disclaimer:
Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.
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The tables in this report may contain rounding differences. Any data is presented on the Addiko Bank Group level (referred to as Addiko Bank throughout the document) unless stated otherwise.

Letter from the CEO

Dear Shareholders, Customers and Employees,

we have transformed Addiko Group into a successful SEE Retail and SME bank. The year 2017 is the first year in which Addiko Group's turnaround is visible. All SEE banking subsidiaries achieved positive results, with the Group more than delivering on our market guidance with a first time profit after tax (PaT) of EUR 41.6 million. This result is achieved on a sound basis. We have recorded increased business volume in consumer loans and SME loans and a substantial growth in retail net fee and commission income. Addiko Group is growing client deposits throughout all our markets. As a result of our successful efforts over the year, we have achieved a strong increase in operating profit.

We remain focused on our retail strategy, accelerating disbursements in consumer lending by 27.5% to EUR 559 million and the consumer loan book growing by 49% to EUR 889 million. We have demonstrated the success of straightforward banking; be it the fast and efficient account opening in Serbia and Croatia, the convenient consumer loan processes in Serbia or the opening of our new "Addiko Express" branches in Slovenia and Croatia. As a result, we were able to increase the volume of the newly created account packages by 96,000, increasing the retail net fee and commission income by 21.5%.

Implementing our new SME end-to-end credit process, we reduced our decision time on average by a staggering 40%, which was completed in close cooperation between our Corporate and Risk streams. We have also implemented new SME account packages that meet the needs of our customers and supported our credit decisions, implementing improved cash flow analytics. All these efforts are clearly reflected in the significant growth of our SME loan disbursements by 22.6% to EUR 492 million, outperforming the overall SME market, and in increasing the net fee and commission income in the SME segment by 21%.

Addiko Group invested heavily in its digital platform as we firmly believe that the future of consumer and SME banking is digital and the digital platform reflects our promise of being focused and efficient with significantly improved customer experience. Out of our 1 million customers, digital customers increased by 40% to 140,000, with an overall increase of digital transactions by 33% which clearly confirms the success of our digital strategy in a market that is still dominated by branch business.

We have continued the further growth of client deposits across all SEE countries, resulting in a solid funding base and liquidity position. Customer deposits are supported by online deposits gathering in Germany and Austria.

The positive year-end result of EUR 41.6 million marks a significant year-on-year improvement (2016: EUR -23.9 million) driven by an increase of net interest income (+4.1%) and net fee and commission income (+17%), a further cost reduction of EUR 22.4 million (-10.5%) and very favorable risk costs as part of our improved risk processes.

By additionally improving its lending portfolio and asset quality, Addiko Group has posted a better-than-average NPL ratio of 8.1% (9.2% in 2016) and a solid NPL coverage ratio of 67.0% (67.5% in 2016). Addiko Group has successfully dealt with the negative impacts arising from the economic collapse of a large corporate debtor based in Croatia.

With a strong capital base and an above average TCR of 17.1%, Addiko Group continues to rank amongst the best capitalized banks in the SEE region.

All these results confirm that we are successfully back in business and we highly appreciate that this is also reflected in the view of market surveys and in the media, recognizing our successes and the improved way we serve our customers. We received a reward for our excellent digital platform in Serbia, were acknowledged as the best retail bank in Croatia, and just recently received a certificate for being the most customer friendly bank in Croatia, Serbia and Slovenia.

Addiko Group's results demonstrate what we stand for and what we want to work for in order to achieve customer satisfaction. This customer focus is the real value of Addiko Group as it will support us in the years to come. It is the foundation of our future.

A future built on straightforward banking, delivering customer appreciation and satisfaction which results in financial success – sustainability in its true sense. In 2018, we will continue to significantly invest in our straightforward proposition and customer promise.

We are well on track delivering straightforward banking and achieving long term sustainable profitability and growth.

Truly Yours,

Ulrich Kissing

Chief Executive Officer

Addiko Bank AG

Group Annual Report 2017

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Group Management Report

1. Overview of Addiko Group

Addiko Group (herein after referred to also as the Addiko Bank) is an international financial group headquartered in Vienna, Austria, operating through seven banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro with over one million customers. The strategy of Addiko Group is focused on markets in the south- and easteuropean (SEE) region delivering core products and services relevant to the customers, while also providing online deposit services in Austria and Germany. The holding company AI Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor and the European Bank for Reconstruction and Development (EBRD).

Addiko Bank has operated under this name since July 11, 2016 following a successful rebranding and strategic repositioning of Addiko Group providing straightforward banking to its retail and SME target customer base. Addiko Group delivers essential banking products in an efficient way and makes its products and services simple to understand from a customer perspective. In 2017 Addiko Group got recognized locally and internationally as e.g. most innovative brand, highly innovative branch concept and best mobile banking app. Addiko Group successfully concluded partnerships with various companies to create an ecosystem where Addiko Group is a digital challenger to incumbent banks. On the one hand, Addiko Group provides innovative, state-of-the art digital services like peer-to-peer payments on social platforms via Viber banking, and on the other hand, Addiko Group provides a scalable platform through an innovative Target Operating Model (TOM) and balanced outsourcing of non-core activities.

A customer centric business model, a focus on providing high operational stability, significant efforts addressing emerging cyberrisks, and a prudent approach to credit risk management are key pillars of the current operating model.

2. General economic conditions 2017

The GDP growth forecasts for Slovenia, Croatia and Montenegro have been upgraded amid external demand surprises, while keeping forecasts for Serbia and Bosnia and Herzegovina unchanged.

Slovenian GDP increased by 4.9% year on year in Q3/2017, driven by net exports and private consumption, with robust exports and resurgent capex supporting the 2017 growth forecast structurally healthy and tracking 3.2%. That said, stronger export growth reflects the acceleration in the euro area GDP, ongoing competitiveness and a fair movement up the value chain. Slovenian growth, after peaking in 2017, is in 2018 expected to remain at 4,0% with firmer global activity, stronger capital expenditures, post-crisis catch-up effects and domestic demand as the main drivers.

Croatian GDP rose by 3.3% year on year in Q3/2017, driven by private consumption thanks to a stellar tourist season and ensuing robust consumption additionally driven by employment growth and net wage growth, lower savings rates, resurgent consumer credit dynamics and strong car sales. While the ever stronger external demand will continue to push exports, import-driven domestic demand will still produce a negative impact of net trade on the overall growth.

Serbian GDP growth accelerated to 2.1% year on year (vs. 1.2% year on year in H1/2017), driven by private consumption, somewhat stronger investments into tradable sectors and public capex. However, stronger growth was constrained by a drought–inflicted agricultural output slump and the slowly normalizing energy sector.

In Bosnia and Herzegovina, the 2017 GDP growth forecast remains at 2.7% on the back of solid consumption and industry trends in Q3/2017 and beyond, while construction is still in red due to International Monetary Fund tranche absence.

Montenegro´s 2017 GDP forecast was upgraded by 0.5 basis points to 3.7% due to better-than-expected GDP growth in H1 and strong hard data for Q3/2017 and beyond.

The IMF, World Bank and similar institutions expect the SEE countries to grow faster on average compared to the euro zone average GDP growth. Most of SEE countries have also achieved stronger-than-expected fiscal consolidation over the past year, which helps them maintain public debt on a declining path in the short-to-medium run.

3. Significant events in 2017

3.1. Financial performance in brief

The Addiko Group reported a positive profit after tax of EUR 41.6 million at year-end 2017 (EUR -23.9 million in 2016), fulfilling its main goal to return to profitability.

In line with expectations, in 2017 key revenue drivers continued to perform, mainly driven by further growth in the loan portfolio regarding Consumer Finance and Corporate/SME with a healthy composition and continuous improvements in the customer deposits structure and pricing. With the focus on changing the loan portfolio mix towards unsecured lending and small/medium Corporates, the Addiko Group further increased the share of higher margin

products in its target areas Consumer Finance (25.0% of interest bearing loan portfolio) and Corporate/SME (36.8% of interest bearing loan portfolio) in 2017. The strategic reduction in less profitable business segments such as mortgages and public finance was continued.

The improved operating profit of EUR 36.9 million (2016: EUR -25.4 million) is a result of the significant progress in the restructuring of the Addiko Group. The cost base was further reduced to EUR 190.1 million (2016: EUR 212.4 million) showing a clear indication that the new strategy of Addiko Group bears fruits.

Net interest income improved by 4.1% to EUR 165.3 million (2016: EUR 158.8 million) with an improved net interest margin at 2.4% (+23 basis points) despite increased interest expenses of EUR 19.3 million (2016: EUR 6.9 million) for the additional Tier 2 capital of EUR 130 million issued in February 2017.

Net fee and commission income improved by 17.0% to EUR 58.5 million (2016: EUR 50.0 million) as a consequence of product and customer focus, as increased sales performance as well as supported by new functionality (dynamic currency conversion) implemented across the whole ATM network as a successful conclusion of the outsourcing of all ATMs to a strategic partner.

Major contributors for this positive performance can be detailed as follows:

New disbursement performance (+19.0% compared to 2016) that exceeded loan book amortization resulting in a stable development of the loan book in all banking subsidiaries.

The shift of the business mix towards the segment Consumer Finance can be seen in the positive development of the cash loan portfolio, showing an increase in volume of 48.9% from EUR 597.0 million in 2016 to EUR 889.0 million in 2017. In addition, the Corporate / SME loan balance increased from EUR 1,185.6 million in 2016 to EUR 1,310.5 million in 2017, showing an improvement of 10,5%. Due to the strategic decision to reduce exposure towards the public segment the public loan volume decreased from EUR 509.3 million in 2016 to EUR 275.1 million in 2017.

Successful further customer deposit gathering reached a total of EUR 4,933.8 million customer deposits (+11.2% since 2016) resulting in a solid funding base and liquidity position with above 90.0% of funding provided by customer deposits, supported by online deposits gathering in Germany and Austria totaling EUR 409.3 million (EUR 233.5 million in 2016) while at the same time reducing overall pricing of deposits in the banking subsidiaries on average by 34 basis points compared to 2016.

Total operating expenses were further reduced by EUR 22.4 million (-10.5% since 2016), to EUR 190.1 million, reflecting the successful conclusion of the restructuring program, the new Target Operating Model and results of further cost improvement initiatives. Total net savings amount to EUR 47.1 million (2015: EUR 237.2 million vs. EUR 190.1 million). Gross savings were significantly higher and a significant portion was invested in qualification and performance management of the future workforce, which in 2017 stabilized below 3,000 FTE's (full time equivalents) with a healthier distribution between front-office and back-office/support functions.

The reduction of NPLs remained above expectations, driven by a strong focus on workout and collection as well as debt sales programs, leading to a decline in non-performing-loans to EUR 605.7 million at year-end 2017 (EUR 760.8 million in 2016). The impact related to the financial troubles of a large corporate debtor based in Croatia has been taken into account. As of year-end 2017, the prudent risk profile is demonstrated by an NPL LLP coverage ratio of 67.0% (2016: 67.5%) and a further reduced NPL ratio to 8.1% (2016: 9.2%). Subsequent to a major reduction in passive legal claims, a net release of EUR 9.5 million in legal provisions contributed as a one-time effect to the results in 2017.

3.2. Addiko brand anniversary

In Q3/2017, the Addiko brand under which the Addiko Group has been operating since July 11, 2016 had its first anniversary. The launch of the new brand marked the start of the business turnaround for the Addiko Group, and its clear focus on strategic business segments, on raising the efficiency of operations and reaffirming Addiko Bank as a strong and stable institution in the SEE region, providing straightforward banking services to its customers.

3.3. Customer centricity driving the business

With Addiko Group dedicated to delivering its straightforward banking brand promise and providing its customers with high quality service, several key initiatives were introduced in 2017 with a goal of further improving customer experience at every touchpoint.

The already implemented Sales Force Effectiveness (SFE) program in Retail and the End-to-End (E2E) credit process improvement project in Corporate/SME, both already delivered tangible results with an immediate positive impact on branch performances and sales of all targeted products, and a significantly faster loan approval process, while the new

account packages and advanced client advisory services contributed to a double digit growth in the SME living loan volumes.

Addiko Bank made significant improvements in raising the service quality and in fostering customer loyalty by introducing new unique services, opening state-of-the-art digital "Express" branches, by enabling online current account openings, by significantly reducing the paperwork for a loan approval and by forming of a special new Customer Experience Committee.

The results of the customer-centric approach and growing customer satisfaction are also acknowledged by independent third parties as Addiko´s subsidiaries in Croatia, Slovenia and Serbia, received a Customer's Friend Certificate issued by an International Certification Association following an in-depth analysis of the Bank's reputation, customer experience, communication and the trust factor.

3.4. Leading innovation with improved digital capabilities

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

Addiko Bank continues to digitally transform and is committed to making banking more convenient for its customers by focusing on essentials, delivering efficiency and communicating simply. The roll-out of the Group wide mobile and e-banking solution for retail customers, which was initiated in 2016, was successfully concluded with the last remaining country go-live in 2017. The customer service was further enhanced by "Addiko Chat Banking", a unique Viber-based payments service, which was launched in Bosnia and Herzegovina, Montenegro, Croatia and Serbia garnering international attention, with Addiko Bank becoming the first commercial bank in the SEE/CEE and one of the first in the world to provide payment services via one of the globally most popular social media messaging and communication platforms. At the same time, further "Addiko Express" digital branches were opened in Slovenia and Croatia, building on the success of the first branch opened in 2016. Fully integrated digital capabilities for retail customers now include online current account opening, fast processing of online loan applications and an automated cash/ consumer loan processing platform, which was launched in all branches in Serbia in 2017. Decisions are made within minutes by an integrated credit decision engine, which is fully parameterized by the risk management function. As a result, the productivity and disbursements in the branches increased significantly.

Finally, it should be mentioned that the development of digital capabilities for SME customers, which are a result of a clearly formulated Digital SME Strategy, was a major focus in 2017. Building on the foundations created for Retail customers and leveraging the capabilities created through the group Digital Competence Center (DCC) in Belgrade, different light-house features are currently being developed in a agile approach and will be rolled out 2018.

3.5. Organizational structure and operating platform provide foundation for profitable growth

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

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

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that consolidates and streamlines processes across the Addiko Group and brings steering and decision making closer to the business.

Through the specialization and concentration in the banking subsidiaries the quality of service delivery and steering is significantly enhanced while simultaneously cost of delivery across the Group is significantly reduced. The TOM provides for a flexible and scalable operating platform which enables significant further revenue growth without concomitant cost increases. The incremental cost-to-income ratio (CIR) is defined as a key steering parameter. Addiko Group is well positioned for further significant improvement of the overall efficiency and continuous decline of the absolute cost-to-income ratio (CIR) across the organization.

The "Central Steering" and "Group Shared Service" functions allow Addiko Group to implement industry best practices

and develop in line with international standards in a efficient and effective way internal knowledge management is well supported and facilitated. Investments are leveraged across Addiko Group with competitive time to market for new business functionalities like the digital capabilities mentioned above. New approaches addressing e.g. cyber risk, which is regarded by the management as a key emerging risk category for the banking industry and consequently defined as a key investment area, are rolled out consistently across the Addiko Group. The TOM ultimately ensures a higher level of service quality across its six countries and significantly enhances operational stability.

3.6. Business operations in Austria and Germany

Focusing on digital services and channels, and building on the successful launch in October 2016 of the broker operated online deposit gathering in Germany, Addiko Group launched the online deposit gathering in Austria with "Addiko Tagesgeld" in June 2017 and "Addiko Online Term Deposits" in October 2017. The launch of the first Addiko Bank services introduced to the Austrian market comes after a successful launch of a direct online deposit service in the German market in October 2016. With these services Addiko Bank provides Austrian customers with attractive and easy-to-use deposit opportunities and at the same time diversifies the Group's funding base.

3.7. Settlement with HETA ASSET RESOLUTION AG

In February 2017, the holding company AI Lake (Luxembourg) S.à r.l. terminated all warranties and mutual contractual agreements with HETA ASSET RESOLUTION AG the previous owner of Addiko Bank. With the repayment of the outstanding funding lines by Addiko Bank in the amount of EUR 973.9 million, all current and future claims and rights under the initial purchase contract have been settled.

3.8. Sale of non-core assets

In line with the strategy of focusing on its core banking business, the exit from non-core assets i.e. leasing and asset management is mostly completed. Following the sale of the Slovenian leasing and asset management business in 2016, the sale of the Croatian asset management entity was completed in Q3/2017. The successful wind-down of the leasing portfolio in Croatia and in Bosnia and Herzegovina significantly decreased the related total assets, leading to the exclusion of both entities from the scope of consolidation.

4. Financial development of the Group

4.1. Analysis of profit or loss statement

EUR m

	1.1-31.12.2017	1.1-31.12.2016	Change
Net interest income	165.3	158.8	6.5
Net fee and commission income	58.5	50.0	8.5
Gains and losses on financial assets and liabilities	9.7	20.3	-10.6
Other operating result	-6.5	-42.1	35.5
Operating income	**226.9**	**187.0**	**39.9**
Personnel expenses	-97.4	-99.8	2.4
Other administrative expenses	-80.9	-93.1	12.2
Depreciation and amortization	-11.7	-19.5	7.8
Operating expenses	**-190.1**	**-212.4**	**22.4**
Operating result	**36.9**	**-25.4**	**62.3**
Impairment or reversal on loans and receivables	-15.1	4.4	-19.5
Result before tax	**21.8**	**-21.0**	**42.8**
Taxes on income	19.9	-2.9	22.8
Result after tax	**41.6**	**-23.9**	**65.6**

The year 2017 is marked by a significant improvement of the **net interest income** which increased to EUR 165.3 million, compared to EUR 158.8 million in December 2016. By neutralizing the impact of additional interest expenses generated by subordinated capital instruments issued in March 2016 and in February 2017, the underlying net interest income of the Addiko Group in 2017 even shows a result improved by EUR 18.9 million compared with the same period of the previous year. This positive development is supported by the strong growth in high margin consumer loans as well as lower interest rates for customer deposits as a consequence of Addiko's strategic repositioning within all markets. Compared to the prior-year period, the **net interest margin** increased up to 240 basis points, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Net fee and commission income amounted to EUR 58.5 million (2016: EUR 50.0 million), with the development mainly due to higher income from card business and payment transactions. The positive impact is supported by the initiatives to increase net commission income launched at the end of 2016.

Gains and losses on financial assets and liabilities amounted to EUR 9.7 million compared to EUR 20.3 million in 2016. The positive result for 2017 is mainly due to the sale of bond portfolios, resulting in a gain of EUR 8.5 million. In the corresponding period 2016 the positive result was mainly driven by the sale of equity investments in Croatia (Visa shares) with a gain of EUR 8.5 million as well as income from trading of financial instruments in the amount of EUR 11.0 million.
The **other operating result** showed a positive development from EUR -42.1 million to EUR -6.5 million, whereas last year's result was mainly influenced by the recognition of provisions for legal cases. During 2017 a clear litigation resolution approach strategy allowed Addiko to significantly reduce existing passive legal disputes leading to a release of the provision in the amount of EUR 9.7 million. This positive impact is offset by the impairment of non-financial assets planned to be disposed in the short term in the amount of EUR 4.7 million. Additionally, expenses for the banking levies, including expenses for the recovery and resolution fund, in the amount of EUR 2.1 million as well as expenses for deposit guarantee costs in the amount of EUR 7.9 million are included.

Operating expenses declined from EUR -212.4 million in 2016 to EUR -190.1 million at the current reporting date. The reduction of EUR 22.4 million is mainly due to lower other administrative expenses and lower depreciation. The decrease in administrative expenses is ensure by a strict cost management and monitoring throughout the whole Addiko Group. The Addiko Group Cost and Investment Committee (CIC) provides clear governance and full transparency for all stakeholders. The effects of the implementation of the new Target Operating Model (TOM), with the goal of establishing a lean, efficient, more agile and integrated organization throughout the Addiko Group, are visible in the position personnel expenses. The cost-income ratio decreased by 30 points to 83.7% compared to 2016.

Depreciation and amortization of fixed assets decreased to EUR -11.7 million from EUR -19.5 million in the previous year. This development reflects the Group's strategy to focus on the core business and therefore decreasing the involvement in leasing business, leading to lower depreciation and amortization expenses.

In total, **operating income** amounts to EUR 226.9 million (2016: EUR 187.0 million) while operating expenses sum up to EUR -190.1 million (2016: EUR -212.4 million). This resulted in an **operating result** in the amount of EUR 36.9 million compared to EUR -25.4 million in 2016.

The development of **impairment or reversal on loans and receivables** from EUR 4.4 million to EUR -15.1 million includes the impact related to the financial troubles of a large corporate debtor based in Croatia. This negative impact has been compensated by the release of risk provisions based on strong collection and recovery activities as well as the sale of non-performing Retail portfolios.
Taxes on income amounted to EUR 19.9 million (2016: EUR -2.9 million), which reflects the fact that starting from year end 2017 deferred tax assets on existing tax loss carryforwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences have been recognized in the Addiko Group. The recognition is based on the successful turnaround process initiated by the new ownership, which led the Addiko Group back to a stronger market presence and better result by implementing a new business strategy, raising the efficiency of operations and the quality service level.

The **result after tax** for the year 2017 with EUR 41.6 million is significantly higher than the loss of EUR -23.9 million in 2016.

4.2. Analysis of consolidated statement of financial position

EUR m

	31.12.2017	31.12.2016	Change
Assets			
Cash, cash balances at central banks and other demand deposits	1,285.9	1,878.2	-592.4
Financial assets held for trading	19.8	17.4	2.4
Available-for-sale financial assets	1,234.3	1,309.3	-75.0
Loans and receivables	3,757.2	3,779.9	-22.7
Loans and advances to credit institutions	65.3	49.4	16.0
Loans and advances to customers	3,691.9	3,730.5	-38.6
Held-to-maturity investments	42.5	82.6	-40.1
Derivatives - Hedge accounting	0.1	0.1	0.0
Tangible assets	57.3	70.4	-13.1
Intangible assets	21.8	17.3	4.5
Tax assets	22.3	2.6	19.7
Current tax assets	1.6	2.6	-0.9
Deferred tax assets	20.6	0.0	20.6
Other assets	24.8	18.9	5.9
Non-current assets and disposal groups classified as held for sale	19.5	39.3	-19.8
Total assets	**6,485.5**	**7,216.1**	**-730.6**

Total assets of the Addiko Group decreased by EUR 730.6 million (10.1%) from EUR 7,216.1 million to EUR 6,485.5 million. This reduction is due to the repayment of refinancing lines to the former owner in the amount of EUR 973.9 million as well as the reduction in the available-for-sale portfolio in the amount of EUR 75.0 million and the leasing portfolio in a total amount of EUR 37.4 million.

Total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III phased-in) increased to EUR 4,653.1 million (2016: EUR 4,470.8 million).

Cash, cash balances at central banks and other demand deposits decreased by EUR 592.4 million to EUR 1,285.9 million (2016: EUR 1,878.2 million) mainly due to the early repayment of refinancing lines to the former owner, which was executed in the first quarter of 2017. The trading and investment securities held in the category **financial assets available for sale** decreased by EUR 75.0 million compared to the previous year.

Overall **net receivables** (gross receivables less credit risk provisions) decreased from EUR 3,779.9 million (2016) to EUR 3,757.2 million. Loans and receivables to credit institutions (net) increased to EUR 65.3 million (2016: EUR 49.4 million). Loans and receivables to customers (net) decreased to EUR 3,691.9 million (2016: EUR 3,730.5 million).

Tangible assets decreased by EUR 13.1 million from EUR 70.4 million in 2016 to EUR 57.3 million. This decline is mainly due to the decision to focus on the banking business and consequently initiate the sale of non-core assets, which triggered the reclassification of certain assets to the position Non-current assets and disposal groups classified as held for sale.

Intangible assets increased to EUR 21.8 million compared to year end 2016 (EUR 17.3 million) due to the introduction of new digital applications.

Tax assets increased to EUR 22.3 million (EUR 2.6 million), including the deferred tax assets recognized on existing taxable losses.

Other assets increased to EUR 24.8 million compared to EUR 18.9 million at the end of 2016.

The position **non-current assets and disposal groups classified as held for sale** decreased from EUR 39.3 million to EUR 19.5 million in 2017. At year-end 2016, this position included the Croatian leasing portfolio in the amount of EUR 37.4 million. The decrease related to the successful wind down process for this portfolio was compensated by the new reclassification of EUR 13.0 million in non-performing loans and EUR 5.2 million in non-core real estate assets in 2017.

EUR m

	31.12.2017	31.12.2016	Change
Equity and liabilities			
Financial liabilities held for trading	1.8	9.1	-7.3
Financial liabilities designated at fair value through profit or loss	0.0	25.0	-25.0
Financial liabilities measured at amortised cost	5,521.2	6,040.4	-519.1
Deposits of credit institutions	341.6	316.0	25.6
Deposits of customers	4,933.8	4,435.6	498.2
Issued bonds, subordinated and supplementary capital	198.5	73.5	125.1
Other financial liabilities	47.3	1,215.3	-1,038.0
Derivatives - Hedge accounting	0.0	6.9	-6.9
Provisions	83.3	107.8	-24.5
Tax liabilities	1.3	1.4	-0.1
Current tax liabilities	0.9	1.0	-0.1
Deferred tax liabilities	0.5	0.5	0.0
Other liabilities	33.8	28.1	5.7
Liabilities included in disposal groups classified as held for sale	0.0	2.7	-2.7
Equity	844.0	994.7	-150.7
thereof attributable to equity holders of parent	844.0	994.7	-150.7
Total equity and liabilities	**6,485.5**	**7,216.1**	**-730.6**

On the liabilities' side, **financial liabilities measured at amortized cost** decreased by EUR 519.1 million from EUR 6,040.4 million to EUR 5,521.2 million in the reporting period, primarily as result of the repayment of outstanding funding lines. This effect is offset by an increase in deposits from credit institutions and customers by EUR 523,8 million, from EUR 4,751.6 million to EUR 5,275.4 million compensated.

At year-end 2016, the position **financial liabilities designated at fair value through profit or loss** included financial liabilities against the previous owner, which were repaid in total during the settlement process in the first quarter of 2017.

Deposits increased by EUR 523.8 million to EUR 5,275.4 million in 2017 (2016: EUR 4,751.6 million). This development is mainly driven by increase in deposits from customers to EUR 4,933.8 million (2016: EUR 4,435.6 million) - due to direct deposit collection in Austria and Germany - as well as increased deposits from banks from EUR 316.0 million at year end 2016 to EUR 341.6 million in 2017.

Provisions decreased from EUR 107.8 million at year end 2016 to EUR 83.3 million in 2017. Included are provisions for passive legal cases, which should further decrease as an active settlements approach is also planned for 2018, as well as the provisions for ongoing restructuring.

The development of **equity** from EUR 994.7 million to EUR 844.0 million is related to a dividend payment in the amount of EUR 430.0 million of which EUR 130.0 million were returned by the sole shareholder of the Group in the form of supplementary capital. This capital alignment followed a capital increase of EUR 219.8 million granted by AI Lake (Luxembourg) S.à r.l. resulting from the final settlement with the previous owner HETA ASSET RESOLUTION AG.

Since 2014, the Addiko Group has calculated its consolidated **regulatory capital** according to Basel III. The calculation follows the requirements as defined by the Capital Requirements Regulation (CRR). As at December 31, 2017 the total capital ratio (Basel III) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 17.1% (2016: 16.4%), well above the legal minimum requirement (8.0%).

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

The year 2017 was marked by an overall positive financial performance, with all Addiko banks recording a positive result and a total EUR 41.6 million profit after tax for the Addiko Group. As such Addiko Group is delivering on the straightforward banking promise and successfully transforming into a key regional Retail and SME bank.

The outlined developments reflect Addiko Groups dedication to growing its market share in core Retail and SME segments, digital transformation, high-quality asset portfolio management, prudent risk management and ensuring greater customer experience while at the same time increasing customer loyalty and new business.

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

The focus in 2018 will be on serving the real economy, growing the client base, utilizing cross-selling potential, driving operating excellence on all levels and thereby generating a long-term sustainable and profitable business growth.

5.2. Human Resources management

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

The performance and talent management frameworks are key processes used to identify, develop, reward and recognize high performance and talented employees. The two processes support Addiko Bank’s journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

In 2017, there were many areas of focus in Human Resources, with new training programs piloted to development specific capabilities. Standardizing HR processes was continued in the areas of recruitment, on boarding and personnel cost reporting. A key enabler of culture change was introducing leadership standards for managers and desirable work-place behaviors (the Addiko "Values and Behaviors"). These will be integrated into the Performance and Talent processes.

Several efficiency and rightsizing programs came to a close in 2017. At 2017 yearend, the Addiko Group had 2,953 FTE's. In the upcoming period, the focus will be on integrating "Values and Behaviors" into daily activities, accelerating the cultural transformation and ensuring process effectiveness in the Target Operating Model. This will require effective talent, leadership and development metrics in place to ensure the development of employees' skills and the realization of their potential.

6. Internal Control System for accounting procedures

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

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

The particular objectives with regard to Addiko Group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. In addition, it should ensure that no errors or deliberate actions (fraud) prevent facts from adequately reflecting the organization’s financial position and performance.

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

7. Other disclosures

In relation to the required information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date please refere to Note (95). With respect to the explanations on substantial financial and non-financial risk as well as the goals and methods of risk management please refere to the risk report. In addition, information on the use of financial instruments are presented in the note (60).

8. Research & Development

Addiko Bank does not conduct any R&D activities pursuant to section 267 Austrian Commercial Code (UGB)

9. Branches

At year end 2017 Addiko Group operates a total of 199 branches (2016: 202), whereas 72 (2016: 75) are located in Bosnia and Herzegovina,, 60 (2016: 61) are located in Croatia, 38 (2016: 38) are located in Serbia, 18 (2016: 17) are located in Slovenia and 11 (2016: 11) are located in Montenegro.

10. Outlook

Supported by a benign market environment Addiko Group delivered significantly improved results in 2017, with all banking subsidiaries having contributed to this year's profit. The overall objective for the coming years is the delivery of straightforward banking, based on the newly established organizational structure and operating platform of Addiko Group which will result in achieving long term sustainable profitability.

This objective will be supported among others by the following key initiatives in 2018:

- continue deployment of innovative functions within the fully integrated digital platform for retail customers including the roll-out of the fully automated Application Processing System/Credit Decision Engine (APS/CDE) in Croatia, Slovenia, Bosnia and Montenegro.
- roll out of digital light-house features for SME and Corporate Customers in all banking subsidiaries i.e. Digital E2E Loans (End to End), Digital Trade Finance Products and Digital Transactional Banking Features

In 2018, the positive development of the economy should be reflected by a faster GDP growth in Serbia, Bosnia and Herzegovina and Montenegro, supported by personal consumption and investments. For Croatia and Slovenia the GDP growth will be expected to be stable due to above-trend EU demand and a steady consumption growth.

Vienna, February 27, 2018

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch	Christian Kubitschek
Markus Krause	Csongor Bulcsu Németh
Martin Stefan Thomas	Razvan Munteanu

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I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2017	1.1. - 31.12.2016
Net interest income	(25)	165.3	158.8
Net fee and commission income	(26)	58.5	50.0
Gains and losses on financial assets and liabilities*	(27)	9.7	20.3
Other operating result	(28)	-6.5	-42.1
Operating income		**226.9**	**187.0**
Personnel expenses	(29)	-97.4	-99.8
Other administrative expenses	(30)	-80.9	-93.1
Depreciation and amortization	(31)	-11.7	-19.5
Operating expenses		**-190.1**	**-212.4**
Operating result		**36.9**	**-25.4**
Impairment or reversal on loans and receivables	(32)	-15.1	4.4
Result before tax		**21.8**	**-21.0**
Taxes on income	(33)	19.9	-2.9
Result after tax		**41.6**	**-23.9**
thereof attributable to equity holders of parent		41.6	-23.9

* Previous-year figures adjusted: In 2016, the positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L" were shown as a separate income statement position. In 2017, those items were summarized in the position "Gains and losses on financial assets and liabilities".

Other comprehensive income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Result after tax	**41.6**	**-23.9**
Other comprehensive income	**18.0**	**0.4**
Items that will not be reclassified to profit or loss	**0.0**	**0.0**
Actuarial gains or losses on defined benefit plans	0.0	0.0
Items that may be reclassified to profit or loss	**18.0**	**0.4**
Foreign currency translation	13.2	1.0
Gains/losses of the current period	13.2	1.0
Reclassification amounts	0.0	0.0
Available-for-sale financial assets	6.3	-2.4
Gains/losses of the current period	14.8	9.1
Reclassification amounts	-8.5	-11.5
Income tax relating to items that may be reclassified to profit or (-) loss	-1.4	1.8
Gains/losses of the current period	-1.9	-0.3
Reclassification amounts	0.5	2.0
Total comprehensive income for the year	**59.6**	**-23.6**
thereof attributable to equity holders of parent	59.6	-23.6

II. Consolidated statement of financial position

EUR m

	Note	31.12.2017	31.12.2016
Assets			
Cash, cash balances at central banks and other demand deposits	(34)	1,285.9	1,878.2
Financial assets held for trading	(35)	19.8	17.4
Available-for-sale financial assets	(36)	1,234.3	1,309.3
Loans and receivables	(37)	3,757.2	3,779.9
Loans and advances to credit institutions		65.3	49.4
Loans and advances to customers		3,691.9	3,730.5
Held-to-maturity investments	(38)	42.5	82.6
Derivatives - Hedge accounting		0.1	0.1
Tangible assets	(39)	57.3	70.4
Intangible assets	(40)	21.8	17.3
Tax assets	(33)	22.3	2.6
Current tax assets		1.6	2.6
Deferred tax assets		20.6	0.0
Other assets	(42)	24.8	18.9
Non-current assets and disposal groups classified as held for sale	(43)	19.5	39.3
Total assets		**6,485.5**	**7,216.1**
Equity and liabilities			
Financial liabilities held for trading	(44)	1.8	9.1
Financial liabilities designated at fair value through profit or loss		0.0	25.0
Financial liabilities measured at amortised cost	(45)	5,521.2	6,040.4
Deposits of credit institutions		341.6	316.0
Deposits of customers		4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital*		198.5	73.5
Other financial liabilities		47.3	1,215.3
Derivatives - Hedge accounting		0.0	6.9
Provisions	(46)	83.3	107.8
Tax liabilities	(33)	1.3	1.4
Current tax liabilities		0.9	1.0
Deferred tax liabilities		0.5	0.5
Other liabilities	(47)	33.8	28.1
Liabilities included in disposal groups classified as held for sale	(43)	0.0	2.7
Equity	(48)	844.0	994.7
thereof attributable to equity holders of parent		844.0	994.7
Total equity and liabilities		**6,485.5**	**7,216.1**

* Previous-year figures adjusted: In 2016, subordinated and supplementary capital in amount of EUR 66.9 million was reclassified from the position "Other financial liabilities" to the position "Issued bonds, subordinated and supplementary capital".

III. Group statement of changes in equity

EUR m

	Subscribed	Additional paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2017	**5.0**	**336.2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	41.6	41.6	0.0	41.6
Other comprehensive income	0.0	0.0	4.9	13.2	0.0	18.0	0.0	18.0
Total comprehensive income	0.0	0.0	4.9	13.2	41.6	59.6	0.0	59.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	-430.0	-430.0	0.0	-430.0
Other changes	0.0	201.6	0.0	0.1	18.0	219.7	0.0	219.7
Equity as at 31.12.2017	**5.0**	**537.8**	**12.5**	**-7.9**	**296.7**	**844.0**	**0.0**	**844.0**

In the item “Other changes” a shareholder contribution in the amount of EUR 219.8 million granted by Al Lake (Luxembourg) S.à r.l. to Addiko Bank AG is presented.

EUR m

	Subscribed	Additional paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2016	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-23.9	-23.9	0.0	-23.9
Other comprehensive income	0.0	0.0	-0.6	1.0	0.0	0.4	0.0	0.4
Total comprehensive income	0.0	0.0	-0.6	1.0	-24.0	-23.6	0.0	-23.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	-456.4	0.0	0.0	722.1	265.8	0.0	265.8
Equity as at 31.12.2016	**5.0**	**336.2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**

For further information about equity, please refer to note (24) Equity.

IV. Group statement of cash flows

For further information about the statement of cash flows, please refer to note (49) Statement of cash flows.

EUR m

	2017	2016
Cash and cash equivalents at end of previous period (1.1.)	**1,878.2**	**1,319.0**
Result after tax	**41.6**	**-23.9**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	62.6	-30.2
Depreciation and amortisation of intangible assets, tangible fixed assets and financial investments	18.2	28.2
therof financial instruments	0.4	-0.3
thereof intangible and tangible assets	17.8	28.5
Change in risk provisions	13.4	-29.6
Change in provision	-2.2	4.4
Gains (losses) from disposals of intangible assets, tangible fixed assets and financial investments	-8.3	-9.3
Financial assets	-8.5	-9.0
Intangible and tangible assets	0.2	-0.3
Subtotal	**62.6**	**-30.2**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-206.5	454.1
Loans and advances to credit institutions and customers	-202.3	485.5
Financial assets	90.8	-43.9
Trading assets	-2.4	-6.6
Other assets	-23.4	21.7
Financial liabilities measured at amortised cost	-230.0	125.1
Trading liabilities	-32.3	-19.5
Provisions	-22.6	-216.7
Other liabilities from operating activities	-4.2	-17.0
Payments for taxes on income	-1.3	-0.2
Interests received	227.6	207.4
Payments for interests	-70.7	-51.5
Dividends received	1.8	0.1
Cash flows from operating activities	**-206.5**	**454.1**
Proceeds from the sale of:	43.8	95.1
Financial investments and participations	40.1	84.5
Tangible assets, investment properties, operate lease assets and intangible assets	3.7	10.6
Payments for purchases of:	-23.3	-20.9
Financial investments and participations	-4.6	-0.7
Tangible assets, investment properties, operate lease assets and intangible assets	-18.7	-20.2
Other changes	11.4	30.4
Cash flows from investing activities	**31.9**	**104.6**
Dividends paid	-430.0	0.0
Cash flows from financing activities	**-430.0**	**0.0**
Effect of exchange rate changes	12.2	0.5
Cash and cash equivalents at end of period (31.12.)	**1,285.9**	**1,878.2**

* Previous-year figures adjusted: In 2016, the cashflow for taxes, dividends and interests were presented in a separate table, in 2017 those positions were integrated in the group statement of cashflows

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The capital increase in the amount of EUR 219.8 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a settlement agreement between AI Lake (Luxembourg) S.à r.l. and the previous parent company executed in a from of a debt waiver, and is therefore not presented as cash capital contribution.

V. Notes to the consolidated financial statements

Company

Addiko Group is a network of six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro under the umbrella of the joint holding company, Addiko Bank AG. The holding company AI Lake (Luxembourg) S.à r.l. as the direct parent company of Addiko Bank AG is indirectly owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development. Addiko Bank AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Vienna under company registration number FN 350921k. The Groups headquarter is located at Wipplingerstraße 34, 1010 Vienna, Austria.

The Group is focusing its business primarily on retail as well as small and medium-sized companies while also maintaining a strong foothold in local corporations. Starting in 2017, Addiko Group also provides online deposit services in Austria and Germany.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Addiko Bank AG website at www.addiko.com.

Group accounting policies

(1) Accounting principles

These consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) adopted by the EU as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), and in compliance with the requirements of Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (51) Maturities pursuant to IAS 1.

The consolidated financial statements of the Addiko network are based on the reporting packages of all fully consolidated subsidiaries prepared according to uniform Group-wide standards and IFRS provisions. All subsidiaries prepare their financial statements as at December 31. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 8, please refer to note (3) Use of estimates and assumptions/material uncertainties in relation to estimates.

The figures in the consolidated financial statements are generally stated in millions of euros (EUR million); the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On 27. February 2018, the Management Board of Addiko Bank AG approved the consolidated financial statements as at December 31, 2017 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at December 31, 2017.

(2) New standards and amendments adopted by the Group

The following new and/or amended standards and interpretations pursuant to IFRS/IAS issued by the IASB and adopted by the EU have been adopted – if applicable - by the Addiko Group for the first time in 2017:

Standard	Description		Effective for financial year
IAS 7	Amendments to IAS 7 Statement of Cash Flows	Disclosure Initiative	2017
IAS 12	Amendments to IAS 12 Income Taxes	Recognition of Deferred Tax Assets for Unrealized Losses	2017

The amendments to **IAS 7** are designed to improve the quality of disclosed information regarding changes in an entity's debt and related cash flow (and non-cash changes) and therefore require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. Further a number of specific disclosures are suggested that may be necessary to fulfill these requirements. Adopting these amendments did not result in any changes to the consolidated financial statements of Addiko Group as cash advances and loans to financial institutions are classified as operating activities since they relate to the main revenue-producing activity of the Group.

The amendments to **IAS 12** clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. Additionally the amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable proftis excludes tax deductions resulting from the reversal of those deductible temporary differences. These amendments did not result in any material changes to the consolidated financial statements.

The following new standards and interpretations issued by the IASB and adopted by the EU were not yet effective:

Standard	Description		Effective for financial year
IFRS 9	Financial Instruments	Accounting for financial instruments	2018
IFRS 15	Revenue from Contracts with Customers incl. amendments	Recognizing revenue	2018
IFRS 15	Amendments to IFRS 15 Revenue from Contracts with Customers	Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
IFRS 16	Leases	Recognition, presentation and disclosure of leases	2019
IFRS 4	Amendments to IFRS 4 Insurance Contracts	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018

2.1. IFRS 9

In July 2014, the IASB published the final version of **IFRS 9** Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change to IAS 39 Financial Instruments.

Recognition and Measurement
The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

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

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management´s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets
- How the performance of the portfolio is evaluated and reported to the Group's management
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of an overall assessment on how the Group´s stated objective for managing the financial assets is achieved and how cash flows are realized.

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

In assessing whether the contractual cash flows are solely payments of principal and interest ("SPPI"), Addiko Group considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration for the time value of money.

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

- A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

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

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

Impairment
IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries). This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

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

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

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

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

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

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

Measurement of ECL's
ECLs are a probability-weighted estimate of credit losses and will be measured as follows:
- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

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

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

This definition is largely consistent with the definition that will be used for regulatory purposes.
In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and

- based on data developed internally and obtained from external sources.

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

Significant increase in credit risk
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience where available, expert credit assessment and forward-looking information.
The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

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

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

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

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

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

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

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

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

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

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

Forward-looking information
Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Group will formulate a "base case" view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

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

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

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

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

Hedge Accounting
IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: instead of the quantitative criterion (bandwidth of 80.0% to 125.0%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

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

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

The Group has decided to adopt the first approach. As a consequence the Group's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will be limited in the first year to a increase in CET1 and total capital of approximately 8 basis points, compared with a reduction in CET1 and total capital of approximately 51 to 65 basis points as at January 1, 2018 in case no adjustments for phasing in would have been taken into consideration.

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

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

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

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

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

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impacts from initial application of IFRS 9 in the opening equity as of January 1, 2018. The Addiko Group does not restate comparative figures and presents the one-off effect in the opening retained earnings amounting to approximately EUR -30 to -38 million. This adjustment represents:

- a reduction of approximately EUR -37 to -45 million related to impairment requirements
- an increase of approximately EUR 9 million related to classification and measurement requirements, other than impairment

- an reduction of approximately EUR -2 million related to deferred tax impacts.

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

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

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

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

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at January 1, 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

2.2. IFRS 15

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

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

Consequently, interest income as well as dividend income are no longer within the scope of the revenue recognition standard. They become subject to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement. Since the Addiko Group primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15,

this standard does not result in any significant changes within the Addiko Group. IFRS 15 replaces the current revenue recognition provisions of IAS 11, IAS 18 and the related interpretations. The standard is effective for financial years beginning on or after January 1, 2018.

The clarifications to IFRS 15 add descriptions in the following areas: identifying performance obligations, principal versus agent considerations and licensing application guidance. Additionally these amendments introduce practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented. These clarifications are effective for financial years beginning on or after January 1, 2018.

2.3. IFRS 16

IFRS 16 "Leases" was published by the IASB in January 2016. The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognizes all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either "operating" or "finance". Instead, a right-of-use asset and a lease liability are recognized for all leases henceforth. The right-of-use asset is to be reported under non-current assets or as a separate item in the statement of financial position and to be written off on a straight-line basis over the term of the contract. The lease liability is initially measured at the present value of the lease payments payable over the lease term and carried using the effective interest method. Thus, all lease obligations are generally recognized pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position. With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset. Conceptually, lessee accounting and lessor accounting are thus divided, which may result in additional challenges in the implementation of the new provisions.

Recognizing "right-of-use" assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss also change. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognized on a straight-line basis at the actual amount of effected payments in the operating result. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the financial result. Additionally, since the annual depreciation of right-of-use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating result increases. For EBITDA, the increase is even more substantial. The statement of cash flows will see a shift from cash flows from operating activities to cash flows from financing activities. While there is still the option to continue stating interest payments under cash flows from operating activities, it is mandatory to present the redemption of lease liabilities under cash flows from financing activities.

Due to the strategic decision of Addiko Group to focus on core banking business, the leasing portfolio was reduced and therefore IFRS 16 will not have a material impact on accounting. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognized. For contracts under which the Addiko Group acts as lessee a right-of-use asset and at the same time a lease liability will be recognized in the statement of financial position. From a current point of view, we expect only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of

-12 basis points due to an increase of the total assets in the amount of approximately EUR 26 million. IFRS 16 will be effective from January 1, 2019, superseding the previous standard IAS 17 “Leases”. Early adoption is permitted.

2.4. IFRS 4

The different effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard **IFRS 4** could have a significant impact on insurers. In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the IASB has issued amendments to IFRS 4 Insurance Contracts which will be effective from January 1, 2018.

Except for the application of IFRS 9, no material changes to the consolidated financial statements are expected.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Group. The table also includes the expected effective dates:

Standard	Description		Effective for financial period
IFRS 2	Amendments to IFRS 2 Share-based Payment	Classification and Measurement of Share-based Payment Transaction	2018
IFRS 9	Amendments to IFRS 9 Financial Instruments	Prepayment Features with Negative Compensation	2019
IFRS 17	Insurance Contracts	Accounting for insurance contracts	2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	2018
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long-term Interests in Associates and Joint Ventures	2019
IAS 40	Amendments to IAS 40 Investment Property	Transfers of Investment Property	2018
IFRS 1, IFRS 12, IAS 28	Annual Improvements to IFRS Standards 2014-2016 Cycle	IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2017/2018
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

On 20 June 2016, the IASB issued amendments to **IFRS 2** Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The effective date of the amendments, is 1 January 2018.

The IASB also introduced amendments to **IFRS 9** in 2017. Based on these amendments financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation – can be measured at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

In May 2017, the International Accounting Standard Board (IASB) issued **IFRS 17** Insurance Contracts, applicable for annual periods beginning on or after 1 January 2021. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

In December 2016, the IFRS Interpretation **IFRIC 22** Foreign Currency Transactions and Advance Consideration has been issued. This interpretation clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Interpretation is applicable for annual reporting periods beginning on or after 1 January 2019.

The **IAS 28** amendments have been issued in October 2017 and clarify that companies should account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments to IAS 28 will be effective for accounting periods beginning on or after 1 January 2019.

The IASB has issued in December 2016 an amendment to **IAS 40** Investment property, clarifying when assets are transferred to, or from, investment properties. According to these amendments, a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. The amendments apply for annual periods beginning on or after 1 January 2018.

The collection of **annual improvements to IFRSs 2014-2016** includes amendments to the following standards: IFRS 1 First-time Adoption of IFRS removes outdated exemptions for first-time adopters of IFRS; IFRS 12 Disclosure of Interests in Other Entities means that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution; IAS 28 Investments in Associates and Joint Ventures implicates that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. Further a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Amendments to IFRS 1 are effective for annual periods beginning on or after 1 January 2018, amendments to IFRS 12 are effective retrospectively for annual periods beginning on or after 1 January 2017 and amendments to IAS 28 are effective retrospectively for annual periods beginning on or after 1 January 2018.

The collection of **annual improvements to IFRSs 2015-2017** includes amendments to the following standards: IFRS 3 Business Combinations clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date. IFRS 11 Joint Arrangements clarifies that the party obtaining joint control of a business that is joint operation should not remeasure its previously held interest in the joint operation; IAS 12 Income Taxes clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity; IAS 23 Borrowing costs clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted.

(3) Use of estimates and assumptions/material uncertainties in relation to estimates

The consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experience and other factors such as planning and expectations

or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions.

For further information on credit risk provisioning methodology, reference is made to loans and receivables in note (8) Financial instruments: recognition and measurement (IAS 39) as well as to the Risk Report under note (69) Development of provisions.

Fair value of financial instruments
For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see note (8) Financial instruments: recognition and measurement (IAS 39).

Deferred tax assets
Deferred tax assets on losses carried forward are only recognized when future tax profits that allow utilization appear highly likely. These estimates are based on the respective 5 years business plans, whereas the recognition is based on the taxable profit for the next two years.

Defined benefit plans
The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (22.1) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (22) Provisions.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (46).

Leases
From the perspective of the Addiko Group as a lessor, judgments are required – especially to differentiate between finance leases on the one hand and operating leases on the other hand. In doing so, the transfer of practically all risks and opportunities from the lessor to the lessee serves as the criterion. In addition, estimates as regards the amount of residual values are made when entering lease contracts.

(4) Scope of consolidation

These consolidated financial statements comprise 1 fully consolidated Austrian entity (2016: 1) – including Addiko Bank AG – and 6 (2016: 9) fully consolidated foreign entities. Further information is shown under note (95) Scope of consolidation:

	31.12.2017 Fully consolidated	31.12.2016 Fully consolidated
Start of period (1.1.)	10	12
Newly included in period under review	0	0
Excluded in period under review	-3	-2
End of period (31.12.)	**7**	**10**
thereof Austrian companies	1	1
thereof foreign companies	6	9

At the beginning of the financial year 2017, ADDIKO INVEST d.d., Zagreb, was excluded from the scope of consolidation due to insignificance. Further, the Slovenian leasing entity - Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o., Ljubljana - was no longer included in the scope of consolidation due to the sale of the company. Also, at the end of the financial year 2017, the Croatian leasing entity Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji, Zagreb, was excluded from the scope of consolidation as the sale of a significant part of the portfolio of leasing activities was completed.

The removal of these subsidiaries does not significantly impact the result of the Addiko Group.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Addiko Invest d.d.	Zagreb	100.0%	Fully consolidated	Insignificant
Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o.	Ljubljana	100.0%	Fully consolidated	Sale
Hypo Alpe-Adria-Leasing d.o.o., u likvidaciji	Zagreb	100.0%	Fully consolidated	Insignificant

(5) Consolidation methods

Consolidation follows the consolidation principles pursuant to IFRS 3 “Business Combinations”, using the acquisition method. According to this method, all assets and liabilities of the respective subsidiary are to be measured at fair value at the acquisition date. The cost of a business acquisition is calculated as the total of consideration transferred, measured at fair value at the acquisition date, and non-controlling interests in the entity acquired. Goodwill, if any, is initially measured a cost, calculated as the excess of the total consideration transferred as well as the amount of non-controlling interests in the identifiable assets and assumed liabilities acquired by the Group. If a negative difference remains after reassessment, it is recognized immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year.

The date of initial consolidation corresponds to the date when the Group acquires control over the entity in question. Subsidiaries acquired during the year are included in the Group statement of comprehensive income from the date of acquisition. The results of subsidiaries disposed of during the year are included in the statement of comprehensive income until the date of disposal.

If further investments are acquired in an already fully consolidated but not yet wholly-owned entity, any resulting differences are reported directly in equity as transaction with non-controlling interests.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are fully eliminated. In the same way, intragroup income and expenses are offset within the framework of expense and income consolidation.

The share of equity and results of the consolidated subsidiaries allocated to non-Group third parties is reported separately in equity and in profit or loss under non-controlling interests. A subsidiary’s comprehensive income is attributed to non-controlling interests even if this results in a negative balance.

(6) Foreign currency translation

Foreign currency translation within the Addiko Group follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss.

Open forward transactions are translated at forward rates at the reporting date.

The assets and liabilities of foreign operations are translated into euros at the exchange rates prevailing at the reporting date. Income and expenses are translated using the average rates for the period, as long as they do not fluctuate markedly. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency translation. The amount for a foreign operation recorded in other comprehensive income (OCI) is to be reclassified into the statement of profit or loss in the event of the sale of the foreign operation.
Exchange differences attributable to non-controlling interests are shown under non-controlling interests.

The respective local currency is the functional currency for all entities.

The following exchange rates published by the European Central Bank or the Oesterreichische Nationalbank (OeNB) have been used for the currency conversion of the foreign financial statements:

Foreign currency translation Rates in units per EUR	Closing date 31.12.2017	Average 2017	Closing date 31.12.2016	Average 2016
Bosnian mark (BAM)	1.95583	1.95583	1.95580	1.95580
Croatian kuna (HRK)	7.44000	7.46522	7.55970	7.54410
Serbian dinar (RSD)	118.47270	121.39523	123.47230	123.07080

(7) Income/expenses

In accordance with IAS 18, income is recognized when it is probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies. Dividend income is recognized at the time that a legal right to payment arises. For all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale, interest income and interest expenses are recorded based on the effective interest rate. This is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognized upon completion of the underlying transaction.

(8) Financial instruments: recognition and measurement (IAS 39)

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

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

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

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

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

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

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

Financial assets at fair value through profit and loss

a. Financial assets held for trading

Financial instruments that were acquired with the intent of reselling them within a short period of time or that are part of a portfolio with a short-term profit objective have to be classified as held for trading, i.e. securities and receivables held for trading are reported under assets held for trading.

This item also includes positive fair values of derivatives not classified as hedging instruments. Therefore, both banking book derivatives and derivatives held for trading are reported under assets held for trading. On the other hand, derivatives that meet the requirements of IAS 39 for hedge accounting are reported under “Derivatives – hedge accounting”. Financial assets held for trading are measured at fair value, which corresponds to the market price for listed products. Measurement techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not traded on an active market.

Realized gains and losses, results from foreign currency valuation as well as unrealized measurement results are reported in profit or loss in the result from trading as part of position “gains and losses on financial assets and liabilities”. Interest income and expenses from financial assets held for trading as well as current dividends are shown in net interest income.

b. Financial assets designated at fair value through profit or loss

Regardless of the intent to trade them, IAS 39 permits irrevocably designating financial instruments as "financial assets designated at fair value through profit or loss" when they are acquired (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial instrument contains one or more material separable embedded derivatives
- Through the fair value option, accounting mismatches can be avoided or significantly reduced, or
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation based on the first two characteristics results in an overall improvement in the presentation of the net assets and results of operations. This designation option cannot, however, be used for equity instruments that have no quoted market price and whose fair value cannot be determined reliably. Designating financial instruments in this category makes it possible to represent economic hedging relationships without meeting the strict requirements for hedge accounting.

Financial instruments designated at fair value are measured at their fair value, corresponding to the quoted price in the case of listed financial instruments. For non-listed financial instruments, the fair value is established using the net present value method or other appropriate measurement techniques.

Realized gains and losses as well as unrealized measurement results are recorded through profit or loss under gains and losses on financial assets and liabilities, measured at fair value through profit or loss. Interest income and expenses as well as dividends on these financial instruments are included in net interest income.

Held-to-maturity investments

This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group intends to and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. Measurement is at amortized cost, with premiums and discounts being allocated over the term through profit or loss using the effective interest method. Permanent impairment is included in the statement of financial position by reducing the carrying amount and in the income statement under "result on financial instruments not measured at fair value through profit or loss" as part of position "gains and losses on financial assets and liabilities".

Since new designations for this item are handled restrictively, the portfolio of the Addiko Group is small.

Loans and receivables

Loans and receivables are all non-derivative financial assets with fixed or determinable payments, which are not held for trading and not listed in an active market. They are measured at amortized cost using the effective interest method, with impairments reducing the carrying amount of the assets directly as credit risk provisions. Lease receivables are measured at present value less impairment.

This item mainly includes granted loans, lease receivables, overnight loans and time deposits as well as unquoted debt securities. Loans and receivables also include cash balances at central banks that are not daily due. They are reported including accrued interest after the deduction of impairment. Premiums and discounts are spread over the respective term and are also shown in net interest income, which also includes interest income.

Default risks in the lending business are included in the category loans and receivables through the recognition of specific provisions and portfolio provisions for impairment losses and/or by recognizing provisions for obligations not included in the statement of financial position.

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, taking pledged collateral into account.

Specific provisions for impairment losses are either calculated individually or based on a collective estimate (rules-based approach). For major customers, the expected future cash flows are individually estimated by the risk manager. A customer is considered major if the total receivable, defined as the sum of all receivables (both those included in the statement of financial position and those not included), exceeds an established materiality threshold. Otherwise, the customer is not considered significant and a rules-based approach is used to calculate the specific provision for impairment losses.

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognized as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognized if the present value of the agreed cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses applied by the Group companies, receivables are grouped into homogeneous portfolios with comparable risk properties and the business not included in the statement of financial position is also taken into account.

Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses performed by the Group, receivables are grouped into homogeneous portfolios with comparable risk properties, whereas subsidiary specific data is also taken into account. For the purpose of obtaining a uniform and transparent approach, the portfolio provision assessment is done centrally, at the Group level, for all Addiko entities.

In addition to the exposure determining the portfolio provisions for impairment losses, the following parameters are also taken into account:

- The time elapsed between the occurrence and identification of the loss event (loss identification periods)
- The probability of default
- The loss given default

Basically, the Addiko Group assumes the following loss identification periods (known as LIP factors) for the determination of portfolio provisions for impairment losses after taking into account the customer segment and volume: 0.1 for banks and governments, 0.5 for corporate and retail customers. If local conditions demand, more conservative LIP factors (up to 1) can be applied.

Specific provisions for exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis. Such individually insignificant loans are grouped according to similar credit risk characteristics and impaired accordingly. Since the end of 2016, the assessment of collective impairment for specific provisions has been performed at the level of the Group for all Addiko subsidiaries. These exposures are impaired based on loss given default, which differs depending on the subsidiary and the segment.

Probabilities of default for the retail portfolio are determined by the realized historical default rates per subsidiary and segment. Probabilities of default for the non-retail portfolio are determined by the results of the respective rating models. For the non-retail portfolio, scaling factors for probabilities of default of the rating models are applied if there are significant differences between the realized historical default rates and the exposure-weighted probabilities of default of the rating models (per subsidiary and segment).

The realized historical default rates are determined by semi-annual averaging of realized one-year default rates calculated monthly. A default event is counted insofar as at least one default has occurred within a year according to the internal definition of default.

The realized historical default rates are recalculated/validated at least once a year. Should there be a need for changes, the parameters in the model are adjusted.

The loss given default rates are estimated per customer segment. To maintain consistency, these factors are also applied to determine impairment in the Collective Impaired model of the Addiko Group.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognized are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the expected loss and also based on the probability of default specific to each subsidiary and segment and the loss given default.

Available-for-sale financial assets
This category includes all non-derivative financial assets that are not assigned to any of the above-stated categories. Subsequent measurement is at fair value and the measurement result – after taking deferred taxes into account – is included in other comprehensive income (OCI) without affecting profit or loss. Upon disposal, the difference to the carrying amount recorded in the remeasurement reserve is released to profit or loss. Impairment losses and any reversals of impairment are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are released over the respective term by means of the effective interest method. Impairment is also recognized in profit or loss.

The Addiko Group classifies most debt securities and other fixed-income securities as well as shares and other securities not bearing fixed interest as available for sale, as long as they are traded in an active market.

These investments are initially measured at their fair value (including transaction costs) which corresponds to their quoted price. Alternatively, the fair value is established on the basis of comparable instruments or by applying accepted measurement techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not included in cost. Subsequent measurement is based on the fair value (excluding transaction costs). In addition, long-term investments as well as shares in non-consolidated subsidiaries are also classified as available-for-sale financial assets. Such equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairment.

The measurement result for this category – after taking deferred taxes into account – is included in other comprehensive income (OCI). In case of a significant or permanent impairment, impairment is recognized through profit or loss and reported under “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Reversals of impairment of debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the income statement but included in other comprehensive income (OCI). Gains and losses on disposal are also included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Foreign currency translation results are included in exchange differences of the result from trading for debt instruments, and in other comprehensive income (OCI) for equity instruments.

Revenues from fixed-income securities, including allocated premiums and discounts, as well as dividend income are included in net interest income. Current income from securities not bearing fixed interest (shares, investment funds, equity investments, etc.) are included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”.

For investments in equity instruments which are carried at fair value, a significant reduction in the fair value below cost indicates impairment. A decrease in the fair value by more than 20.0% below original cost or a permanent reduction in the market value below historical cost over a period of more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognized as an expense in the income statement.

Financial liabilities held for trading
Financial liabilities held for trading are generally measured at fair value. However, this item only includes derivatives at the reporting date.

Financial liabilities measured at amortized cost
This category encompasses financial liabilities, including debt securities issued, for which the fair value option was not used. As a general rule, they are recognized at amortized cost. Premiums and discounts are spread over the respective term using the effective interest method and reported under interest expenses.

Embedded derivatives
Structured finance products are characterized by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires a separation of the embedded derivative from the host contract if:

- The characteristics and risks of the embedded derivative are not closely linked to those of the host contract,
- The structured finance product is not already measured at fair value through profit or loss, and
- The design of the embedded derivatives meets the requirements for a derivative according to IAS 39.

Embedded derivatives that are separated are reported under financial assets held for trading. The measurement result is reported through profit or loss in the statement of comprehensive income. Embedded derivatives that are not required to be separated are measured together with the host contract according to the applicable general requirements of the category.

(9) Financial instruments: net gains and losses

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss, impairment losses and impairment reversals, realized disposal gains as well as credit risk provisions.

(10) Classes of financial instruments according to IFRS 7

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments. For details see note (9) Financial instruments: recognition and measurement (IAS 39)

(11) Hedge accounting

Underlying transactions (usually receivables, securities and liabilities) can be subject to different measurement principles than hedging transactions (derivatives) which always belong to the category “at fair value through profit or loss”. With the application of hedge accounting according to IAS 39, changes in value arising from changes in the market price of the underlying transaction are compensated through profit or loss by concluding an opposing hedging transaction.

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period, derivatives must be monitored continuously to ensure that they are effectively compensating for changes in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80.0% to 125.0%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

The Addiko Group only uses fair value hedges for hedge accounting. These serve to hedge changes in the market values of assets and liabilities (underlying transactions). The risks to be hedged are the interest risk and the foreign currency risk. If the hedging relationship is 100% effective, the measurement effects of the underlying transaction offset those of the hedging transaction and there is no effect on profit or loss. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognized in the result from hedge accounting as part of position “gains and losses on financial assets and liabilities”.

(12) Leases

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

The lease contracts concluded by the Addiko Group as a lessor are mainly classified as finance leases. They are reported under loans and receivables in the statement of financial position at the net investment value (present value); see note (40) Loans and receivables. The lease payments received are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating leases concluded in the local currency for which repayments by the lessee were agreed in a foreign currency, an embedded foreign currency derivative is separated in the event that IAS 39 criteria were met.

With the exception of real estate, leased assets are reported under the item “property, plant and equipment” in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the item “other operating result” and scheduled depreciation under “depreciation and amortization”.

Real estate leased under an operating lease is reported in the statement of financial position under the item “investment properties” in tangible assets.

Assets not yet or no longer leased out are included in other assets. Impairment is included in the other operating result.

(13) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IAS 39, the seller continues to recognize the asset in its statement of financial position if the material risks and rewards remain with the seller. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognizes a receivable.

(14) Fiduciary transactions

Fiduciary transactions concluded by the Addiko Group in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(15) Financial guarantees

Financial guarantees are contracts that oblige the Company to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognized as liabilities at fair value less transaction costs directly related to the guarantee issued. Liabilities are subsequently measured on the basis of the best possible estimate of the expenses required for covering all current obligations as at the reporting date. If, however, the fair value amounts to zero at initial recognition, an assessment as to whether a provision pursuant to IAS 37 should be recognized is made during subsequent measurements.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at nominal value.
Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

(17) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (12) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at amortized cost. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. The following depreciation rates and expected useful lives are used:

Depreciation rate	in percent	in years
for immovable assets (buildings)	2 - 4%	25 - 50 yrs
for movable assets (plant and equipment)	5 - 33%	3 - 20 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are carried at amortized cost, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Group is reported separately under depreciation and amortization in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under the other operating result.

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognized. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “other operating result”. If the reasons for the impairment cease to exist, the previously recognized impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after deprecation if no impairment loss had been recorded for the asset in previous years.

(18) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortization.

Scheduled amortization is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortization. The following amortization rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	14 –33%	3 –7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “other operating result”.

(19) Tax assets and tax liabilities

Current and deferred income taxes assets and liabilities are jointly reported in the statement of financial position under “tax assets” and “tax liabilities”. Current income taxes are determined according to the tax law regulations of the respective countries.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognized if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognized for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. If there is a series of losses in the recent past, the more stringent criterions for recognizing deferred tax assets according to IAS 12 have to be considered. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Tax rate changes are taken into account in the determination of deferred taxes insofar as they are known at the time the consolidated financial statements are prepared. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be sufficiently available. This assessment is generally based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period.

Establishment and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income (e.g. remeasurement reserve for available-for-sale financial instruments).

(20) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but no financial instruments.

Deferred assets are recognized at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

(21) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (46) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale.

(22) Provisions

22.1. Provisions for retirement benefits and similar obligations

The Addiko Group maintains both defined contribution and defined benefit plans. Under defined contribution plans, a fixed contribution is paid to an external provider. These payments are recognized under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit obligations relate to pension commitments and severance obligations. These schemes are unfunded, i.e. all of the funds required for coverage remain within the Company.

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 1.97% as at December 31, 2017 (2016: 1.5%) and a salary increase of 3.0% p.a. (2016: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2008 P generation mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. Serbia is calculation with an actuarial interest rate of 5.5% (2016: 7.0%) while Slovenia is using 1.0% (2016: 1.5%). The fluctuation discounts amounts 0.0%-4.3% (2016: 0.0%) in Serbia and Slovenia.

The expenditure to be recognized through profit or loss consists of service cost reported under personnel expenses and interest expense which is recorded as such; actuarial gains and losses are reported under equity in other comprehensive income without affecting profit or loss.

22.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions. Provisions are made both for individual cases and at portfolio level.
Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “impairment or reversal of impairment on loans and receivables”.

22.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the Company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.
For disclosure of restructuring expenses, see note (28) Other operating result.

22.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant,

non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq.

(23) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognized at their nominal value, the liabilities at amortized cost.

(24) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Subscribed capital represents the amounts paid in by shareholders in accordance with the articles of association. The cumulative gain or loss includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reserves include the statutory reserves and the risk reserve.

The available-for-sale reserve includes the measurement results – after taking deferred taxes into account – for the financial assets classified as available for sale.

Notes to the income statement

(25) Net interest income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Interest income	**232.4**	**238.1**
Financial assets held for trading	6.2	5.0
Available-for-sale financial assets	15.7	14.4
Loans and receivables	207.3	211.0
Held-to-maturity investments	2.7	4.0
Derivatives - Hedge accounting, interest rate risk	0.3	2.7
Other assets	0.3	1.0
Dividend income	**1.8**	**0.1**
Total	**234.2**	**238.2**
Interest expenses		
Financial liabilities held for trading	-2.2	-5.2
Financial liabilities measured at amortised cost	-64.8	-69.9
Derivatives - Hedge accounting, interest rate risk	0.0	-1.7
Other liabilities	-1.9	-2.6
Total	**-68.9**	**-79.4**
Net Interest Income	**165.3**	**158.8**

Interest income includes unwinding proceeds of EUR 9.5 million (2016: EUR 10.5 million) and commissions similar to interest. In February 2017 the EUR 60.0 million Tier 2 capital was increased by EUR 130.0 million to EUR 190.0 million, the corresponding interest expenses in the amount of EUR 19.2 million (2016: EUR 6.9 million) are reflected in interest expenses from financial liabilities measured at amortized costs. The issued tranche in 2016 in amount of EUR 60.0 million has an annual interest rate of 14.0% and is due on the March 10, 2026. The new emission in the amount of EUR 130.0 million with an annual interest rate of 10.0% was issued in euros and matures on February 27, 2027. If the Tier 1 Ratio falls below a predefined amount, the tranche issued in 2016 can be converted to equity (conversion right).

Interest and similar income as well as interest expenses break down by instrument and sector as follows:

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives - Trading	**6.1**	**4.7**
Debt securities	**18.5**	**18.8**
General governments	16.2	15.8
Credit institutions	1.6	1.9
Other financial corporations	0.0	0.3
Non-financial corporations	0.7	0.8
Loans and advances	**207.3**	**211.0**
Central banks	0.8	0.7
General governments	12.2	17.9
Credit institutions	0.4	0.5
Other financial corporations	1.6	1.4
Non-financial corporations	59.1	69.9
Households	133.2	120.6
Other assets	**0.3**	**1.0**
Derivatives - Hedge accounting, interest rate risk	**0.3**	**2.7**
Dividend income	**1.8**	**0.1**
Total	**234.2**	**238.2**

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives - Trading	**-2.2**	**-5.2**
Deposits	**-45.0**	**-54.2**
Central banks	-0.2	-0.3
General governments	-0.7	-1.1
Credit institutions	-2.2	-3.6
Other financial corporations	-2.2	-2.4
Non-financial corporations	-7.1	-6.1
Households	-32.6	-40.8
Other financial liabilities	**-19.7**	**-15.7**
Derivatives - Hedge accounting, interest rate risk	**0.0**	**-1.7**
Other liabilities	**-1.9**	**-2.6**
Total	**-68.9**	**-79.4**

(26) Net fee and commission income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Payment services	49.2	41.1
Lending business	9.5	9.4
Loan commitments granted and received	5.9	5.4
Financial guarantees granted and received	3.6	4.0
Custody	1.7	3.0
Securities	0.2	0.3
Clearing and settlement	0.0	-0.3
Asset management	0.0	0.1
Fiduciary business	0.0	0.1
Other	-2.2	-3.6
Total	**58.5**	**50.0**

(27) Gains and losses on financial assets and liabilities

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Trading income	1.8	11.0
Result from hedge accounting	-0.2	0.1
Result on financial instruments not measured at fair value through profit or loss	8.1	9.3
Total	**9.7**	**20.3**

* Previous-year figures adjusted: In 2016, the positions "Trading income”, "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L" were shown as a separate income statement position. In 2017, those items were summed up to the position "Gains and Losses on financial assets and liabilities".

27.1. Result from trading

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Exchange differences	-24.1	1.5
Gains or losses on financial assets and liabilities held for trading	26.0	9.4
Total	**1.8**	**11.0**

27.1.1. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET – BY INSTRUMENT

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives	25.8	9.2
Debt securities	0.2	0.3
Total	**26.0**	**9.4**

27.1.2. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET – BY RISK

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Interest rate instruments and related derivatives	9.0	-4.4
Foreign exchange trading and derivatives related to foreign exchange and gold	17.1	13.6
Other	0.2	0.3
Total	**26.0**	**9.4**

27.2. Result from hedge accounting

This is the result from hedge accounting according to IAS 39 based on the measurement of the hedging derivatives and the underlying transactions.

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Fair value changes of the hedging instrument [including discontinuation]	0.0	-1.9
Fair value changes from underlying transaction hedged	-0.2	2.1
Total	**-0.2**	**0.1**

27.3. Result on financial instruments not measured at fair value through profit or loss

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	8.5	9.0
Impairment or reversal of impairment on available for sale financial assets	-0.4	0.3
Total	**8.1**	**9.3**

27.3.1. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES, NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – BY CATEGORY

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Available-for-sale financial assets	8.6	8.8
Loans and receivables	0.0	0.3
Held-to-maturity investments	-0.1	-0.1
Total	**8.5**	**9.0**

27.3.2. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES, NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – BY INSTRUMENT

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Equity instruments	0.1	8.5
Debt securities	8.4	0.3
Loans and advances	0.0	0.3
Total	**8.5**	**9.0**

27.3.3. IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Expenses from impairment	-0.4	-0.3
Income from write-up	0.0	0.6
Total	**-0.4**	**0.3**

(28) Other operating result

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Other operating income	2.5	29.6
Other operating expenses	-9.0	-71.6
Total	**-6.5**	**-42.1**
Result from operate lease assets	2.9	6.3
Restructuring expenses and income	-1.4	-5.5
Provisions and expenses for passive legal cases*	9.5	-37.0
Impairment or reversal of impairment on non-financial assets	-6.1	-8.9
Resolution fund*	-2.1	-1.6
Deposit guarantee*	-7.9	-9.0
Banking levies and other taxes	-3.2	-5.7
Other*	1.7	19.5
Total	**-6.5**	**-42.1**

* Previous-year figures adjusted: In 2016, both positions “Resolution fund” and “Deposit guarantee” were included in position “Resolution fund and deposit protection”. From 2017 onwards, those positions are disclosed separately. Further, results from investment properties and from derecognition of non-financial assets as well as income from assets and disposal groups classified as held for sale are now reported under the item “other”. Furthermore, expenses for passive legal cases in the amount of EUR -10,5 million were reclassified from position “other” to position “provisions and expenses for passive legal cases”.

The item “provisions and expenses for passive legal cases” contains in 2017 a release of provisions for potential legal risks in connection with existing customer claims in the amount of EUR 16.2 million (2016 adjusted: EUR 42.5 million expenses) which is the result of the clear litigation resolution approach of the Addiko Group. Additionally, an amount of EUR 6.7 million was allocated for pending legal cases. This net development of EUR 9.5 million can be explained with individual aspects, like for example the starting of insolvency proceeding of individual plaintiffs, improved level of information on the underlying cases, which allowed to performed more detailed assessments of the expected amounts necessary to reach a settlement in the different court cases, etc. Addiko Group expects that this clear litigation resolution approach will lead to a further reduction of the overall amount in dispute in the years 2018 and 2019. For further details concerning legal risk, please refer to Note (84) Legal risk.

In the financial year 2017, mainly tangible assets are affected by impairment losses in amount of EUR -6.1 million (2016: EUR -8.9 million). According to the new Addiko business strategy, the Group is planning to exit from all non-core activities and concentrate on the pure banking business. As a part of this strategy, the Group started to review all owned real estate assets, with the purpose to identify which assets could be disposed in the short term. Once the selection process was terminated, updated appraisals have been ordered for all relevant properties. By comparing the carrying amount of the assets for sale with the fair value less cost to sell from the updated appraisals an impairment need in amount of EUR -4.3 million has been identified and recognized in the consolidated financial statements. In 2016, the main reasons for the recognition of impairment has been the relocation of the Bosnia and Herzegovina headquarters from Mostar to Sarajevo as well as the outsourcing of IT services in Croatia.

The item “banking levies and other taxes” includes the yearly payment for the stability fee in connection with the Austrian banking tax in the amount of EUR 0.9 million (2016: EUR 3.6 million).

In position "other" the result from assets and disposal groups classified as held for sale in the amount of EUR 1.6 million (2016: EUR 3.7 million) is included. In the previous year, the item "other" mainly included income in connection with the CHF conversion losses in Croatia in the amount of EUR 12.9 million.

(29) Personnel expenses

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016*
Wages and salaries	-69.1	-70.2
Social security	-15.1	-15.9
Voluntary social expenses	-0.7	-0.5
Other taxes expenses depending on amount of wages/salaries	-3.7	-3.6
Expenses for retirement benefits	-0.4	-0.2
Expenses for severance payments	-0.3	-0.9
Variable payments	-10.1	-10.1
Other personnel expenses	-0.7	-1.4
Income from release of other employee provisions	2.5	3.0
Total	**-97.4**	**-99.8**

* Previous-year figures adjusted: In previous years, the position Social security included also taxes and surtax on salaries and salaries compensations. In 2017 those components were recognized directly in Wages and salaries. To ensure comparability, the previous years figures concerning those positions were reclassified as well.

(30) Other administrative expenses

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Premises expenses (rent and other building expenses)	-16.2	-21.0
IT expense (other)	-28.5	-28.7
Office costs	-1.3	-1.5
Advertising costs	-7.8	-4.9
Communication expenses (phone, fax, internet etc.)	-6.7	-6.2
Legal and advisory costs	-9.3	-14.6
Other administrative expenses	-11.1	-16.3
Total	**-80.9**	**-93.1**

(31) Depreciation and amortization

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Tangible assets	-6.0	-14.7
Investment properties	-0.1	-0.1
Intangible assets	-5.7	-4.7
Total	**-11.7**	**-19.5**

(32) Impairment or reversal of impairment on loans and receivables

Impairment on loans and receivables breaks down as follows:

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Additions	-174.2	-99.0
Reversal	152.6	125.8
Proceeds from loans and receivables previously impaired	9.7	4.3
Directly recognised impairment losses	-3.2	-26.7
Total	**-15.1**	**4.4**

Impairment on loans and receivables includes credit risk provisions for transactions both included and not included in the statement of financial position. For detailed information on risk provisioning, see note (37) Loans and receivables.

(33) Taxes on income

33.1. Income tax

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Current tax	-2.1	-1.7
Deferred tax	22.0	-1.3
Total	**19.9**	**-2.9**

The reconciliation from expected income tax to the effective tax is as follows:

EUR m

	1.1.-31.12.2017	1.1.-31.12.2016
Result before tax	**21.8**	**-21.0**
Theoretical income tax expense based on Austrian corporate tax rate of 25%	-5.4	5.2
Tax effects		
from divergent foreign tax rates	3.1	-4.9
from previous year	0.1	0.0
from foreign income and other tax-exempt income	0.6	1.5
from investment related tax relief and other reducing the tax burden	1.8	15.5
from non-tax deductible expenses	-0.4	-8.9
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-1.8	-12.3
from the change of deferred taxes on loss carry-forwards and temporary differences	21.8	1.4
from non-recognition of deferred taxes because temporary differences	0.0	0.0
from other tax effects	0.2	-0.5
Actual income tax (effective tax rate: 91.4% (2016: -13.8%))	**19.9**	**-2.9**

33.2. Deferred tax assets/liabilities

In the financial year 2017, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

EUR m

			2017			2016
	Deferred Tax (netted)	Profit or loss statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Profit or loss statement	Other comprehensive income (OCI)
Provisions for loans and advances	0.2	0.3	0.0	0.0	-0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.5	0.9	0.0	0.0	0.0	0.0
Revaluations of AFS investments to fair value	-0.6	-0.2	0.2	-0.6	0.0	0.3
Impairment on AFS debt instruments	0.0	0.0	0.0	0.0	0.0	1.6
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	0.0	0.0	0.0	-3.3	0.0
Post-employment benefits (pensions and other retirements)	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue fee income	0.0	-1.3	0.0	0.0	-0.7	0.0
Other	7.2	9.2	-1.6	0.0	-0.7	-0.1
Tax losses carried forward	13.0	13.0	0.0	0.0	3.7	0.0
Total deferred Tax	**20.3**	**22.0**	**-1.4**	**-0.6**	**-1.3**	**1.8**

The total year-on-year change in deferred taxes in the consolidated financial statements is EUR 20.7 million. Of this, EUR 22.0 million is reflected in the current income statement as deferred tax expense, and an amount of EUR -1.4 million has a positive effect on other comprehensive income in equity. The remainder of EUR 0.2 million is due to foreign-currency exchange differences.

The development of deferred taxes in net terms is as follows:

EUR m

	2017	2016
Balance at start of period (1.1.)	**-0.5**	**-1.1**
Tax income/expense recognised in profit or loss	22.0	-1.3
Tax income/expense recognised in OCI	-1.4	1.8
Fx-difference	0.2	0.1
Deferred taxes acquired in change of scope and other changes	0.0	0.0
Balance at end of period (31.12.)	**20.2**	**-0.5**

EUR m

	2017	2016
Deferred tax assets	20.6	0.0
Deferred tax liabilities	-0.5	-0.5
Deferred tax	**20.2**	**-0.5**

Of the unused tax losses in the amount of EUR 959.4 million (2016: EUR 944.7 million), EUR 307.9 million (2016: EUR 258.0 million) can be carried forward without restrictions, EUR 649.7 million (2016: EUR 664.0 million) can be carried forward for a maximum of 4 years subject to restrictions, and EUR 1.7 million (2016: EUR 22.7 million) can be carried forward for a maximum of 5 years subject to restrictions. As tax loss carry-forwards cannot be utilized by all Group companies, deferred tax assets in the amount of EUR 152.1 million (2016: EUR 157,5 million) on unused tax losses

and deferred tax assets on temporary differences in the amount of EUR 0.2 million (2016: EUR 2,9 million) were not recognized.

Due to the fact that the subsidiaries recorded a series of losses in the recent past, the criteria for recognizing deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax is only allowed if there is convincing substantive evidence that sufficient taxable profits will be available. Starting from year end 2017, deferred tax assets on existing tax loss carryforwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences have been recognized in the Group (2016: EUR 0.0 million) for certain entities. The recognition is based on the successful turnaround process initiated by the new ownership, which led the Group back to the market by implementing a new business strategy, raising the efficiency of operations and the quality service level.

Notes to the consolidated statement of financial position

(34) Cash, cash balances at central bank and other demand deposits

EUR m

	31.12.2017	31.12.2016
Cash	98.5	93.4
Cash balances at central banks	964.5	1,699.5
Other demand deposits	222.8	85.4
Total	**1,285.9**	**1,878.2**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 300.4 million (2016: EUR 296.2 million).

(35) Financial assets held for trading

EUR m

	31.12.2017	31.12.2016
Derivatives	**14.5**	**3.7**
Debt securities	**5.4**	**13.7**
General governments	5.4	13.7
Total	**19.8**	**17.4**

(36) Available-for-sale financial assets

EUR m

	31.12.2017	31.12.2016
Equity instruments	**22.3**	**17.7**
Debt securities	**1,212.0**	**1,291.6**
General governments	831.9	789.5
Credit institutions	312.2	400.9
Other financial corporations	25.7	18.6
Non-financial corporations	42.2	82.6
Total	**1,234.3**	**1,309.3**

(37) Loans and receivablees

EUR m

	31.12.2017	31.12.2016
Loans and advances	3,757.2	3,779.9
Total	**3,757.2**	**3,779.9**

37.1. Loans to and receivables from credit institutions

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	65.5	0.0	-0.2	65.3
Total	**65.5**	**0.0**	**-0.2**	**65.3**

EUR m

31.12.2016	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	49.6	0.0	-0.2	49.4
Total	**49.6**	**0.0**	**-0.2**	**49.4**

37.2. Loans to and receivables from customers

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**
General governments	138.5	-1.0	-0.6	136.9
Other financial corporations	46.2	-3.9	-0.7	41.6
Non-financial corporations	1,604.2	-142.0	-14.4	1,447.9
Households	2,321.5	-234.6	-21.4	2,065.5
Total	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**

EUR m

31.12.2016	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**
General governments	332.4	-1.1	-0.9	330.4
Other financial corporations	46.8	-12.9	-0.9	33.1
Non-financial corporations	1,546.3	-143.0	-12.0	1,391.3
Households	2,340.0	-346.4	-17.9	1,975.7
Total	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**

37.3. Impairment on loans and receivables

EUR m

	As at 1.1.2017	Foreign-exchange-differences	Allocations	Releases	Utilization	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2017
Specific provisions	-503.4	6.7	-138.9	127.4	69.8	0.0	9.2	47.6	-381.5
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances	-503.4	6.7	-138.9	127.4	69.8	0.0	9.2	47.6	-381.5
Portfolio provisions	-31.9	-0.3	-22.0	10.7	8.6	0.0	0.3	-2.5	-37.2
Subtotal credit risk provisions on loans and receivables	**-535.3**	**6.4**	**-160.9**	**138.1**	**78.4**	**0.0**	**9.5**	**45.1**	**-418.7**
Provisions for risks arising from the lending business	**-12.6**	**-0.1**	**-13.2**	**14.5**	**0.0**	**0.0**	**0.0**	**0.0**	**-11.4**
Specific provisions	-8.4	-0.1	-3.1	5.5	0.0	0.0	0.0	0.0	-6.1
Portfolio provisions	-4.2	0.0	-10.1	9.1	0.0	0.0	0.0	0.0	-5.2
Total	**-547.9**	**6.3**	**-174.1**	**152.6**	**78.4**	**0.0**	**9.5**	**45.1**	**-430.1**

The item “Other” mainly includes risk provisions for non-performing loans which are subject to a currently ongoing sales process in Croatia and Serbia and which are, therefore, classified under the position “non-current assets and disposal groups classified as held for sale".

EUR m

	As at 1.1.2016	Foreign-exchange-differences	Allocations	Releases	Utilization	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2016
Specific provisions	-599.0	-2.4	-74.7	103.3	58.4	-1.2	10.5	1.8	-503.4
Portfolio provisions	-24.0	-0.2	-18.7	9.3	1.3	0.0	0.0	0.4	-31.9
Subtotal credit risk provisions on loans and receivables	**-623.0**	**-2.6**	**-93.4**	**112.5**	**59.7**	**-1.2**	**10.5**	**2.2**	**-535.3**
Provisions for risks arising from the lending business	**-20.2**	**-0.1**	**-5.6**	**13.3**	**0.0**	**0.0**	**0.0**	**0.0**	**-12.6**
Specific provisions	-11.0	-0.1	-2.2	4.8	0.0	0.0	0.0	0.0	-8.4
Portfolio provisions	-9.2	0.0	-3.4	8.4	0.0	0.0	0.0	0.0	-4.2
Total	**-643.2**	**-2.7**	**-99.0**	**125.8**	**59.7**	**-1.2**	**10.5**	**2.2**	**-547.9**

(38) Held-to-maturity investments

EUR m

	31.12.2017	31.12.2016
Debt securities	**42.5**	**82.6**
General governments	38.6	78.8
Non-financial corporations	3.9	3.9
Total	**42.5**	**82.6**

(39) Tangible assets

EUR m

	31.12.2017	31.12.2016
Property plant and equipment	55.3	67.9
Investment properties	2.0	2.5
Total	**57.3**	**70.4**

(40) Intangible assets

EUR m

	31.12.2017	31.12.2016
Purchased software	21.3	17.1
Other intangible assets	0.5	0.2
Total	**21.8**	**17.3**

(41) Development of tangible and intangible assets

41.1. Development of cost and carrying amounts

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 1.1.2017	109.3	94.2	0.0	5.3	93.4	302.3
Foreign exchange differences	1.0	1.5	0.0	0.0	1.2	3.7
Additions	2.9	3.8	0.0	0.1	11.8	18.7
Disposals	-2.2	-9.2	0.0	-0.3	-2.9	-14.6
Other changes	-14.2	-0.1	0.0	-0.9	0.0	-15.3
Acquisition cost 31.12.2017	96.9	90.2	0.0	4.3	103.5	294.9
Cumulative depreciation 31.12.2017	-52.6	-79.2	0.0	-2.3	-81.6	-215.7
Carrying amount 31.12.2017	44.3	11.0	0.0	2.0	21.8	79.1
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	87.8

The item “Other changes” includes tangible assets which are subject to a currently ongoing sales process in Croatia, Serbia and Bosnia and Herzegovina and which are, therefore, classified under the position “non-current assets and disposal groups classified as held for sale".

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 1.1.2016*	110.3	102.8	35.5	7.9	82.5	338.9
Foreign exchange differences	0.5	0.2	0.4	0.0	0.2	1.3
Additions	1.4	5.3	2.4	0.0	11.1	20.2
Disposals	-2.2	-4.9	-13.9	-3.1	-1.7	-25.7
Other changes	-0.7	-9.2	-24.4	0.5	1.4	-32.4
Acquisition cost 31.12.2016	109.3	94.2	0.0	5.3	93.4	302.3
Cumulative depreciation 31.12.2016	-54.2	-81.4	0.0	-2.8	-76.1	-214.6
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	87.8
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	119.6

* Previous-year figures adjusted: In previous years, fully amortized/depreciated tangible and intangible assets were shown as disposal in the asset table although they were still in use by the company. In 2017, it was decided to show them in the asset table as well as in the cumulative amortization/depreciation table starting from 1.1.2016.

41.2. Development of depreciation and amortization

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 1.1.2017	-54.2	-81.4	0.0	-2.8	-76.1	**-214.6**
Foreign exchange differences	-0.5	-1.3	0.0	0.0	-0.9	**-2.7**
Disposals	1.5	8.0	0.0	0.1	1.2	**10.8**
Scheduled depreciation	-2.2	-3.8	0.0	-0.1	-5.7	**-11.8**
Impairment	-5.3	-0.7	0.0	0.0	-0.1	**-6.2**
Other changes	8.0	0.1	0.0	0.4	0.0	**8.6**
Write-ups	0.1	0.0	0.0	0.0	0.0	**0.1**
Cumulative depreciation 31.12.2017	-52.5	-79.2	0.0	-2.3	-81.6	**-215.7**

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 1.1.2016*	-49.6	-81.3	-12.9	-5.5	-70.0	**-219.3**
Foreign exchange differences	-0.3	-0.1	-0.1	0.0	-0.2	**-0.7**
Disposals	2.0	3.9	6.4	3.1	0.0	**15.4**
Scheduled depreciation	-2.3	-7.4	-5.0	-0.1	-4.7	**-19.5**
Impairment	-4.5	-4.4	-0.2	0.0	-0.2	**-9.2**
Other changes	0.3	7.9	11.7	-0.3	-1.1	**18.6**
Write-ups	0.1	0.0	0.0	0.1	0.0	**0.3**
Cumulative depreciation 31.12.2016	-54.2	-81.4	0.0	-2.8	-76.1	**-214.6**

* Previous-year figures adjusted: In previous years, fully depreciated/amortized tangible and intangible assets were shown as disposal in the asset table although they were still in use by the company. In 2017, it was decided to show them in the asset table as well as in the cumulative depreciation/amortization table starting from 1.1.2016.

(42) Other assets

EUR m

	31.12.2017	31.12.2016
Prepayments and accrued income	8.4	3.1
Inventories (repossessed assets, emergency acquired assets, etc.)	4.8	4.3
Other remaining assets	11.6	11.5
Total	**24.8**	**18.9**

(43) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale

As at December 31, 2017, the item "non-current assets and disposal groups classified as held for sale" amounts to EUR 19.5 million. The line item loans and receivables include non-performing loans and receivables in Croatia and Serbia in amount of EUR 13.0 million for which a disposal is expected in the first half of 2018. The line items Property plant and equipment and Investment properties include 18 properties in Croatia, Bosnia and Herzegovina and Serbia which, as part of a Group project to dispose non-core assets, are actively marketed as of year 2017. The item "other assets" includes only inventories (repossessed assets, emergency acquired assets, etc.).

In the previous year, this item included the Croatian leasing portfolio which was successfully disposed during the year 2017 as part of the new strategy to wind down non-core operations.

EUR m

	31.12.2017	31.12.2016
Loans and receivables	13.0	29.0
Property plant and equipment	5.2	8.4
Investment properties	0.5	0.1
Other assets	0.9	1.8
Total	**19.5**	**39.3**

The following table presented in 2016 non-current liabilities in relation to the disposal group of the Croatian leasing portfolio.

EUR m

	31.12.2017	31.12.2016
Financial liabilities measured at amortised cost	0.0	1.3
Provisions	0.0	0.3
Other liabilities	0.0	1.1
Total	**0.0**	**2.7**

(44) Financial liabilities held for trading

EUR m

	31.12.2017	31.12.2016
Derivatives	1.8	9.1
Total	**1.8**	**9.1**

(45) Financial liabilities measured at amortized cost

EUR m

	31.12.2017	31.12.2016*
Deposits	5,275.4	4,751.6
Deposits of credit institutions	341.6	316.0
Deposits of customers	4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital	198.5	73.5
Debt securities issued	1.7	6.5
Subordinated and supplementary capital	196.9	66.9
Other financial liabilities	47.3	1,215.3
Total	**5,521.2**	**6,040.4**

* Previous-year figures adjusted: In 2016, EUR 66.9 million subordinated and supplementary capital was reported under the item "other financial liabilities".

The decrease in other financial liabilities is mainly due to the repayment of financing lines to HETA ASSET RESOLUTION AG in the amount of EUR 973.9 million.

45.1. Deposits of credit institutions

EUR m

	31.12.2017	31.12.2016
Current accounts / overnight deposits	32.3	5.8
Deposits with agreed terms	309.3	310.2
Total	**341.6**	**316.0**

45.2. Deposits of customers

EUR m

	31.12.2017	31.12.2016
Current accounts / overnight deposits	**2,113.9**	**1,761.0**
General governments	38.3	30.9
Other financial corporations	182.0	134.9
Non-financial corporations	663.3	672.7
Households	1,230.3	922.6
Deposits with agreed terms	**2,731.6**	**2,634.1**
General governments	120.0	118.0
Other financial corporations	179.3	155.2
Non-financial corporations	609.6	507.9
Households	1,822.6	1,853.1
Deposits redeemable at notice	**67.6**	**40.5**
General governments	7.2	12.6
Other financial corporations	8.8	5.7
Non-financial corporations	18.3	22.1
Households	33.3	0.1
Total	**4,933.8**	**4,435.6**

45.3. Debt securities issued

EUR m

	31.12.2017	31.12.2016*
Subordinated liabilities	196.9	66.9
Supplementary capital	196.9	66.9
Debt securities issued	1.7	6.5
Certificates of deposit	1.7	6.5
Total	**198.5**	**73.5**

* Previous-year figures adjusted: In 2016, EUR 66.9 million subordinated and supplementary capital was reported under the item "other financial liabilities".

(46) Provisions

EUR m

	31.12.2017	31.12.2016*
Pensions and other post employment defined benefit obligations	1.9	2.1
Other long term employee benefits	0.4	0.4
Restructuring measures	3.4	7.2
Pending legal disputes and tax litigation	45.5	64.0
Commitments and guarantees granted	11.3	12.6
Provision for variable payments	11.2	4.2
Other provisions	9.6	17.3
Total	**83.3**	**107.8**

* Previous-year figures adjusted: In 2016, a provision of EUR 4.2 million related to "variable payments" was reported under the item "other provisions"; a provision of EUR 3.1 million related to "pending legal disputes and tax litigation " was reported under the item "other provisions".

Details regarding restructuring measures are presented in note (22.3) Provisions for restructuring. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2017.

The item "pending legal disputes and tax litigation" includes provisions for legal risks in connection with customer protection claims in one of the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item.

No further disclosures according to IA 37.92 are made in order to protect the Addiko Group's position in these legal disputes. More detailed explanations on the legal disputes that are the subject of these provisions are presented in note (84) Risks in the portfolio relating to historical interest rate directives, and in note (85) Legal risks.

Other provisions mainly include provisions for onerous contracts in the amount of EUR 3.0 million (2016: EUR 7.0 million).

The development of provisions for risks arising from the lending business (commitments and guarantees issued) is disclosed under note (37) Loans and receivables.

The calculated amount for provisions for restructuring measures, pending legal disputes and tax litigation as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

46.1. Provisions – development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarized.

EUR m

	2017	2016
Present value of the defined benefit obligations as of 1.1	2.1	2.4
+ Current service cost	0.3	0.2
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	-0.1	-0.1
+/- Actuarial gains/losses arising from changes in demographic assumptions	-0.1	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	0.1
+/- Actuarial gains/losses arising from changes from experience assumptions	0.0	-0.1
- Payments from the plan	-0.4	-0.4
+ Past service cost	0.0	0.0
+/- durch die Zusammenfassung von Geschäftstätigkeiten und Veräußerungen	0.0	0.0
+/- Other changes	0.0	-0.1
Present value of the defined benefit obligations as of 31.12	1.9	2.1

Due to the low amount of personnel provisions for the Addiko Group as at December 31, 2017, further disclosures according to IAS 19 are omitted.

46.2. Provisions – development of other provisions

EUR m

	Carrying amount 1.1.2017	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2017
Pensions and other post employment defined benefit obligations	2.1	0.0	0.2	-0.2	-0.1	0.0	1.9
Other long term employee benefits	0.4	0.0	0.1	0.0	-0.1	0.0	0.4
Restructuring measures	7.2	0.0	0.9	-4.8	0.0	0.0	3.4
Pending legal disputes and tax litigation	64.0	0.3	6.7	-9.3	-16.2	0.0	45.5
Provision for variable payments	8.6	0.0	9.1	-4.6	-1.9	0.0	11.2
Other provisions	17.3	0.2	1.0	-8.3	-2.1	1.6	9.6
Total	**99.7**	**0.5**	**17.9**	**-27.2**	**-20.4**	**1.6**	**72.0**

*In 2017, the provision for variable payments is fully shown in "provisions". Therefore, to obtain comparability, it was decided to present in the opening balance of provision for variable payments also the EUR 4.0 million shown in 2016 in "other liabilities".

EUR m

	Carrying amount 1.1.2016	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2016
Pensions and other post employment defined benefit obligations	2.4	0.0	0.3	-0.5	-0.2	0.0	2.1
Other long term employee benefits	0.4	0.0	0.1	-0.1	0.0	0.0	0.4
Restructuring measures	18.5	0.0	2.6	-12.6	-0.1	-1.1	7.2
Pending legal disputes and tax litigation	41.6	0.0	32.1	-4.2	-5.5	0.0	64.0
Provision for variable payments*	0.0	0.0	4.2	0.0	0.0	0.0	4.2
Other provisions	236.1	2.1	3.2	-199.4	-24.5	-0.2	17.3
Total	**299.0**	**2.1**	**42.5**	**-216.8**	**-30.3**	**-1.3**	**95.3**

* Previous-year figures adjusted: In 2016, a provision of EUR 4.2 million related to variable payments was reported under the item “other provisions”, the remaining amount for variable payments of EUR 4.0 million was reported under the item "other liabilities". In addition a provision of EUR 3.1 million related to "pending legal disputes " was reclassified from the item “other provisions”.

(47) Other liabilities

EUR m

	31.12.2017	31.12.2016
Deferred income	1.4	1.7
Accruals and other liabilities	32.4	26.4
Total	**33.8**	**28.1**

(48) Equity

EUR m

	31.12.2017	31.12.2016
Equity holders of parent	**844.1**	**994.7**
Subscribed	5.0	5.0
Capital reserves	537.8	336.2
Available-for-sale-reserves	12.5	7.6
Foreign currency reserve	-7.9	-21.1
Cumulative results and other reserves	296.7	667.0
Non-controlling interest	**0.0**	**0.0**
Total	**844.0**	**994.7**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at December 31, 2017. Of this amount, EUR 5.0 million (2016: EUR 5.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 1,000 (2016: 1,000) no-par registered shares. The proportionate amount of the share capital per share amounts EUR 5.0 thousand (2016: EUR 5.0 thousand).

The capital reserve mainly consists of the contribution of the bank participations in Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro by the former parent company Hypo Alpe-Adria Bank International AG as at June 28, 2013.

In 2015 the capital reserves were increased in the amount of EUR 189.0 million by a contribution from the parent company AI Lake (Luxembourg) S.à.r.l., arising from a claim against HETA ASSET RESOLUTION AG for the compensation of impairment, which was granted to AI Lake (Luxembourg) S.à r.l. in the course of the sale of the former Hypo Group Alpe Adria AG.

A further capital contribution by the parent company in the amount of EUR 265 million was recognised in the capital reserves in 2016. This contribution also resulted from a claim to compensate for warranty claims of AI Lake (Luxembourg) S.à r.l. against the former parent company and was contributed on March 10, 2016. In addition, in the financial year 2016, EUR 722.1 million were rebooked from the capital reserve to the position “Cumulative results and other reserves”. In 2017 a further capital contribution by the parent company in the amount of EUR 219.8 million was recognized in the capital reserves. This contribution resulted from a settlement of warranty claims of AI Lake (Luxembourg) S.à r.l. against the former parent company and was contributed on February 6, 2017. In the financial year 2017, EUR 18.1 million were rebooked from the capital reserve to the position “Cumulative results and other reserves”.

Only a small amount of equity is attributable to non-controlling interests.

The available-for-sale reserves include negative available-for-sale-reserves in amount of EUR 1.3 million. Other reserves contain also a liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 170.0 million in the financial year 2017. In the next General Assembly, a proposal will be made to

distribute an amount of EUR 170.0 million by the Company. The dividend per share will be EUR 170.0 thousand (2016: EUR 430.0 thousand).

(49) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Addiko Group due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Addiko Group contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers, and debt securities issued. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity in-vestments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries made for the acquisition of subsidiaries.

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Supplementary information required by IFRS

(50) Analysis of remaining maturities

EUR m

Analysis of remaining maturity as at 31.12.2017	thereof: due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	985.5	290.9	5.0	3.2	1.3	**1,285.9**
Financial assets held for trading	0.1	1.7	6.7	9.4	2.0	**19.8**
Available-for-sale financial assets	103.2	42.9	118.8	798.7	170.7	**1,234.3**
Loans and receivables	347.0	83.6	520.0	1,191.1	1,615.4	**3,757.2**
Held-to-maturity investments	0.0	0.0	0.0	30.9	11.6	**42.5**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	**0.1**
Non-current assets and disposal groups classified as held for sale	1.0	15.0	3.5	0.0	0.0	**19.5**
Total	**1,436.8**	**434.2**	**654.0**	**2,033.3**	**1,801.1**	**6,359.3**
Financial liabilities held for trading	0.0	1.4	0.1	0.1	0.1	**1.8**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial liabilities measured at amortised cost	1,776.6	898.2	1,300.6	785.5	760.3	**5,521.2**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0	0.0	**0.0**
Total	**1,776.6**	**899.7**	**1,300.7**	**785.6**	**760.4**	**5,523.0**

EUR m

Analysis of remaining maturity as at 31.12.2016	thereof: due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	1,279.8	591.3	4.2	2.6	0.4	**1,878.2**
Financial assets held for trading	0.1	1.4	1.6	13.7	0.7	**17.4**
Available-for-sale financial assets	112.9	55.1	172.6	820.1	148.6	**1,309.3**
Loans and receivables	390.2	118.5	526.2	1,488.6	1,256.3	**3,779.9**
*Held-to-maturity investments	0.0	40.6	0.0	30.5	11.5	**82.6**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	0.1
Non-current assets and disposal groups classified as held for sale	0.0	0.5	38.8	0.0	0.0	**39.3**
Total	**1,783.0**	**807.4**	**743.4**	**2,355.4**	**1,417.6**	**7,106.8**
Financial liabilities held for trading	0.0	2.1	0.1	6.4	0.5	**9.1**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	25.0
Financial liabilities measured at amortised cost	1,822.8	599.3	1,864.6	1,606.2	147.4	6,040.4
Derivatives - Hedge accounting	0.0	0.0	0.0	2.6	4.3	6.9
Liabilities included in disposal groups classified as held for sale	0.0	0.0	2.7	0.0	0.0	2.7
Total	**1,822.8**	**601.4**	**1,867.4**	**1,640.2**	**152.2**	**6,084.1**

* Previous-year figures adjusted: In position "Held-to-maturity investments" a reclassification between from "3 month to 1 year" to "from 1 year to 5 years" and "> 5 years" was done.

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(51) Maturities pursuant to IAS 1

EUR m

31.12.2017	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,281.4	4.5
Financial assets held for trading	8.5	11.3
Available-for-sale financial assets	264.9	969.4
Loans and receivables	950.7	2,806.5
Held-to-maturity investments	0.0	42.5
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	57.3
Intangible assets	0.3	21.5
Tax assets	4.4	17.9
thereof current tax assets	1.6	0.0
thereof deferred tax assets	2.7	17.9
Other assets	17.1	7.8
Non-current assets and disposal groups classified as held for sale	19.5	0.0
Total	**2,546.7**	**3,938.8**
Financial liabilities held for trading	1.5	0.3
Financial liabilities designated at fair value through profit or loss	0.0	0.0
Financial liabilities measured at amortised cost	3,975.5	1,545.8
Derivatives - Hedge accounting	0.0	0.0
Provisions	37.3	46.1
Tax liabilities	1.2	0.2
thereof current tax liabilities	0.9	0.0
thereof deferred tax liabilities	0.3	0.2
Other liabilities	33.6	0.2
Liabilities included in disposal groups classified as held for sale	0.0	0.0
Total	**4,049.0**	**1,592.4**

EUR m

31.12.2016	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,875.3	3.0
Financial assets held for trading	3.1	14.4
Available-for-sale financial assets	340.6	968.7
Loans and receivables	1,035.0	2,744.8
Held-to-maturity investments*	40.6	42.0
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	70.4
Intangible assets	0.0	17.3
Tax assets	2.6	0.0
thereof current tax assets	2.6	0.0
thereof deferred tax assets	0.0	0.0
Other assets	18.7	0.2
Non-current assets and disposal groups classified as held for sale	39.3	0.0
Total	**3,355.2**	**3,860.9**
Financial liabilities held for trading	2.2	6.9
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortised cost	4,286.7	1,753.6
Derivatives - Hedge accounting	0.0	6.9
Provisions	45.9	61.9
Tax liabilities	0.3	1.1
thereof current tax liabilities	0.0	1.0
thereof deferred tax liabilities	0.3	0.1
Other liabilities	27.9	0.1
Liabilities included in disposal groups classified as held for sale	2.7	0.0
Total	**4,365.8**	**1,855.6**

* Previous-year figures adjusted: In position "Held-to-maturity investments" a reclassification between from "3 month to 1 year" to "from 1 year to 5 years" and "> 5 years" was done.

(52) Finance leases from the view of Addiko Group as lessor

Receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2017	31.12.2016
Minimum lease payments (agreed instalments + guaranteed residual value)	2.4	5.2
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	**2.4**	**5.2**
up to 1 year	1.0	0.0
from 1 to 5 years	1.5	5.2
over 5 years	0.0	0.0
Unrealized financial income (interest) (-)	-0.1	-0.4
Net investment value (=)	**2.3**	**4.8**
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	**2.3**	**4.8**
up to 1 year	0.9	2.4
from 1 to 5 years	1.4	2.4
over 5 years	0.0	0.0

The accumulated provisions for impairment losses for uncollectible outstanding minimum lease payments from finance leases for 2017 amount to EUR 0.0 million (2016: EUR 0.0 million). The total amount of contingent rental payments from finance leases recognized as revenue in the reporting period was EUR 0.0 million (2016: EUR 0.0 million).

Assets leased under finance leases (leased assets) break down as follows:

	31.12.2017	31.12.2016
Other movables	2.3	4.8
Total	**2.3**	**4.8**

(53) Operating leases

53.1. Operating leases from the view of Addiko as lessor

The future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2017	31.12.2016
up to 1 year	0.2	0.2
from 1 year to 5 years	0.0	0.1
more than 5 years	0.0	0.0
Total	**0.2**	**0.3**

The breakdown of minimum lease payments from non-cancellable operating leases, by leased assets, is as follows:

EUR m

	31.12.2017	31.12.2016
Tangible assets	0.0	0.0
Investment properties	0.2	0.3
Total	**0.2**	**0.3**

53.2. Operating leases from the view of Addiko as lessee

The Group leases the majority of its offices and branches under various rental agreements. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. For further details regarding the provision for onerous contracts please refer to note (46) The lease agreements do not include any clauses that impose any restrictions on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

(54) Assets/liabilities in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

EUR m

	31.12.2017	31.12.2016
Assets	2,328.1	2,240.7
Liabilities	2,347.3	2,177.3

The majority of the difference between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(55) Return on total assets

As at December 31, 2017, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 0.3% (2016: -0.3%).

(56) Transfer of financial assets - repurchase agreements

At year-end, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

At year-end 2016, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

(57) Contingent liabilities and unused credit lines

EUR m

	31.12.2017	31.12.2016
Contingent liabilities	307.5	300.6
from financial guarantees	135.6	132.6
from other commitments	171.9	167.9
Unused credit lines	512.3	465.7
Total	**819.9**	**766.3**

(58) Measurement categories in accordance with IAS 39

The statement of financial position as at December 31, 2017 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2017
Cash, cash balances at central banks and other demand deposits	1,285.9						1,285.9
Financial assets held for trading		19.8					19.8
Available-for-sale financial assets				1,234.3			1,234.3
Loans and receivables	3,757.2						3,757.2
Held-to-maturity investments					42.5		42.5
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,043.0**	**19.8**	**0.0**	**1,234.3**	**42.5**	**0.1**	**6,339.8**
Financial liabilities held for trading		1.8					1.8
Financial liabilities designated at fair value through profit or loss			0.0				0.0
Financial liabilities measured at amortised cost	5,521.2						5,521.2
Derivatives - Hedge accounting						0.0	0.0
Total financial liabilities	**5,521.2**	**1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**5,523.0**

The statement of financial position as at December 31, 2016 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2016
Cash, cash balances at central banks and other demand deposits	1,878.2						1,878.2
Financial assets held for trading		17.4					17.4
Available-for-sale financial assets				1,309.3			1,309.3
Loans and receivables	3,779.9						3,779.9
Held-to-maturity investments					82.6		82.6
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,658.1**	**17.4**	**0.0**	**1,309.3**	**82.6**	**0.1**	**7,067.5**
Financial liabilities held for trading		9.1					9.1
Financial liabilities designated at fair value through profit or loss			25.0				25.0
Financial liabilities measured at amortised cost	6,040.4						6,040.4
Derivatives - Hedge accounting						6.9	6.9
Total financial liabilities	**6,040.4**	**9.1**	**25.0**	**0.0**	**0.0**	**6.9**	**6,081.4**

Explanations:

LAR:	loans and receivable	FVO:	designated at fair value through profit and loss (fair value option)
LAC:	liabilities at cost	AFS:	available for sale
HFT:	held for trading	HTM:	held to maturity

(59) Net gains or losses on financial instruments

EUR m

	Net interest income	Measurement and Sale	Risk provisions	1.1. - 31.12.2017 Other comprehensive income (OCI)
Loans and receivables	207.3	0.0	-15.1	
Financial assets held for trading	6.2	0.2		
Available-for-sale financial assets	15.7	8.2		4.9
Held-to-maturity investments	2.7	-0.1		
Derivatives - Hedge accounting, interest rate risk	0.3			
Other assets	0.3			
Financial liabilities measured at amortised cost	-64.8	0.0		
Financial liabilities held for trading	-2.2	0.0		
Derivatives - Hedge accounting, interest rate risk	0.0			
Other liabilities	-1.9			
Total	**163.5**	**8.3**	**-15.1**	**4.9**

EUR m

	Net interest income	Measurement and Sale	Risk provisions	1.1. - 31.12.2016 Other comprehensive income (OCI)
Loans and receivables	211.0	0.3	4.4	
Financial assets held for trading	5.0	0.3		
Available-for-sale financial assets	14.4	9.1		-0.6
Held-to-maturity investments	4.0	-0.1		
Derivatives - Hedge accounting, interest rate risk	2.7			
Other assets	1.0			
Financial liabilities measured at amortised cost	-69.9	0.0		
Financial liabilities held for trading	-5.2	0.0		
Derivatives - Hedge accounting, interest rate risk	-1.7			
Other liabilities	-2.6			
Total	**158.7**	**9.5**	**4.4**	**-0.6**

(60) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on the fair value origin, the following fair value hierarchy results:

- Quoted prices in active markets (Level I): the fair value of financial instruments traded in active markets is best established through quoted prices where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- Value determined using observable parameters (Level II): if there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using observable prices or parameters must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments.
- Value determined using non-observable parameters (Level III): this category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models appropriate for the respective financial instrument. This model makes use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument.

Equity instruments
Equity instruments are reported under Level I if prices are quoted in an active market. If no quoted prices are available, they are reported under Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortized cost. Equity instruments measured at amortized cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows. These are reported under Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under Level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under Level II or Level III depending on the input factors used.

Fixed-interest receivables and liabilities
The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under Level I. The fair value is determined on the basis of risk premium curves in the event that there is no active market. The proximity to

the risk premium curve used determines whether these instruments are reported under Level II or Level III. They are reported under Level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under Level III.

Hedge accounting
Within the scope of hedge accounting, the Addiko Group uses only fair value hedges to hedge the market values of financial instruments. Receivables hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the receivable. The hedge serves above all to minimize the market value risk caused by interest rate changes.

No separate calculation of the fair value was carried out so as to hedge interest rate risks.
As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.

For this purpose, the Addiko Group established the expected series of payments for each financial instrument and discounted it at a rate based on market data.

60.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value to their level in the fair value hierarchy.

EUR m

31.12.2017	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	4.5	15.3	0.0	19.8
Available-for-sale financial assets	898.6	332.1	3.6	1,234.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**903.1**	**347.6**	**3.6**	**1,254.3**
Liabilities				
Financial liabilities held for trading	0.0	1.8	0.0	1.8
Total	**0.0**	**1.8**	**0.0**	**1.8**

There were no reclassifications between the individual levels in 2017.

EUR m

31.12.2016	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	4.3	13.2	0.0	17.4
Available-for-sale financial assets	1,112.8	193.5	2.9	1,309.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**1,117.1**	**206.8**	**2.9**	**1,326.8**
Liabilities				
Financial liabilities held for trading	0.0	9.1	0.0	9.1
Financial liabilities designated at fair value through profit or loss	0.0	0.0	25.0	25.0
Derivatives - Hedge accounting	0.0	6.9	0.0	6.9
Total	**0.0**	**16.0**	**25.0**	**41.0**

There were no reclassifications between the individual levels in 2016.

The level III position "Available-for-sale financial assets" includes EUR 3.6 million (2016: EUR 2.9 million) equity instruments, which in accordance with IAS 39.46.b are measured at cost. For these instruments, no sensitivity disclosures are presented.

The reconciliation of the assets reported under Level III as at December 31, 2017 was as follows:

EUR m

31.12.2017	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.6	3.5
Total	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**3.5**
Liabilities									
Financial liabilities designated at fair value through profit or loss	25.0	0.0	0.0	0.0	0.0	0.0	0.0	-25.0	0.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-25.0**	**0.0**

The column “Total gains/losses” contains both income and expenses from financial instruments which were held as at December 31, 2017, as well as from financial instruments which were no longer on the books as at December 31, 2017.

The reduction of "Financial liabilities designated at fair value through profit or loss" is due to the repayment of financial liabilities as part of the settlement process with the previous owner during the first quarter 2017 and is therefore not disclosed as "disposal".

The reconciliation of the assets reported under Level III as at December 31, 2016 was as follows:

EUR m

31.12.2016	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	8.5	0.0	0.0	0.0	-5.6	0.0	0.0	0.0	2.9
Total	**8.5**	**0.0**	**0.0**	**0.0**	**-5.6**	**0.0**	**0.0**	**0.0**	**2.9**
Liabilities									
Financial liabilities designated at fair value through profit or loss	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**25.0**

60.1.1. MEASUREMENT METHODS USED TO DETERMINE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined. While market prices for some of the Level III items are provided externally, the market prices are either supplied with low frequency or from only one source.

The following measurement techniques are applied to items that are measured internally based on models:

Present value of the future cash flows
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

60.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer’s country and sector. This applies to the risk premium of the Addiko Group.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

60.1.3. FAIR VALUE ADJUSTMENTS

Credit value adjustment (CVA) and debt value adjustment (DVA)

Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting
The Addiko Group measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

60.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognized financial instruments and assets not carried at fair value are compared to the respective fair values below:

EUR m

31.12.2017	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,757.2	3,932.2	175.0	0.0	0.0	3,932.2
Held-to-maturity investments	42.5	51.8	9.3	0.0	51.8	0.0
Investment properties	2.0	2.1	0.1	0.0	0.0	2.1
Non-current assets and disposal groups classified as held for sale	19.5	19.5	0.0	0.0	0.0	19.5
Total	**3,821.1**	**4,005.6**	**184.5**	**0.0**	**51.8**	**3,953.8**
Liabilities						
Financial liabilities measured at amortised cost	5,521.2	5,477.1	44.1	0.0	0.0	5,477.1
Total	**5,521.2**	**5,477.1**	**44.1**	**0.0**	**0.0**	**5,477.1**

EUR m

31.12.2016	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,779.9	3,710.4	-69.5	0.0	0.0	3,710.4
Held-to-maturity investments*	82.6	93.8	11.2	0.0	93.8	0.0
Investment properties	2.5	2.7	0.2	0.0	0.0	2.7
Non-current assets and disposal groups classified as held for sale	39.3	39.3	0.0	0.0	0.0	39.3
Total	**3,904.3**	**3,846.2**	**-58.1**	**0.0**	**93.8**	**3,752.4**
Liabilities						
Financial liabilities measured at amortised cost*	6,040.4	6,006.6	33.8	0.0	176.8	5,829.8
Total	**6,040.4**	**6,006.6**	**33.8**	**0.0**	**176.8**	**5,829.8**

* Previous-year figures adjusted: HTM investments are classified in Level II due to restricted market activity. Level III of financial liabilities measured at amortized cost were adjusted.

The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, uncertainties with regard to the calculation of the own credit spread exist. The calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in SEE/CEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists.

The fair value of held-to-maturity financial assets is determined based on external price sources.

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method.

(61) Offsetting

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognized financial assets and financial liabilities. Also reported are the amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the statement of financial position.

EUR m

	31.12.2017	31.12.2016
ASSETS	Derivative financial instruments	
a) Gross amounts of recognised financial instruments (I and II)	**12.8**	**1.7**
b) Amounts that are set off for financial instruments I	1.4	1.7
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**11.4**	**0.0**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0
Amounts related to financial collateral (including cash collateral);	6.8	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**4.6**	**0.0**

* Financial instruments I: Financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

	31.12.2017	31.12.2016
LIABILITIES	Derivative financial instruments	
a) Gross amounts of recognised financial instruments (I and II)	**1.4**	**15.5**
b) Amounts that are set off for financial instruments I	1.4	1.7
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.0**	**13.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0
Amounts related to financial collateral (including cash collateral);	0.0	13.8
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

* Financial instruments I: financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination (e.g. insolvency), these are not offset in the statement of financial position.

(62) Derivative financial instruments

62.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

EUR m

	31.12.2017			31.12.2016		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**384.1**	**1.5**	**0.2**	**411.7**	**2.3**	**7.1**
OTC options	50.1	0.2	0.2	39.8	0.1	0.3
OTC other	334.1	1.3	0.1	371.9	2.2	6.8
b) Foreign exchange and gold						
OTC-products	**378.0**	**13.0**	**1.5**	**468.6**	**1.4**	**2.0**
OTC other	378.0	13.0	1.5	468.6	1.4	2.0

62.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2017			31.12.2016		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**9.0**	**0.1**	**0.0**	**54.0**	**0.1**	**6.9**
OTC other	9.0	0.1	0.0	54.0	0.1	6.9
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
OTC other	0.0	0.0	0.0	0.0	0.0	0.0
FAIR VALUE HEDGES	**9.0**	**0.1**	**0.0**	**54.0**	**0.1**	**6.9**

The majority of derivative transactions serves the purpose of hedging fluctuations related to interest rates and foreign currency rates. Primarily, micro hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of derivatives, see note (8) Financial instruments: recognition and measurement, and note (11) Hedge accounting.

(63) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. 95.4% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 4.6% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Business relation with the European Bank for Reconstruction and Development, previously shown as "Associates and joint ventures" are disclosed in other related parties in 2016 and 2017. Key management positions at the Company or the parent company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the Management Boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

Business relations with related parties are as follows at the respective reporting date:

EUR m

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**1.2**	**6.1**
Debt securities	0.0	0.0	0.0	0.0	6.1
Loan and advances	0.0	0.0	0.0	1.2	0.0
Financial liabilities	**196.9**	**0.0**	**0.0**	**4.3**	**5.1**
Deposits	0.0	0.0	0.0	4.3	5.1
Other financial liabilities	196.9	0.0	0.0	0.0	0.0
Other liabilities	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**2.1**	**6.0**
Debt securities	0.0	0.0	0.0	0.0	5.8
Loan and advances	0.0	0.0	0.0	2.1	0.2
Financial liabilities	**66.9**	**0.0**	**0.0**	**2.0**	**0.2**
Deposits	0.0	0.0	0.0	2.0	0.2
Other financial liabilities	66.9	0.0	0.0	0.0	0.0
Other liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.2	0.0	0.0
Interest expenses	-19.2	0.0	0.0	-0.1	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	-0.2	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-19.4**	**0.0**	**0.2**	**0.0**	**0.0**

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-6.9	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	0.0	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-6.9**	**0.0**	**0.0**	**0.0**	**0.1**

Remuneration received by key members of management at the Company or the parent company are presented as follows:

EUR m

	31.12.2017	31.12.2016
Short-term benefits	10.1	9.5
Benefits after termination of employment relationship	0.0	0.0
Other long-term benefits	1.0	0.2
Payments resulting from the termination of employment relationships	0.0	0.0
Share-based payment	0.0	0.0
Total	**11.2**	**9.7**

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (92) Relationships with members of the Company's boards.

Risk Report

(64) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimizing the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Addiko Group to the bank's overall controlling:

- Clearly defined processes and organizational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for the purpose of identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(65) Risk strategy & Risk Appetite Framework (RAF)

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

The Addiko Group's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities. In 2017, the risk strategy was enriched with sub risk strategies for the major risk types.

Addiko has also established a Risk Appetite Framework (RAF) which sets the bank's risk profile and forms part of the-process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The Risk Dimensions cluster the measures with a clear statement of risks covered within and guiding principles for monitoring and steering. The framework of risk appetite measures defines the risk level the bank is willing to accept. Measures are split in primary measures giving calibrated numerical limits and secondary measures giving additional support. The calibration of measures takes into consideration the Budget 2018 and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(66) Risk organization

Ensuring adequate risk management structures and processes is in the responsibility of the Group's Chief Risk Officer (CRO), who is a member of the Addiko Bank AG Management Board. The CRO acts independently of market and trading units, with a focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganization of problem loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and managing the Pillar 2 risk capital that is required from an economic point of view.

In 2017, the following organizational units were operative:

Corporate Credit Risk is responsible for underwriting as well as individual risk assessment, review and monitoring for all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial Institutions. The function has both an operational and strategic role related to credit risk management. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned activities.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis, retail collections and modelling.

Distressed Asset Management is responsible for early warning system and portfolio monitoring, pre-workout, restructuring, collection and workout to all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions.

Credit Risk Portfolio Management provides credit reporting and credit portfolio steering activities for the Addiko Group as well as the respective individual institutes. In particular, the following activities are included: data governance, preparation of monthly risk reports, regulatory reports, coordinating the risk budget process including monthly steering and limit steering.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing, recovery plans, resolution plans and MREL steering, coordination of national bank examinations, managing the regulatory office and SPOC function, steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Provisioning, Forbearance, Default (PFD) Methodology provides and manages methodologies for provisioning, forbearance and default detection/recovery topics. PFD Methodology includes: calculation of portfolio IFRS provisions for all subsidiaries, technical implementation of forbearance rules and technical and methodological definitions of default triggers (including delay counters, definition of materiality thresholds, recovery criteria, etc.).

Risk Validation provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is situated in Austria and works closely with local Credit Risk functions.

Market Risk & Liquidity Risk oversees activities related to market risk (foreign exchange risk, interest rate risk, credit spread risk and equity risk) and the bank's liquidity risk. The team is partially situated in Austria and Slovenia and works closely with locally based Market and Liquidity Risk teams in each of the countries.

Operational Risk provides strategic direction, controls and monitoring for all operational risk-related activities. This includes risk assessments, scenario analysis, loss management, and training activities.

The respective country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country.

(67) Internal risk management guidelines

The Addiko Group states its Group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardized manner. These guidelines are promptly adjusted to reflect organizational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing regulations are assessed at least once a year to determine whether an update is required. This ensures that the actual and documented processes match.

The Addiko Group has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries

and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility is carried out by Internal Audit. The Addiko Group therefore has fully comprehensive and state-of-the-art internal risk management guidelines in place.

(68) Projects

68.1. Risk Enhancement Program

The second phase of the "Risk Enhancement Program" started in 2016 and is still ongoing. While the first phase (completed in 2015) was designed to adjust the risk management of the Addiko Group to the new post-sale business strategy, the second phase aims at consolidating and overview of activities of material impact on the risk management environment of the Addiko Group through activities in three pillars:

- Regular updates of existing policies and plans (Risk Strategy and Appetite, Recovery Plan, Collateral Policy…)
- Process Optimization Activities (Change of Economic Capital Calculation, Improvement to Credit Approval Process, Improvement of Monitoring process…)
- One-Off Activities (Stress testing Review, RWA Optimization, Risk TOM implementation…)

Additionally, the activities of two task forces steered under the overall Data Integrity Project are monitored under the Risk Enhancement Program:

- "Credit Risk Reporting" with the goal to establish one unique data source for overall credit risk reporting, standardize the reporting process and governance model for credit risk reporting and portfolio management, and
- "Market and Liquidity Risk" with the goal to close open audit findings in the area of market and liquidity risk and improve quality of the data used in M&L risk management while implementing the Kamakura system.

The implementation of the calculation of provisions according to the IFRS 9 standard was also tracked in the Risk Enhancement Program, although being steered under a separate IFRS 9 project.

The Steering Committee of the Risk Enhancement Program meets to review the activities and gives opinions on next steps at regular intervals.

68.2. Austrian Federal Law on Recovery and Resolution of Banks (BaSAG)

Following the Austrian Federal Law on Recovery and Resolution of Banks ("Bundesgesetz über die Sanierung und Abwicklung von Banken", BaSAG) as well as the Austrian Bank Recovery Plan Regulation ("Bankensanierungsplanverordnung", BaSaPV") issued by the Austrian Financial Market Authority (FMA) in February 2015, the Addiko Group has prepared and timely submitted (deadline: September 30, 2017) the Group Recovery Plan to the regulatory authorities. Comments received from the regulatory authority on improvements compared to the Group Recovery Plan prepared in 2016 were taken into account during the preparation of Group Recovery Plan 2017.

Also, based on a request from the regulatory authority, Addiko prepared and delivered to the regulatory authority (on August 8,th 2017) the work plan for the preparation of a fully integrated Addiko Group recovery plan, which will be prepared in 2018.

The Recovery Plan is one of the main strategic documents representing the list of measures which a bank plans to adopt in case of a serious deterioration in its financial position. In order to react properly in a potential crisis situation, the plan defines crucial indicators which are monitored and required to be reported within the existing bank governance framework. In case of breaching defined thresholds, the bank will have to react according to the measures stated in the Recovery Plan. The Recovery Plan is updated annually or if there are material changes to the business strategy.

68.3. Forbearance

The Implementing Technical Standards with regard to forbearance measures are continuously being developed further by the European Banking Authority (EBA). The Forbearance Project that was launched by the Addiko Group in 2015 in order to comply with the currently applicable EBA requirements was successfully completed in 2016.

The Forbearance Project was carried out in two phases, with the first phase including the roll-out to countries with the "Hibis" core banking system (Croatia, Slovenia) and the second phase focusing on countries with the T24 core banking system (Serbia, Montenegro, Bosnia and Herzegovina). In cooperation with local subsidiary banks a new forbearance policy was rolled out and full implementation of the process was already completed in 2016. The basis for this new process is the implementation of a forbearance algorithm in the core bank system which is automatically started when an account is identified as forborne. The main forbearance status "forbearance performing", "forbearance non-performing" and "forbearance performing reclassified from non-performing" are available in the system, enabling the Addiko Group to better and more closely monitor forbearance cases. The entry/exit criteria are part of the algorithm and for each forbearance status a probation period was established as part of the regular routine. The exit criteria depend on the forborne status and are mainly based, among others, on a minimum probation period of two years, days in delay and regular payment.

Contrary to the previous presentation of forbearance in the Addiko Group, the exposure is calculated at account level starting in 2016. Furthermore, identifying forbearance cases is no longer directly tied to the rating which only serves as an indication for assessment but every case is additionally assessed on an individual basis. In the course of implementation of the new forbearance process, the Addiko Group also aligned its default definition with the "forbearance non-performing" definition, which constitutes a more conservative approach. The Forbearance Project was monitored and managed from Group side which ensured that the handling of the forbearance algorithm is uniform for all entities. Moreover, the successful implemented forbearance algorithm will also contribute as regards IFRS 9 in terms of underlying criteria within the staging concept (increase of credit risk).

The forbearance exposure at the Addiko Group is presented in note "Breakdown of financial assets by degree of impairment".

68.4. Market & Liquidity Task Force

The Market & Liquidity Risk Task Force is part of the Data Integrity Program initiated in the year 2016 in the Addiko Group. The project aims to improve the reporting and management of market and liquidity risk.

In addition to improving data quality, the Market & Liquidity Risk Task Force's project also aims to automate and standardize liquidity and interest rate risk reporting and notifications. In 2017, the main focus was on the implementation of the Kamakura risk system and solving deficiencies that were identified during various audits. The main focus of the Kamakura implementation was on the IRRBB (Interest Rate Risk of the Banking Book) part and on the Liquidity Risk part as well as on improving data integration and data cleaning. The next steps within the task force project are the automatization of the interest rate risk and liquidity risk relevant in steering reports, such as: LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio), Liquidity Stress Testing, IR gap, BPV, IR stress testing or NII sensitivity. Additionally, the project team will also further focus on data quality and switch to daily report preparation. The updated process goes hand in hand with strategy, manual and work instruction updates. Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in market and liquidity risk. Ultimately, this will lead within 2018 to faster, more efficient and more consistent steering of market and liquidity risks both at holding and individual subsidiary level.

68.5. Credit Risk Task Force

Same as the Market & Liquidity Risk Task Force, the Credit Risk Reporting Task Force is an integral part of the Data Integrity Program initiated mid-2016. This program aims to define a standardized set of reports which are sourced by a unique database throughout the Group and which should be used at Group and local level to steer the credit risk portfolio. In order to obtain this overall goal, several milestones and sub-targets have been defined: (1) Definition of a

clear reporting map, (2) gap analysis with regard to required data fields and data sets, (3) process standardization and automation of steering reports, as well as (4) data integration and improvements regarding data delivery.

The overall project team is made up of Addiko holding employees as well as employees of local subsidiaries in all core countries. In order to cover the high technical requirements with regard to the technical implementation, also Group and local IT departments are heavily involved.

In the second half of 2016, the Credit Risk Reporting Task Force strongly focused on the Group-wide technical setup as well as additional data gathering at subsidiary level. Moreover, the first standardized structure of the monthly risk report was aligned with local and Group risk units.

In 2017, the Credit Risk Reporting Task Force started with centralized automation of internal reporting for credit risk steering purposes as well as the setup of additional data fields and data sets, ensuring the upcoming change of internal reporting in accordance with IFRS 9 instead of IAS 39.

The project primarily aims to implement a uniform reporting structure across the entire Group based on a unique data source both at Group and subsidiary level, ensuring an optimized and transparent reporting structure as well as optimization of resources and enabling a stronger focus on portfolio management and steering at the risk units.

68.6. NPL sale

During 2017 the Bank performed several debt sales of NPL portfolio using electronic auctions for bidding for the first time in the countries of operation. These one-offs significantly contributes to the further strategic reduction of the NPL portfolio. The regular forward flows of unsecured loans that reach 180 dpd continues in those countries where the law allows it.

68.7. End-to-end credit approval process

In order to optimize the overall credit approval process for COR/SME and Public Finance observed end-to-end, an adequate project was performed in 2016 and 2017. Among others, the main result of the project was a distinction between two Corporate/SME processes and the creation of two basic process types approaches:

- Standardized - applies to small-sized clients and Corporate clients with single accounting; this approach is based on a ‘scoring‘ model having in mind small-sized clients; it implies lean and standardized documentation, templates, conditions and tools;
- Tailor-made – applies to bigger Corporate clients with a focus on repayment potential and adequate future cash flows (corporate analysis is done on a ‘case by case’ basis), no standardization; designed primarily due to the need to implement the Korn&Korn approach in the Corporate/SME credit process and to further simplify/optimize existing credit applications.

In 2017, credit application templates for both process types (Tailor-made and Standardized), have been updated and based on that, three forms of credit applications (Simple, Short and Long) were defined for each process type, having in mind credit risk arising from the Client’s rating, financing amount, product types, tenor, etc.

The plan is to develop an automated credit approval process workflow solution/business tools based on selected web-based platforms already starting in 2018.

Due to the fact that market conditions and environment are changing and getting more challenging, it is necessary to enable continuous optimization of the credit process since that is the only way to keep the efficiency and competitiveness on an adequate level. Driven by exactly that aim, adequate persons responsible at holding level were identified for driving and managing and continuously optimizing the above mentioned COR/SME/PF credit process.

The further focus on educations, external and internal, for the purpose of improving financial analysis and risk assessment is also worth mentioning. External education is already provided for all key employees within the Group through trainings, focusing on adequate client business analysis, recognition of key drivers and risks, as well as projecting the same to future repayment potential. Based on this, internal educations are is further on planned in order to transfer

know how and best practices to all levels of operative staff involved in the credit approval process (Market/Financial analysis and Underwriting).

68.8. IFRS 9 project

IFRS 9, the new standard on the recognition of financial instruments, was published in its final version on July 24, 2014, was adopted by the EU and replaces the previously applicable IAS 39 from its effective date January 1, 2018. For a detailed description about the key aspects and expected impacts from the implementation of the new standard please refer to Note 2 “New standards and amendments adopted by the Group”.

68.9. Capital Requirements Optimization Initiative

The Capital Requirements Optimization Initiative was initiated in January by Management Board decision, with the following main goals:

- Optimize capital requirements (Pillar 1 and Pillar 2)
- Manage SREP findings to decrease additional own funds buffer
- Improve Economic Capital Calculation methodology
- Explore options of lowering local deductions impacting the availability of capital
- Foster a capital-efficient business model to ensure ongoing sustainability

The initiative involved activities in all entities, focused on data quality improvement as well as aligning the approach to capital requirements calculation amongst the countries.

By the end of 2017, the Capital Requirements Optimization Initiative will focus on capital efficient business performance and will transition into a component of regular business through:

- Activities of RWA management, planning and tracking, more focused on business / portfolio structure than on technical improvements (responsibility of Credit Risk Portfolio Management)
- Measuring profitability through Risk Adjusted Return on Capital (responsibility of Group Financial Controlling)
- Additional analysis of optimization options for market and operational risk, both in Pillar 1 and Pillar 2 reporting area (responsibility of Integrated Risk Management, Operational Risk Management, Market and Liquidity Risk Management)

68.10. Collateral Policy

In the fourth quarter of 2017, the Collateral Policy and Collateral Manual were connected into one document called Group Collateral Management Policy which gives a detailed overview of individual types of credit risk mitigation instruments acceptable within the Addiko Group, defines the rules of identifying acceptable instruments (eligibility criteria) and their valuation for the purpose of the credit approval process, risk provisions, ICAAP and RWA calculation, provides requirements regarding credit risk mitigation instruments monitoring and describes overall responsibilities related to instruments management.

The changes compared to previous Policy refer to the following:

- Clear definition of collateral usage/possible purposes within Addiko (business credit approval process, provisioning, ICAAP and RWA)
- Update and definition of general requirements relevant for all collateral types and guarantees (legal requirements, documents validity, monitoring, currency mismatch)
- Definition of collateral and guarantees monitoring
- Clear definition and update of eligibility criteria, valuation criteria and monitoring requirements for each collateral type
- Clear definition of responsibilities in overall collateral management process, on Holding and subsidiaries level

The basic aims and impacts of the mentioned changes are:

- Update of valuation criteria – increase internal haircuts for collateral types which bring low value of future cash flows (experience based)
- Update of eligibility criteria – define adequate eligibility criteria for different purposes, meaning the eligibility criteria provisioning, business approach (ex ante and ex post calculation for risk costs), as well as ICAAP and RWA
- Introduction of some new collateral categories and also simplification of existing categories where needed, as well as introduction of simplified internal value measurement where possible
- Structure the document adequately so that it is readable and adequate/easy to use
- Define overall Bank responsibilities related to collateral management

68.11. Economic Capital Overhaul

In the last months the current ICAAP calculation for single name credit risk was reviewed and an update needed to be performed to, on the one hand, achieve optimization potential, and on the other hand, to be fully Basel III compliant. In addition to that, a switch from the current hybrid Foundation IRB Approach to an Advanced IRB Approach was performed. The adoptions in the calculation include such topics as adjustments of correlation factors for residential mortage exposures, inclusion of firm size adjustment (turnover) to achieve a lower risk weight or the SME supporting factor. For exposures to countries, Addiko implemented a Permanent Partial Use (PPU) which foresees that the country exposures are treated like in Pillar I according to the Standardised Approach (STA).

68.12. APS

Addiko Group has decided to develop and roll out a Group-wide application processing sytem ("APS"). The process design of the new APS aims to significantly speed up the decision process. This is achieved by automating interfaces to internal data like payment behavior and blacklists, to external data like credit bureaus and by scoring the client directly in the system instead of any external portal.

Furthermore, the process is supported by a decision engine which is embedded in the application workflow in multiple stages. The decision engine ensures that all policy rules are always checked by the system and applicants with negative payment performance or any other negative indicators are immediately rejected. The decision engine is maintained by Addiko Group, allowing to adjust policy rules very quickly when needed, for example if fraud patterns are detected then fraud protection rules can be implemented within some hours.

The new APS has been rolled out to all branches of Addiko Serbia in November 2017, while business requirements for the second entity Addiko Bosnia have been completed and development has started. Roll-out to other entities will take place in 2018 and 2019.

68.13. Risk Assessments

The methodology for Outsourcing Risk Assessments has been developed and implemented. For the Target Operating Model (TOM) of the Addiko Group, Outsourcing Risk Assessments have been executed for all relevant functions. The new TOM approach helps Addiko improve the operational stability and quality levels. Significant efforts have been undertaken to comply with the CEBS outsourcing requirements, and all risk assessments are based on a structured and holistic report. Generally, the assessments show an overall low risk profile regarding outsourcing risks.

(69) Development of risk provisions

69.1. Method of calculating risk provisions

As part of the calculation of specific risk provisions for impairment losses, the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilization of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default

scenario (restructuring or utilization), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from real estate, the Addiko Group bases its assumptions on the collateral's market value, which is updated annually in commercial real estate business. Haircuts are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilization period and legal situation in relation to the real estate.

For individual, non-significant exposures (that are below certain thresholds), the Specific Risk Provision Collective Impaired method (SRP CI) is used instead of an individual analysis. Receivables not subject to the calculation of (collective) specific provisions for impairment losses are included in the calculation of portfolio impairment. Incurred but not reported losses are used to calculate the portfolio impairment („Incurred but not Reported Loss Model"). Please refer to note "Recognition and measurement (IAS 39)" for further details on calculation.

69.2. Development of risk provisions

The positive development of the portfolio is mainly due to effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate Segment as well as due to settlement agreements and debt sales within the Retail Segment. This resulted in a reduced NPL portfolio in 2017, and the release of risk provisions at the same time. The result was partially offset by provision allocations impacted by financial difficulties of one of the largest retailers in the region where Addiko Group is operating.

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

The introduced daily monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the early collections result and a significant reduction of the NPL portfolio.

69.3. Changes in the calculation of portfolio risk provisions

The Addiko Group performs a uniform Group-wide method of calculating portfolio risk provisions for all subsidiaries, aiming to simplify and standardize the process cycle. By doing so, increased transparency is achieved, as well as a standardized parametrization with regard to risk models both at Group and subsidiary level is determined.
Using this new method, the Addiko Group created a sound strategic basis for the future IFRS 9 standard which will come into effect by January 1, 2018, with regard to:

- Adequate risk provisions across the entire Group with probabilities of default entirely based on statistical data, tested by historical simulations, as well as recognizing loss given defaults which are either deducted based on the market or a workout approach depending on data and model availability
- Standardized parametrization with regard to the Group's risk models towards local subsidiary banks
- Recognition of new parameters creating a favorable point of departure for simulating capital requirements within pillar II
- Expected Loss (EL), generated by the process change, constituting a meaningful benchmark for IFRS 9 estimates

69.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the entire risk provisions to non-performing loans) slightly decreased from 67.5% to 67.0% during the financial year 2017.

The following table shows the NPL and coverage ratio (coverage ratio 1 consideres SRP stocks, while coverage ratio 2 additionally consideres collaterals):

EUR m
31.12.2017

Segment	Exposure	NPL	Provisions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Public Finance	1,209.8	4.3	2.1	2.7	0.4%	48.4%	112.0%
Financial Institutions	1,661.6	11.1	4.6	2.5	0.7%	41.8%	64.2%
Large Corporate	820.3	150.0	80.0	67.3	18.3%	53.3%	98.2%
Medium and Small Corporate	1,305.4	87.5	43.7	63.2	6.7%	50.0%	122.2%
Retail	2,501.0	352.7	275.1	153.5	14.1%	78.0%	121.5%
Total	**7,498.1**	**605.7**	**405.5**	**289.2**	**8.1%**	**67.0%**	**114.7%**

The following table shows provisions and coverage ratio according to the internal segmentation valid as of December 31, 2016:

EUR m
31.12.2016

Segment	Exposure	NPL	Provisions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Public Finance	1,452.8	5.7	2.8	3.3	0.4%	48.0%	105.3%
Financial Institutions	2,284.5	8.1	2.3	2.5	0.4%	28.4%	58.9%
Large Corporate	893.9	142.2	66.3	83.6	15.9%	46.6%	105.4%
Medium and Small Corporate	1,130.7	125.2	58.1	87.3	11.1%	46.4%	116.2%
Retail	2,546.8	479.6	384.1	249.7	18.8%	80.1%	132.2%
Total	**8,308.7**	**760.8**	**513.6**	**426.4**	**9.2%**	**67.5%**	**123.6%**

The decrease within the coverage ratio is driven majorly mainly driven by the execution of debt sales / settlements within the retail portfolio in Addiko Bank Croatia.

(70) Measurement of real estate collateral and other collateral

Management of all collaterals in the Addiko Group is determined in the new “Collateral Management Policy”. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas adjustments can be made if they are more stringent than the minimum standards pre-scribed by this document.

The Group-wide control of real estate pledged as collateral is of crucial importance, as this constitutes the majority of all collateral internally reported as recoverable. Measurement of all commercial real estate is performed if the market value is above EUR 1.0 million using individual measurements pursuant to the Addiko Group Real Estate Valuation Standard.

All measurements are requested on the part of the front office four months at the latest before remeasurements are due. For the market value of all commercial real estate with a market value of less than EUR 1.0 million statisti-cal methods are employed. Compared to the previous year, the threshold for residential real estate (RRE) dropped from EUR 1.0 million to EUR 700,000 if the RRE is located inside capital cities and EUR 400,000 if the RRE is located elsewhere. For such properties, a Demand List must be uploaded to the RED Portal automatically on a monthly basis, for evaluations that expire in four months as defined in the TNT Manual.

The internal collateral values (ICV) are shown in the following table for December 31, 2017 as well as December 31, 2016:

EUR m

Collateral Distribution	31.12.2017	31.12.2016
Exposure	7,498.1	8,308.7
Internal Collateral Value (ICV)	1,978.9	2,348.3
therof CRE	741.5	836.7
thereof RRE	858.8	1,001.4
thereof financial collateral	39.1	33.2
thereof guarantees	219.9	346.7
thereof other	119.5	130.3
ICV coverage rate	**26.4%**	**28.3%**

The predominant part of the stated collaterals refers to loans and advances (no or neglectable collaterals within other financial instruments).

With the decrease of gross exposure also internal collateral value decreased. Primarily real estates given as collaterals and guarantees were reduced. Collateral coverage did decrease slightly, but no significant decrease/change happened.

Addiko did not significantly change its policies in 2017 related to collateral coverage required, except for minor updates due to alignment with changed market conditions, nor has changed criteria used for internal collateral value measurement in 2017.

(71) Measures to improve risk management

71.1. Basel III – Liquidity risk and liquidity risk management

In 2017 the implementation of the LCR based on the Kamakura Risk Manager was intensified. Its final aim is to get a daily LCR out of the Group Data Warehouse as a single point of truth. Additionally, this solution will offer the planned view of that ratio and allows better steering. In the last quarter of 2017 also the development of the NSFR started in the same technical environment. Both solutions are expected to be implemented in the first half of 2018.In the second part of 2017, the development of the Maturity Ladder - as the last part of Additional Liquidity Monitoring Metrics - started. The implementation of its deterministic part is foreseen for the first quarter of 2018 – the final implementation is planned for mid of 2018.

71.2. Development of rating procedures

The Addiko Group currently employs the following rating tools: corporate, small and medium enterprises, retail behavior rating, expert, support, start-up, project finance, commercial real estates, municipalities, countries, insurance firms, banks and scorecards for private customers. Procedures are improved and validated in accordance with standards issued by the regulatory authorities.

71.3. Validation of rating procedures and processes

The procedures are validated as stipulated by the standards issued by the regulatory authorities. A Validation policy was implemented to define the process of validating models in the credit risk area. Furthermore, validation concepts for the regular PD models and the IFRS 9 framework were created. Based on those concepts all credit risk relevant PD models and the IFRS 9 methodology were validated and respective validation reports were distributed to all relevant stakeholders.

The minimum requirements for the validation reports are defined as follows:

- Overview page with the major results (“traffic lights”)
- Executive Summary of the results in written form
- List of findings and recommendations (old and new)
- Model design / Methodology chapter describing the main model process/functionality

- Qualitative questionnaire covering use test, data quality, model design and process as a minimum
- Quantitative tests covering performance, calibration and stability aspects as a minimum

Monthly model monitoring calls are conducted with all subsidiaries to ensure a proper progress for implementing the recommendations from the 2016 validation reports.

The model monitoring and reporting is mainly based on the internal "Model Monitoring Reporting System" which was further enhanced in 2017. It is used to monitor rating processes, default processes and performance of the respective rating procedures at subsidiary level on a monthly basis. Performance of rating procedures focuses on:

- Accuracy of forecasts
- Calibration
- Stability

71.4. Further development of retail risk management

Group Retail Risk Management was established, which constitutes the back office function to Retail Sales and Marketing and reports directly to the Group Chief Risk Officer.
Group Retail Risk Management's responsibilities include retail portfolio management, data analysis and reporting, managing the collection process, making decisions on credits as well as credit checks and quality assurance. Furthermore, Retail Risk Management is also responsible for defining and developing Retail Credit Policies.

The cornerstones of the framework plan for Retail Risk Management have already been successfully implemented:

- Retail Credit Policy and Fraud Management
- Retail Collections Policy
- Retail Risk Restructuring Policy
- Remarketing Policy
- Unification of the PQR and Collection rerport for all countries, with strict scheduled deliveries
- Analyzing and managing portfolios based on retail-specific key risk indicators

71.5. Overnight index swap discounting, tenor curves and credit/debit value adjustment

In measuring the bank's derivative items, the base spread and counterparty risks are fully taken into account. The base spread risk results from the existence of significant differences between fixings with varying maturities. The counterparty risk results from the difference between the value of derivative items and the collateral provided. In particular, implementation in the portfolio management system (PMS) includes the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in market interest curves, both within a single currency as well as between two currencies
- Consideration in yield curve models
- Calculation of credit and debit value adjustment (CVA & DVA) using the American Monte Carlo method

(72) Risk reporting

Timely, independent and risk-adequate reporting to decision makers is guaranteed for all risk types. Requests for ad-hoc reports are fulfilled at all times.

Credit Risk Reporting comprises regular reports on Addiko's credit portfolio and permits continuous monitoring of credit risk developments including comparison to forecasted and budgeted data and therefore enables the management to take controlling measures.

In the course of the Credit Risk Reporting Task Force (for more information, see note "Credit Risk Task Force), taking into account all risk units at Group as well as at local level, the monthly risk report is currently being revised in terms

of contents and structure in accordance with the requirements. First and foremost, the goal is to be able to better and faster identify risks and to adjust the contents of the report to the Addiko Group's new strategies. For reasons of improving transparency, the project (which will be completed in 2018) additionally aims to create a central preparation process for the monthly report at Group level in the credit steering function "Credit Risk Portfolio Management", ensuring centralized analysis and application of ratios according to unified methods and segmentation.

Operational risk reports are prepared on an ad-hoc basis and brought to the attention of the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board on a semi-annual basis and to the Board Audit Committee on a quarterly basis.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the Group, which include standardized daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

As part of governance, all the Group reports are also available at local level and are distributed regularly to the Group entities.

(73) Capital management

The term "own capital funds for the purpose of solvency" refers to modified available equity (pursuant to regulatory provisions) that largely comprises the following items:

- Core tier 1 capital (CET1: common equity tier 1) or core capital (tier 1 capital) and
- Deductibles

Supplementary capital (Tier 2)

- Regulatory accountable amount: Daily phase-out after a residual maturity of 5 years to take into account

Core tier 1 capital (CET1) or core capital (tier 1) is largely comprised as follows:

- Paid-in capital
- Reserves
- Deductions

Basel requirements are also taken into consideration in the planning process, including:

- regulatory requirements relating to capital ratios (including buffer requirements), and
- the calculation of the Group's regulatory own capital funds and RWA (risk-weighted assets) based on IFRS (in consideration of the regulatory scope of consolidation).

In terms of the calculation of material risk positions (RWA) in the first Basel I pillar at Group level (for regulatory reporting), the following approaches are applied:

- Credit risk standard approach (CSA) for credit risk and
- Basic indicator approach (BIA) for operational risk at Holding and at Al Lake Group level
- Standardised Approach (STA / activities divided into eight defined business divisions) for the operational risk at Group level (from the reporting date March 31, 2015)

Regulatory own capital funds planning is based on compliance with the Basel III own capital funds ratios listed below:

- Common equity tier 1 capital ratio (core tier 1 capital ratio)
- Tier 1 capital ratio (core capital ratio)
- Total capital ratio

The minimum capital ratios defined by regulatory authorities,

- standardized Basel III requirements in consideration of transitional regulations under CRR/CRD as well as
- regulatory requirements according to the supervisory review and evaluation process (SREP)
-

must be complied with or exceeded at all times. This also applies to the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG). Capital ratios define the (Pillar 1) upper limit of the risk positions from the holding company's business activities and those at the Addiko Group as well as at AI Lake Group level for the planning period.

On a monthly basis, the Management Board receives a standardized report on the capital ratios as well as the related minima and takes appropriate measures in case of target/actual deviations.

Aside from regulatory restrictions on distributions of capital on the basis of EU-wide capital requirements that apply to all financial institutions based in Austria, the Group also complies with the minimum capital requirements of local regulatory authorities. It also complies with the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG) for the banks in Croatia, Serbia and Slovenia.

In the Federation of Bosnia and Herzegovina, the Group is subject to significant restrictions imposed by the local regulatory authority. Advance approval must be obtained from the regulatory authority before deposits are transferred back to the parent company. Profits (dividends) can only be distributed if the respective local subsidiary bank holds an overall equity ratio of 14.5% at the time of distribution. In any case, under regulatory provisions the local subsidiary banks are required to report a Tier 1/RWA ratio of at least 11.5% (2018) and an overall equity/RWA ratio of at least 12% at 2017 year-end (for the bank in Banja Luka, an increase to 15% is under discussion with the responsible agency).

As of the half year 2017, Serbia has to fullfill the Basel III requirements. The subsidiary bank located in Serbia is required to report a regulatory equity ratio of at least 13.5%.

73.1. ICAAP – Internal Capital Adequacy Assessment Process

Securing the Group's ability to bear economic risks forms a central part of steering activities within the Addiko Group; to which end the Group processes an institutionalized internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Addiko Group is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Integrated Risk Management and presented to the Group Risk Executive Committee (GREC), where they are discussed and, if required, measures are decided. In this regard, the GREC serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organization and stress test assumptions) for the Group. Additionally, the report is submitted to the Management Board on a monthly basis and presented to the committees of the Supervisory Board.

(74) Credit risk (counterparty default risk)

74.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Addiko Group. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilized collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

Other risk types that are also included under counterparty default risks, such as country and participation risks, are measured, controlled and monitored separately.

74.2. General requirements

The credit risk strategy provides concrete specifications for the organizational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a Group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Management Board and Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Addiko Group and the highest body for making credit decisions, subordinated only to the Management Board.

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Management Board is required for issues of fundamental importance.

74.3. Risk measurement

The Addiko Group network uses its own rating procedures to analyze and assess each individual borrower’s credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

74.4. Risk limitation

The steering of total Group-wide commitments with an individual customers or a group of affiliated customers (“group of borrowers”) depends on the respective customer segment or business area.

In the banking division, limits are set and monitored independently by a Risk Control unit. If limits are exceeded, this is communicated immediately to operative risk unit as well as front office and reported to the Group Risk Executive Committee. In all other segments, limit control is carried out through a Group-wide authorization level policy (“*Pouvoir-Ordnung*”). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

74.5. Portfolio overview - credit risk

In economic risk control, market values are used to calculate the relevant exposure for securities, whereas amortized cost is used for loans. The presentation in note "Credit risk (counterparty default risk)" is based on exposure before deduction of impairment. Unless explicitly stated differently, all values in the risk report are shown inclusive the portfolio that is classified as held for sale according to IFRS 5.

Breakdown of net exposure within the Group in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio, respectively shown as total net position) as at December 31, 2017:

EUR m

	Performing			Non Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash balances at central banks and other demand deposits, excluding cash on hand	1,187.3		1,187.3				1,187.3	1,187.3
Financial assets held for trading							19.8	19.8
Available-for-sale financial assets, Debt securities	1,212.0	0.0	1,212.0	0.0	0.0	0.0	1,212.0	1,212.0
Loans and advances to customers	3,622.5	-37.2	3,585.3	553.4	-381.5	171.9	4,175.9	3,757.2
Held-to-maturity investments	42.5	0.0	42.5	0.0	0.0	0.0	42.5	42.5
Other Assets - IFRS 5 (LAR)	0.0	0.0	0.0	30.9	-17.8	13.0	30.9	13.0
On balance total	6,064.3	-37.2	6,027.1	584.3	-399.4	184.9	6,668.5	6,231.8
Off balance	798.5	-5.2	793.3	21.4	-6.1	15.3	819.9	808.6
Total	6,862.8	-42.4	6,820.4	605.7	-405.5	200.2	7,488.3	7,040.4

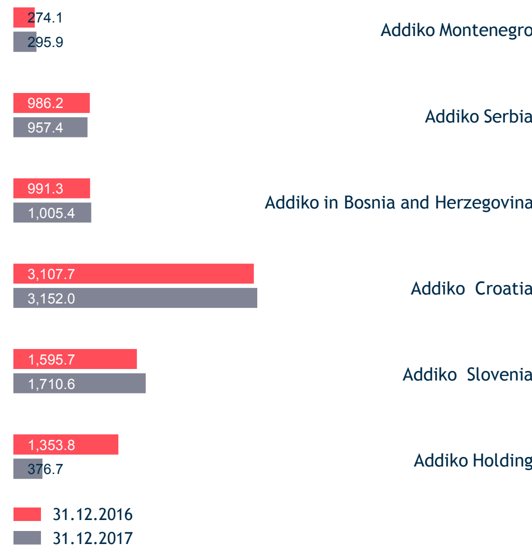
The following table shows the exposure in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio, respectively show as total Net Position) as at December 31, 2016:

EUR m

	Performing			Non Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash balances at central banks and other demand deposits, excluding cash on hand	1,784.8		1,784.8				1,784.8	1,784.8
Financial assets held for trading							17.4	17.4
Available-for-sale financial assets, Debt securities	1,291.6	0.0	1,291.6	0.0	0.0	0.0	1,291.6	1,291.6
Loans and advances to customers	3,625.1	-31.9	3,593.2	690.1	-503.4	186.7	4,315.2	3,779.9
Held-to-maturity investments	82.6	0.0	82.6	0.0	0.0	0.0	82.6	82.6
Other Assets - IFRS 5 (LAR)	0.0	0.0	0.0	30.9	-1.9	29.0	30.9	29.0
On balance total	6,784.2	-31.9	6,752.3	720.9	-505.3	215.6	7,522.5	6,985.3
Off balance	725.8	-3.6	722.1	39.9	-8.3	31.6	766.3	753.7
Total	7,510.0	-35.5	7,474.4	760.8	-513.6	247.2	8,288.8	7,739.0

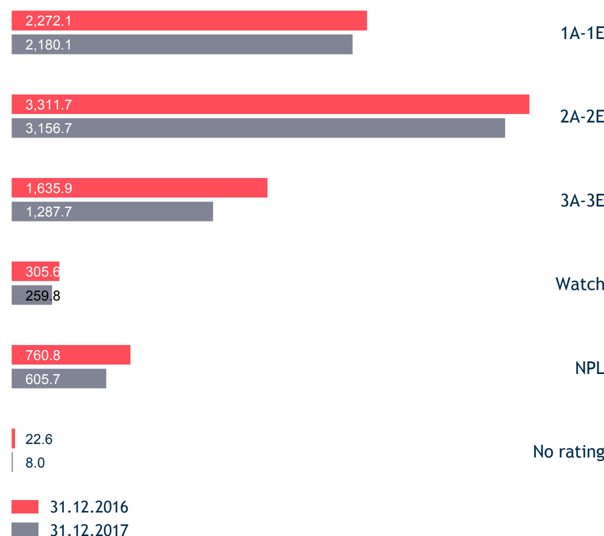
Allocation of exposure within the Group

In the financial year, the exposure within the Group declined by EUR 810.7 million or 9.8%. The decline mainly re-sults from reduction of the exposure towards the Oesterreichische Nationalbank as a result of the repaid refinancing lines to the former owner. Within the Group, exposure breaks down as follows:



Exposure by rating class within the Group

Roughly 29.1% (2016: 27.3%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions and public institutions. The decrease of this share is a result of the National-bank Exposure decrease at Addiko Holding level. Non-performing loans slightly increased in the first half of 2017, given the migration of one large ticket into NPL, but the increase was overcompensated by NPL reduction in different parts of the portfolio. Even so, the NPL ratio still does not reflect already announced debt sales of Addiko Bank Croatia (approx. EUR 40 million), which will further reduce the NPL stock.

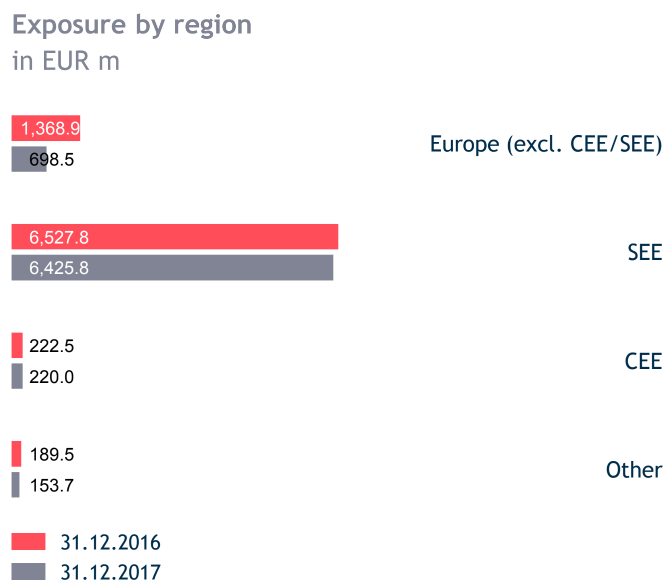


A non-performing loan (default) exists if at least one of the following criteria applies:

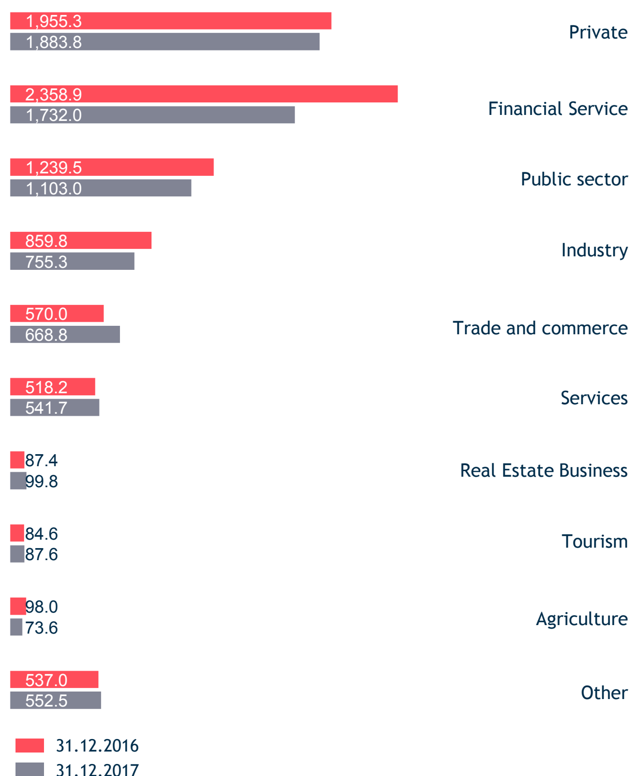
- A material liability from the debtor to a Group bank has been overdue for more than 90 days (Internal Ratings Based Counter)
- The bank significantly doubts the customer's credit standing
- Risk-oriented restructuring (forbearance) of the customer
- Specific risk provision (IFRS) accounted for
- Write-offs of liabilities
- Risk-driven sale of assets
- Insolvency/bankruptcy

A customer can only recover in full from this status if none of the previously identified default criteria (according to the definition) apply any longer and a period of good conduct of at least three months has been complied with. In non-performing forbearance cases as well as if forbearance applies together with other default criteria, the minimum period of good conduct to be complied with is one year. An automatic recovery after a three-month period of good conduct is only possible in case of defaults due to payments being overdue by more than 90 days. In case of all other default criteria, an approval by the Distressed Asset Management division is required in addition to compliance with the period of good conduct.

Exposure by region within the Group
The Addiko Group's country portfolio focuses on South Eastern Europe. The following chart shows the breakdown of exposure by region within the Group (at customer level):



Exposure by business sector within the Group
A uniform classification code (NACE Code 2.0) is used throughout the Addiko Group for the economic steering and strategic focus of business sector exposure. This code is mapped into ten business sectors for reporting purposes. The lower-risk business sector groups – financial institutions and the public sector – account for a share of 37.8% (2016: 43.3%). The well-diversified private customers sector accounts for a share of 25.1% (2016: 23.5%).



Exposure by business sector and region

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

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.3	1,880.8	0.6	0.2	1,883.8
Financial services	571.0	1,039.4	0.0	121.6	1,732.0
Public sector	110.0	757.1	219.2	16.7	1,103.0
Industry	14.5	738.7	0.0	2.0	755.3
Trade and commerce	0.0	664.1	0.0	4.8	668.8
Services	0.0	539.2	0.1	2.5	541.7
Real estate business	0.0	99.8	0.0	0.0	99.8
Tourism	0.0	87.6	0.0	0.0	87.6
Agriculture	0.0	73.6	0.0	0.0	73.6
Other	0.7	545.6	0.2	6.0	552.5
Total	**698.5**	**6,425.8**	**220.0**	**153.7**	**7,498.1**

The following table shows the exposure by business sector and region as at December 31, 2016:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	4.7	1,949.7	0.8	0.2	1,955.3
Financial services	1,253.6	954.0	0.0	151.4	2,358.9
Public sector	82.3	935.8	221.4	0.0	1,239.5
Industry	16.8	820.1	0.0	22.9	859.8
Trade and commerce	0.0	570.0	0.0	0.0	570.0
Services	10.9	504.6	0.0	2.8	518.2
Real estate business	0.0	87.4	0.0	0.0	87.4
Tourism	0.0	84.6	0.0	0.0	84.6
Agriculture	0.0	98.0	0.0	0.0	98.0
Other	0.7	523.7	0.2	12.4	537.0
Total	**1,368.9**	**6,527.8**	**222.5**	**189.5**	**8,308.7**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Group's core countries in South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail business.

Presentation of exposure by size classes

Around 40.1% (2016: 36.1%) of the exposure is found in the size range <= EUR 1.0 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1.6 billion (2016 year-end: EUR 2.6 billion) of exposure in the range > EUR 100.0 million is entirely attributable to central banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

		31.12.2017		31.12.2016
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	539.3	314,296	486.4	316,610
10,000-50,000	1,100.7	50,381	946.6	42,427
50,000-100,000	490.4	7,109	579.9	8,375
100,000-250,000	426.3	2,973	522.4	3,637
250,000-500,000	207.9	601	227.5	660
500,000-1,000.000	244.4	356	234.4	336
1,000,000-10,000,000	1,353.1	476	1,439.0	485
10,000,000-50,000,000	1,043.8	52	1,169.2	57
50,000,000-100,000,000	526.5	8	71.2	1
> 100,000,000	1,565.7	7	2,632.3	8
Total	**7,498.1**	**376,259**	**8,308.7**	**372,596**

74.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2017 Collateral	Exposure	31.12.2016 Collateral
1A-1E	2,179.3	417.0	2,270.8	109.0
2A-2E	3,136.6	738.1	3,241.6	988.5
3A-3E	1,262.5	400.7	1,588.1	630.6
Watch	217.1	105.3	276.9	143.1
NPL	2.6	1.0	9.3	4.7
No rating	8.0	0.6	20.5	3.8
Total	**6,806.1**	**1,662.6**	**7,407.2**	**1,879.7**

The non-performing loans stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant. The receivables for which no specific risk provisions were identified are treated under the portfolio risk provisions approach.

Overdue but not impaired financial assets:

EUR m

	Exposure	31.12.2017 Collateral	Exposure	31.12.2016 Collateral
Loans and advances to customers				
- overdue to 30 days	75.8	23.9	127.6	36.5
- overdue 31 to 60 days	8.1	2.6	18.7	8.9
- overdue 61 to 90 days	4.3	1.2	4.5	2.7
- overdue 91 to 180 days	0.1	0.1	0.7	0.3
- overdue 181 to 365 days	0.0	0.0	0.4	0.3
- overdue over 1 year	0.3	0.3	0.1	0.1
Total	**88.5**	**28.0**	**152.0**	**48.8**

The predominant part of the overdue but not impaired financial assets results from loans and advances to custom-ers (no or neglectable exposure within other financial instruments).

The primary reason for not taking into account specific risk provisions for the exposures over 90 days is that, after performing an impairment test, there is no need for a specific risk provision for impairment losses through primary and secondary cash flows.

Impaired financial assets:

EUR m

Loans and advances to customers	31.12.2017	31.12.2016
Exposure	603.4	749.5
Provisions	405.5	513.6
Collateral	288.4	419.8

The factors that are considered when identifying impairment are stipulated in the Default Detection and Recovery Policy. Events which indicate objective evidence that a financial instrument may be impaired are listed in note “Exposure by Rating class”.

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

The over-collateralization (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the applied provisioning methodology (SRPci), in which no collateral values are recognized.

74.6.1. FORBEARANCE

In 2016, the Addiko Group developed its Forbearance Policy based on CRR Regulation (EU) 575/2013 of the European Parliament and of the Council and on the Commission Implementing Regulation (EU) No. 2015/227, Annex V.

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments (“financial difficulties”). Therefore, a good knowledge of the financial situation of the borrower is of utmost importance and must result in a correct analysis of the reasons for a modification of existing terms and conditions. Based on these financial difficulties, the bank decides (i.e., gives concessions toward the borrower):

a) to modify the previous terms and conditions of the contract to allow the borrower sufficient ability to service the debt, that would not have been granted had the borrower not been in financial difficulties,
b) to restructure the contract, either totally or partially, that would not have been granted had the borrower not been in financial difficulties (refinancing means the use of new debt contracts to ensure the total or partial payment of other debt contracts the current terms of which the borrower is unable to comply with).

If a modification of contract and financial difficulties based on qualitative bank expert judgment are identified, the forbearance decision is taken and a daily algorithm starts automatically. The different types of modifications (interest rate reduction, partial debt write-off, debt restructuring, debt to equity swap, payment holidays on interest and principal above 6 months, repayment made by taking possession of the collateral, etc.) are available and identified in the system. Forbearance measures and risks are monitored by the operative risk units responsible for corporate and retail as a part of the regular semi-annual review.

In the assessment, a forbearance measure shall be considered as an indicator when performing an impairment test according to IAS 39.59 (c). In accordance with IAS 39.63, the entity shall measure the amount of the impairment loss as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate (specifics are considered for floating interest rates, hedge accounts). In all of the cases in which the present value of estimated future cash flows, discounted at the original effective interest rate, is lower than the asset’s carrying amount, an impairment loss must be recognized. It is important to note that, the terms non-performing, default and impaired are standardized and harmonized within the Addiko Group.

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2017. The off-balance positions only include loan commitments.

EUR m

	OPENING balance 1.1.2017	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2017
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	9.6	2.2	-2.7	0.0	0.1	-4.1	5.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	10.6	0.0	-10.6	0.0	0.0	0.0	0.0
Non-financial corporations	175.1	30.2	-104.9	0.2	3.0	11.7	115.4
Households	70.2	10.5	-40.1	0.3	1.2	0.9	43.0
Loans and advances	**265.4**	**42.9**	**-158.3**	**0.5**	**4.3**	**8.5**	**163.4**
Loan commitments given	0.9	0.1	-0.4	0.0	0.0	-0.2	0.4

The following table shows the forbearance status in the course of the year 2016:

EUR m

	OPENING balance 1.1.2016	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2016
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	16.5	0.0	-6.4	0.0	0.1	-0.6	9.6
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.4	10.6	-0.4	0.0	0.0	0.0	10.6
Non-financial corporations	298.7	37.2	-129.0	-1.0	0.1	-30.9	175.1
Households	223.1	41.3	-194.9	0.0	1.5	-0.9	70.2
Loans and advances	**538.6**	**89.2**	**-330.7**	**-1.0**	**1.7**	**-32.4**	**265.4**
Loan commitments given	6.4	0.7	-5.4	0.0	0.0	-0.8	0.9

Forbearance exposure was as follows in 2017:

EUR m

	Closing Balance 31.12.2017	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	5.0	2.8	0.0	2.2	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	115.4	22.1	0.2	93.1	3.9
Households	43.0	13.9	0.7	28.4	0.8
Loans and advances	**163.4**	**38.8**	**0.9**	**123.7**	**4.7**

Forbearance exposure was as follows in 2016:

EUR m

	Closing Balance 31.12.2016	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	9.6	7.3	0	2.3	0.4
Credit institutions	0	0	0	0	0
Other financial corporations	10.6	0	0	10.6	0
Non-financial corporations	175.2	28.7	0.6	145.9	7.5
Households	70.1	27.5	1.5	41.2	3.2
Loans and advances	**265.5**	**63.4**	**2.1**	**200.0**	**11.1**

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarant ees	thereof other
Public Finance	2.7	2.4	0.0	0.0	0.0	0.4
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	41.7	40.6	0.0	0.1	0.0	1.0
Medium and Small Corporate	44.2	37.3	1.7	0.4	0.8	4.2
Retail	27.3	5.5	20.7	0.4	0.6	0.1
Total	**116.0**	**85.8**	**22.4**	**0.8**	**1.3**	**5.7**

74.6.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2017, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 5.7 million (2016: EUR 6.4 million), of which EUR 0.9 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfillment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate). The Addiko Group does not have inventories according to IAS 2.

(75) Country risk

75.1. Definition

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all because of governmental directives or economic/political problems. For example, country risk may arise from a possible deterioration of national economic conditions, a political or social upheaval, the nationalization or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargoes, wars, revolutions, or coups d'état in the respective country.

75.2. General requirements

As part of its business activities and in pursuit of its long-term strategy, the Addiko Group knowingly assumes country risks that are limited in size.

75.3. Risk measurement

Country risk is measured in relation to the exposure relevant to country risk for each country and takes into account the respective external country rating and the country's specific LGD (loss given default) and PD (probability of default) in accordance with the Capital Requirements Regulation (CRR).

Exposure relevant to country risk is composed of all non-EMU cross-border transactions for which a currency mismatch between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted) exists.

The Internal Ratings Based (IRB) approach for companies, banks and countries as outlined in the CRR is used in order to quantify country risk. The country risk determined by this method is backed by economic capital.

75.4. Risk limitation

Country risk is restricted by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit being discussed and approved by the Executive Board.

Cross-border transactions by the Group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries are subject to separate controls that emanate directly from the Management Board.

75.5. Risk control and monitoring

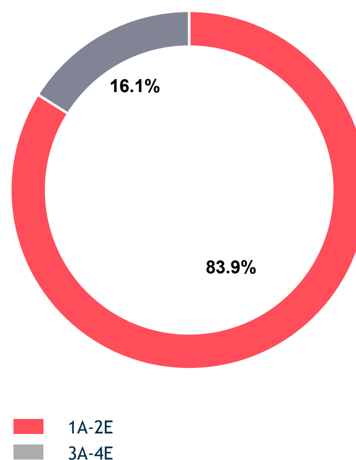
Integrated Risk Management centrally monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Management Board as part of regular country limit utilization reporting. Ad-hoc reports are additionally prepared upon request.

75.6. Portfolio overview - country risk

Exposure by country rating:
The share of exposure in countries with ratings better than 3A amounts to 83.9% (year-end 2016: 86.3%).

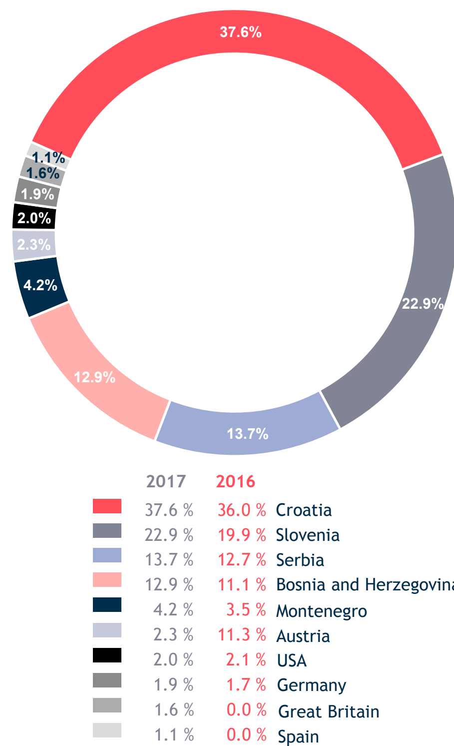
Consequently, around EUR 1.2 billion of the exposure was in countries with a rating between 3A and 4E at the end of 2017 (2016: EUR 1.1 billion). The following graph shows the exposure by country rating and the top 10 countries by exposure (country share in top 10 total exposure) for 2017 as well as their share in top 10 exposures in 2016.

Exposure country rating breakdown
in percent



1A-2E
3A-4E

Top 10 countries by exposure:
The figures are broken down according to the country of the customer's registered office. The top 10 countries' share in the overall volume stands at 93.9% (2016: 94.6%). As was the case in 2016, Croatia and Slovenia account for the largest share. The Addiko Group's clear strategy is to focus on the core markets in the SEE network. In the financial year, the Austrian portfolio decreased significantly, mainly due to the reduced exposure towards the Oesterreichische Nationalbank.



(76) Participation risk

76.1. Definition

In addition to counterparty default risks from the credit business, risks from participations may also be incurred (shareholder risks). These include potential losses from equity provided, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (coverage of losses).

76.2. General requirements

The handling of participation risks is descriebed in the "ICAAP Policy". The policy also governs the differentiation between participations that are strategic and those that are non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for participations at the Addiko Group and at its strategic and non-strategic participations across the Group, as well as to describe the participation process, controlling and reporting in more detail. The Addiko Group influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees. In addition, all participations are continuously monitored regarding results and risk.

76.3. Risk measurement

The Addiko Group uses the PD/LGD approach pursuant to Article 155 (3) CRR for measuring participation risk for the ICAAP.

76.4. Risk control and monitoring

In Group Integrated Risk Management, the Addiko Group has its own independent central unit with the authority to set guidelines on all methods and processes connected with the management of participation risk. The respective business units are responsible for the operational implementation of risk controlling instruments.

The Group's strategic participations are integrated into the annual strategy and planning process of the Addiko Group. Representation on shareholder and supervisory committees allows the Group to exert influence over business and risk policies. When it acts as a provider of equity capital or a lender of capital, the Group evaluates the additional risks, especially those arising from its status as a lender of capital.

(77) Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These include, in particular, concentrations of loans and advances in individual industry sectors, geographic regions as well as concentrations from an uneven distribution of collateral providers.

As a result, the Addiko Group analyzes, measures and manages the following concentration risks:

- Single name concentrations
- Industry sector concentrations
- Geographical concentrations
- Collateral concentrations
- Large indirect credit exposures
- Concentration risk associated with the investment of assets, from funding sources and Maturities concentration
- Concentration risk arising from risk factor correlations
- Counterparty default, industry sector and collateral concentrations are measured, managed and backed with capital within the context of the regular ICAAP calculations. Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor which, based on the type of concentration, is dependent on the amount of credit volume

(78) Market price risk

78.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Addiko Group places a special emphasis on identifying, measuring, analyzing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

78.2. General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury unit. Resolutions on the combined business and risk strategy at Group level are passed exclusively in the Group Asset Liability Committee (Group ALCO) and are discussed in the risk committee.

78.3. Risk measurement

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so-called “stress tests”, and analyzed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Corresponding back-testing is performed on the applied methods and models for defined market risk factors and portfolios at Group level. The interest rate risk in the banking book is determined as a present value risk, as are all market risks of the Addiko Group. The interest rate risk in the banking book is predominantly integrated into ongoing risk monitoring according to the value at risk in market risk controlling.

Contractual cancellation rights are modelled as an option and taken into account in the risk calculation. All stochastic positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept. Alongside the value at risk calculation, classic interest rate gap analysis is also used to measure interest rate risk in the banking book. Present value changes from the 200 base points interest shock scenario, which is still a regulatory requirement, always remain under the threshold of 20% of own capital funds at the Addiko Group. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

78.4. Risk limitation

A limit for market risk of the distributable risk capital has been set for the Addiko Group. This defined risk capital represents the maximum loss for assuming market risks. The allocation of market risk capital is carried out based on a defined limit application process, setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity price risk (customer default and investments) and credit spread risk) and taking into account a market risk limit reserve. Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the market risk limit system early on.

78.5. Risk control and monitoring

In market risk reporting, the value at risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are updated on a daily basis. Should limits be exceeded, escalation processes are defined up to the level of the Management Board. The Group Management Board also receives a monthly report on the current market risk situation of the Addiko Group. The control of interest risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest risk statistics. The Group Asset Liability Committee – which consists of the Group’s Management Board as well as key staff in Treasury, Risk Management and Financial Controlling – meets on a regular basis to analyze and decide on measures related to controlling the structure of the statement of financial position as well as liquidity. In addition to Group-level controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

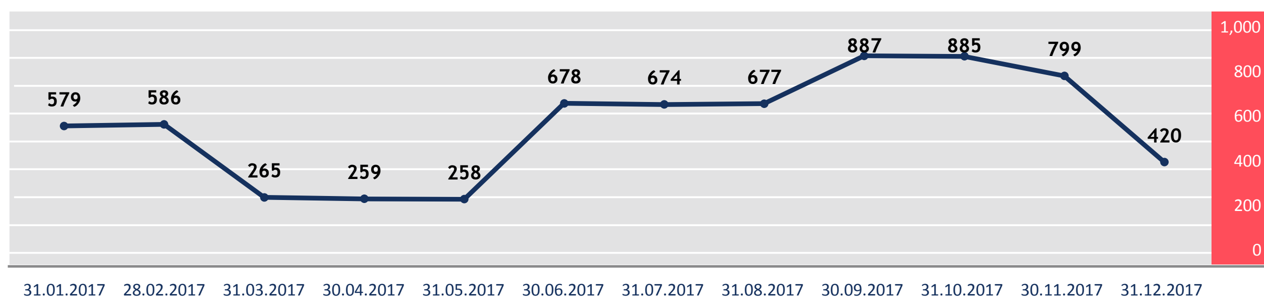
78.6. Overview – market risk

78.6.1. INTEREST RATE RISK

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group in 2017 (comparable VaR figure as at December 31, 2016: EUR 0.58 million).

The interest rate gap profile for the Addiko Group contains all interest rate-relevant items (whether included in the statement of financial position or not) with their next interest rate fixing date and/or their replicated interest sensitivity. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest rate gap profiles of local banks and local leasing companies are consolidated at Group level and combined into the Group interest rate gap profile. All interest-bearing items in the statement of financial position are taken as the basis for calculating interest-rate risk and thus limited risks. Any non-interest-bearing items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Development in interest risk for the Addiko Group in 2017:



The trading items of the Addiko Group were relatively stable in 2017. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 3.2% on average in 2017 as compared to 5.6% on average in 2016).
The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges (fair value hedges), thereby mitigating interest risk.

Regulatory requirements state that the proportion of interest risk – in the form of the standardized 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well-balanced. Non-interest-bearing (NIB) positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

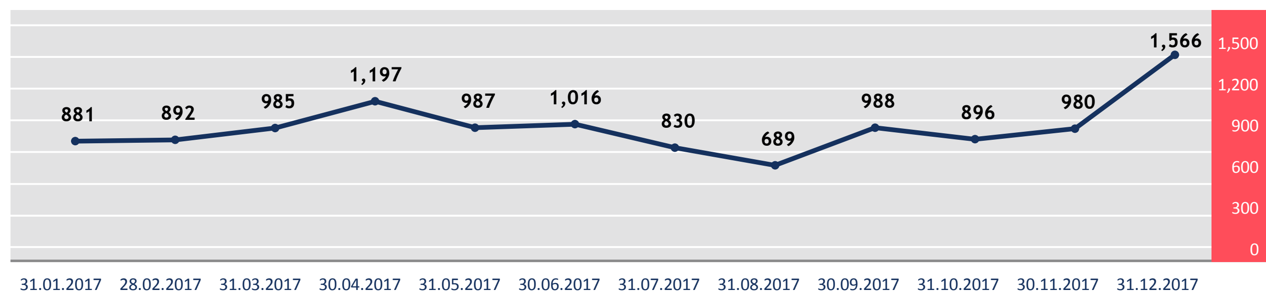
The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at December 31, 2017 amounts to EUR -94 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2016 was EUR 153 thousand.

78.6.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for foreign currency risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of the Addiko Group. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at December 31, 2017 is roughly EUR 0.64 billion (volume

per December 31, 2016 of approx. EUR 0.80 billion), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign currency risk was approximately EUR 1.57 million per day as at December 31, 2017 (value at risk as at December 31, 2016: EUR 0.73 million), at a confidence interval of 99.0%. The limit of EUR 2.03 million was adhered to as at December 31, 2017.

Development in foreign currency risk of the Addiko Group in 2017:



Aside from foreign currency risk from operating activities, the Addiko Group is also exposed to an additional foreign currency risk from the consolidation of Addiko Bank AG's strategic investment in Addiko a.d. Beograd (volume of approx. EUR 0.19 billion) and Addiko d.d. Zagreb (volume of approx. EUR 0.38 billion) as recorded in the statement of financial position. The strategic currency risk thus represents the majority of the risk in open currency items at the Addiko Group. In addition to monitoring VaR in respect of foreign currency, the Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on monthly basis within the Group Asset Liability Committee.

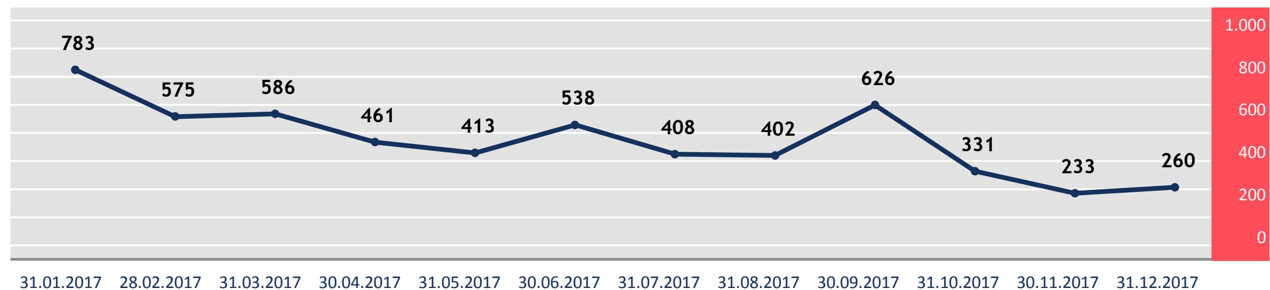
78.6.3. EQUITY PRICE RISK

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Addiko Group makes a distinction between equity price risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments). The value at risk for the equity price risk (customer default) at the Addiko Group amounted to EUR 4,272 as at December 31, 2017 (value at risk as at December 31, 2016: EUR 4,704) with a one-day holding period and a confidence level of 99.0% and EUR 2,488 (value at risk as at December 31, 2016: EUR 2,280) for the equity price risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at December 31, 2017 and therefore also no major concentration risk exists here.

78.6.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.26 million at December 31, 2017 with a one-day value at risk and a confidence level of 99.0% (value at risk as at December 31, 2016: EUR 0.84 million). The limit of EUR 2.50 million was adhered to as at December 31, 2017. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, the Addiko Group also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

Development in credit spread risk at the Addiko Group in 2017:



(79) Liquidity risk

79.1. Definition

The Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

79.2. General requirements

The strategic principles of handling liquidity risks at the Addiko Group are defined in the liquidity risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. A Liquidity Risk Policy and a Liquidity Risk Manual that apply across the entire Group govern the content and organizational framework for the management and controlling of liquidity risks.

At the Addiko Group, liquidity controlling and management at Group level are the responsibility of Group Balance Sheet Management & Treasury. It is here that the steering of situational and structural liquidity and the coordination of funding potential at Group level takes place. The local treasury units are responsible for operational liquidity steering and liquidity offset. The liquidity risk control at Group level is the responsibility of CSU Market & Liquidity Risk. At a local level, the respective risk control units are in charge. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The Addiko Group has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

79.3. Risk measurement

The main methodological tool for measuring, analyzing, monitoring and reporting on liquidity risk within the Addiko Group is the liquidity gap analysis. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realizable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favorable conditions. It shows options regarding the coverage of liquidity gaps and hence all liquidity risks related to cash flows. The most important components of the liquidity coverage potential (counterbalancing capacity) are as follows:

- Securities eligible for Central Bank
- Securities eligible for Repo
- Credit claims eligible for Central Bank or Repo
- Obligatory reserves (countable)
- Cash reserves at Central Bank (locked)
- Other liquefiable assets
- Committed/required credit lines
- New issuance and securitization

In addition to the normal scenario, the risk measurement spectrum is supplemented by other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation crises), market crises (restrictive funding options on the capital market, increased cash outflow as well as transfer limits) as well as combined scenarios.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios which allow a compact assessment of the liquidity situation. In addition, an internal liquidity coverage ratio limit restricts the short-term liquidity risk. For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal net stable funding ratio limit restricts the structural liquidity risk.

79.4. Risk control

A bundle of different liquidity reserves ensures the Addiko Group's solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

Per December 2017, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	484,121
Securities eligible for Repo	493,098
Credit Claims eligible for Central Bank or Repo	1,296
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	95,409
Counterbalancing Measures	**1,073,924**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,073,924**

In 2016, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	524,200
Securities eligible for Repo	439,667
Credit Claims eligible for Central Bank or Repo	2,187
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	119,935
Counterbalancing Measures	**1,085,989**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,085,989**

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for the Group through the Group holding. A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. For the purposes of short-term controlling, forecast data is elicited directly at the sales units based on customer transactions, while planned budget data are used for medium-term controlling.

Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and, as described above, to stress situations, depending on the market situation.

Besides structural controlling, care is also taken to ensure that general regulatory requirements in the various Group countries are adhered to.

79.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the key indicators LCR, NSFR, local loan stable funding ratio (LLSFR), the liquidity value at risk (LVaR) as funding spread risk as well as time-to-wall under normal and stress conditions and, on the other hand, through the integration of the structural liquidity risk into the bank's overall controlling. Appropriate limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity coverage potential, threshold values are defined for all scenarios; and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Management Board and the responsible controlling units.

79.6. Overview – liquidity situation

Overall, the liquidity situation of the Addiko Group in 2017 was characterized by a liquidity surplus. All liabilities were met without the need to draw liquidity reserves. Capital market activities were therefore not necessary.

During the financial year, the Addiko Group recorded a continuous growth of deposits that reached the level of approx. EUR 5.3 billion at the end of the year. An important liquidity event was the repayment of all refinancing lines to HETA ASSET RESOLUTION AG executed in February 2017. This step reduced the risk of funding concentration. Additionally, in addition to Germany, the Group started to collect the direct deposits in the Austrian market. The presence of the market in Austria allows further diversification of collected funds from the product and geographical point of view. Based on anticipated inflows and outflows, a comfortable liquidity position is also expected for 2018.

The concentration of the liquidity risk is followed with the diversification of funding based on the main products and the most important currency. The biggest positions in the funding are a-vista and term-deposits and equity. The most

important currency in funding (more than 70%) is EUR, followed by HRK and BAM. Both, products and currencies are followed through time dimensions. Additionally, the Group is following the impact of big customers on the concentration risk: the biggest ten counterparties belonging to banks, corporate and institution (non-financial) clients are compared against total deposits.

Below is a breakdown of maturities for the financial liabilities of the Addiko Group, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day,
- Dead stock cash flows (primary funds) are excluded (only the legal due date is decisive) and are also set as due on the next working day. Equity components,tangible and intangible assets, provisions, tax, impairment and positions not relevant to liquidity are not represented.

EUR m

At 31 December 2017	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,281	3	1	1,286
Financial assets held for trading	9	9	2	20
Available-for-sale financial assets	265	799	171	1,234
Loans and receivables	951	1,191	1,615	3,757
Held-to-maturity investments	0	31	12	43
Derivatives - Hedge accounting	0	0	0	0
Non-current assets and disposal groups held for sale	20	0	0	20
Subtotal	***2,525***	***2,033***	***1,801***	***6,359***
Financial liabilities				
Financial liabilities held for trading	2	0	0	2
Financial liabilities designated at FVtP&L	0	0	0	0
Financial liabilities measured at amortized costs	3,976	786	760	5,521
Derivatives - Hedge accounting	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0
Subtotal	***3,977***	***786***	***760***	***5,523***
Total	**-1,452**	**1,248**	**1,041**	**836**

As at December 31, 2017, assets relevant to liquidity at the Addiko Group came to EUR 6,4 billion. The main item of EUR 3,8 billion is attributable to loans and receivables, which therefore represent 59.1% of assets. Liabilities totaled EUR 5,5 billion.

EUR m

At 31 December 2016	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,875	3	0	1,878
Financial assets held for trading	3	14	1	17
Available-for-sale financial assets	341	820	149	1,309
Loans and advances	1,035	1,489	1,256	3,780
Held-to-maturity investments	74	8	0	83
Non-current assets and disposal groups classified as held for sale	39	0	0	39
Subtotal	*3,367*	*2,333*	*1,406*	*7,107*
Financial liabilities				
Financial liabilities held for trading	2	6	1	9
Financial liabilities designated at FVtP&L	0	25	0	25
Financial liabilities measured at amortized costs	4,287	1,606	147	6,040
Derivatives - Hedge accounting	0	3	4	7
Liabilities included in disposal groups classified as held for sale	3	0	0	3
Subtotal	*4,292*	*1,640*	*152*	*6,084*
Total	**-924**	**693**	**1,254**	**1,023**

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book (hedge accounting): Hedge transactions with regard to asset items of the statement of financial position (e.g. fixed rate bonds)
- Market risk steering B2B: Back-to-back transactions by the Addiko Bank AG on the basis of the hedge requirement of the individual subsidiaries
- Market risk steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

EUR m

At 31 December 2017	1 Y -2018	2 Y -2019	3 Y -2020	4 Y -2021	5 Y -2022	> 5 Y (> 2022)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-1	0	0	0	0	0	-1
Market Risk Steering B2B	0	0	0	0	0	0	1
Market Risk Steering FX	7	5	0	0	0	0	12
Total	**6**	**5**	**0**	**0**	**0**	**0**	**12**

* relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at December 31, 2017, the simulated total of cash flows from derivatives relevant to liquidity was EUR 12.0 million.

EUR m

At 31 December 2016	1 Y -2017	2 Y -2018	3 Y -2019	4 Y -2020	5 Y -2021	> 5 Y (> 2021)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-3	-3	-3	-2	0	0	-11
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	0	0	-1	0	0	0	-1
Total	**-3**	**-3**	**-3**	**-2**	**0**	**0**	**-11**

* relevant to liquidity

As at December 31, 2016, the simulated total of cash flows from derivatives relevant to liquidity was EUR -11.0 million.

(80) Operational risk

80.1. Definition

The Addiko Group defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

80.2. General requirements

The aim of operational risk management at the Addiko Group is to proactively manage operational risks, instead of reactively managing operational risk losses. The strategy for operational risk management is supported by different instruments and methods to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results. Operational risks are identified and evaluated in order that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation, can be defined. The following methods are used to support the management of operational risk:

- Loss database for the systematic collection of operational risk losses and related mitigation measures throughout the entire organization
- Qualitative instruments such as scenario analyses and risk assessments to determine and evaluate the risks within business processes
- Regular analysis and reporting of relevant operational risks to the Managment Board.

The set-up of operational risk management in the Addiko Group is based on a central OpRisk management function and decentralized OpRisk officers in all relevant areas of the banks. While the central function is mainly focused on methods definition risk measurement and analysis, the decentralized risk management sets and implements measures to mitigate, minimize or transfer risks.

The current threshold for the reporting of OpRisk losses within the Addiko Group has been set at EUR 5,000.
Subsidiaries included in the scope of consolidation are required to implement operational risk within the context of the respective local conditions based on standardized methods defined by the Group. The OpRisk responsibility of sub-organizations of the subsidiaries is in the responsibility of the subsidiary concerned.

80.3. Risk monitoring

Operational Risk Management reports on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Board Audit Committee in order to provide an overview of the operational risk situation to the management to enable the related risk steering and to integrate the operational risk management into the bank processes.

80.4. Overview – operational risk management

In 2017 the focus was on the following topics:

- Implementing the new functional set-up of the OpRisk management function.
- Risk assessments methodology development as well as refinement and execution of relevant assessments in the area of outsourcing risk assessments and risk and control assessments of relevant processes, including trainings for relevant stakeholders.
- Moreover, the reporting was restructured and efforts on improving the operational risk management tools have been continued.
- Improvement activities related to the loss database
- Further development of the overall operational risk managemt approach and methods

The focus in 2018 will remain on the following matters:

- Raising awareness and training in order to support the risk culture of the Addiko Group
- Active control and risk management
- Data analysis and ongoing data quality improvements
- Continuous reporting enhancement
- Further tool improvement measures
- Increased Groupwide governance of OpRiskmangement

(81) Object risk

At the Addiko Group, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by the Addiko Group. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Capital requirements are calculated according to the methodology of the Standardised Approach. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(82) Other risks

The following risk types are backed up with capital under “Other risks”:

- Strategic risk and business risk
- Capital risk
- Legal risk
- Residual risk arising from loan-reducing methods
- Risk arising from excessive debt
- Securitization risk
- Macro-economic risks
- Risks arising from money laundering and financing of terrorism
- Systemic risks
- Model risks
- Risks arising from new business or new markets

For material “other risks”, economic capital is considered in the risk bearing capacity calculation.

(83) Historical unilateral interest change clause risks

In 2017, a Group-wide amount of EUR 50.0 million was related to retail F/X, unilateral interest change disputes or claims for payment.

Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group-wide monitoring of such legal disputes has been intensified as a consequence of the

increasing number of regulations on handling foreign currency loans in the South Eastern European countries (e.g. “forced conversion”).

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions.
Particularly in the past ten years, numerous private customers in South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organizations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Serbia, Croatia, Slovenia, Bosnia and Herzegovina, and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

The subsidiary bank in Slovenia, Addiko Bank d.d. Ljubljana, has seven ongoing legal disputes in connection with CHF loans. Addiko Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, as first-instance courts in similar proceedings against other Slovenian banks have passed verdicts in favor of the banks. While the regulatory authority (Slovenian central bank) and the Slovenian ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against the Addiko subsidiary bank; neither are there plans for any corresponding legal amendments.

In Serbia, the class action filed by the bank customer “Efektiva” against Addiko Bank a.d. and two other banks was already rejected in favor of the defendants at first instance in 2014. No ruling has been issued yet on the appeal against the verdict lodged by the interest group. However, it is expected that the appeal will be rejected in favor of Addiko Bank a.d., as the constitutional court declared those provisions of the civil procedural law permitting a class action filed by an association as unconstitutional. Currently, there are indications that the courts — due to the significant increase in value of the CHF — may change their judgments in CHF loan proceedings, rule in favor of the complaining customer and permit a termination of CHF loan agreements. The first final verdict in this respect was passed by a second-instance court in Novi Sad in September 2016. The court rejected the appeal lodged by Erste Bank Beograd and confirmed the first-instance verdict according to which the CHF loan agreement may be termi-nated due to changed circumstances. The Serbian subsidiary bank also faces a similar court verdict at the second-instance court in Beograd, where the first-instance verdict originally decided in favor of the subsidiary bank was set aside. Furthermore, the first-instance court was ordered by the second-instance court to determine whether a considerable increase in the CHF exchange rate occurred during the term of the loan. The Serbian Supreme Court envisaged for 2017 an opinion regarding CHF loans but only announced in 2017 that due to the “Venetian Rules” it abstained from such general opinion but will decide on a case by case basis. Additionally, increasing numbers re-garding changed circumstances, loan processing fees and claims in connection with loans secured by insurances by the National Housing Insurance Corporation regarding insurance fees paid by the borrowers are expected once a plaintiff will obtain a winning verdict.

As for the subsidiary bank in Serbia, there have not been any legislative initiatives yet, but there have been regu-latory initiatives. In Serbia, the National Bank of Serbia issued binding recommendations to all banks back in May 2013 stating that customers who took out CHF loans must be granted certain relief (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. Furthermore, the National Bank of Serbia’s “Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans”, which came into force in March 2015, provides for

four contract amendment models (e.g. conversion into EUR based on certain criteria) which the bank must offer to customers who have taken out residential construction loans in foreign currencies and intend to convert their repayment instalments. Addiko Bank a.d. in Serbia has already fulfilled the implementation obligations resulting from the regulatory measures. However, it should be noted that only a small number of all borrowers accepted the offer. Legislative regulations are not expected in Serbia due to little media and political interest.

The same applies to Slovenia, where so far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. In any case, the resulting potential effects are investigated independently at bank level and are compensated for in compliance with the measures taken at Group level. Recently the Slovenian "Efektiva" tried to introduce a Conversion Law. The Slovenian Parliament voted against the application of such law.

In Bosnia and Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia and Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented the CHF Loan Settlement Project BiH. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards the conversion of CHF into the national currency BAM. Until November 30, 2017, 82% of the customers requested a conversion, of which 72% were converted and 7% were closed with-out conversion. The number of claims in this respect has therefore decreased considerably.

In Bosnia and Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighboring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia and Herzegovina entity, which was emphasized by the Bosnian government besides the danger of BIT proceedings costs as in Croatia and Montenegro. In November 2017, the national parliament rejected a revised draft for the proposal for a law on the forced conversion of CHF loans into the national currency in its first reading.

In Croatia, the Supreme Court ruled in favor of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favor of the plaintiff, the bank consumer association "Potrošač", in respect of the unlawfulness of the unilateral interest rate adjustment clause. Eight Croatian banks are affected by this ruling, including Addiko Bank d.d. in Zagreb, which has lodged an extraordinary appeal against it via constitutional claim, which was rejected as groundless, along with the constitutional claims filed by other Croatian banks. At third instance, the second-instance verdict was confirmed in all respects, with the addition that the borrowers participating in the class action cannot exert any direct claims from the verdict but have to file individual com-plaints. Udruga "Potrošač" also filed a constitutional claim, objecting the decision of the Supreme Court regarding the F/X clause. The constitutional court accepted Udruga "Potrošač"'s claim and ordered a retrial. The constitutional court used the same reasoning for its decision as the European Court of Human Rights in its decision C-186/16 dated September 20, 2017.

The borrowers included in the class action cannot exert any direct claims from the verdict but have to file individual complaints.

Currently, 866 proceedings, of which 627 against the Croatian subsidiary bank, at first or second instance are pend-ing regarding F/X or unilateral interest change clauses. Only 1 out of those 627 proceedings is related to the F/X clause. At first instance, civil courts have passed opposing verdicts in cases where plaintiffs concluded supplementary agreements on loan conversion pursuant to the consumer loan law: On the one hand, decisions were taken in favor of the bank, as from the point of view of the court, consumers having given their consent to convert the loan in line with the consumer loan law are no longer entitled to seek legal remedy for reimbursement of overpaid interest. On the other hand, decisions were taken in favor of the plaintiff, as according to the court, the consumer loan law deals with currency issues and not with unilateral interest rate adjustments. Therefore, the latter would have to be decided by a court on a case-by-case basis. The second instance courts have up to this moment in several decisions confirmed that the

plaintiffs who converted their loans are not entitled to ask for reimbursement of overpaid interest and that the consumers who converted their loans are not entitled to ask for reimbursement of overpaid interest, either.

In 2015, the Croatian banks, including Addiko Bank d.d. Zagreb, filed an objection with the constitutional court against the third-instance verdict, in which objection they requested the review of constitutionality of the provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act, which regulate the conversion of CHF loans. The unlawfulness of the unilateral interest rate adjustment clause had been confirmed. In April 2017, the constitutional court rejected their claim as groundless and confirmed that the concerned provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act are constitutional.

The amendment to the consumer protection credit law passed in Croatia, according to which the exchange rate between HRK and CHF was fixed at 6.39% for a period of one year, ended on January 27, 2016. Addiko Bank d.d. in Croatia extended the period of the fixed exchange rate until April 1, 2016 on a voluntary basis. Furthermore, the Croatian subsidiary has concluded supplementary agreements on loan conversion under consumer loan credit law with a majority of its CHF borrowers in 2016 (the respective legal amendment became effective as at September 30, 2016). Also in the case of the Croatian Addiko Bank d.d. together with seven other banks, an objection was filed with the constitutional court, claiming the abovestated law to be unconstitutional. In April 2017, the constitutional court rendered a verdict against the Croatian banks, confirming the law. Regarding the Conversion Law, a BIT proceeding against the Republic of Croatia was commenced before the ICSID in Washington in September 2017.

No significant developments are to be reported with regard to Addiko Bank AG in Montenegro. The class action was won in first instance but plaintiffs filed an appeal.

National legislators and the respective national regulators have also increasingly taken action regarding the issue of foreign currency loans. This tendency has been considerably reinforced as a consequence of the abandonment of the exchange rate cap in January 2015. Starting in Montenegro, the national legislator has passed regulations on handling foreign currency loans which are meant to protect the borrower from the consequences of the abandonment of the exchange rate cap. At bank level, legislative intervention has a negative effect on the operative banking business and results in considerable losses. Also against the Republic of Montenegro, a BIT proceedings with the ICSID in Washington was commenced in September 2017.

On September 23, 2016, the law amending the CHF loan conversion law came into effect. Under this law, ongoing and already repaid loans are to be converted, not making a difference as to whether loans were repaid as scheduled or paid back due to distrainment orders. If, due to the conversion (as prescribed by law), it turns out that the customer has paid too much, the bank is required to reimburse the customer. Additionally, the bank may not charge a contractual penalty for the conversion. Furthermore, the bank is required to offer recalculation to those customers who have not accepted a conversion so far.

In accordance with the law amending the CHF loan agreement conversion law into EUR, the subsidiary bank in Montenegro has converted the respective loans and performed recalculations. The bank therefore acted in full compliance with legal provisions.

EUR m

EUR m

		31.12.2017		31.12.2016
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Holding	376.7	5.0	1,353.8	2.5
Addiko Slovenia	1,710.6	91.9	1,595.7	118.0
Addiko Croatia	3,152.0	66.5	3,107.7	99.0
Addiko in Bosnia and Herzegovina	1,005.4	46.4	991.3	74.3
Addiko Serbia	957.4	114.5	986.2	156.6
Addiko in Montenegro	295.9	6.9	274.1	9.1
Total	**7,498.1**	**331.2**	**8,308.7**	**459.5**

In 2017, the Addiko Group was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 460.0 million at the end of 2016 to EUR 331.0 million at the end of 2017.

(84) Legal risks

The overall number of passive legal disputes was reduced significantly in 2017. There are three major passive legal disputes pending within the Addiko Group (legal passive disputes with an amount in dispute exceeding EUR 15.0 million), a decrease by seven cases compared to 2016. Some of these cases were settled by exercising the active settlement strategy, for others final verdicts in favor of Addiko Bank AG's subsidiaries could be obtained, which is a result of joint efforts and collaboration by Addiko Bank AG and its respective subsidiaries. The majority of pending proceedings relate to the Croatian subsidiary. In the Republic of Serbia an increase of F/X disputes due to legal instrument of "changed circumstances" is detected.

The majority of pending proceedings are related to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries which are described in more detail under Note "Risks in the portfolio relating to historical interest rate directives".

Although the numbers of such cases are slightly decreasing, there is a future risk of increasing numbers of proceedings due to changed court practice and new laws (e.g. conversion laws, amendments to consumer credit acts, consumer protection acts).

The only case where Addiko Bank AG itself has been involved in a passive legal proceeding (amount in dispute EUR 223.0 million, Addiko Bank AG being second defendant, with HETA ASSET RESOLUTION AG being first defendant) was finally settled in December 2017.

Across the Addiko Group, a centralized legal data base has been established, which enables monitoring and steering by Addiko Bank AG, i.e. the holding company, as well as early perception of possible new developments and reasonings in the jurisdictions the Addiko Group is doing business in. Besides, other monitoring and steering tools have been implemented to establish and secure reliable data quality and dispute handling quality, and to monitor daily litigation work and the development of court cases.

Capital Management

(85) Own capital funds as defined by the CRR

The following table presents the own funds requirements within the Group including transitional arrangements with the capital requirements as at December 31, 2017 according to the CRR at IFRS amounts and the CRR scope of consolidation (Addiko Group and AI Lake Group). Since September 30, 2015, the regulatory reports have been provided at the level of Addiko Bank AG (holding), the Addiko Group and the AI Lake Group.

The own capital funds of the AI Lake Group as well as the Addiko Group as defined by EU Regulation 575/2013 (CRR) are made up as follows:

EUR m

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Core Capital (T1 = CET1)	807.5	695.3	746.9	671.4
Paid-in capital	54.3	5.0	56.0	5.0
Reserves and non-controlling interests	789.6	729.4	657.9	713.6
Intangible assets	-21.8	-21.8	-17.3	-17.3
Allowable profit/deductible loss after tax and minorities	0.0	0.0	56.8	-23.9
Adjustments to core capital (Prudential filters)	-14.6	-17.3	-6.4	-5.9
Tier 2 capital (T2)	0.0	100.0	0.0	60.0
Own funds (TC = T1 + T2)	807.5	795.3	746.9	731.4
Own funds requirements	373.7	372.2	358.8	357.7
Surplus - Own capital	433.8	423.0	388.1	373.8

* Previous-year figures have been adjusted: in 2016, an amount of EUR 376.4 million was reported as "Own funds requirements" for Addiko Group; in 2016 an amount of EUR 58.9 million was reported in the position "Result after tax and minorities" and an amount of EUR 377.6 million as "Own funds requirements" for AI Lake.

in %

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Core tier 1 ratio	17.3%	14.9%	16.7%	15.0%
Total capital ratio	17.3%	17.1%	16.7%	16.4%

* Previous-year figures have been adjusted: in 2016, a ratio of 14.3% and 15.6% was reported as respectively "Core tier 1 ratio" and "Total capital ratio" for Addiko; in 2016 a ratio of 15.9% was reported as "Core tier 1 ratio" and "Total capital ratio" for AI Lake.

EUR m

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Credit risk pursuant to Standardised Approach	4,092.6	4,059.6	3,952.6	3,918.3
Position-, F/X-, commodities risk	176.3	176.3	128.2	128.2
Operational risk	393.4	408.4	397.3	416.8
Credit valuation adjustment risk (CVA)	8.7	8.7	7.5	7.5
Total risk position value	**4,671.0**	**4,653.1**	**4,485.6**	**4,470.8**

* Previous-year figures have been adjusted: in 2016, an amount of EUR 3,990.4 million was reported as "Credit risk pursuant to Standardized Approach" and EUR 290.2 million as "position, F/X-, commodities risk" for Addiko; in 2016 an amount of EUR 4,024.8 million was reported as "Credit risk pursuant to Standardized Approach" and EUR 290.2 million as "position, F/X-, commodities risk" for AI Lake.

The Company is a member of the consolidated group headed by AI Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. AI Lake (Luxembourg) Holding S.à r.l. is the most senior parent company for which Addiko Bank AG as the primary credit institution according to the provisions of Section 59 BWG produces consolidated financial statements. The consolidated financial statements of AI Lake (Luxembourg) Holding S.à r.l. are prepared in accordance with the

International Financial Reporting Standards (IFRS) pursuant to the provisions of Section 59a BWG and are available at Addiko Bank AG headquarter in Vienna.

Supplementary information required by Austrian Law

(86) Assets pledged as collateral

Assets in the amount of EUR 5.5 million (2016: EUR 23.7 million) were pledged as collateral for own debts to third parties. These are cash collaterals pledged as collateral in relation to derivatives. Further, securities with a notional amount of EUR 9.5 million (2016: EUR 10.6 million) were deposited with Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognized in the Addiko Group's statement of financial position.

(87) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2017	31.12.2016
Financial assets held for trading		
Debt securities	5.4	13.7
thereof listed	4.5	4.3
thereof unlisted	0.9	9.5
Available-for-sale financial assets		
Equity instruments	22.3	17.7
AFS-other participations (associated companies 0% -20%)	3.9	4.2
thereof listed	0.2	0.1
thereof unlisted	3.7	4.1
AFS-shares and other not fixed-interest securities	18.4	13.5
thereof listed	0.0	0.0
thereof unlisted	18.4	13.5
Debt securities	1,212.0	1,291.6
thereof listed	1,074.3	1,154.6
thereof unlisted	137.7	137.0
Held-to-maturity investments		
Debt securities	42.5	82.6
thereof listed	42.5	82.6
thereof unlisted	0.0	0.0

(88) Expenses for the auditor

The following expenses for the group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna were incurred in the reporting period:

EUR m

	31.12.2017	31.12.2016
Audit fees for the annual financial statements	**-0.3**	**-0.5**
Expenses for the current year	-0.2	-0.5
Expenses relating to the previous year	0.0	0.0
Fees for other services	**-1.1**	**-0.0**
Other confirmation services	-0.3	0.0
Other services	-0.8	-0.0
Total services	**-1.3**	**-0.5**

The audit expenses incurred in the financial year 2017 include the gross audit fee (including VAT) as well as the related cash expenditure.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) financial statements as well as the costs of the consolidated financial statements themselves.

(89) Trading book

The volume of the trading book of Addiko Group breaks down as follows:

EUR m

	31.12.2017	31.12.2016*
Derivatives in trading book(nominal)	296.2	177.2
Debt securities (carrying amount)	5.4	13.7
Trading book volume	**301.6**	**191.0**

*Previous-year figures adjusted: The nominal amount of derivatives in trading book was adjusted.

(90) Employee data

	31.12.2017	31.12.2016
Employees at closing date (Full Time Equivalent – FTE)	2,953	3,152
Employees average (FTE)	3,052	3,318

(91) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent:

in TEUR

	31.12.2017		31.12.2016	
	Severance payments	Pensions	Severance payments	Pensions
Key management personnel	50.8	6.0	84.0	5.9
Other employees	230.8	61.8	336.9	78.4
Members of Management Board	60.0	36.0	58.3	18.9
Total	**341.6**	**103.8**	**479.2**	**103.2**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 230.8 thousand (2016: 336.9 thousand).

(92) Relationship with members of the Company's boards

92.1. Advances, loans and liabilities with regard to board members

As at December 31, 2017, the Addiko Bank AG boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

92.2. Breakdown of remuneration received by board members of the ultimate Group parent

in TEUR

	31.12.2017	31.12.2016
Management Board	**5,607.0**	**3,944.7**
thereof ongoing payments	5,607.0	3,944.7
Supervisory Board	**142.5**	**168.5**
Total	**5,749.5**	**4,113.2**

The members of the Management Board and Supervisory Board are stated in note (93) Boards of the Company.

(93) Boards and Officers of the Company

January 1 to December 31, 2017

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Martin Handrich (resigned as per 6 February 2017)
Dragica Pilipović-Chaffey

Delegated by the Works Council:
Horst Floriantschitz
Christian Lobner

Federal Supervisory Authorities

State Commissioner:
Judith Schmidl

Deputy State Commissioner:
Vanessa Koch (from August 1, 2017)
Andreas Pink (until July 31, 2017)

Management Board

Ulrich Kissing, Chairman of the Management Board
Johannes Proksch, Member of the Management Board
Markus Krause, Member of the Management Board
Csongor Bulcsu Németh, Member of the Management Board
Martin Stefan Thomas, Member of the Management Board
Razvan Munteanu, Member of the Management Board
Christian Kubitschek, Member of the Management Board

(94) Scope of consolidation

The consolidated group of companies as defined under IFRS as at December 31, 2017 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	100.0	31.12.2017	CI
Addiko Bank d.d.	Zagreb	100.0	100.0	31.12.2017	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	100.0	31.12.2017	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2017	CI
Addiko Bank d.d.	Sarajevo	100.0	100.0	31.12.2017	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8	99.8	31.12.2017	CI

(95) Events after the reporting date

At the beginning of January 2018, Addiko Bank AG received a decision with regard to the adequacy of its own funds as well as the proceedings with regard to the Group's liquidity (Joint Risk Assessment & Decision Process - JRAD) from the Austrian Financial Market Authority (FMA). Pursuant to this decision, own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, Addiko Bank AG is required to maintain a Total Capital Ratio (TCR) of 12.7% (2017: 12.9%), a TIER I ratio of 10.7% (2017: 9.7%) and a CET 1 ratio of at least 9.2% (2017: 7.2%) at holding level as well as at the level of the Addiko Group and AI Lake scopes of consolidation. Additionally, the capital conversation buffer is to be taken into account, which increases by 0.625% each year, starting at 0.625% in 2016 and scheduled to reach 2.5% in 2019.
Addiko Bank AG signed on the 27 of February with its sole shareholder AI Lake (Luxembourg) S.à r.l. an agreement waiving part of the future payments on the existing subordinated loans to align the capital structure with its risk profile and to achieve adequate return on equity in the coming years.

Vienna, February 27, 2018

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch	Christian Kubitschek
Markus Krause	Csongor Bulcsu Németh
Martin Stefan Thomas	Razvan Munteanu

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, February 27, 2018
Addiko Bank AG

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Martin Stefan Thomas

Razvan Munteanu

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Addiko Bank AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the group statement of comprehensive income, the group statement of changes in equity and the group statement of cash flows for the financial year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements under Section 245a Austrian Commercial Code and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

- Impairment of loans and advances

Description of the individual key audit matter

Risk provisions are set up by impairing loans and advances to take into account risks of losses in the credit portfolio. As at December 31, 2017, loans and advances (loans and advances to customers and credit institutions) before impairment amount to EUR 4,176 million. Risk provisions amount to EUR 418.7 million.
Addiko Bank AG uses the following methods to determine the risk provision required:

- For defaulted loans and advances classified as significant (loans and advances exceeding certain internally defined thresholds), risk provisions are determined on a case-by-case basis.
- For defaulted loans and advances not individually classified as significant, the risk provisions required are calculated using models based on an estimate of loss-given default made by the credit institution.
- For losses already incurred at the reporting date but not identified by the credit institution, risk provisions are set up at portfolio level. Collectively determined risk provisions are calculated using models based on an estimate made by the credit institution of the probability of default and loss-given default as well as the period of time between the occurrence of a loss event and its identification by the credit institution.

We refer to the disclosures in Note (8) (Financial instruments: recognition and measurement (IAS 39)), Note (69) (Development of risk provisions) and Note (74) (Credit risk (counterparty default risk)).

As determining the impairment of loans and advances in all variations stated represents an estimate that is significantly defined by the identification of the loss event, the estimate of the expected cash flows and/or the identification of the calculation parameters used to illustrate them, we identified the amount of impairment of loans and advances as a key audit matter.

Audit approach

In order to assess the appropriateness of the risk provisions set up, we reviewed for the purposes of our audit the significant processes and models within credit risk management as well as a selection of loans. We identified and tested the significant controls in place for credit approval, continuous monitoring and especially in the early detection process of borrowers potentially at risk of default. We checked a selection of controls relevant for the audit with regard to the correct use of rating models and measurement of collateral.

We checked the design and implementation of a selection of controls relevant for the audit with regard to the assessment of the reliability of the models used in calculating collective risk provisions (back testing, continuous monitoring and validation of models and parameters on a regular basis; re-estimate and recalibration, if required, based on updated time series). We reperformed the submitted analyses of back testing and re-estimates.

We checked the appropriateness of individual risk provisions using a selection of test cases. In addition to compliance with internal regulations on rating as well as allocation and measurement of collateral, we checked whether loss events were fully identified. In doing so, we analyzed loans and advances not identified as defaulted by management as to whether events have occurred that significantly influence the borrower's repayment ability. For loans in the non-performing portfolio, we critically assessed the estimated cash flows expected from redemption and collateral and recalculated the present value.

- Deferred tax assets from losses carried forward and other deductible temporary differences

Description of the individual key audit matter

As at December 31, 2017, the Addiko Bank Group capitalized deferred tax assets amounting to EUR 20.6 million for the first time. The capitalized amount breaks down into EUR 13 million of deferred tax assets from losses carried forward as well as EUR 7.6 million of deferred tax assets from other deductible temporary differences.

The Addiko Bank Group reported a number of losses in the recent past. Deferred tax assets may only be recognized in the balance sheet if there is convincing substantive evidence that sufficient taxable results will be available in the future against which unrealized tax losses as well as other deductible temporary differences can be used.

Substantiation of sufficient future taxable results is based on corporate planning and the tax planning that results from it.

Expected taxable results are subject to a high degree of discretion. Slight changes to these assumptions will lead to significantly deviating results.

We refer to the disclosures in Note (33.2) (Deferred tax assets/liabilities).
Due to the sensitivity of the model and the high degree of discretion involved in the assumptions, we identified the capitalization of deferred tax assets from losses carried forward and other deductible temporary differences as a key audit matter.

Audit approach

We critically assessed the assumptions and estimates used to determine the significant parameters and input factors and compared the assumptions used for future taxable results with past performance and past planning accuracy. The figures and planning assumptions used were discussed with management and the responsible employees, and plausibility checks were performed using internal and external forecasts.

Furthermore, we verified the existence and amount of the available tax losses carried forward using external confirmations. In addition, we analyzed and reperformed the assumptions with regard to the realizability of deductible temporary differences.

Other Information
Management is responsible for the other information. The other information, which we obtained prior to the date of this auditor's report comprises all information included in consolidated non-financial report.
Our opinion on the consolidated financial statements does not cover the other infor-mation and we do not and will not express any form of assurance conclusion thereon. With re-spect to consolidated management report we refer to the section "Report on the Audit of the Consolidated Management Report".
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge ob-tained in the audit, or otherwise appears to be materially misstated.
If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements under Section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

The scope of the audit does not include assurance on the future viability of the Group or the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit

We also:

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

- In performing our audit in accordance with the applicable auditing standards, we take into account the Group's legal and other regulatory framework. However, we are not responsible for preventing or uncovering violations of the law and other legal requirements committed by the Group. The unavoidable risk due to the inherent limitations of an audit that some material misstatements of the financial statements might not be detected, even though the audit has been properly planned and performed, is higher in case of violations of other legal requirements. This is, i.a., because there are many laws and other legal requirements – mainly referring to a Group's operational aspects – which are not recorded by the Group's accounting-related information systems, and violations in this respect may involve attempts to conceal them.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Comments on the Management Report for the Group

Pursuant to the Austrian Commercial Code, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal requirements.

The Company's management is responsible for the preparation of the management report for the Group in accordance with the Austrian Commercial Code and the Austrian Banking Act.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion
Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Additional Information in Accordance with Article 10 of the EU Regulation

We were appointed as statutory auditor for the financial year ended December 31, 2017 at the ordinary general meeting dated September 30, 2016 and engaged to perform the audit by the supervisory board on September 30, 2016. We have audited the Group for an uninterrupted period since the financial year ended December 31, 2014.
We confirm that the audit opinion in the "Report on the Consolidated Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the Group in conducting the audit.

Vienna, March 1, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker	ppa. Mag. Monika Dabrowska
Austrian Certified Public Accountant	Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

Consolidated non-financial report

1. Introduction

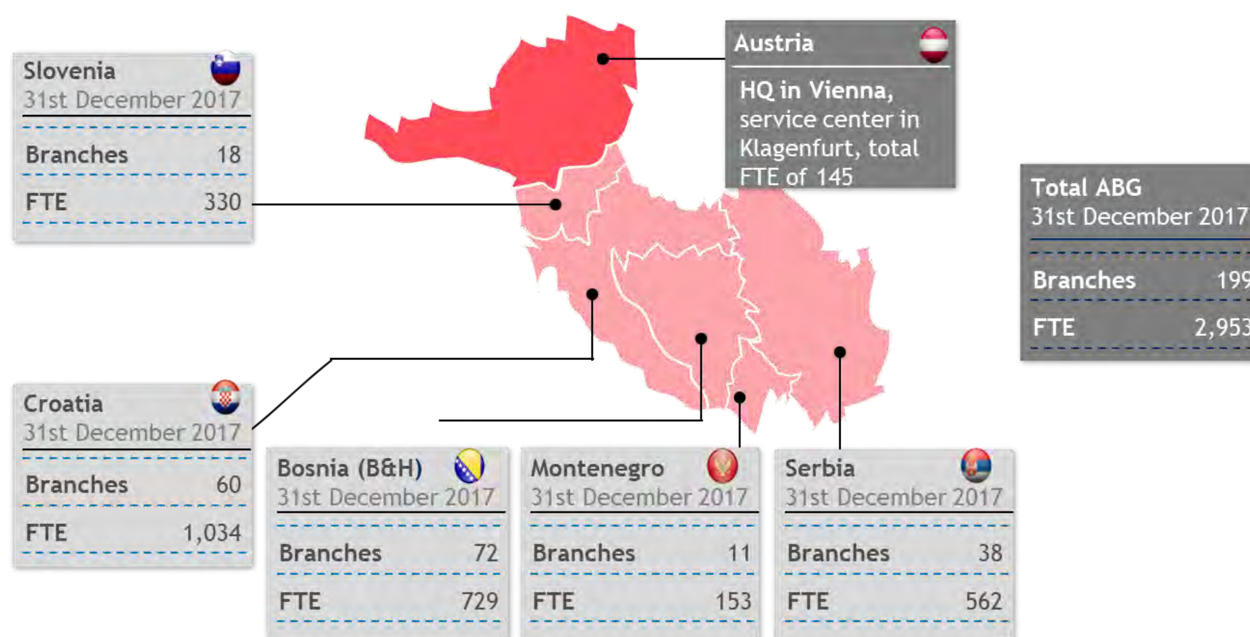
1.1. Consolidated non-financial statement

Addiko Group's consolidated non-financial statement discloses non-financial data in order to ensure a greater level of transparency. The statement provides insights into Addiko Group's ownership, corporate governance, strategy and business model.
In addition, the statement discloses the development of Addiko Group's activities related to social and employee matters, business ethics and environmental matters. Developments in these important areas support the transformation of Addiko Group.

1.2. Addiko Group banking network

Addiko Group (hereinafter as well referred to as Addiko Bank) is an international financial group headquartered in Vienna, Austria, operating via seven banks, with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, and providing daily banking services for over 1 million clients.

- Austrian based banking network,
- operating six banks in South-East Europe (bankable population of ~17 million)



Being clearly focused on markets and clients in the SEE region, Addiko Group puts the customers from this region at the core of its strategy, by promoting products and services relevant to the SEE economic environment, by implementing faster processes and decision making, and by delivering communication that is easy to understand.

2. Ownership, corporate governance, strategy and business model

2.1. Ownership

The holding company AI Lake (Luxembourg) S.à r.l. is the direct parent company of Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor, and the European Bank for Reconstruction and Development (EBRD). Addiko Group has been operating under this name since 11 July 2016, following a successful rebranding of the Group.

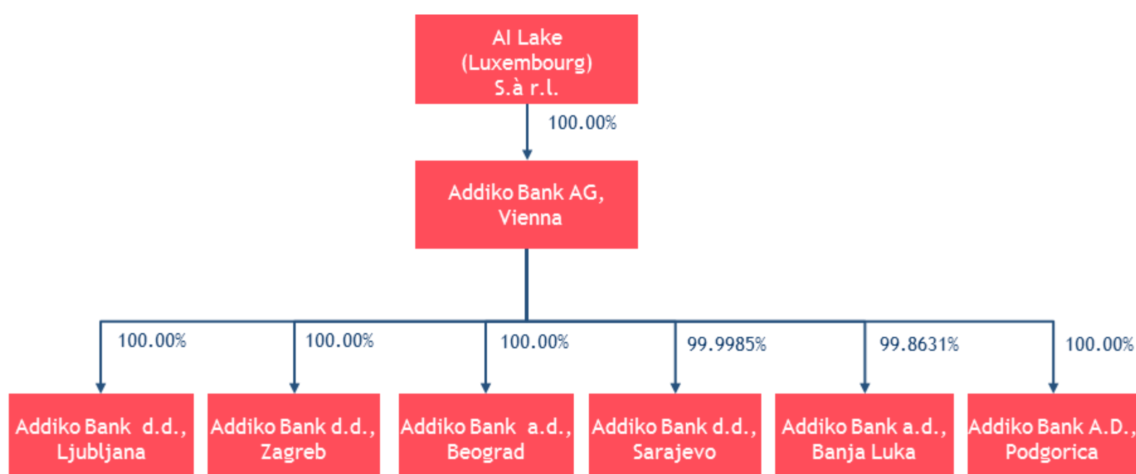
Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, they have established a globally integrated team of more than 190 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating a private equity strategy in 1989, they have invested USD 39 billion in over 335 private equity investments across 40 countries, and as of 30 September 2017, managed USD 42 billion in assets.

Founded in 1991, EBRD is a multilateral bank committed to the development of market-oriented economies and the promotion of private and entrepreneurial initiatives in more than 30 countries. The bank is owned by 66 countries, the EU and the European Investment Bank. EBRD has invested more than EUR 115 billion in over 4,500 projects, supporting prosperous economies based on a flourishing private sector, a sound banking sector, modern infrastructure and efficient use of energy. As an investor, EBRD promotes innovation, growth and transparency.

Both, Advent International and EBRD, have a strong track record of committing capital to the financial services sector as well as regionally in Central and South-Eastern Europe. Both owners have ambitious plans, with the goal of establishing Addiko Group as one of the top market players in the SEE region.

2.2. Corporate governance

Addiko Group consists of seven single banking entities. Whereas Addiko Bank AG, Vienna, acts as a holding company and only offers direct deposits in Austria and Germany, all other banks provide a full scope of services in line with Addiko Groups business strategy.



Addiko Bank AG, Vienna - steering Addiko Group – is managed and represented by the Management Board consisting of Mr. Ulrich Kissing (CEO), Mr. Markus Krause (CRO), Mr. Martin Thomas (COO), Mr. Csongor Nemeth (CCBO), Mr. Razvan Munteanu (CRBO), Mr. Christian Kubitschek (CFO) and Mr. Johannes Proksch (CTO).

Management Board members of Addiko Bank AG, Vienna, for Financial Year 2017

Name	Position	Area of responsibility
Ulrich Kissing	Chief Executive Officer	Group Audit, Group CEO Office, Group HR, Group Compliance, Group Treasury and Balance Sheet Management, Group Corporate Communication, Economic Research
Markus Krause	Chief Risk Officer	Group Corporate Credit Risk, Group Retail Risk Management, Integrated Risk Management, Credit Risk Portfolio Management, PFD Methodology, Group Risk Validation, Market and Liquidity Risk, Operational Risk Management
Martin Thomas	Chief Operating Officer	Group Operational Excellence, Group Operations, Procurement, CISO/Data Protection, Group IT, Group Digital Banking
Csongor Nemeth	Chief Corporate & SME Banking Officer	Sales Development, Corporate Process and Prices Management, Customer Experience and Digitalisation, Large Corporate, Corporate Product Management
Razvan Munteanu	Chief Retail Banking Officer	Group Sales Distribution&Customer Experience, Group Retail Product Management, Direct Deposit Austria&Germany, Group Customer Value Management, Group Marketing, Micro Business Segment
Christian Kubitschek	Chief Financial Officer	Group Finance Controlling, Group Data Integrity and Control, Group Accountig&Reporting, Finance Holding, Group Business&Sales Controlling, Group Cost& Investment Controlling
Johannes Proksch	Chief Transformation Officer	Group Legal and Corporate Development

In 2017 the composition of Management Board has not changed.

The Supervisory Board of Addiko Bank AG, Vienna, consists of Mr. Hermann Josef Lamberti (Chairman), Mr. Hans Lotter (Deputy), Mr. Henning Giesecke (Deputy), Mrs. Dragica Pilipovic-Chaffey, Mr. Horst Florianschitz and Mr. Christian Lobner. The last two members are delegated by the workers council. In 2017 the composition of Supervisory Board has changed insofar as Mr. Martin Handrich has resigned on 6 February 2017.

2.3. Strategy

Addiko Group's vision is to provide "Straightforward Banking" to its customers and be united as "Six Countries – One Winning Team". The strategy has been built on three strategic pillars which represent Addiko Groups's brand values.

Focus on the essentials:
We do a few things very well, rather than a lot just OK. This means fewer, essential products that deliver greater value to our customers.

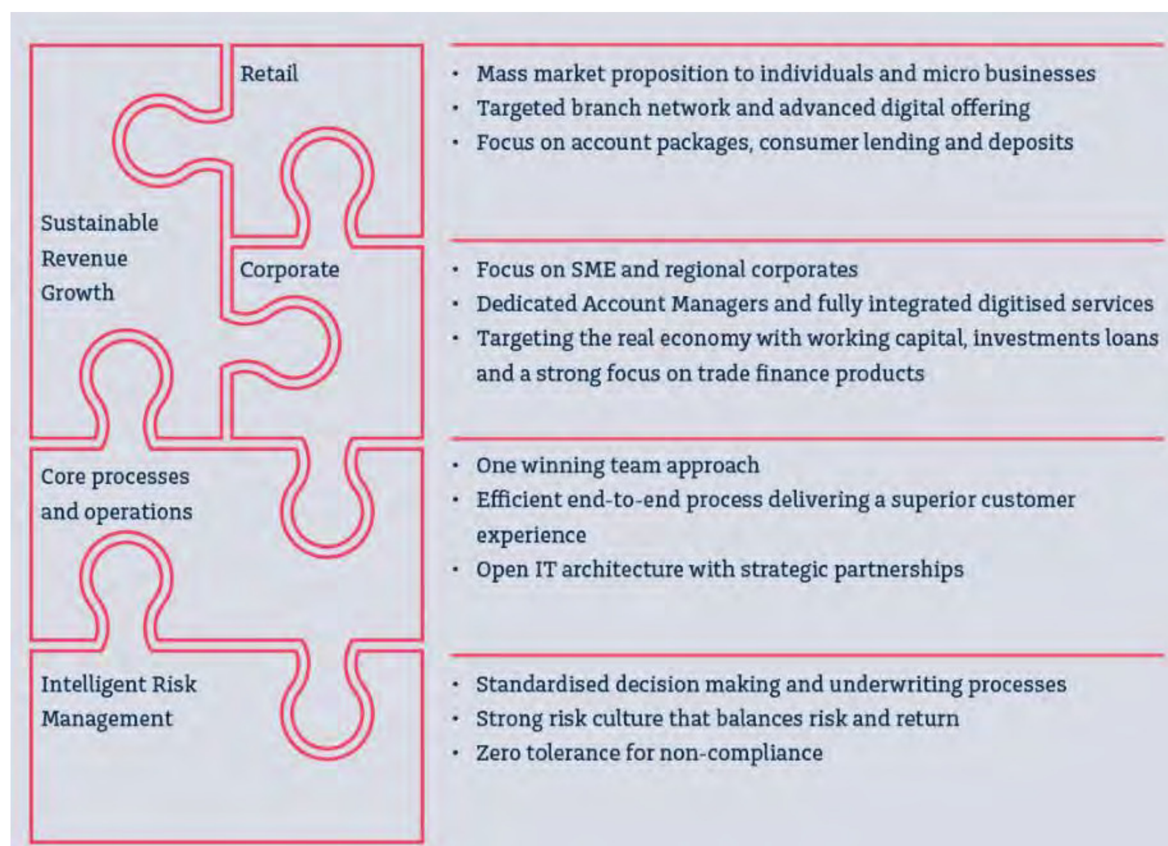
Deliver on efficiency:
We concentrate our energy on removing complexity for our customers and delivering what is relevant.

Communicate simplicity:
Our people, products and procedures "communicate" in the simplest terms to ensure a clear understanding.

All of the above relate to how Addiko Group presents itself both externally and internally. Hence, these brand values are applied both internally and when dealing with our customers.

Addiko Group's strategy for delivering "Straightforward banking" to customers

Addiko Group will achieve its strategic goals by focusing on the following key areas:



2.4. Operating Model

Addiko Group's Operating Model has been designed to support our strategy as follows:

- Shared/group wide services are more efficient and will provide better services than if each country had its own fully-fledged set of individual functions.
- Its strategy focuses on creating a simplified set of products that clearly serve Addiko Group's key customer segments. Addiko Group's customers can be clearly divided into two distinct groups: "Corporate" and "Retail", which is reflected in its Operating Model.
- Addiko Group's Operating Model focuses on the Front Office, making it simpler for its customers, even if this means more effort internally within Addiko Group. Enabling Functions, processes and systems support the customer touch points i.e. the Front Office functions.
- Enabling Functions are shared across countries, directly supporting Addiko Group's "One Winning Team Approach" and efficient end-to-end processes delivering a superior customer experience.
- The Operating Model also allows Addiko Group's employees to develop and provides them with additional opportunities across countries and functions.

Addiko Group's Operating Model consists of Group and Local Functions. Group Functions are either Central Steering or Group Shared Services.

- Local Execution refers to the people working in regional Addiko Group businesses.
- Central Steering Functions (CSF) provide some or all the following: strategic direction, guidelines, monitoring, control, and expert services, e.g. Human Resources, Legal, Marketing, etc. They are available in any region

and the teams can be spread across countries. In many instances, the execution of such services will be performed locally, by local personnel that are part of the CSF.
- Group Shared Services (GSS) provide more operational services and have a higher concentration of people in one location, serving the greater Addiko Bank across countries, i.e. Transaction Banking Back Office, Digital Banking, etc.

Organizing Addiko Group as described allows the provision of better services for the whole of Addiko Group, with consistency and reduced cost at significantly lower operational risk. The CSF and GSS approach allows Addiko Group to follow best-in-industry practices and international standards, to improve internal knowledge management, mentoring and to ensure the transfer of skills to employees.

One of the biggest challenges identified in Addiko Groups business model includes the transformation of the operating platform so that it focuses on cost, customer experience and capability building, in line with an innovative mind-set. It is therefore important to continue with ongoing transformation initiatives to strengthen Addiko Group's market position.

As "digital" will play an important role in Addiko Group's future business it will become more central to the overall strategy. On the operational level, a sustainable system is being built to promote the use of digital products. Along with these digital developments, a Robotic Process Automation (RPA/ IPA) will be implemented in addition to the lean program that has already started.

3. Social and employees matters

3.1. Social matters

In 2017 Addiko Group implemented a Corporate Social Responsibility Framework focused on kids & youth related activities. In line with this framework, Addiko Group launched the corporate volunteering project "Addiko Cares", aimed at supporting children and young people across all markets and regions. As well as the broader benefits of involving children with literature, this corporate volunteering project is focused on reading to children so as to provide stories that can help children to transition from one milestone to another and to handle stressful situations. On November 20th (UN Children's day) Addiko Group's volunteers visited a number of different institutions in order to spend time reading with children. Additionally, books were donated to those organizations in order to enrich their libraries. Almost 200 volunteers participated across the Group, reading to 1,500 children at 28 different locations and donating 1,400 books. Addiko Group plans to further expand upon the "Addiko Cares" initiative in 2018.

Sponsorship plays a strategic rather than tactical role in Addiko Group's development as it reinforces desired brand values and raises brand awareness. Addiko Group's goal was to financially support those involved with the high quality organization of valuable cultural events, and in turn to indirectly have a positive impact on the community development.
- As such, in 2017 Addiko Group implemented the Group Sponsorship Strategy with the main aim of supporting music and film festivals in the region. Addiko Group's most significant music festival sponsorship is the EXIT festival sponsorship which includes Sea Star in Croatia, EXIT in Serbia and Sea Dance in Montenegro. OK Fest and Demofest have been sponsored in Bosnia and Herzegovina.
- Moreover, in the film industry Zagreb Film Festival and the Motovun Film Festival have been sponsored.
- In addition to these sponsorships, Addiko Group started to sponsor nextbike (public bikes system) in Zagreb and Bosnia and Herzegovina. Via this sponsorship, it can positively influence the development of public transportation, with a focus on bikes, as a means of decreasing traffic jams and improving quality of life.

3.2. Employees matters

Addiko Group's corporate culture is constantly evolving, reflecting its principles of trust, integrity and clear performance orientation. Its vision is to provide straightforward banking and by doing that, Addiko Group transforms its corporate culture into one that also defines how the bank drives its business - how employees aim for results and achieve them and how the bank recruits, employs, develops and motivates its employees who in turn can drive the business forward and generate revenue.

Addiko Group follows this approach by empowering its leaders to lead the change, reinforcing employee engagement and strengthening the "Values and Behaviors" in daily activities. The bank is focused on becoming a great place to work. Addiko Group is proud of its employees and their many achievements in becoming 'Six Countries and one Winning Team' - an innovative and forward thinking bank with high integrity, professional norms and industry excellence.

In order to nurture the cultural transformation, our management has put a lot of effort into reaching out to staff across our markets. Our senior leaders regularly promote the bank's vision through employee town hall meetings, breakfast with the Board, workshops and road shows to actively share and discuss employee questions, business plans and performance updates.

Addiko Group celebrates the winning teams across the countries and has spent a lot of time launching the new brand and its innovative and modern open space offices. Addiko Group is re-branding the branches and as such has re-designed the head offices. These meeting areas are café-style with bar stools and American diner stalls. Here, Addiko Group employees can hold regular, jour-fix meetings in a comfortable and friendly atmosphere and then move on quickly to get things done. The office space is unified across all countries, reflecting the new brand and cultural values that we want to promote.

At Addiko Group, we lead by how we behave. We have therefore defined the Addiko Group "Values and Behaviors" after conducting numerous workshops and surveys with employees across our countries. The objective is to integrate them into the way Addiko Group recruits employees, evaluates performance and develops leaders. They encourage employees to behave in a way that drives efficiency, respect and long-term responsible growth:

- Focus on the Essentials
- Deliver on Efficiency
- Communicate Simplicity
- Six Countries, One Winning Team

Diversity is important to the Addiko Group. It is an employer that works across six countries, speaks a variety of languages and strives to reflect the cultural diversity of Central and South Eastern Europe. As a result, its selection process is transparent, promoting equal opportunities for all candidates. Addiko Group is committed to abiding to local legislation and building an inclusive work force regardless of race, nationality, religion, national origin, ethnicity, sex, gender, age, citizenship, color, marital status or pregnancy in all banks. In 2018, we will set a diversity target for our bank, aiming to develop and elevate female leaders.

The Selection & Recruitment process is an important pillar of Addiko Group's culture. Human Resources is responsible for managing the selection and recruitment process. Addiko Group seeks people with excellent industry experience, a passion for learning, those with the ability to be flexible and a willingness to roll up their sleeves in order to build an innovative and competitive bank. Employees are selected based on how their skills set and their culture fit with Addiko Group's principles.

Addiko Group offers a competitive salary and discretionary variable pay or annual bonus, depending on the position and the function of its employees. Addiko Group's remuneration policy varies by country and is attractive within each local market.

Addiko Group onboarding represents a process of introducing newly hired employees to the bank and to their new job. It begins from the moment an employee has signed their offer letter, to the point when the employee has completed the probation period. In many countries, new employees will be assigned a mentor as a guide. They will also be given

an induction plan and an invitation to the “Get Together” event for newly hired employees. A comprehensive introduction to the new team and to its ways of working is an important part of the onboarding program.

Addiko Group recognizes that its employees have many responsibilities and roles in addition to their work. Within the framework of local legislation, employees are encouraged to work from home and to use flexible working options to support their personal commitments outside their professional lives. Addiko Group respects the personal lives of its employees.

Addiko Bank’s corporate culture encourages community participation. Addiko Group has launched a number of "Addiko Cares" community events that underline the values and culture we want to promote.

Addiko Group employees have many on-the-job and in-class opportunities to learn and move their career forward. Employees are encouraged to shift to other departments, take developmental assignments in other countries and participate in international projects or to take work placements.

Addiko Group embraces a unique leadership style that is simple and friendly with an ability to work well as part of a team of lots of different people. Building trust and working closely with many diverse teams is part of Addiko Group identity.

Addiko Academy was launched in 2016 offering training opportunities in leadership, banking, sales, corporate banking and compliance. Addiko Bank is committed to strengthening the area of talent development and building talents and successors across all levels.

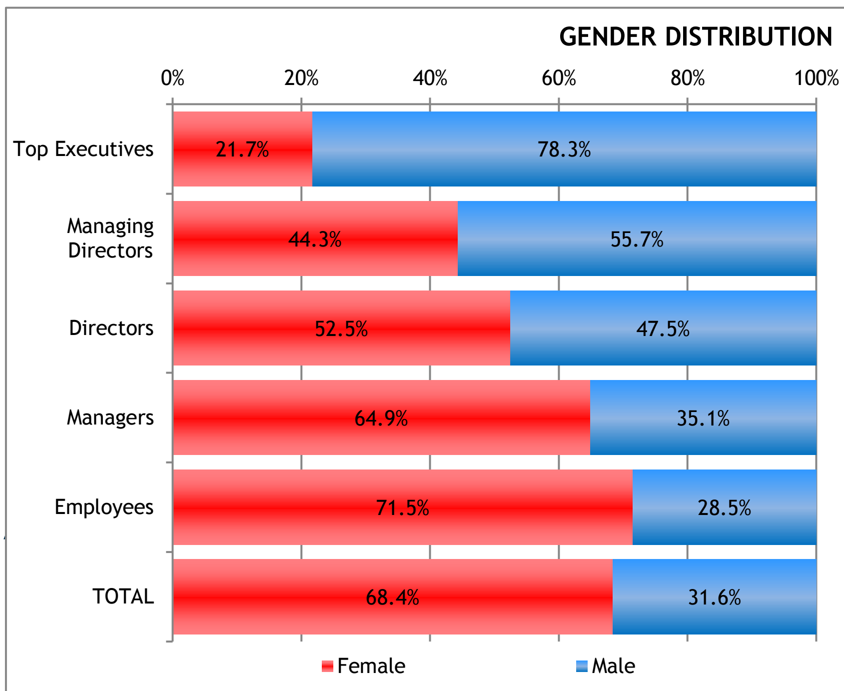
Addiko Group has started by:

- Encouraging top employees to network with industry peers in order to represent the bank in professional circles in their countries. Addiko Bank employees have done an excellent job, receiving numerous industry awards and elevating professional standards;
- Holding development and assessment centers and 360 feedback to help employees to progress;
- Moving forward People Forums and talent management processes will help to define clear development plans and career options for employees in Addiko Group.

Addiko Group gender distribution by managerial level

31.12.2016	Female	Male
Top Executives	19.2%	80.8%
Managing Directors	48.6%	51.4%
Directors	54.5%	45.5%
Managers	68.7%	31.3%
Employees	71.4%	28.6%
TOTAL	**69.0%**	**31.0%**

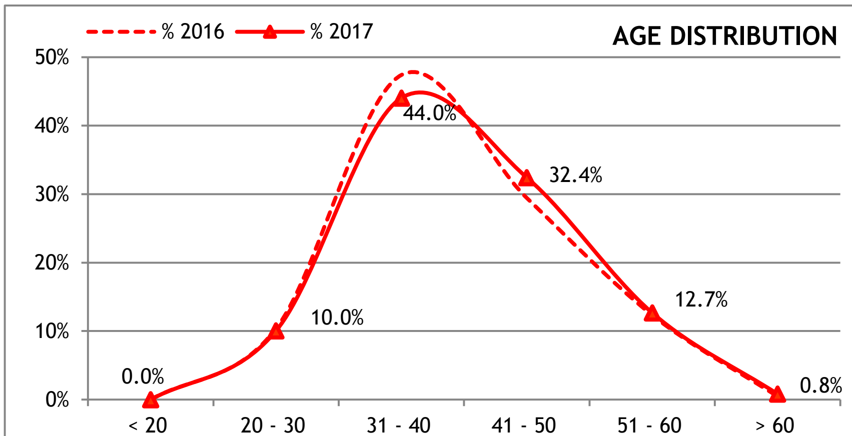
31.12.2017	Female	Male
Top Executives	21.7%	78.3%
Managing Directors	44.3%	55.7%
Directors	52.5%	47.5%
Managers	64.9%	35.1%
Employees	71.5%	28.5%
TOTAL	**68.4%**	**31.6%**



Addiko Group age distribution

31.12.2016	FTE Active	%
< 20	0	0.0%
20 - 30	324	10.4%
31 - 40	1,481	47.4%
41 - 50	920	29.4%
51 - 60	385	12.3%
> 60	14	0.4%
TOTAL	**3,123**	**100.0%**

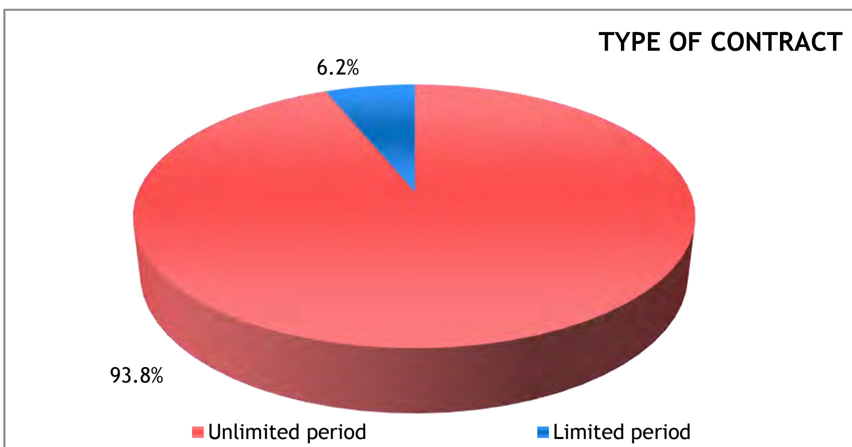
31.12.2017	FTE Active	%
< 20	0	0.0%
20 - 30	297	10.0%
31 - 40	1,301	44.0%
41 - 50	958	32.4%
51 - 60	374	12.7%
> 60	24	0.8%
TOTAL	**2,953**	**100.0%**



Addiko Group type of contract

31.12.2016	FTE Active	%
Unlimited	2,926	93.7%
Limited	197	6.3%
TOTAL	**3,123**	**100.0%**

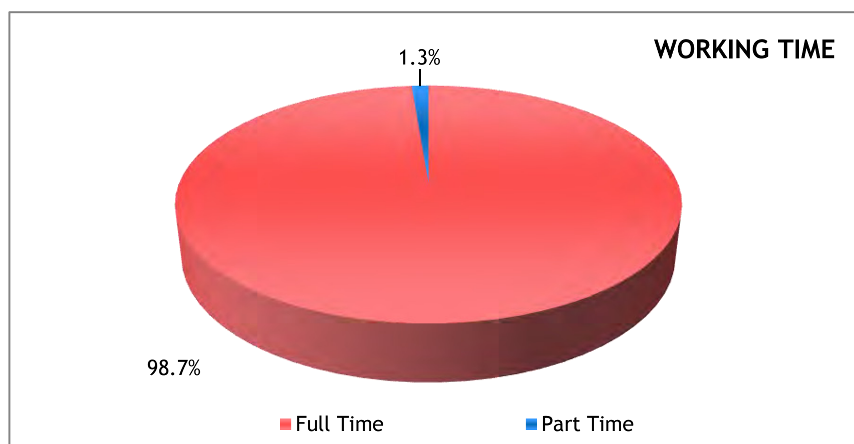
31.12.2017	FTE Active	%
Unlimited	2,771	93.8%
Limited	182	6.2%
TOTAL	**2,953**	**100.0%**



Addiko Group working time

31.12.2016	HC Active	%
Full time	3,067	97.5%
Part time	78	2.5%
TOTAL	**3,145**	**100.0%**

31.12.2017	HC Active	%
Full time	2,935	98.7%
Part time	38	1.3%
TOTAL	**2,973**	**100.0%**



4. Business ethics

Addiko Group is committed to conducting its business in compliance with the highest ethical standards. Addiko Group's Code of Business Conduct and Ethics is a binding regulatory framework and is applicable to all employees. It is designed to promote honest, ethical and lawful conduct while its standards govern employee interactions with customers, competitors, business partners, governmental authorities, shareholders as well as with each other.

Addiko Group demands from its employees to comply with legal, regulatory and internal requirements as well as with all internal acts, conducts and ethical principles as defined by the Code of Business Conduct and Ethics.

Compliance is part of our corporate culture and not only the responsibility of the Compliance department. Functional managers have organizational and supervisory duties to ensure that no infringement of the applicable rules and laws governing the financial industry occurs that could have been prevented by adequate measures and supervision.

4.1. Human rights

Addiko Group's "Values and Behaviors" are built on trust, respect and integrity. Addiko Group is an equal opportunity employer that bases its recruitment, employment, development and promotion decisions solely on a person's ability and potential in relation to the needs of the job. Addiko Group is committed to a workplace that is free from sexual, racial or other unlawful harassment, and from threats or acts of violence or physical intimidation. Abuse, harassment and other offensive conduct is unacceptable whether verbal, physical or visual.

The Recruitment & Selection Policy mandates that the selection process should be transparent and promote equal opportunities and equal treatment of all candidates included in the process. Diversity is important, as is creating an environment that allows the recruitment of candidates with different backgrounds, experiences and perspectives in order to achieve the best results without limitations. Addiko Group abides with local legal legislation and is an equal opportunities employer. It is committed to building a diverse and inclusive work force regardless of race, nationality, religion, national origin, ethnicity, sex, gender, age, citizenship, color, marital status or pregnancy.

4.2. Anti-corruption and bribery matters, prevention of money laundering

Addiko Group has a zero tolerance policy towards any form of corruption or bribery. To ensure compliance with respective laws and regulations, Group standards and policies are implemented. Clear rules are applicable regarding the acceptance of gifts and gratuities, contracting third parties (anti-corruption clause), the approval of donations or sponsorships as well as mandating lobbyists.

The bank strictly prohibits giving or promising, directly or indirectly, anything of value to any employee or government officials (including state-owned companies), political party, candidate for office, or to any person performing public duties or state functions in order to obtain or retain business or to secure an improper advantage with respect to any aspect of the Group's business, including negotiations and tenders.

In line with international standards and Addiko Group's strategy, it is illegal for the bank, its subsidiaries and people working for or on behalf of the bank to offer, pay, give, promise or authorize the payment of any money or of anything of value, directly or indirectly, to any foreign government official or employee, foreign political party or candidate for foreign political office for the purpose of obtaining or retaining business or to secure an improper advantage (direct and indirect), and in keeping with laws in other countries.

Addiko Group requires that all Third Party contracts include a provision that complies with applicable anti-corruption laws. Contracts for the purchase of services and products include an anti-bribery and anti-corruption clause as well as a clause for the prevention of money laundering.

In 2017 Addiko Group did not discover or record any incident of corruption.

Addiko Group considers lobbying to be legitimate within the process of democratic decision making. Lobbying activities must be conducted in a fair and professional manner based on the highest ethical and moral standards.

Addiko Group is committed to avoiding violations or any negative developments within the Group and has therefore established a whistleblowing procedure - as an early warning system - that enables employees to raise concerns about unacceptable behavior through various channels such as ordinary mail, e-mail or telephone. Cases are always investigated thoroughly and managed with due care.

Addiko Group considers business partners to be an extension of itself. It is therefore very important that partners have a common understanding of the principles of respect for the law, sense of justice and social responsibility with respect to their activities related to the natural environment, their employees, co-workers and subcontractors. Addiko Group is committed to working with partners who avoid discrimination or mobbing, and does not accept the work of children. To insure this kind of partnership, Addiko Group has started to include in its procurement process a criterion of social responsibilities and ethics when working with its partners.

5. Environmental matters

In our contemporary world, affected by centuries of unconscious actions and disregard for nature, protection of the environment is everyone's responsibility. Although the direct impact of banks on the environment may be regarded as rather limited, particularly when compared to the impact of other industries, Addiko Group recognizes its responsibility to environmental conservation and is therefore consciously focused on environmental matters and committed to reducing its own consumption of natural resources, with a particular focus on its electricity and heating impact, as well as the impact of fuel and paper consumption.

Addiko Group and all of its subsidiaries are fully compliant with local laws and regulations with regard to environmental issues i.e. waste management, recycling, and the disposal of dangerous materials. Moreover, in addition to compliance with obligatory environmental regulations, Addiko Group is fully committed to the implementation of additional measures that aim to ensure environmental protection.

For example, in 2017 Addiko Group undertook a group-wide space optimization project which, besides ensuring significant OPEX reduction, resulted in the decrease of electricity and heating consumption.

Additionally, and although fluorescent lightning has been used as energy saving solution in the past few years, the introduction of LED lightning as standard for the entire Addiko Group will further contribute to increased levels of energy efficiency at the branches and therefore to the reduced consumption of electricity more broadly.

Moreover, in 2017 Addiko Group implemented the Cisco video-conference system in order to facilitate the connection of employees throughout the Addiko Group network via video calls. The promotion of video–conferencing as an alternative to meetings in person has, as result, reduced the number of business trips and thus the usage of transportation vehicles, ultimately ensuring a reduction of the carbon footprint of Addiko Group.

As part of Addiko Group's goal to reduce its environmental footprint in 2018, Addiko Group is also focusing on a variety of Group wide schemes, aiming to raise the awareness of its employees with regard to environmental protection. This includes encouraging a more efficient usage of company vehicles and the additional reduction of paper consumption via the promotion of electronic documents wherever possible (i.e. documents for internal usage, etc.).

Report of the Supervisory Board

Dear Shareholders,

The year 2017 marked an important milestone in the transformation of Addiko Group. It was characterized by positive results in all SEE banking subsidiaries with an overall positive financial performance of the Group.

After the restructuring and rebranding initiatives undertaken in previous years, in 2017 Addiko Group made its presence felt, being back in business with a strong focus on growth through consumer lending and SME finance. Addiko Group has recorded growth in deposits across all markets showing a significant increase in customers' trust. Online deposits in Germany and Austria also increased.

Overall, Addiko Group's objective is delivering straightforward banking to all customer interfaces. A cultural transformation across the Group was focused on providing straightforward banking to customers. This was supported by improving operating excellence and the implementation of a new operating model. Straightforward banking was strengthened with significant investments in its digital platform to continuously improve customer experience.

One of Addiko Group's strategic goals is a best-in-class risk-return profile. An intelligent risk management with a strong risk culture, that balances risk and return, ensures that Addiko Group's risks continue to be actively managed and well controlled. Throughout the year Addiko Group continued to show cost discipline and delivered further cost reduction, while maintaining a strong market presence and a business drive.

Addiko Group is successfully developing into a key SEE Retail and SME bank with strong customer focus, while at the same time is well on track in delivering profitable growth and long-term sustainable business results.

Activities of the Supervisory Board
During the year under report, the Supervisory Board performed all of the duties incumbent upon it in a highly conscientious manner and in accordance with the law, the Company's statutes and its own terms of reference.

It assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the quarterly meetings of the Supervisory Board and its' Committees, the Management Board reported in depth on Addiko's financial situation and business performance. The Management Board discussed strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, it undertook the measures necessary to assure that the governance of Addiko Group's affairs was lawful, compliant and appropriate. In this context, it undertook the measures necessary to assure that the governance of the Addiko Group's affairs was lawful, compliant and appropriate.
The Supervisory Board had formed the following six standing Committees,

- the Audit and Compliance Committee (which held five meetings in 2017),
- the Credit Committee (which held eight meetings in 2017),
- the Risk Committee (which held six meetings in 2017),
- the Nomination Committee (which held two meetings in 2017),
- the Remuneration Committee (which held three meetings in 2017) and
- the Committee for Management Board Matters (which held three meetings in 2017).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committees of Addiko's Supervisory Board were in regular contact with the Management Board.
The Supervisory Board, within quarterly meetings, was regularly informed on topics that included business performance in the previous quarter, financial performance, risk development and significant issues, as well as major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of monthly business reports. In addition, the Supervisory Board has also received regular reports of key executives, especially the Compliance and Internal Audit Officer.

Personnel matters
The Management Board of Addiko Bank AG remained unchanged during the financial year 2017 and consists of seven members.

During the year under report, Mr. Martin Handrich resigned as member of the Supervisory Board on February 6, 2017. Since then, the Supervisory Board has consisted of six members, thereof two who were delegated by the Workers Council. Furthermore, there was a change in the Members of the State Commission. Mr. Andreas Pink resigned as Vice-State Commissioner as of August 1, 2017 and Ms. Vanessa Koch was appointed as his successor.

Separate and Consolidated Financial Statements 2017
Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, registration number 36059d, audited the Separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of Addiko Group dated December 31, 2017 issuing unqualified audit opinions. Pursuant to statutory provisions, the Management Report and the Consolidated Management Report have been audited as to whether they are consistent with the Consolidated Financial Statements and prepared in accordance with the applicable legal requirements. The Consolidated Non-Financial Report was read and considered not to be materially inconsistent with the Consolidated Financial Statements nor to be materially misstated.

The Separate Financial Statements of Addiko Bank AG are prepared in accordance with the regulations of the Austrian Banking Act (BWG) and – where applicable – with the provisions of the Austrian Commercial Code (UGB). The Consolidated Financial Statements of Addiko Group are prepared in accordance with IFRS as adopted by the EU and in compliance with the requirements under Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG). The Annual Report, the Group Annual Report, the Consolidated Non-Financial Report and the Management Board's proposal for the allocation of the annual profit 2017 – all prepared by the Management Board – were thoroughly discussed with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on March 7, 2018. At the meeting, the aforementioned Committee inter alia resolved to propose approving the Separate Financial Statements of Addiko Bank AG by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on March 8, 2018. At this meeting, the financial statements were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Report on Addiko Bank AG, as well as that of Addiko Group and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 170.0 million in the financial year 2017. In the next General Assembly, a proposal will be made to distribute an amount of EUR 170.0 million by the Company.

The result of the audit is that the Supervisory Board has no objections to the Financial Statements and the audit performed by the auditor.

The Supervisory Board, therefore, concurred with the results of the audit on March 8, 2018 and approved the Separate Financial Statements of Addiko Bank AG. The Separate Financial Statements have, therefore, been adopted.
The Supervisory Board would like to express thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in 2017 and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti
Chariman of the Supervisory Board

Vienna, March 8, 2018

Glossar

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
CSF	means "central steering functions" and designates services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
GDP	Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted).
GSS	means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
IMF	The International Monetary Fund is an international organization that aims to promote global economic growth and financial stability, to encourage international trade, and to reduce poverty.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
NPL Ratio	Non Performing Loans / Total exposure (Grossexposure) The NPL Ratio is a ratio to demonstrate the proportion of non performing loans in relation to the Gross exposure.
NPL LLP Coverage Ratio	Risk Provisions / Non Performing loans the total Risk Provisions (SRPs) relative to the NPL exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Risk-weighted assets	on-blance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to Large Corporate sub-segment.

Total capital ratio	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consists of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplemantary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 means instruments or subordinated loans with an original maturity of at least five years and do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity
TOM	Target operating model, model that consolidated and streamlines processes across the Addiko Group and brings steering and decision making closer to the business
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet.

Imprint

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Forward-looking statements and forecasts are based on information and data available at the time of going to press. Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a translation. Only the German is the authentic language version. The Group Annual Report was produced in-house using Fire.sys.

Addiko Bank

Group Annual Report 2016

Addiko Bank

Key data based on the consolidated financial statements drawn up in accordance with IFRS

Addiko Group EUR m

	2016	2015
Income statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	158.8	180.2
Net fee and commission income	50.0	52.1
Inpairment or reversal of impairment on loans and receivables	4.4	-318.1
Operating expenses	-212.4	-237.2
Operating result - prior to risk provisions on loans and receivables	-25.4	-337.9
Operating result - after risk provisions on loans and receivables	-21.0	-655.9
Result after tax	-23.9	-675.2
Statement of financial position	**31.12.**	**31.12.**
Loans and receivables to customers	3,730.5	4,156.0
Customer deposits	4,435.6	3,915.3
Equity (including non-controlling interests)	994.7	752,6
Total assets	7,216.1	7,415.5
Risk weighted assets (banking book)	4,704.9	5,315.4
Key figures	**1.1.-31.12.**	**1.1.-31.12.**
Cost/Income-ratio	113.6%	n.a.
Net interest income/Ø Risk weighted assets (banking book)	3.8%	3,8%
Capital Ratios (before profit utilization proposal)	**31.12.**	**31.12.**
Own capital funds according to CRR	1.031,4	728.4
Own funds requirement	376.4	425.2
Surplus capital	655,0	303.1
Core Capital (Tier 1)	971,4	728.4
Tier 1 ratio	20,7%	13.7%
Own capital funds ratio	21,9%	13.7%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	3,152	3,756
Number of locations	202	235

Letter from the CEO

Dear Shareholders,

Addiko Bank is well on track becoming the leading retail and SME bank in Southeastern Europe. We have put in place a strong foundation to build a profitable and growing business and thus to fulfill the goal of becoming the bank of choice for our clients across the markets that we serve.
One of our most important projects in 2016 was the rebranding of our bank. The launch of Addiko Bank has symbolized our fresh start. Addiko Bank represents what is at the core of our offering – providing straightforward banking for our clients and a clear focus on essentials, efficiency and simplicity. The rebranding was successfully executed across all countries and has created plenty of excitement among both employees and clients.
We are the only bank that is entirely focused on Southeastern Europe. No other bank knows the region as well as we do, and that is our key competitive advantage. Addiko Bank has a clear focus on its core business - serving retail and SME clients as well as regional corporates. Addiko Bank helps to finance the "real economy", and refrains from large, structured transactions and real estate development.
Prudent risk management that balances risk and return has ensured that risk costs and end-to-end processes have been significantly improved over the course of 2016.

Innovation and improved technology are at the core of Addiko Bank's strategy. Digitalization of the retail and corporate client experience is one of our main goals. That's why we will continue to enhance our digital and mobile offerings. One of the most visible milestones on Addiko Bank's journey toward digitizing the banking experience was the opening of our "express branch" in Ljubljana in November of 2016.

For Addiko Bank, 2015 was the year of the restructuring, while 2016 was the year of returning to the market. We are back in business and have built a strong basis for profitable growth. We have seen strong growth in key strategic business segments: Retail has concentrated its operations on consumer lending, with 94% of new disbursements to private individuals in this area of the market. With new offerings such as consolidation loans and with time-to-market and time-to-cash having been significantly improved, consumer loans disbursements are up 257% from 2015 levels. In the Corporate and SME segment, we disbursed EUR 688 million (up 56% to 2015) and achieved a well- diversified and granular portfolio staying true to our strategy of refraining from large tickets and large public finance deals.
On the deposit side we lowered rates to or even below market levels while simultaneously growing client deposits across all SEE countries by EUR 344 million, demonstrating significantly increased trust within our growing base of clients actively banking with us. We also entered the German online deposit market and raised an additional EUR 177 million in preparation of an early repayment of the outstanding funding from our previous owner HETA.

We also demonstrated our credibility on the cost side. In 2016 Addiko Bank was strongly focused on cost discipline, delivering a net cost reductions of almost EUR 25 million (down 10.4% from 2015 levels) despite increased spend and investments in rebranding and digital.
A clean balance sheet, good funding base and strong capital base puts Addiko Bank in a strong position to continue growing its business. We increased our TCR to a market-leading 21.9%, well above our peers, and reduced our NPL ratio to 9.2% (minus 5%) with a solid NPL coverage ratio of 67.2%.

In 2016 Addiko Bank started fulfilling its vision of „Six Countries – One Bank". The objective of implementing this new operating model is to improve existing quality levels, realize synergies and efficiencies across the Group and to create transparency in the way we work together as a team. This will help us achieve the overarching goal of moving Addiko Bank to break-even in 2017 and into profitability, and support our objective of servicing our clients in the most efficient and straightforward way. This also allows us to foster a corporate culture marked by a shared vision, strategy and values.

Having laid a strong foundation in 2016, in 2017 all countries will have positive results with the Group reaching break even. We will stay focused on our strategy with accelerated disbursements in the retail and corporate/SME segment and we will demonstrate that straightforward banking is valued by an increasing client base. At the same time we will continue to reduce our cost base even further, benefiting from our new operating model and improved processes throughout the bank.

2017 will be the year in which the Addiko Bank's full turnaround will be felt across the countries in which we operate, and when we will prove to our clients that we are focusing on the essentials, delivering efficiently and communicating in simple terms. We will demonstrate the success of straightforward banking.

Truly Yours,

Ulrich Kissing

Chief Executive Officer

Addiko Bank AG

Management Board

Johannes Proksch, Chief Transformation Officer - **Csongor Bulcsu Nemeth**, Chief Corporate & SME Banking Officer - **Christian Kubitschek**, Chief Financial Officer - **Markus Krause**, Chief Risk Officer - **Ulrich Kissing**, Chief Executive Officer - **Martin Stefan Thomas**, Chief Operating Officer **- Razvan Munteanu**, Chief Retail Banking Officer

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Group Management Report

1. Overview of Addiko Bank

Addiko Bank (hereinafter referred to also as Addiko Group) is an international financial group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, providing daily banking services for over 1.1 million clients.

Being clearly focused on markets and clients in the SEE region, Addiko Bank puts the customers from this region at the core of its strategy: promoting products and services relevant in the SEE economic environment, faster processes and decisions, and simply understandable communication.

The holding company Al Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor and the European Bank for Reconstruction and Development (EBRD). Addiko Bank has operated under this name since July 11, 2016 following the successful rebranding of the Group.

2. General economic conditions 2016

Economic recovery in the euro zone continued in 2016, with the gross domestic product (GDP) growth of 1.7% supporting external demand. The latter — alongside gains in competitiveness and private investments in tradable sectors — is driving SEE exports' strength. Household consumption was the main growth driver in most Addiko Group countries which can be attributed to strong tourism activity, stronger labor markets, rising disposable income, low inflation and re-leveraging. Stronger-than-expected GDP growth of 2.8% on average in the SEE region and cost containment enabled fiscal consolidation and stabilization of public debt, reducing fiscal risks across SEE.

The **Slovenian** GDP increased by 2.7% in 2016. Notwithstanding the threats to the EU outlook due to Brexit and slowing demand from emerging markets, exports proved resilient due to gains in both price and non-price competitiveness. Meanwhile, consumer spending is underpinned by a stronger labor market, higher wages, low inflation and citizens' re-leveraging. Investments remained the important driver of growth given rising capacity utilization, stronger corporate cash flows, improved funding conditions and stronger EU funding in 2017.

The **Croatian** GDP likely grew by 3.0% in 2016, with a good tourist season, stronger private consumption and private investments among the key drivers behind the economic growth. Notwithstanding the activities in the tourist sector, and also higher merchandise import cover, net trade likely contributed negatively to GDP growth against the backdrop of stronger import-intensive domestic demand. The public capex slump has been compensated with private capex, on the back of more entrenched business optimism, stronger firm profits as well as banking industry lending. The economic activity also had a positive impact on the labor market.

Serbian recovery picked up significantly in 2016, reporting a 2.7% GDP growth as a result of base effects, private and public consumption, private investments and stronger exports. Following three years of decline, private consumption was driven by higher real wages, employment growth and improved expectations. Despite the expected slowdown of the main trading partners, exports benefit from the ongoing state-subsidized investments in tradable sectors, which are increasingly important as they compensate for lower car exports lacking new models as well as soaring public capex.

In **Bosnia and Herzegovina**, GDP growth likely slowed to about 2.4% in 2016 as political tension and delays in the IMF disbursements had a negative impact on sentiment, investments as well as foreign direct investments. Private consumption is nevertheless supported by stronger employment and remittances, as well as persistent deflationary pressures increasing purchasing power.

Montenegro likely saw a slowdown in GDP growth to 2.6% in 2016 owing to a sharp slowdown in public capex and volatile manufacturing exports despite a good tourist season. Negative net trade contribution is further driven by strong import needs related to construction works and infrastructure development, including hotel, roads and power utilities.

3. Significant events in the 2016 financial year

3.1. The new Addiko Bank brand

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

Rebranding was one of the key strategic projects for the Group in 2016. It was a clear and strong signal that the Group has changed and will continue to change into the right direction: the Group not only changed its name and logo but made a comprehensive change for the better by implementing higher business standards and introducing more efficient banking operations.

The rebranding was conducted in two phases, with the new brand launched on July 11 in Austria, Croatia, Slovenia, Serbia, and Montenegro, while the process was

concluded with the rebranding of both subsidiary banks in Bosnia and Herzegovina on October 31.

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

3.2. Changes to the Management and Supervisory Board

The appointment of Razvan Munteanu as Chief Retail Banking Officer on January 1, 2016 and Christian Kubitschek as Chief Financial Officer (CFO) on April 16, 2016 completes the transformation of the Group Executive Board team initiated in 2015. Johannes Proksch, who served as Group CFO for the past several years, assumed the responsibility of Chief Transformation Officer (CTO) as of the same date.

Saša Nedić, Workers' Council representative within the Supervisory Board since autumn 2015, resigned on May 9, 2016.

3.3. Relocation to rightsized headquarters

In April 2016 Addiko Bank AG moved the Group headquarter and registration from Klagenfurt to Vienna into a headquarter reflecting its new strategy, focus on essentials, efficient and simple communication. The headquarter in Vienna uses significantly less than half of the space that was occupied before, fosters collaboration across functions by combining a modern open space concept with state of the art technology to allow communication across the various locations. Headquarters and major operational sites in the other countries followed suite and will be continued in 2017 when total space consumption will be reduced from over 44000 sqm to less than 25000 sqm in a highly functional environment.

3.4. Reorganization & Restructuring

2016 was the year of a major restructuring and rightsizing, which was succesfully concluded with a net cost saving of EUR 24 million. This prepared the basis for Addiko Group to become a strong and profitable core bank operation. An integral part of the Group's transformation process was a systematic review of the entire organization at all levels, with the goal of establishing a lean, efficient, more agile and integrated organization. Several initiatives have been started at Group and local subsidiary bank level in order to introduce a new business model which focuses on corporate strategic goals based on revenue growth, efficient end-to-end processes and prudent standardized risk management, all of which together embody Addiko Group's 'One Bank Approach'.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) ensuring better Group steering, realizing synergies and efficiencies and creating transparency across the Group. Additionally, the focus on branch profitability led to a rightsized network of now 202 branches. 2016 was also the year of successfully launching a new branch format, the Addiko Express branch in the BTC shopping center in Ljubljana, Slovenia.

Another important component of the transformation is the rightbalancing between using outsourced services and do-it-yourself. In 2016 a major deal was concluded with a global provider for IT infrastructure services, which will significantly improve the operational stability while at the same time realize significant synergies and cost savings.

The new TOM will ensure significant improvements in the core processes and all around efficient and faster operations. This required the alignment of the entire organization leading to the establishment of designated shared services, central steering and local execution functions, with several Group functions moving to subsidiary banks to utilize synergies, enable greater cohesion, and ultimately ensure a higher level of service quality within the entire Addiko Bank organization, and to the Group's clients.

3.5. Launch of Digital Strategy

Addiko Group established its group Digital Competence Center (DCC) in Belgrade, Serbia. The DCC is build on a very modern IT architecture leveraging a commone middleware, the Addiko Integration Layer (AIL), build on an open API architecture and faciliting easy integration of third party provided solutions. The common mobile and e-banking solution, which also leverages features provided by some Fintech companies, was already successfully launched in four of the five countries for retail customer, received a prize in Serbia shortly after the launch as the best mobile banking solution and will be rolled out in all markets and subsequently for SME and corporate customers.

3.6. Swiss Franc loan conversion

The year 2016 again saw the implementation of several measures concerning past lending indexed in Swiss Franc which impacted local economies, customers and Addiko Group subsidiary bank operations. The Group

took appropriate measures to protect its interests and those of its shareholders with regards to the retroactive laws implemented in Croatia and Montenegro in 2015. Therefore, the Swiss Franc loan conversion in 2016 concerned primarily Bosnia and Herzegovina with the Group providing a responsible, voluntary offer that eased the financial burden of all its private individual clients with outstanding Swiss Franc loans. The attractiveness of the bank's offer is reflected by more than three quarter of the clients in Bosnia and Herzegovina having accepted it.

3.7. Focus on retail and SME business

A new customer segmentation was succesfully completed in 2016 and allows the business to focus on its core client portfolio of retail, SME and local corporate customers. The growth in this portfolio is already significant and the pruning of the portfolio, especially in the public sector, is almost completed.

3.8. Sale and wind-down of leasing business

In line with the strategy to focus the business, the leasing activities in Slovenia could be sussessfully sold. Further, the sale of the remaining small portfolio of leasing activites in Croatia and the wind-down of the leasing company in Bosnia and Herzegovina is almost completed.

3.9. Data Integrity Program

In the fiscal year 2016 a task force was initiated with the aim to incease the data quality as well as to implement a uniform reporting structure within the whole Group.

Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in the whole Group. Ultimately this will lead to faster, more efficient and more consistent steering both at holding and individual subsidiary level.

4. Economic development of the Group

4.1. Overview

In the 2016 financial year, Addiko Group managed a difficult start with operational implementation of the Swiss Franc conversion law in Croatia and Montenegro and the voluntary conversion in Bosnia and Herzegovina. In addition a process aimed to transfer back to the previous owner non-performing assets in amount of EUR 220.1 million was concluded, resulting in a significant improvement of the asset quality of the Group.

The Group has further developed a new Target Operating Model in order to streamline processes and to improve overall efficiency. Supported by the execution of the restructuring program and effective cost management, the operational cost base has been reduced significantly.

With the successful launch of the new brand, Addiko Bank is recognized as a reliable, credible and competitive player in its region. Following its strategy, the Group has changed its business mix towards consumer lending as well as focus on small and medium-sized corporate clients.

A strengthening of the funding base with a focus on gathering of primary funds has been achieved resulting in a loan-to-deposit ratio of on average 84.1%. The liquidity buffer in the Holding further increased as a consequence, supported by increased deposits in the network entities and by entering the German deposit market allowing to build further excess liquidity aimed to prematurely repay all outstanding loans to the previous owner.

The non-performing loan ratio has fallen below 10% driven by a final portfolio transfer to the previous owner as part of a settlement in March but also due to improved collection, workout processes as well as a focused prudent risk taking and state-of-the-art risk management.

In summary the Group recorded an operational loss of EUR -37.5 million (2015: EUR -71.1 million) not reflecting one-off effects in the amount of EUR 13.6 million (2015: EUR -604.1 million). The Group's result for 2016 after tax therefore amounts to EUR -23.9 million (EUR -675.2 million). The operational loss 2016 is a consequence of a further reduction in the loan portfolio and the persistently low yield environment, partially mitigated by cost reduction initiatives started in 2015 and improved new business margins. This lead to a break-even of two large subsidiaries, Slovenia and Croatia. Towards the end of the year 2016 the contraction of the loan book stopped. Supported by the optimized cost base and ongoing repricing initiatives, Addiko is laying the ground for reaching break-even in 2017 as a Group.

4.2. Development of the result

The Group's **net interest income** declined to EUR 158.8 million (EUR 180.2 million), mainly due to the further reduction of the loan book influenced by the transfer of non-performing assets to the previous owner performed in the first quarter in 2016 and the strategic reduction in Public business accompanied by negative impacts from the low interest rate environment. The development was partially compensated by lowering the

funding costs especially through the reduction of deposit interest rates and the successful turnaround in Retail with a dynamic growth in consumer lending at higher margins. The positive impact from these two measures was already visible in the last quarter 2016 and will be visible in its entirety in the financial year 2017.

In addition to the above, the net interest income was influenced by the issuance of subordinated capital at the end of the first quarter of 2016, which generated interest expenses of EUR -6.9 million.

Net fee and commission income decreased slightly to EUR +50.0 million (EUR +52.1 million), mainly due to currently lower income from card business and payment transactions as well as a consequence of the reduced loan book. Initiatives to increase net commission income have already been launched – this will be the key for improving operational performance in 2017.

The **result from trading** increased from EUR -15.5 million in the previous year (mainly losses from Swiss Franc devaluation) to EUR +11.0 million. In 2016, the development is mainly driven by F/X business with clients and a positive impact from closing cross currency swaps in connection with Swiss Franc refinancing lines as part of a process concluded in the first quarter of 2016 aimed to transfer back non-performing assets to the previous owner.

The **result on financial assets and liabilities, not measured at fair value through P&L** amounted to EUR +9.3 million compared to EUR -7.4 million in the previous year's period. The positive result for the current year is mainly due to the sale of shares in equity instruments in June in Croatia (EUR +8.5million). The negative result from the previous year was mainly driven by changes in estimates regarding the repayment maturity of financial liabilities carried at amortized costs, which determined a premature recognition in the income statement of the difference between the nominal amount and the carrying amount.

The **other operating result** (EUR -42.1 million) is also negative compared to EUR -310.1 million in 2015. The result in 2015 was significantly influenced by the Swiss Francs legislation in Croatia and Montenegro. The other operating result in 2016 is mainly driven by provisions for litigations and for pending legal issues with regard to the lending business in the amount of EUR -30.0 million. This position also includes expenses for banking taxes (EUR -3.6 million) and impairment of tangible assets in Croatia (EUR -3.3 million) in connection with the process of outsourcing the local data processing center. Further, expenses in amount of EUR -4,8 million in connection with the implementation of the Target Operating Model (TOM) throughout the Group and the impairment on the headquarter in Mostar (EUR -3.4 million) – due to the relocation to Sarajevo – also influence this position negatively. The result is partially compensated by the positive effect from the successful disposal of the leasing business in Slovenia.

Operating expenses compared to the previous year declined from EUR -237.2 million to EUR -212.4 million. The reduction of EUR 24.8 million is mainly due to other administrative expenses (EUR 17.3 million). The lower administrative expenses are based on cost reduction initiatives in all countries aimed to ensure a better Group steering, realizing synergies and efficiencies and creating transparency across the Group. A further continuation of this trend is planned in 2017. The positive trend in connection with costs savings is even more evident by taking into account the fact that significant additional costs for strategic projects have been recognized in 2016. A key focus is set on preparing the implementation of the Target Operating Model (TOM) with the goal of establishing a lean, efficient, more agile and integrated organization, after the successful execution of most of the initial restructuring plan in the first six months of 2016.

Depreciation and amortization of fixed assets decreased to EUR -19.5 million from EUR -24.4 million in the previous year. The decline is mainly due to the disposal of investment properties in relation to the process executed in the first quarter of 2016 aimed to transfer back to the previous owner non-performing and non-core assets.

In total, **operating income** amounted to EUR 187.0 million (2015: EUR -100.6 million) while operating expenses were EUR -212.4 million (2015: EUR -237.2 million). This determined an operating result in the amount of EUR -25.4 million compared to the previous year in the amount of EUR -337.9 million. The operating result excluding one-offs highlights the turnaround achieved in 2016 of EUR 33.2 million coming from a loss of EUR -28.2 million in 2015 to a profit of EUR 4.9 million in 2016.

The positive development regarding **risk provisions** in the amount of EUR +4.4 million (2015: EUR -318.1 million) is mainly driven by the positive restructuring of individual customers, in particular in the corporate segment. In addition improvements in relation to the watch loan process allowed taking mitigation actions proactively and thus reducing migration of customers into non-performing portfolio. Especially within the Retail Business Segment the increased focus on early and late collection processes were also leading to a significant improvement and consequently less risk provisions were needed.

Taxes on income amounted to EUR -2.9 million (2015: EUR -19.2 million). The negative effect in 2015 was mainly related to the write-off of deferred tax assets on taxable losses carried forward.

The **net income** after tax is therefore EUR -23.9 million compared to the previous-year result of EUR -675.2 million.

4.3. Development of the statement of financial position

The **total assets** of Addiko Group decreased by EUR -199.4 million (2.7%) from EUR 7,415.5 million to EUR 7,216.1 million. This reduction is mainly driven by the sale of a portfolio of non-performing customer receivables and non-operative real estate assets in an amount of EUR 220.1 million during the first quarter of 2016. In addition, the Group successfully disposed its leasing portfolio in Slovenia in an amount of EUR 81.2 million at the end of 2016. The disposal was driven by the new Group strategy to focus entirely on the core banking business.

Total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel 3 phased-in) decreased to EUR 4,704.9 million (EUR 5,315.4 million).

Cash and cash equivalents increased to EUR 1,878.2 million (EUR 1,319.0 million) and also the trading and investment securities held in the categories **financial assets held for trading** and **financial assets available for sale** increased to EUR 1,326.7 million (EUR 1,272.1 million), indicating a good liquidity position of the Group. The development of these two positions is due to preparations for premature repayment of refinancing lines to the former owner, which was executed on February 6, 2017.

Overall **net receivables** (gross receivables less credit risk provisions) decreased from EUR 4,262.8 million (2015) to EUR 3,779.9 million. Loans and receivables to credit institutions (net) decreased to EUR 49.4 million (EUR 106.8 million). Loans and receivables to customers (net) decreased to EUR 3,730.5 million (EUR 4,156.0 million). The reduction in net receivables to customers was mainly influenced by the Swiss Franc conversion law in Croatia (EUR ~150 million), a reduction of Public Finance, early repayments and the reclassification of the leasing portfolio in Croatia in the amount of EUR 29.0 million to the position non-current assets and disposal groups classified as held for sale. The development was partially compensated by the growth in the Retail segment, especially in the countries Slovenia, Serbia and Montenegro.

Tangible assets decreased by EUR 36.8 million from EUR 107.2 million in 2015 to EUR 70.4 million. This decline is mainly due to the decision to exit from the leasing business in Croatia, which triggered the termination performing new business and the reclassification of operating lease assets in the amount of EUR 8.4 million to the position non-current assets and disposal groups classified as held for sale.

Intangible assets increased to EUR 17.3 million compared to the previous year (EUR 12.4 million) due to the introduction of new e-banking applications and the investments in connection with the process of outsourcing the local data processing center.

Tax assets slightly decreased to EUR 2.6 million (EUR 3.1 million), whereby no deferred tax assets are recognized on existing taxable losses.

Other assets stood at EUR 18.9 million and thus slightly above the previous-year amount (EUR 16.5 million).

The position **non-current assets and disposals classified as held for sale** decreased from EUR 340.4 million to EUR 39.3 million during the fiscal year 2016. During the first quarter of 2016 the Group was able to successfully conclude the restructuring activities initiated in 2015 with the transfer of a portfolio of non-performing customer receivables and non-operative real estate assets in the amount of EUR 220.1 million. In addition, also the sale of the portfolio of lease receivables reclassified to this position in 2015 was concluded in December 2016. In 2016, an additional portfolio of finance and operating lease assets in the amount of EUR 37.4 million, which is being actively marketed, has been reclassified to this position.

On the liabilities' side, **financial liabilities held for trading** decreases by EUR 19.5 million from EUR 28.6 million to EUR 9.1 million in the reporting period, primarily as result of a decline in the market value of derivatives.

The position **financial liabilities measured at fair value** includes financial liabilities against the previous owner which were classified in this category in 2015 in connection with specific agreements made during the privatization process.

Deposits increased by EUR 457.1 million to EUR 4,751.6 million in the 2016 financial year (2015: EUR 4,294.5 million). This development is mainly driven by increased deposits from customers of EUR 4,435.6 million (2015: EUR 3,915.3 million) while deposits from banks have been reduced. The development of this position is reflecting the bank's ambition to become self-funded in the near future.

Provisions decreased from EUR 319.2 million in the previous year to EUR 107.8 million in 2016. In 2015, the provisions were strongly influenced by the conversion of customer loans (Swiss Francs to Euro) in Croatia and Montenegro, which were utilized in 2016.

The positive development in **equity** of EUR 242.1 million to EUR 994.7 million (2015: EUR 752.6 million) was primarily due to the shareholder contribution in the amount of EUR 265.0 million which took place in the first quarter of 2016 in connection with specific agreements made during the privatization process between the current and the previous owner.

As of 2014, Addiko Group has calculated its consolidated **regulatory capital** according to Basel 3. The calculation follows the requirements as defined by the Capital Requirements Regulation (CRR). As of December 31, 2016 the total capital ratio (Basel 3) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 21.9% (13.7%), well above the legal minimum requirement (8%).

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

With the 2015 privatization and 2016 rebranding concluded, and following the implementation of several strategic decisions concerning stability, active performance management and efficiency, Addiko Group is in a good position to leave its mark on the SEE markets.

A clean portfolio, a good funding base and a strong capital base puts Addiko Group in a favorable position to grow its business. The year 2015 was the year of the restructuring in which first steps towards a future sustainable and positive development were made. The year 2016 was the year of returning to the market, with a clear focus on strategic business segments, on raising the efficiency of operations and reaffirming the Group as a strong and stable institution in all its markets. The year 2017 will be the year in which the turnaround will be visible throughout the Group.

With a clear business strategy, a simpler portfolio of essential products, improved loan book quality reflected in an NPL ratio of 9.2% and a coverage ratio of 67.2% (excl. collateral) as well as a total capital ratio of 21.9%, the Group has sound foundations for business development. It is also in a very good position to turn the renewed business growth into profitability.

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

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

New customer segmentation has been introduced to serve the customers better through adapted products and services reflecting their specific needs. Clients with a yearly turnover of up to EUR 0.5 million are managed under the Micro segment and are served by the Retail branch network. Clients with a higher turnover continue to be served by the Group's Corporate division, meaning that each Corporate customer is served by a dedicated relationship manager which results in better understanding of their needs and faster processes, and higher quality services to this customers segment. Corporate clients throughout Addiko Group have during 2016 been organized into four sub-segments; Small Business, Medium-Sized Business, Large Corporate and Public. Small and Medium-Sized Businesses together forming the new SME that represents the primary focus for the upcoming years with leaner credit processes and improved digital service offerings.

Addiko Group intends to continue investing in its operations, as well as developing core but modern products and services which directly serve everyday client needs. The main emphasis will be put on fostering synergies and coordination between the Group's banks, on making strides forward in terms of customer experience, digitization, increasing the functionality, and optimizing processes which are the key to modern banking.
The focus in 2017 will be on serving the real economy, growing the client base, increasing volumes, especially in Retail and SME, enhancing cross-selling, achieving operating excellence on all levels and generating long-term sustainable and profitable business, while at the same time diversifying the Group's funding sources and becoming completely self-funded.

5.2. Human Resources management

The Human Resources strategy underpins the cultural transformation and the Addiko Group strategy throughout building strong organizational foundations within the new Target Operating Model with central steering functions and Group shared services spread across the whole organization. At the same time by defining clear roles, accountabilities and simplified processes and utilizing and leveraging the shared capabilities the Group is building a platform for growing and developing the best talent in the business, and attracting, developing and retaining specialists and high performers to support future growth. Identifying, measuring, rewarding and recognizing high performance and talented employees, supported by an appropriate performance management framework is seen as essential in the Group's plans of becoming an employer of choice that will attract best talents in all markets and build an attractive place to

work where the employees will develop their careers. All this will be supported with Human Resources developing tools focused on behaviors and values the Group wants to achieve throughout the organization.

In 2016, the primary focus of Human Resources initiatives was on raising the Group's business capabilities and by supporting the cultural transformation focusing on delivering straightforward banking towards our Retail and Corporate/SME clients. Simultaneously the new Addiko employer brand and recruitment program aimed at building a high performing organization through assessment and development activities was initiated. As well, comprehensive performance management system embedded into target based incentive and variable compensation schemes was launched.

Mainly as a result of the rightsizing program which was announced in December 2015, the number of active employees decreased from 3,756 FTEs in 2015 to 3,152 FTEs in 2016.

In the next period further consolidation of resources within the Group will be in focus, with implementation of the new Target Operating Model, which will enable Addiko Group to operate as 'One Bank across Six countries'.

6. Internal Control System for accounting procedures

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

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

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

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

7. Other disclosures

Information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date as well as the risk report and information on the use of financial instruments are presented in the notes to the consolidated financial statements, since it is obligatory to provide this information in the notes pursuant to IFRS.

8. Research & Development

Addiko Bank AG does not conduct any R&D activities of its own.

9. Outlook

The year 2016 was a successful year of transformation besides mastering challenges related to the operational implementation of the Swiss Franc conversion laws in Croatia and Montenegro as well as Addiko Bank's voluntary offer in BiH.

Accompanied by a further economic recovery in the SEE region and as a consequence of continued restructuring efforts since its privatization in 2015, Addiko Group, on its path to profitability, aims to break even in 2017 based on all subsidiaries' positive contribution overcompensating the Holding's cost base.

This will be supported by the continued implementation of the new strategy and restructuring initiatives, particularly in the following areas:

- Further growth in consumer lending, building on the healthy development in 2016
- Tapping additional market potential via tailored offering for the Micro segment
- Further Corporate/ SME growth, building on strengthened relationships and revamped offering
- Additional cost reductions derived from outsourcing, nearshoring of IT and efficiency measures enabled via the "Six countries – One bank" approach
- Building on an enhanced distribution approach and digital competencies

Addiko Bank will return to an overall loan book growth in 2017 after the planned NPL reduction (via carve-outs to the previous owner) over the last years. We are convinced that Addiko Group will be able to tackle the challenges of our core markets and the banking industry backed by our core strengths i.e. our clear positioning and promise to our customers of offering straightforward banking, backed by prudent risk taking and a strong capital and funding position.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Dkfm. Ulrich Kissing
(Chairman)

Mag. Johannes Proksch

Dr. Christian Kubitschek

Dipl. Math. Markus Krause

Csongor Bulcsu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

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I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2016	1.1. - 31.12.2015
Net interest income	(26)	158.8	180.2
Net fee and commission income	(27)	50.0	52.1
Trading income	(28)	11.0	-15.5
Result from hedge accounting	(29)	0.1	0.1
Result on financial assets and liabilites not measured at FV through P&L	(30)	9.3	-7.4
Other operating result	(31)	-42.1	-310.1
Operating income		**187.0**	**-100.6**
Personnel expenses	(32)	-99.8	-102.5
Other administrative expenses	(33)	-93.1	-110.4
Depreciation	(34)	-19.5	-24.4
Operating expenses		**-212.4**	**-237.2**
Operating result		**-25.4**	**-337.9**
Impairment/ reversal of impairment on loans and receivables	(35)	4.4	-318.1
Result before tax		**-21.0**	**-655.9**
Taxes on income	(36)	-2.9	-19.2
Result after tax		**-23.9**	**-675.2**
thereof attributable to equity holders of parent		-23.9	-675.2
thereof attributable to non-controlling interests		0.0	0.0

Other comprehensive income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Profit or loss after tax for the year	**-23.9**	**-675.2**
Other comprehensive income	**0.4**	**9.5**
Items that will not be reclassified to profit or loss	**0.0**	**-0.1**
Actuarial gains or losses on defined benefit plans	0.0	-0.1
Items that may be reclassified to profit or loss	**0.4**	**9.6**
Foreign currency translation	1.0	1.6
Gains/losses of the current period	1.0	1.6
Reclassification amounts	0.0	0.0
Available-for-sale financial assets	-2.4	10.2
Gains/losses of the current period	9.1	10.1
Reclassification amounts	-11.5	0.1
Income tax relating to items that may be reclassified to profit or (-) loss	1.8	-2.2
Gains/losses of the current period	-0.3	-2.2
Reclassification amounts	2.0	0.0
Total comprehensive income for the year	**-23.6**	**-665.7**
thereof attributable to equity holders of parent	-23.6	-665.7
thereof attributable to non-controlling interests	0.0	0.0

II. Consolidated statement of financial position

EUR m

	Note	31.12.2016	31.12.2015
Assets			
Cash, cash balances at central banks and other demand deposits	(37)	1,878.2	1,319.0
Financial assets held for trading	(38)	17.4	10.8
Available-for-sale financial assets	(39)	1,309.3	1,261.3
Loans and receivables	(40)	3,779.9	4,262.8
Loans and advances to credit institutions		49.4	106.8
Loans and advances to customers		3,730.5	4,156.0
Held-to-maturity investments	(41)	82.6	81.9
Derivatives - Hedge accounting		0.1	0.1
Tangible assets	(42/44)	70.4	107.2
Intangible assets	(42/44))	17.3	12.4
Tax assets	(36)	2.6	3.1
Current tax assets		2.6	3.1
Deferred tax assets		0.0	0.0
Other assets	(45)	18.9	16.5
Non-current assets and disposal groups classified as held for sale	(46)	39.3	340.4
Total assets		**7,216.1**	**7,415.5**
Equity and liabilities			
Financial liabilities held for trading	(47)	9.1	28.6
Financial liabilities designated at fair value through profit or loss		25.0	25.0
Financial liabilities measured at amortized cost	(48)	6,040.4	6,232.5
Deposits of credit institutions		316.0	379.2
Deposits of customers		4,435.6	3,915.3
Debt securities issued		6.5	28.1
Other financial liabilities		1,282.2	1,909.8
Derivatives - Hedge accounting		6.9	18.4
Provisions	(46)	107.8	319.2
Tax liabilities	(36)	1.4	1.1
Current tax liabilities		1.0	0.0
Deferred tax liabilities		0.5	1.1
Other liabilities	(50)	28.1	31.9
Liabilities included in disposal groups classified as held for sale	(46)	2.7	6.1
Equity	(51)	994.7	752.6
thereof attributable to equity holders of parent		994.7	752.6
thereof attributable to non-controlling interests		0.0	0.0
Total equity and liabilities		**7,216.1**	**7,415.5**

III. Group statement of changes in equity

EUR m

	Sub-scribed	Additio-nal paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumula-tive results and other reserves	Equity holders of parent	Non-con-trolling interests	Total
Equity as at 1.1.2016	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-23.9	-23.9	0.0	-23.9
Other comprehensive income	0.0	0.0	-0.6	1.0	0.0	0.4	0.0	0.4
Total comprehensive income	0.0	0.0	-0.6	1.0	-24.0	-23.6	0.0	-23.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	-456,4	0.0	0.0	772.1	265.8	0.0	265.8
Equity as at 31.12.2016	**5.0**	**336,2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**

EUR m

	Sub-scribed	Additio-nal paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumula-tive results and other reserves	Equity holders of parent	Non-control-ling interests	Total
Equity as at 1.1.2015	**5.0**	**603.2**	**0.2**	**-23.7**	**644.1**	**1,228.9**	**0.0**	**1,228.9**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-675.2	-675.2	0.0	-675.2
Other comprehensive income	0.0	0.0	8.0	1.6	-0.1	9.5	0.0	9.5
Total comprehensive income	0.0	0.0	8.0	1.6	-675.3	-665.7	0.0	-665.7
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	189.4	0.0	0.0	0.0	189.4	0.0	189.4
Equity as at 31.12.2015	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**

For further information about equity, please refer to note (51) Equity.

IV. Group statement of cash flows

For further information about the statement of cash flows, please refer to note (52) Statement of cash flows.

EUR m

	2016	2015
Profit or loss after tax for the year	**-23.9**	**-675.2**
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Result from the sale of subsidiaries	0.0	0.0
Depreciation and amortization of intangible assets, tangible assets and financial investments	28.2	42.2
thereof financial instruments	-0.3	0.7
thereof intangible and tangible assets	28.5	41.5
Change in risk provisions	-29.6	304.0
Change in provision	4.4	279.9
Gains (losses) from disposals of intangible assets, tangible assets and financial investments	-9.3	6.5
Financial investments	-9.0	6.7
Intangible and tangible assets	-0.3	-0.2
Subtotal	**-30.2**	**-42.6**
Changes in assets and liabilities arising from operating activities after corrections for non-cash items:		
Loans and advances to credit institutions and customers	692,9	380.4
Financial investments	-43,8	-157.8
Trading assets	-6.6	-1.8
Other assets	21.5	27.2
Financial liabilities measured at amortized cost	73.7	-254.6
Trading liabilities	-19.5	20.9
Provisions	-216.7	-1.4
Other liabilities from operating activities	-16.9	-21.0
Cash flows from operating activities	**454.1**	**-50,8**
Proceeds from the sale of:	95.1	14.9
Financial investments and participations	84.5	2.6
Tangible assets, investment properties, operating lease assets and intangible assets	10.6	12.3
Payments for purchases of:	-20.9	-55.0
Financial investments and participations	-0.7	-20.6
Tangible assets, investment properties, operating lease assets and intangible assets	-20.2	-34.4
Other changes	30.4	25.6
Cash flows from investing activities	**104.6**	**-14.5**
Capital contributions / disbursements	0.0	0.0
Other changes in equity	0.0	0.0
Dividends paid	0.0	0.0
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non-controlling interests	0.0	0.0
Cash flows from financing activities	**0.0**	**0.0**

	2016	2015
Cash flows for taxes, dividends and interests	**155.9**	**161.3**
Payments for taxes on income	0.0	-1.0
Payments for interests	-51.5	-75.1
Payments for dividends	0.0	0.0
Dividends received	0.1	0.0
Interests received	207.4	237.4

Payments for interest paid as well as interest received is classified as operating activities. Dividends received are classified as investing activities.

Cash and cash equivalents at end of previous period (1.1.)	**1,319.0**	**1,382.9**
Cash flows from operating activities	454,1	-50,8
Cash flows from investing activities	104,6	-14,5
Cash flows from financing activities	0.0	0.0
Effect of exchange rate changes	0,5	1.4
Cash and cash equivalents at end of period (31.12.)	**1,878.3**	**1,319.0**

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The capital injection in the amount of EUR 265.0 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG on 10 March 2016 is the result of a debt waiver of AI Lake (Luxembourg) S.à r.l. against the previous mother company, and is therefore not treated as a capital contribution.

In the position "Proceeds from the sale of financial investements and participations" the effect of the successful sale of the leasing business in Slovenia is presented.

V. Notes to the consolidated financial statements

Company

Addiko Bank AG (formerly Hypo Group Alpe Adria AG) is a network of banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro under the umbrella of the joint holding company, Addiko Bank AG. The holding company AI Lake (Luxembourg) S.à r.l. as the direct mother company of Addiko Bank AG is indirectly owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development. Addiko Bank AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Vienna under company registration number FN 350921k. The registered offices and Group headquarters are located at Wipplingerstraße 34, 1010 Vienna, Austria.

Addiko Bank consists of six banks in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, focusing its business primarily on retail as well as small and medium-sized companies while also maintaining a strong foothold in local corporations.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Addiko Bank AG website at www.addiko.com.

Group accounting policies

(1) Accounting principles

These consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) adopted by the EU as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), and in compliance with the requirements of Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (76) Maturities pursuant to IAS 1.

The consolidated financial statements of the Addiko network are based on the reporting packages of all fully consolidated subsidiaries prepared according to uniform Group-wide standards and IFRS provisions. All subsidiaries prepare their financial statements as at December 31. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 8, please refer to note (3) Use of estimates and assumptions/material uncertainties in relation to estimates.

The figures in the consolidated financial statements are generally stated in millions of euros (EUR million); the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On February 22, 2017, the Executive Board of Addiko Bank AG approved the consolidated financial statements as at December 31, 2016 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at December 31, 2016.

(2) New standards and amendments adopted by the Group

The following new and/or amended standards and interpretations pursuant to IFRS/IAS issued by the IASB and adopted by the EU have been adopted – if applicable - by the Addiko Group for the first time in 2016:

Standard	Description		Effective for financial year
IFRS 11	Joint Arrangements	Acquisitions of interests in joint operations	2016
IAS 16 and IAS 41	Property, Plant and Equipment and Agricul-ture	Agriculture	2016
IAS 16 and IAS 38	Property, Plant and Equipment and Intangi-ble Assets	Methods of depreciation and amortisation	2016
Collection of standards	IFRS September 2014 (Improvements 2012-2014)	Annual improvements IFRS 5, IFRS 7, IAS 19, IAS 34	2016
IAS 1	Presentation of Financial Statements	Disclosure initative	2016
IAS 27	Separate Financial Statements	Equity method as accounting option	2016
IFRS 10, IFRS 12 und IAS 28	Consolidated Financial Statement, Disclosure of Interests in Other Entities and Investements in Associates and Joint Ventures	Applying consolidation exceptions	2016

The amendment to **IFRS 11** clarifies the accounting for acquisitions of interests in a joint operation if the operation constitutes a business. The acquirers of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, are required to apply all of the principles on business combinations accounting laid down in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

The amendments to **IAS 16 and IAS 41** relate to "Bearer Plants", bringing them into the scope of IAS 16. This means they can be accounted for in the same way as property, plant and equipment.

The amended IAS **16 and IAS 38** clarify acceptable amortization and depreciation methods. Guidelines are provided regarding methods that can be used for the depreciation of property, plant and equipment and the amortization of intangible assets. They also specifically deal with revenue-based amortization and depreciation methods.

The collection **of improvements to standards (IFRS September 2014 — Improvements 2012-2014)** includes amendments to the following standards: IFRS 5 "Assets Held for Sale" includes additional guidance for cases in which an entity resolves to distribute an asset to shareholders as a dividend in kind, IFRS 7 "Financial Instruments: Disclosures" clarifies if and when a servicing contract concluded on a portfolio of disposed financial assets represents a continuing involvement, IAS 19 "Employee Benefits" is supplemented by a clarification on required currency consistency with the plan commitment as regards the discount rate, IAS 34 "Interim Financial Reporting" includes the stipulation that, in addition to the disclosure of material events and transactions, supplementary selected disclosures need to be included in the notes to the interim financial statements.

The amendments to **IAS 1** are intended to put a greater emphasis on the concept of materiality. The objective is to filter out information that is not material in IFRS financial statements and promote the disclosure of relevant information. It is clarified that materiality applies to all parts of IFRS financial statements, particularly to the notes. Information which is not material need not be presented, even if a certain disclosure is specifically required by a standard. Furthermore, material information should not be obscured by aggregating immaterial information. Moreover, it is permissible to include additional subtotals in the statement of financial position and the statement of comprehensive income if this is relevant to the understanding of the assets and liabilities, the financial situation and the results of operations. According to a further clarification, an entity should state its share in other comprehensive income of associates or joint ventures which are accounted for using the equity method in a separate item based on whether the share will be subsequently reclassified to profit or loss.

The amendments to **IAS 27** reinstate the application of the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor.

The amendments to **IFRS 10, IAS 28 and IAS 28** clarify the recognition of gains and losses on transactions with associates or joint ventures. For transactions with an associate or joint venture, the extent to which gains and losses are recognized depends on whether the assets that are sold or contributed constitute a business.

Adopting the new standards did not result in any material changes to the consolidated financial statements.

The following new standards and interpretations issued by the IASB and adopted by the EU were not yet effective:

Standard	Description		Effective for financial year
IFRS 9	Financial instruments	Accounting for financial instruments	2018
IFRS 15	Revenue from Contracts with Costumers	Recognising revenue	2018

On July 24, 2014, the IASB published the final standard IFRS 9 Financial Instruments, replacing IAS 39. The new standard was adopted by the European Union in November 2016 and includes amended requirements for classification and measurement of financial assets as well as a new impairment model which now takes into account expected losses in the calculation of risk provisions. Furthermore, the final IFRS 9 standard also includes the new rules on hedge accounting already published in November 2013. The standard is effective for financial years beginning on or after January 1, 2018. Early adoption is permitted.

With regard to classification of financial assets, the provisions of IFRS 9 foresee the following two criteria:

- the business model used to manage financial assets,
- the cash flow characteristics on which a financial instrument is based.

Measurement "at amortized cost" is only permissible if the only cash flows in connection with the financial instrument show the characteristics of interest and principal payments and if, moreover, the financial instrument is held in a business model with the sole objective to collect contractual cash flows. Measurement "at fair value through other comprehensive income" is only applied if the financial instrument is associated exclusively with cash flows that are payments of principal and interest in nature, and if furthermore the financial instrument is held within a business model whose objective is to generate income either by contractual cash flows or by selling financial instruments. According to IFRS 9, financial assets that cannot be assigned to this category must be measured "at fair value through profit or loss". Equity instruments not held for trading can be measured "at fair value through other comprehensive income". The decision is to be taken upon initial recognition and cannot be undone. The classification and measurement of financial liabilities under IFRS 9 does not deviate from the provisions of IAS 39 and thus remains unchanged. Changes to the fair value of liabilities resulting from changes in own credit risk are recognized in other comprehensive income.

The impairment model is being changed to a model that requires the entity to already record a risk provision equal to the credit defaults expected within the next twelve months when financial assets are first recognized. If the credit risk increases significantly, a loss allowance for lifetime expected loss is to be recognized. Additionally, IFRS 9 includes new guidance on the recognition of losses resulting from amendments to the contractual conditions of financial assets.

IFRS 9 also contains new rules for hedge accounting with the objective of harmonizing accounting with risk management. Some of the restrictions in the current rules have generally been removed here, so that a larger selection of hedging instruments and hedged underlying transactions becomes available for hedge accounting.

During the financial year 2016, efforts to further develop the preparation of a core concept as well as the corresponding implementation were intensified. Among others, this includes the Group-wide launch of the first financial impact analyses (with regard to classification, measurement and impairment) which is continued in 2017. From a current point of view, the initial expectation that the new standard would significantly impact the recognition and measurement of financial instruments can be confirmed.

Based on the first Group-wide analyses with regard to the classification of financial instruments and measurement under the provisions of IFRS 9, the Addiko Group expects the following:

- Loans and advances to credit institutions and customers which are classified as such under IAS 39 are mainly measured "at amortized cost" pursuant to IFRS 9, and
- Assets held for sale are primarily recognized "at amortized cost" or "under equity in other comprehensive income".

From a current point of view, a reliable estimate cannot be made with regard to the quantitative impact on the presentation of the Addiko Group's financial position, financial performance and cash flows as well as its regulatory capital, as the Group-wide analyses have not been completed.

As regards the structure of the consolidated financial statements, the Addiko Group expects that the application of the new standard will require significant adjustment measures. Such adjustments are based on the new reporting and disclosure requirements under IFRS 7 resulting from the new IFRS 9 standard. Furthermore, significant adjustments with regard to regulatory requirements (particularly FINREP) are expected, as they are being considered by the na-

tional regulatory authority in connection with the first-time adoption of IFRS 9, aiming to achieve better supervision of the national banking industry.

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

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

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

Except for the application of IFRS 9, no material changes to the consolidated financial statements are expected.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Group. The table also includes the expected effective dates:

Standard	Description		Effective for financial year
IFRS 16	Leases	Recognition, presentation and disclosure of leases	2019
IFRS 14	Regulatory Deferral Accounts	First-time adopters of IFRS	2019
IAS 12	Amended Standard Income Taxes	Income Taxes – Recognition of deffered tax assets of unrealised losses	2017
IAS 7	Amended Standard – Statement of Cash flows	Changes on IAS 7 Cash flow statement	2017
IFRS 15	Amended Standard - Revenue from Contracts with Customers	Clarifications of IFRS 15 Revenue from Contracts with Customers "	2018
IFRS 2	Amended Standard Share based Payment	Clarification of classification and measurement of share-based payment transactions	2018

IFRS 16 "Leases" was published by the IASB in January 2016. The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognizes all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either "operating" or "finance". Instead, a right-of-use asset and a lease liability are recognized for all leases henceforth. The right-of-use asset is to be reported under non-current assets or as a separate item in the statement of financial position and to be written off on a straight-line basis over the term of the contract. The lease liability is initially measured at the present value of the lease payments payable over the lease term and carried using the effective interest method. Thus, all lease obligations are generally recognized pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position. With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset. Conceptually, lessee accounting and lessor accounting are thus divided, which may result in additional challenges in the implementation of the new provisions.

Recognizing "right-of-use" assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss also change. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognized on a straight-line basis at the actual amount of effected payments in the operating result. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the financial result. Additionally, since the annual depreciation of right-of-use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating result increases. For EBITDA, the increase is even more substantial. The statement of cash flows will see a shift from cash flows from operating activities to cash flows from financing activities. While there is still the option to continue stating interest payments under cash flows from operating activities, it is mandatory to present the redemption of lease liabilities under cash flows from financing activities.

As the Addiko Group primarily acts as lessor, IFRS 16 will not have a material impact on accounting. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognized. For contracts under which the Addiko Group acts as lessee a right-of-use asset and at the same time a lease liability will be recognized in the statement of financial position. From a current point of view, however, a reliable estimate as to the quantitative impact on the financial position, financial performance and cash flows as well as on the regulatory capital of the Addiko Group as lessor cannot yet be made, as the analyses are still being carried out.

IFRS 16 will be effective from January 1, 2019, superseding the previous standard IAS 17 "Leases". Early adoption is permitted. However, the standard has not yet been adopted by the EU.

The amended **IFRS 14** permits first-time adopters of IFRS who have recognized regulatory deferral accounts under their previous accounting system to continue doing so after the transition to IFRS. This standard is an interim solution until the IASB concludes its longer-term fundamental project on rate-regulated activities.

In January 2016, the IASB published final amendments to **IAS 12** "Income Taxes — Recognition of Deferred Tax Assets for Unrealized Losses". It is the IASB's response to a diversity in accounting practices in the recognition of deferred tax assets from assets measured at fair value. The IASB has concluded that this is mainly attributable to uncertainties as regards the application of some of the principles in IAS 12. The now published clarifying amendments are summarized as follows:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes generally give rise to deductible temporary differences regardless of whether the holder expects to hold the debt instrument to maturity and thus recover its full carrying amount or if he intends to sell the debt instrument in the meantime.
- The carrying amount of an asset does not limit the estimate of probable future taxable profits.
- Estimates for future taxable profits are to exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset not just for itself but also in combination with other deferred tax assets of the same (permissible) type.

Subject to adoption by the EU, the changes are effective for reporting periods beginning on or after January 1, 2017; early adoption is permitted. As transitional relief, a first-time adopter may recognize the change in the opening equity of the earliest comparative period as a lump sum in retained earnings without allocating the change between retained earnings and other components of equity.

On January 29, 2016, the IASB published amendments to **IAS 7** "Statement of Cash Flows". The amendments include clarifications with regard to the so-called Disclosure Initiative of the IASB and are intended to improve information provided to users of financial statements in connection with an entity's financing activities in the statement of cash flows. The amendments are effective for reporting periods beginning on or after January 1, 2017. Subject to EU adoption — which is still pending — early adoption is permitted. Since the amendments were published less than a year before the effective date, entities are not required to state comparable figures upon first-time adoption.

In April 2016, the IASB published final clarifications to IFRS 15 “Revenue from Contracts with Customers”. The amendments are effective for reporting periods beginning on or after January 1, 2018 (same effective date as for IFRS 15). The amendments resulting from the clarification of IFRS 15 address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide transitional relief for modified contracts and completed contracts.

In June 2016, the IASB published final amendments to **IFRS 2** “Share-based Payment” that clarify the classification and measurement of share-based payment transactions. The clarifications relate to the following topics:

- Accounting for cash-settled share-based payment transactions that include a performance condition
- Classification of share-based payment transactions with net settlement features, and
- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendments are effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. While the IASB provides relief provisions for first-time adopters, a retrospective application pursuant to the general rules of IAS 8 is also allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

In September 2016, the IASB published amendments to IFRS 4 “Insurance Contracts” under the title “Applying IFRS 9 ’Financial Instruments’ with IFRS 4 ’Insurance Contracts’”. The amendments are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts standard (IFRS 17).

The IASB initially intended to synchronize the effective date of IFRS 9 and IFRS 17 and align both standard texts. Had this been successful, there would have been no need for the now presented amendment to IFRS 4, which was originally intended to be an interim standard. However, since such an alignment was not successful, users suggested to delay the effective date of IFRS 9 for insurance activities and to align the effective date of IFRS 9 for such activities with the effective date of the new insurance contracts standard.

Except for the application of IFRS 16, no material changes to the consolidated financial statements are expected..

(3) Use of estimates and assumptions/material uncertainties in relation to estimates

The consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experience and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

Credit risk provisions

The Addiko Group regularly assesses the recoverability of its problematic loans, and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions.

For further information on credit risk provisioning methodology, reference is made to loans and receivables in note (9) Financial instruments: recognition and measurement (IAS 39) as well as to the Risk Report under note (59) Development of provisions.

Fair value of financial instruments

For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see note (9) Financial instruments: recognition and measurement (IAS 39).

Deferred tax assets

Deferred tax assets on losses carried forward are only recognized when future tax profits that allow utilization appear likely. These estimates are based on the respective business plans which are generally prepared for a period of five years.

Defined benefit plans
The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (23.1) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (49) Provisions.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (49).

Leases
From the perspective of the Addiko Group as a lessor, judgments are required – especially to differentiate between finance leases on the one hand and operating leases on the other hand. In doing so, the transfer of practically all risks and opportunities from the lessor to the lessee serves as the criterion. In addition, estimates as regards the amount of residual values are made when entering lease contracts.

(4) Scope of consolidation

These consolidated financial statements comprise 1 fully consolidated Austrian entity (2015: 1) – including Addiko Bank AG – and 9 (2015: 11) fully consolidated foreign entities. Further information is shown under note (98) Scope of consolidation:

	31.12.2016 Fully consolidated	31.12.2015 Fully consolidated
Start of period (1.1.)	12	12
Newly included in period under review	0	0
Excluded in period under review	-2	0
End of period (31.12.)	10	12
therof Austian companies	1	1
therof foreign companies	9	11

At the beginning of the financial year 2016, the following entities were no longer included in the scope of consolidation:

Subsidiary	Registered offices	Capital share in %	consolidation Method	Reason
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	99,99%	Fully consolidated	Insignificant
Hypo-Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100,0%	Fully consolidated	Insignificant

The removal of the two subsidiaries does not significantly impact the result of the Addiko Group.

(5) Consolidation methods

Consolidation follows the consolidation principles pursuant to IFRS 3 “Business Combinations”, using the acquisition method. According to this method, all assets and liabilities of the respective subsidiary are to be measured at fair value at the acquisition date. The cost of a business acquisition is calculated as the total of consideration transferred, measured at fair value at the acquisition date, and non-controlling interests in the entity acquired. Goodwill, if any, is initially measured a cost, calculated as the excess of the total consideration transferred as well as the amount of non-controlling interests in the identifiable assets and assumed liabilities acquired by the Group. If a negative difference

remains after reassessment, it is recognized immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year.

The date of initial consolidation corresponds to the date when the Group acquires control over the entity in question. Subsidiaries acquired during the year are included in the Group statement of comprehensive income from the date of acquisition. The results of subsidiaries disposed of during the year are included in the statement of comprehensive income until the date of disposal.

If further investments are acquired in an already fully consolidated but not yet wholly-owned entity, any resulting differences are reported directly in equity as transaction with non-controlling interests.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are fully eliminated. In the same way, intragroup income and expenses are offset within the framework of expense and income consolidation.

The share of equity and results of the consolidated subsidiaries allocated to non-Group third parties is reported separately in equity and in profit or loss under non-controlling interests. A subsidiary's comprehensive income is attributed to non-controlling interests even if this results in a negative balance.

(6) Foreign currency translation

Foreign currency translation within the Addiko Group follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss.

Open forward transactions are translated at forward rates at the reporting date.

The assets and liabilities of foreign operations are translated into euros at the exchange rates prevailing at the reporting date. Income and expenses are translated using the average rates for the period, as long as they do not fluctuate markedly. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency translation. The amount for a foreign operation recorded in other comprehensive income (OCI) is to be reclassified into the statement of profit or loss in the event of the sale of the foreign operation.

Exchange differences attributable to non-controlling interests are shown under non-controlling interests.

The respective local currency is the functional currency for all entities.

The following exchange rates published by the European Central Bank or the Oesterreichische Nationalbank (OeNB) have been used for the currency conversion of the foreign financial statements:

Foreign currency translation Rates in untis per EUR	Closing date 31.12.2016	Average 2016	Closing date 31.12.2015	Average 2015
Bosnian mark (BAM)	1.95580	1.95580	1.95580	1.95580
Croation Kuna (HRK)	7.55970	7.54410	7.63800	7.62110
Serbian dinar (RSD)	123.47230	123.07080	121.62610	120.77860

(7) Adjustment of previous-year figures

As at December 31, 2016, reclassifications were made in the income statement in order to achieve a more meaningful presentation of the individual items in the income statement. Previous-year figures were adjusted accordingly.

As at December 31, 2016, operating income includes the new item "gains or losses on financial assets and liabilities, not measured at fair value through profit or loss", which summarizes the original item "gains or losses on financial assets and liabilities, not measured at fair value through profit or loss" as well as the items "impairment or reversal of impairment on available-for-sale financial assets" and "impairment or reversal of impairment on held-to-maturity investments". These items are thus no longer stated separately in the income statement.

As a result of the reclassification of "impairment or reversal of impairment on available-for-sale financial assets" and "impairment or reversal of impairment on held-to-maturity investments" from the item "impairment or reversal of impairment on financial assets", this item now exclusively includes impairment or reversal of impairment on loans and receivables as well as of commitments and guarantees issued and was renamed "impairment or reversal of impairment on loans and receivables".

A further reclassification concerns the item “impairment or reversal of impairment on non-financial assets”. This item is now presented under the other operating result instead of being shown as a separate item in the income statement.

None of the above-stated adjustments, however, have an impact on the Group’s result, the consolidated statement of financial position, the Group statement of changes in equity or the Group statement of cash flows. The respective disclosures in the notes have also been adjusted in line with the adjustments in the income statement.

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	1.1. - 31.12.2015	Re-classified	Adjusted 1.1. - 31.12.2015
Net Interest Income	180.2		180.2
Net fee and commission income	52.1		52.1
Result from trading	-15.5		-15.5
Result from hedge accounting	0.1		0.1
Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss	-6.7		-6.7
Impairment or reversal of impairment on available-for-sale financial assets		-0.7	-0.7
Result on financial assets and liabilities not measured at FV through P&L			-7.4
Other operating income	15.5		15.5
Other operating expenses	-260.1		-260.1
Other provisions	-49.6		-49.6
Impairment or reversal of impairment on non- financial assets		-16.2	-16.2
Gains or losses on derecognition of non financial assets, net	0.2		0.2
Other operating result	-293.9		-310.1
Operating income	**-83.8**		**-100.6**
Personnel expenses	-102.5		-102.5
Other administrative expenses	-110.4		-110.4
Depreciation and amortization	-24.4		-24.4
Operating expenses	**-237.2**		**-237.2**
Operating result	**-321.0**		**-337.9**
Impairment or reversal of impairment on financial assets	-318.8		-318.1
Impairment or reversal of impairment on available-for-sale financial assets	-0.7	0.7	0.0
Loans and receivables	-318.1		-318.1
Impairment or reversal of impairment of non-financial assets	-16.2	16.2	0.0
Result before tax	**-655.9**		**-655.9**
Taxes on income	-19.2		-19.2
Result after tax	**-675.2**		**-675.2**
thereof attributable to equity holders of parent	-675.2		-675.2
thereof attributable to non-controlling interests	0.0		0.0

(8) Income/expenses

In accordance with IAS 18, income is recognized when it is probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies. Dividend income is recognized at the time that a legal right to payment arises. For all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale, interest income and interest expenses are recorded based on the effective interest rate. This is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of

shares or other securities or the purchase or sale of businesses, is recognized upon completion of the underlying transaction.

(9) Financial instruments: recognition and measurement (IAS 39)

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

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

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

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

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

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

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

Financial assets at fair value through profit and loss

a. Financial assets held for trading

Financial instruments that were acquired with the intent of reselling them within a short period of time or that are part of a portfolio with a short-term profit objective have to be classified as held for trading, i.e. securities and receivables held for trading are reported under assets held for trading.

This item also includes positive fair values of derivatives not classified as hedging instruments. Therefore, both banking book derivatives and derivatives held for trading are reported under assets held for trading. On the other hand, derivatives that meet the requirements of IAS 39 for hedge accounting are reported under “Derivatives – hedge accounting”.

Financial assets held for trading are measured at fair value, which corresponds to the market price for listed products. Measurement techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not traded on an active market.

Realized gains and losses, results from foreign currency valuation as well as unrealized measurement results are reported in profit or loss in the result from trading. Interest income and expenses from financial assets held for trading as well as current dividends are shown in net interest income.

b. Financial assets designated at fair value through profit or loss

Regardless of the intent to trade them, IAS 39 permits irrevocably designating financial instruments as “financial assets designated at fair value through profit or loss” when they are acquired (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial instrument contains one or more material separable embedded derivatives
- Through the fair value option, accounting mismatches can be avoided or significantly reduced, or
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation based on the first two characteristics results in an overall improvement in the presentation of the net assets and results of operations.

This designation option cannot, however, be used for equity instruments that have no quoted market price and whose fair value cannot be determined reliably.

Designating financial instruments in this category makes it possible to represent economic hedging relationships without meeting the strict requirements for hedge accounting.

Financial instruments designated at fair value are measured at their fair value, corresponding to the quoted price in the case of listed financial instruments. For non-listed financial instruments, the fair value is established using the net present value method or other appropriate measurement techniques.

Realized gains and losses as well as unrealized measurement results are recorded through profit or loss under gains or losses on financial assets and liabilities, measured at fair value through profit or loss. Interest income and expenses as well as dividends on these financial instruments are included in net interest income.

Held-to-maturity investments

This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group intends to and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. Measurement is at amortized cost, with premiums and discounts being allocated over the term through profit or loss using the effective interest method. Permanent impairment is included in the statement of financial position by reducing the carrying amount and in the income statement under “gains or losses from financial assets and liabilities, not measured at fair value through profit or loss”.

Since new designations for this item are handled restrictively, the portfolio of the Addiko Group is small.

Loans and receivables

Loans and receivables are all non-derivative financial assets with fixed or determinable payments, which are not held for trading and not listed in an active market. They are measured at amortized cost using the effective interest method, with impairments reducing the carrying amount of the assets directly as credit risk provisions. Lease receivables are measured at present value less impairment.

This item mainly includes granted loans, lease receivables, overnight loans and time deposits as well as unquoted debt securities. Loans and receivables also include cash balances at central banks that are not daily due. They are reported including accrued interest after the deduction of impairment. Premiums and discounts are spread over the respective term and are also shown in net interest income, which also includes interest income.

Default risks in the lending business are included in the category loans and receivables through the recognition of specific provisions and portfolio provisions for impairment losses and/or by recognizing provisions for obligations not included in the statement of financial position.

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for impair-

ment losses are calculated as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, taking pledged collateral into account.

Specific provisions for impairment losses are either calculated individually or based on a collective estimate (rules-based approach). For major customers, the expected future cash flows are individually estimated by the risk manager. A customer is considered major if the total receivable, defined as the sum of all receivables (both those included in the statement of financial position and those not included), exceeds an established materiality threshold. Otherwise, the customer is not considered significant and a rules-based approach is used to calculate the specific provision for impairment losses.

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognized as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognized if the present value of the agreed cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses applied by the Group companies, receivables are grouped into homogeneous portfolios with comparable risk properties and the business not included in the statement of financial position is also taken into account.

Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses performed by the Group, receivables are grouped into homogeneous portfolios with comparable risk properties whereas subsidiary specific data is also taken into account. For the purpose of obtaining a uniform and transparent approach, the portfolio provision assessment is done centrally, at the Group level, for all Addiko entities.

In addition to the exposure determining the portfolio provisions for impairment losses, the following parameters are also taken into account:

- The time elapsed between the occurrence and identification of the loss event (loss identification periods)
- The probability of default
- The loss given default

The Addiko Group assumes the following loss identification periods (known as LIP factors) for the determination of portfolio provisions for impairment losses after taking into account the customer segment and volume: 0.1 for banks and governments, 0.5 for corporate and retail customers. More conservative LIP factors (up to 1) can be applied depending on local conditions.

Specific provisions for exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis. Such individually insignificant loans are grouped according to similar credit risk characteristics and impaired accordingly. Since the end of 2016, the assessment of collective impairment for specific provisions has been performed at the level of the Group for all Addiko subsidiaries. These exposures are impaired based on loss given default, which differs depending on the subsidiary and the segment.

Probabilities of default for the retail portfolio are determined by the realized historical default rates per subsidiary and segment. Probabilities of default for the non-retail portfolio are determined by the results of the respective rating models. For the non-retail portfolio, scaling factors for probabilities of default of the rating models are applied if there are significant differences between the realized historical default rates and the exposure-weighted probabilities of default of the rating models (per subsidiary and segment).

The realized historical default rates are determined by semi-annual averaging of realized one-year default rates calculated monthly. A default event is counted insofar as at least one default has occurred within a year according to the internal definition of default.

The realized historical default rates are recalculated/validated at least once a year. Should there be a need for changes, the parameters in the model are adjusted.

The loss given default rates are estimated per customer segment. To maintain consistency, these factors are also applied to determine impairment in the Collective Impaired model of Addiko Group.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognized are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the ex-

pected loss and also based on the probability of default specific to each subsidiary and segment and the loss given default.

Available-for-sale financial assets

This category includes all non-derivative financial assets that are not assigned to any of the above-stated categories. Subsequent measurement is at fair value and the measurement result – after taking deferred taxes into account – is included in other comprehensive income (OCI) without affecting profit or loss. Upon disposal, the difference to the carrying amount recorded in the remeasurement reserve is released to profit or loss. Impairment losses and any reversals of impairment are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are released over the respective term by means of the effective interest method. Impairment is also recognized in profit or loss.

The Addiko Group classifies most debt securities and other fixed-income securities as well as shares and other securities not bearing fixed interest as available for sale, as long as they are traded in an active market.

These investments are initially measured at their fair value (including transaction costs) which corresponds to their quoted price. Alternatively, the fair value is established on the basis of comparable instruments or by applying accepted measurement techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not included in cost. Subsequent measurement is based on the fair value (excluding transaction costs).

In addition, long-term investments as well as shares in non-consolidated subsidiaries are also classified as available-for-sale financial assets. Such equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairment.

The measurement result for this category – after taking deferred taxes into account – is included in other comprehensive income (OCI). In case of a significant or permanent impairment, impairment is recognized through profit or loss and reported under “gains or losses from financial assets and liabilities, not measured at fair value through profit or loss”. Reversals of impairment of debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the income statement but included in other comprehensive income (OCI). Gains and losses on disposal are also included in the item “gains or losses on financial assets and liabilities, not measured at fair value through profit or loss”. Foreign currency translation results are included in exchange differences of the result from trading for debt instruments, and in other comprehensive income (OCI) for equity instruments.

Revenues from fixed-income securities, including allocated premiums and discounts, as well as dividend income are included in net interest income. Current income from securities not bearing fixed interest (shares, investment funds, equity investments, etc.) are included in the item “gains or losses on financial assets and liabilities, not measured at fair value through profit or loss”.

For investments in equity instruments which are carried at fair value, a significant reduction in the fair value below cost indicates impairment. A decrease in the fair value by more than 20% below original cost or a permanent reduction in the market value below historical cost over a period of more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognized as an expense in the income statement.

Financial liabilities held for trading

Financial liabilities held for trading are generally measured at fair value. However, this item only includes derivatives at the reporting date.

Financial liabilities measured at amortized cost

This category encompasses financial liabilities, including debt securities issued, for which the fair value option was not used. As a general rule, they are recognized at amortized cost. Premiums and discounts are spread over the respective term using the effective interest method and reported under interest expenses.

Embedded derivatives

Structured finance products are characterized by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires a separation of the embedded derivative from the host contract if:

- The characteristics and risks of the embedded derivative are not closely linked to those of the host contract,
- The structured finance product is not already measured at fair value through profit or loss, and
- The design of the embedded derivatives meets the requirements for a derivative according to IAS 39.

Embedded derivatives that are separated are reported under financial assets held for trading. The measurement result is reported through profit or loss in the statement of comprehensive income. Embedded derivatives that are not required to be separated are measured together with the host contract according to the applicable general requirements of the category.

(10) Financial instruments: net gains and losses

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss, impairment losses and impairment reversals, realized disposal gains as well as credit risk provisions.

(11) Classes of financial instruments according to IFRS 7

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments. For details see note (9) Financial instruments: recognition and measurement (IAS 39)

(12) Hedge accounting

Underlying transactions (usually receivables, securities and liabilities) can be subject to different measurement principles than hedging transactions (derivatives) which always belong to the category "at fair value through profit or loss". With the application of hedge accounting according to IAS 39, changes in value arising from changes in the market price of the underlying transaction are compensated through profit or loss by concluding an opposing hedg-ing transaction.

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedg-ing period, derivatives must be monitored continuously to ensure that they are effectively compensating for chang-es in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80% to 125%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

The Addiko Group only uses fair value hedges for hedge accounting. These serve to hedge changes in the mar-ket values of assets and liabilities (underlying transactions). The risks to be hedged are the interest risk and the foreign currency risk. If the hedging relationship is 100% effective, the measurement effects of the underlying trans-action offset those of the hedging transaction and there is no effect on profit or loss. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognized in the result from hedge accounting.

(13) Leases

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

The lease contracts concluded by the Addiko Group as a lessor are mainly classified as finance leases. They are reported under loans and receivables in the statement of financial position at the net investment value (present value); see note (40) Loans and receivables. The lease payments received are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating leases concluded in the local currency for

which repayments by the lessee were agreed in a foreign currency, an embedded foreign currency derivative is separated in the event that IAS 39 criteria were met.

With the exception of real estate, leased assets are reported under the item "property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the item "other operating result" and scheduled depreciation under "depreciation and amortization".

Real estate leased under an operating lease is reported in the statement of financial position under the item "investment properties" in tangible assets.

Assets not yet or no longer leased out are included in other assets. Impairment is included in the other operating result.

(14) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IAS 39, the seller continues to recognize the asset in its statement of financial position if the material risks and rewards remain with the seller. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognizes a receivable.

(15) Fiduciary transactions

Fiduciary transactions concluded by the Addiko Group in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(16) Financial guarantees

Financial guarantees are contracts that oblige the Company to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognized as liabilities at fair value less transaction costs directly related to the guarantee issued. Liabilities are subsequently measured on the basis of the best possible estimate of the expenses required for covering all current obligations as at the reporting date. If, however, the fair value amounts to zero at initial recognition, an assessment as to whether a provision pursuant to IAS 37 should be recognized is made during subsequent measurements.

(17) Cash and Cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at nominal value.
Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

(18) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well (see note (13) Leases). Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at amortized cost. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. The following depreciation rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for real estate (buildings)	2 - 4 %	25 - 50 yrs
for movable assets (plant and equipment)	5 - 33 %	3 - 20 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are carried at amortized cost, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Group is reported separately under depreciation and amortization in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under the other operating result.

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognized. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item "other operating result". If the reasons for the impairment cease to exist, the previously recognized impairment is reversed. The reversal is limited in that the asset's carrying amount is not permitted to exceed the amount that would have been reported after deprecation if no impairment loss had been recorded for the asset in previous years.

(19) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortization.

Scheduled amortization is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortization. The following amortization rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	14 -33 %	3 -7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item "other operating result".

(20) Tax assets and tax liabilities

Current and deferred income taxes assets and liabilities are jointly reported in the statement of financial position under "tax assets" and "tax liabilities". Current income taxes are determined according to the tax law regulations of the respective countries.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognized if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognized for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. If there is a series of losses in the recent past, the more stringent criterions for recognizing deferred tax assets according to IAS 12 have to be considered. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Tax rate changes are taken into account in the determination of deferred taxes insofar as they are known at the time the consolidated financial statements are prepared. In accordance with IAS 12 non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is a reasonable likelihood that

future taxable profits will be sufficiently available. This assessment is generally based on business plans as agreed by the Executive Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period.

Establishment and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income (e.g. remeasurement reserve for available-for-sale financial instruments).

(21) Other assets

Other assets mainly consist of deferred assets, real estate held as current assets and certain current lease assets, but no financial instruments.

Deferred assets are recognized at their nominal value.
This item also includes lease assets that have not been leased yet as well as objects no longer leased that will be utilized or leased again. They are measured at amortized cost less any impairment losses identified. Results of this measurement are reported in the statement of comprehensive income under the item "other operating result".

(22) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (46) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale.

(23) Provisions

23.1. Provisions for retirement benefits and similar obligations

The Addiko Group maintains both defined contribution and defined benefit plans.

Under defined contribution plans, a fixed contribution is paid to an external provider. These payments are recognized under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit obligations relate to pension commitments and severance obligations. These schemes are unfunded, i.e. all of the funds required for coverage remain within the Company.

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 1.5% as at December 31, 2016 (2015: 2.215%) and a salary increase of 3.0% p.a. (2015: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2008 P generation mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. As at December 31, 2016 the Serbian and Slovenian subsidiaries present the highest amount in provision. Serbia is calculation with an actuarial interest rate of 7.0% while Slovenia is using 1.5%. The fluctuation discounts amounts 0,0% in Serbia and Slovenia.

The expenditure to be recognized through profit or loss consists of service cost reported under personnel expenses and interest expense which is recorded as such; actuarial gains and losses are reported under equity in other comprehensive income without affecting profit or loss.

23.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending drawdowns on framework agreements or as a provision against liability assumed for customer transactions. Provisions are made both for individual cases and at portfolio level.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “impairment or reversal of impairment on loans and receivables”.

23.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the Company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.

For disclosure of restructuring expenses, see note (31) Other operating result.

23.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. The recognition and reversal of other provisions are included in other comprehensive income.

(24) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognized at their nominal value, the liabilities at amortized cost.

(25) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.
Subscribed capital represents the amounts paid in by shareholders in accordance with the articles of association. The cumulative gain or loss includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reservers include the statutory reserves and the risk reserve.
The available-for-sale reserve includes the measurement results – after taking deferred taxes into account – for the financial assets classified as available for sale.

Notes to the income statement

(26) Net interest income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Interest income	**238.1**	**284.6**
Financial assets held for trading	5.0	6.0
Available-for-sale financial assets	14.4	12.3
Loans and receivables	211.0	252.2
Held-to-maturity investments	4.0	4.1
Derivatives - Hedge accounting, interest rate risk	2.7	8.8
Other assets	1.0	1.3
Dividend income	**0.1**	**0.0**
Total	**238.2**	**284.7**
Interest expenses		
Financial liabilities held for trading	-5.2	-3.7
Financial liabilities measured at amortized cost	-69.9	-90.7
Derivatives - Hedge accounting, interest rate risk	-1.7	-9.6
Other liabilities	-2.6	-0.5
Total	**-79.4**	**-104.5**
Net interest income	**158.8**	**180.2**

Interest income includes unwinding proceeds of EUR 10.5 million (2015: EUR 19.1 million) and commissions similar to interest.

Interest and similar income as well as interest expenses break down by instrument and sector as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Derivatives - Trading	**4.7**	**5.9**
Debt securities	**18.8**	**16.5**
Central banks	0.0	0.0
General governments	15.8	15.5
Credit institutions	1.9	0.4
Other financial corporations	0.3	0.1
Non-financial corporations	0.8	0.4
Loans and advances	**211.0**	**252.2**
Central banks	0.7	1.1
General governments	17.9	24.3
Credit institutions	0.5	2.2
Other financial corporations	1.4	1.5
Non-financial corporations	69.9	99.2
Households	120.6	123.9
Other assets	**1.0**	**1.3**
Derivatives - Hedge accounting, interest rate risk	**2.7**	**8.8**
Dividend income	**0.1**	**0.0**
Total	**238.2**	**284.7**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Derivatives - Trading	**-5.2**	**-3.8**
Deposits	**-54.2**	**-80.0**
Central banks	-0.3	-0.1
General governments	-1.1	-1.8
Credit institutions	-3.6	-5.6
Other financial corporations	-2.4	-8.6
Non-financial corporations	-6.1	-9.3
Households	-40.8	-54.5
Debt securities issued	**0.0**	**-0.2**
Debt securities issued	0.0	-0.2
Other financial liabilities	**-15.7**	**-10.4**
Derivatives - Hedge accounting, interest rate risk	**-1.7**	**-9.6**
Other liabilities	**-2.6**	**-0.5**
Total	**-79.4**	**-104.5**

* Previous-year figures adjusted: In 2015, interest expenses from other financial liabilities in the amount of EUR 10.4 million were reported as interest expenses from deposits of other financial corporations.

(27) Net fee and commission income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Securities	0.3	0.7
Clearing and settlement	-0.3	-0.3
Asset management	0.1	0.1
Custody	3.0	2.9
Payment services	41.1	42.9
Lending business	9.4	10.3
Loan commitments granted and received	5.4	5.7
Financial guarantees granted and received	4.0	4.6
Other	-3.6	-4.4
Total	**50.0**	**52.1**

(28) Result from trading

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Exchange differences	1.5	-1.7
Gains or losses on financial assets and liabilities held for trading	9.4	-13.8
Total	**11.0**	**-15.5**

28.1. Gains or losses on financial assets and liabilities held for trading, net - by instrument

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Derivatives	9.2	-13.8
Debt securities	0.3	0.0
Total	**9.4**	**-13.8**

28.2. Gains or losses on financial assets and liabilities held for trading, net - by risk

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Interest rate instruments and related derivatives	-4.4	1.0
Foreign exchange trading and derivatives related to foreign exchange	13.6	-14.8
Other	0.3	0.0
Total	**9.4**	**-13.8**

(29) Result from hedge accounting

This is the result from hedge accounting according to IAS 39 based on the measurement of the hedging derivatives and the underlying transactions.

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Fair value changes of the hedging instrument [including discontinuation]	-1.9	-1.3
Fair value changes from underlying transaction hedged	2.1	1.3
Total	**0.1**	**0.1**

(30) Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	9.0	-6.7
Impairment or reversal of impairment on available for sale financial assets	0.3	-0.7
Total	**9.3**	**-7.4**

30.1. Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss

30.1.1. GAINS OR LOSSES – BY CATEGORY

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Available-for-sale financial assets	8.8	0.5
Loans and receivables	0.3	-0.1
Held-to-maturity investments	-0.1	-0.2
Financial liabilities measured at amortized cost	0.0	-6.8
Total	**9.0**	**-6.7**

30.1.2. GAINS OR LOSSES – BY INSTRUMENT

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Equity instruments	8.5	0.3
Debt securities	0.3	0.0
Loans and advances	0.3	-0.1
Other financial liabilities	0.0	-6.8
Total	**9.0**	**-6.7**

30.2. Impairment or reversal of impairment on available-for-sale financial assets

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Impairment	-0.3	-0.7
Reversal of impairment	0.6	0.0
Total	**0.3**	**-0.7**

(31) Other operating result

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Other operating income	29.6	15.7
Other operating expenses	-71.7	-325.8
Total	**-42.1**	**-310.1**
Result from investment properties	0.2	0.3
Result from operating lease assets	6.3	8.0
Restructuring expenses and income	-5.5	-18.5
Result from recognition and releases of other provisions	-26.5	-37.9
Result from derecognition of non-financial assets	0.3	0.2
Impairment or reversal of impairment on non-financial assets	-8.9	-16.2
Income from assest and disposal groups classified as held for sale	3.7	-11.7
Resolution fund and deposit protection	-10.6	-8.8
Bank levies and other taxes	-5.7	-0.1
Other	4.8	-225.5
Total	**-42.1**	**-310.1**

* Previous-year figures adjusted: In 2015, a result in the amount of EUR 11.7 million from assets and disposal groups classified as held for sale was reported under the item "result from recognition and releases of other provisions". Furthermore, expenses related to the resolution fund and deposit protection in the amount of EUR 8.8 million were reported under the item "other".

In the course of the ongoing restructuring programs already initiated in the previous year, the Addiko Group set up further provisions for restructuring measures in the financial year 2016. These provisions mainly comprise staff costs related to redundancy payments. Restructuring expenses/income include impairment in the amount of EUR 100 thousand on property, plant and equipment related to the restructuring measures (2015: EUR 1.1 million).
The item "result from recognition and releases of other provisions" contains the allocation of provisions for potential legal risks in connection with consumer protection acts in the amount of EUR 3.1 million (2015: EUR 9.8 million), as well as provisions for potential legal risks in connection with existing customer claims in the amount of EUR 19.5 million (2015: EUR 11.0 million).

The impairment on non-financial assets breaks down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Tangible assets	-8.8	-4.9
Investment properties	0.0	-3.8
Other intangible assets	-0.2	-7.4
Other assets	0.0	-0.1
Total	**-8.9**	**-16.2**

In the financial year 2016, mainly property, plant and equipment is affected by impairment losses. The main reasons for the recognition of impairment are the relocation of the Bosnia and Herzegovina headquarters from Mostar to Sarajevo as well as the outsourcing of IT services in Croatia.

The result from assets and disposal groups classified as held for sale amounts to EUR 3.7 million at the reporting date (2015: EUR 11.7 million). The item contains the expected losses in the amount of EUR 5.3 million from the disposal of a leasing portfolio which meets the criteria of non-current assets and disposal groups classified as held for

sale at the reporting date. This is offset by a positive effect in the amount of EUR 9.2 million from the reversal of a provision which had been set up in the previous year for the expected losses from the disposal of the portfolio of the Slovenian leasing unit.

The item "bank levies and other taxes" includes a special payment for the stability fee in connection with the Austrian banking tax in the amount of EUR 3.6 million.

In the previous year, the item "other" mainly included expenses for risks in connection with the CHF conversion in Croatia and Montenegro in the amount of EUR 222.4 million.

(32) Personnel expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Wages and salaries	-62.6	-68.2
Social security	-23.5	-26.3
Voluntary social expenses	-0.5	-1.5
Other tax expenses depending on amount of wages/salaries	-3.6	-3.2
Expenses for retirement benefits	-0.2	-0.2
Expenses for severance payments	-0.9	-2.2
Variable payments	-10.1	0.0
Other personnel expenses	-1.4	-1.7
Release of other employee provisions	3.0	0.7
Total	**-99.8**	**-102.5**

(33) Other administrative expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Premises expenses (rent and other building expenses)	-21.0	-26.2
IT expense (other)	-28.7	-28.6
Office costs	-1.5	-2.3
Advertising costs	-4.9	-6.0
Communication expenses (phone, fax, internet etc.)	-6.2	-7.0
Legal and advisory costs	-14.6	-19.6
Other administrative expenses	-16.3	-20.7
Total	**-93.1**	**-110.4**

(34) Depreciation

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Tangible assets	-14.7	-18.0
Investment properties	-0.1	-0.5
Other intangible assets	-4.7	-5.9
Total	**-19.5**	**-24.4**

(35) Impairment or reversal of impairment on loans and receivables

Impairment on loans and receivables breaks down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Additions	-99.0	-396.4
Reversal	125.8	73.3
Proceeds from loans and receivables previously written-off	4.3	8.1
Directly written-off	-26.7	-3.2
Total	**4.4**	**-318.1**

Impairment on loans and receivables includes credit risk provisions for transactions both included and not included in the statement of financial position. For detailed information on risk provisioning, see note (40) Loans and receivables.

(36) Taxes on income

36.1. Income tax expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Current tax	-1.7	-1.1
Deferred tax	-1.3	-18.2
Total	**-2.9**	**-19.2**

The reconciliation from expected tax expenses to the effective tax burden is as follows:

EUR m

	31.12.2016	31.12.2015
Result before tax	**-21.0**	**-655.9**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	5.2	164.0
Tax effects		
from divergent foreign tax rates	-4.9	-39.2
from previous year	0.0	0.0
from foreign income and other tax-exempt income	1.5	0.0
from investment related tax relief and other reductions in tax burden	15.5	2.3
from non-tax deductible expenses	-8,9	-9.3
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-12,3	-137.2
from the change of deferred taxes on loss carry-forwards and temporary differences	1.4	0.1
from non-recognition of deferred taxes due to permanent differences	0.0	0.0
from other tax effects	-0.5	0.0
Actual income tax expenses (effective tax rate: -13.8% (2015: -2.9%)	**-2.9**	**-19.2**

36.2. Deferred tax assets/liabilities

In the financial year 2016, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

EUR m

	Deferred Tax (netted)	Income Statement	2016 Other comprehensive income (OCI)	Deferred Tax (netted)	Income Statement	2015 Other comprehensive income (OCI)
Provisions for loans and advances	0.0	-0.3	0.0	0.2	0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.0	0.0	0.0	0.0	-1.4	0.0
Revaluations of AFS investments to fair value	-0.6	0.0	0.3	-0.8	0.0	-0.6
Impairment on AFS debt instruments	0.0	0.0	1.6	-1.5	-1.4	-1.5
Hedge accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	-3.3	0.0	0.1	0.1	0.0
Post-employment benefits (pensions and other retirements) and payments because of termination(e.g. Compensation)	0.0	0.0	0.0	0.0	-0.1	0.0
Post-employment benefits (pensions and other retirements)	0.0	0.0	0.0	0.0	-0.1	0.0
Deferred revenue fee income	0.0	-0.7	0.0	0.0	1.8	0.0
Other	0.0	-0.7	-0.1	1.0	-0.6	0.0
Tax losses carried forward	0.0	3.7	0.0	0.0	-16.7	0.0
Total deferred tax	**-0.6**	**-1.3**	**1.8**	**-1.1**	**-18.2**	**-2.2**

The total year-on-year change in deferred taxes in the consolidated financial statements is EUR 0.6 million. Of this, EUR -1.3 million is reflected in the current income statement as deferred tax expense, and an amount of EUR 1.8 million has a positive effect on other comprehensive income in equity. The remainder of EUR 0.1 million is due to foreign-currency exchange differences.

The development of deferred taxes in net terms is as follows:

EUR m

	2016	2015
Balance at start of period (1.1.)	**-1.1**	**19.3**
Tax income/expense recognized in profit or loss	-1.3	-18.2
Tax income/expense recognized in OCI	1.8	-2.2
FX-difference	0.1	0.0
Deferred taxes acquired in change of scope and other changes	0.0	0.0
Balance at end of period (31.12.)	**-0.5**	**-1.1**

Deferred taxes are reported as follows in the statement of financial positions:

EUR m

	2016	2015
Deferred tax assets	0.0	0.0
Deferred tax liabilities	-0.5	-1.1
Deferred tax	**-0.5**	**-1.1**

As tax loss carry-forwards cannot be utilized by the respective Group companies, deferred tax assets in the amount of EUR 157.5 million (previous-year amount adjusted to EUR 157.7 million) on unused tax losses of EUR 944.7 million

(previous-year amount adjusted to EUR 935.8 million) and deferred tax assets in the amount of EUR 2.9 million (2015: EUR 6.1 million) on deductible temporary differences of EUR 21.1 million (2015: EUR 43.0 million) were not recognized. Of the unused tax losses in the amount of EUR 944.7 million (previous-year amount adjusted to EUR 935.8 million), EUR 258.0 million (previous-year amount adjusted to EUR 235,3 million) can be carried forward without restrictions, EUR 664.0 million (previous-year amount adjusted to EUR 325.41 million) can be carried forward for a maximum of 4 years subject to restrictions, and EUR 22.7 million previous-year amount adjusted to EUR 375.1 million) can be carried forward for a maximum of 5 years subject to restrictions.

Due to the fact that the subsidiaries recorded a series of losses in the recent past, the criteria for recognizing deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax is only allowed if there is convincing substantive evidence that sufficient taxable profits will be available. Considering the uncertainty regarding the development of the macro-economic environment in which the Addiko Group is operating, deferred tax assets arising from tax losses carried forward as well as deferred tax assets arising from temporary differences have not been recognized in 2016 (2015: EUR 0.0 million).

Notes to the consolidated statement of financial position

(37) Cash, cash balances at central banks and other demand deposits

EUR m

	31.12.2016	31.12.2015
Cash	93.4	120.9
Cash balances at central banks	1,699.5	925.3
Other demand deposits	85.4	272.8
Total	**1,878.2**	**1,319.0**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 296.2 million (previous-year amount adjusted to EUR 347.7 million).

(38) Financial assets held for trading

EUR m

	31.12.2016	31.12.2015
Derivatives	3.7	9.7
Debt securities	13.7	1.1
General governments	13.7	1.1
Total	**17.4**	**10.8**

(39) Available-for-sale financial assets

EUR m

	31.12.2016	31.12.2015
Equity instruments	**17.7**	**22.2**
Debt securities	**1,291.6**	**1,239.2**
General governments	789.5	851.8
Credit institutions	400.9	318.1
Other financial corporations	18.6	8.5
Non-financial corporations	82.6	60.7
Total	**1,309.3**	**1,261.3**

(40) Loans and receivables

EUR m

	31.12.2016	31.12.2015
Loans and advances	3,779.9	4,262.8
Total	**3,779.9**	**4,262.8**

40.1. Loans to and receivables from credit institutions

EUR m

31.12.2016	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	49.6	0.0	-0.2	49.4
Total	**49.6**	**0.0**	**-0.2**	**49.4**

EUR m

31.12.2015	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	106.9	0.0	0.0	106.8
Total	**106.9**	**0.0**	**0.0**	**106.8**

40.2. Loans to and receivables from customers

EUR m

31.12.2016	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**
General governments	332.4	-1.1	-0.9	330.4
Other financial corporations	46.8	-12.9	-0.9	33.1
Non-financial corporations	1,546.3	-143.0	-12.0	1,391.3
Households	2,340.0	-346.4	-17.9	1,975.7
Total	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**

EUR m

31.12.2015	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	**4,779.0**	**-599.0**	**-24.0**	**4,156.0**
General governments	525.4	-1.1	-1.0	523.3
Other financial corporations	75.5	-16.0	-0.5	59.0
Non-financial corporations	1,606.0	-184.2	-11.9	1,409.9
Households	2,572.0	-397.7	-10.7	2,163.7
Total	**4,779.0**	**-599.0**	**-24.0**	**4,156.0**

40.3. Impairment on loans and receivables

Credit risk provisions and provisions for credit risk provisions break down as follows as at December 31, 2016:

EUR m

	As at 1.1.2016	Foreign-ex-change-differ-ences	Alloca-tions	Re-leases	Utiliza-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2016
Specific risk provisios	-599.0	-2.4	-74.7	103.3	58.4	-1.2	10.5	1.8	-503.4
Portfolio risk provisions	-24.0	-0.2	-18.7	9.3	1.3	0.0	0.0	0.4	-31.9
Subtotal risk provisions on loans and receivables	**-623.0**	**-2.6**	**-93.4**	**112.5**	**59.7**	**-1.2**	**10.5**	**2.2**	**-535.3**
Provisions for risks arising from the lending business	**-20.2**	**-0.1**	**-5.6**	**13.3**	**0.0**	**0.0**	**0.0**	**0.0**	**-12.6**
Specific provisions	-11.0	-0.1	-2.2	4.8	0.0	0.0	0.0	0.0	-8.4
Portfolio provisions	-9.2	0.0	-3.4	8.4	0.0	0.0	0.0	0.0	-4.2
Total	**-643.2**	**-2.7**	**-99.0**	**125.8**	**59.7**	**-1.2**	**10.5**	**2.2**	**-547.9**

EUR m

	As at 1.1.2015	Foreign-ex-change-differ-ences	Alloca-tions	Re-leases	Utiliza-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2015
Specific risk provisios	-474.2	-13.1	-373.8	56.7	37.0	0.0	19.1	149.3	-599.0
Portfolio risk provisions	-24.2	-0.5	-10.0	10.8	0.0	0.0	0.0	-0.1	-24.0
Subtotal risk provisions on loans and receivables	**-498.4**	**-13.6**	**-383.8**	**67.6**	**37.0**	**0.0**	**19.1**	**149.2**	**-623.0**
Provisions for risks arising from the lending business	**-13.8**	**-0,0**	**-12.5**	**5.7**	**0.0**	**0.0**	**0.0**	**0.4**	**-20.2**
Specific provisions	-4.2	-0.0	-8.1	2.2	0.0	0.0	0.0	-1.0	-11.0
Portfolio provisions	-9.5	0.0	-4.5	3.5	0.0	0.0	0.0	1.4	-9.2
Total	**-512.1**	**13.6**	**-396.4**	**73.3**	**37.0**	**0.0**	**19.1**	**149.6**	**-643.2**

In the previous year, the item “other” mainly included the risk provisions for the customer portfolio which was transferred to the previous owner HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement during the privatization process of Hypo Group Alpe Adria in the financial year 2015. Further, this item also includes the risk provisions of the leasing company Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. which are classified as IFRS 5.

(41) Held-to-maturity investments

EUR m

	31.12.2016	31.12.2015
Debt securities	**82.6**	**81.9**
General governments	78.8	78.1
Non-financial corporations	3.9	3.9
Total	**82.6**	**81.9**

(42) Tangible assets

EUR m

	31.12.2016	31.12.2015
Property, plants and equipment	67.9	104.9
Investment properties	2.5	2.3
Total	**70.4**	**107.2**

The decrease in property, plant and equipment mainly results from the reclassification in the amount of EUR 13.5 million of investment properties to the item "non-current assets and disposal groups classified as held for sale".

(43) Intangible assets

EUR m

	31.12.2016	31.12.2015
Purchased software	17.1	12.2
Other intangible assets	0.2	0.2
Total	**17.3**	**12.4**

(44) Development of tangible and intangible assets

44.1. Development of cost and carrying amounts

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Acquisition cost 1.1.2016	109.6	97.0	35.5	7.9	71.6	**321.6**
Foreign exchange differences	0.5	0.2	0.4	0.0	0.2	**1.3**
Additions	1.4	5.3	2.4	0.0	11.1	**20.2**
Disposals	-2.2	-6.1	-13.9	-3.1	-1.7	**-27.0**
Other changes	-0.7	-9.2	-24.4	0.5	1.4	**-32.4**
Acquisition cost 31.12.2016	108.6	87.2	0.0	5.3	82.6	**283.7**
Cumulative depreciation 31.12.2016	-53.5	-74.4	0.0	-2.8	-65.3	**-196.0**
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	**87.8**
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	**119.6**

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Acquisition cost 1.1.2015	110.7	103.8	41.6	29.2	71.8	**357.0**
Foreign exchange differences	0.1	0.0	0.1	0.0	0.0	**0.3**
Additions	1.4	5.4	12.5	8.4	6.8	**34.4**
Disposals	-2.1	-10.9	-18.6	-0.4	-6.7	**-38.7**
Other changes	-0.6	-1.4	-0.1	-29.3	-0.2	**-31.4**
Acquisition cost 31.12.2015	109.6	97.0	35.5	7.9	71.6	**321.6**
Cumulative depreciation 31.12.2015	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	**119.6**
Carrying amount 31.12.2014	68.4	26.8	26.5	23.2	19.4	**164.3**

The item “other changes” includes the assets which were transferred to the previous owner HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement during the privatization process of Hypo Group Alpe Adria in the financial year 2015. The assets in question are thus classified as non-current assets and disposal groups classified as held for sale as at December 31, 2015. Further, this item also includes assets of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. Ljubljana, which are classified as IFRS 5.

44.2. Development of depreciation and amortization

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Cumulative depreciation 1.1.2016	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**
Foreign exchange differences	-0.3	-0.1	-0.1	0.0	-0.2	**-0.7**
Disposals	2.0	5.1	6.4	3.1	0.0	**16.6**
Scheduled depreciation	-2.3	-7.4	-5.0	-0.1	-4.7	**-19.5**
Impairment	-4.5	-4.4	-0.2	0.0	-0.2	**-9.2**
Other changes	0.3	7.9	11.7	-0.3	-1.1	**18.6**
Write-ups	0.1	0.0	0.0	0.1	0.0	**0.3**
Cumulative depreciation/amortization 31.12.2016	-53.5	-74.4	0.0	-2.8	-65.3	**-196.0**

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Cumulative depreciation 1.1.2015	-42.3	-77.0	-15.1	-5.9	-52.3	**-192.7**
Foreign exchange differences	-0.1	0.0	0.0	0.0	0.0	**-0.1**
Disposals	2.0	9.4	8.8	0.2	6.3	**26.7**
Scheduled depreciation	-2.9	-8.5	-6.6	-0.5	-5.9	**-24.4**
Impairment	-5.9	-0.3	0.0	-3.9	-7.4	**-17.4**
Other changes	0.1	1.0	0.1	4.5	0.0	**5.7**
Write-ups	0.2	0.0	0.1	0.1	0.0	**0.3**
Cumulative depreciation/amortization 31.12.2015	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**

(45) Other assets

EUR m

	31.12.2016	31.12.2015
Prepayments and accrued income	3.1	4.6
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4.3	4.5
Other remaining assets	11.5	7.3
Total	**18.9**	**16.5**

The item “other remaining assets” includes cost in the amount of EUR 1.5 million recognized as deferral in connection with the capital increase executed at the beginning of fiscal year 2017.

(46) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale

As at December 31, 2016, the item “non-current assets and disposal groups classified as held for sale” amounts to EUR 39.3 million. Since a disposal of the Croatian entities HYPO-ALPE-ADRIA Leasing d.o.o. and ADDIKO INVEST d.d. in the next 12 months is highly likely, all assets and liabilities as at December 31, 2016 are included in this item. Pursuant to the presentation requirements under IFRS 5, the comparable period items of the statement of financial position are not reclassified.

In the previous year, this item included an asset portfolio in the amount of EUR 220.1 million which was transferred to HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement concluded between the new owners of the Addiko Group and HETA Asset Resolution AG during the privatization process. Furthermore, a bundle of assets of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. Ljubljana in the amount of EUR 120.3 million was sold in December 2016.

EUR m

Non-current assets and disposal groups classified as held for sale	31.12.2016	31.12.2015
Loans and receivables	29.0	289.3
Property plant and equipment	8.4	0.4
Investment properties	0.1	25.3
Intangible assets	0.0	0.1
Tax assets	0.0	0.2
Other assets	1.8	25.2
Total	**39.3**	**340.4**

The item “other assets” includes only inventories (lease assets, repossessed assets, emergency acquired assets, etc.).

EUR m

Liabilities included in disposal groups classified as held for sale	31.12.2016	31.12.2015
Financial liabilities measured at amortized cost	1.3	1.3
Provisions	0.3	1.2
Other liabilities	1.1	3.7
Total	**2.7**	**6.1**

(47) Financial liabilities held for trading

EUR m

	31.12.2016	31.12.2015
Derivatives	9.1	28.6
Total	**9.1**	**28.6**

(48) Financial liabilities measured at amortized cost

EUR m

	31.12.2016	31.12.2015
Deposits	4,751.6	4,294.6
Deposits of credit institutions	316.0	379.2
Deposits of customers	4,435.6	3,915.3
Debt securities issued	6.5	28.1
Other financial liabilities	1,282.2	1,909.8
Total	**6,040.4**	**6,232.5**

Other financial liabilities mainly consist of financing for Heta Asset Resolution AG.

48.1. Deposits of credit institutions

EUR m

	31.12.2016	31.12.2015
Current accounts / overnight deposits	5.8	12.6
Deposits with agreed terms	310.2	339.3
Deposits redeemable at notice	0.0	0.5
Repurchase agreements	0.0	26.9
Total	**316.0**	**379.2**

48.2. Deposits of customers

EUR m

	31.12.2016	31.12.2015
Current accounts / overnight deposits	**1,761.0**	**1,273.9**
General governments	30.9	27.9
Other financial corporations	134.9	51.5
Non-financial corporations	672.7	458.5
Households	922.6	736.1
Deposits with agreed terms	**2,634.1**	**2,577.4**
General governments	118.0	132.6
Other financial corporations	155.2	211.9
Non-financial corporations	507.9	425.8
Households	1,853.1	1,807.2
Deposits redeemable at notice	**40.5**	**64.0**
General governments	12.6	20.4
Other financial corporations	5.7	6.4
Non-financial corporations	22.1	37.1
Households	0.1	0.1
Total	**4,435.6**	**3,915.3**

48.3. Debt securities issued

EUR m

	31.12.2016	31.12.2015
Debt securities issued	**6.5**	**28.1**
Certificates of deposit	6.5	28.1
Total	**6.5**	**28.1**

(49) Provisions

49.1. Detailed breakdown of provisions

EUR m

	31.12.2016	31.12.2015
Pensions and other post employment defined benefit obligations	2.1	2.4
Other long term employee benefits	0.4	0.4
Restructuring measures	7.2	18.5
Pending legal disputes and tax litigation	60.9	41.6
Commitments and guarantees granted	12.6	20.2
Other provisions	24.6	236.1
Total	**107.8**	**319.2**

Details regarding restructuring measures are presented in note (23.3) Provisions for restructuring. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2017.

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in one of the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item.

No further disclosures according to IA 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

Other provisions mainly include provisions for onerous contracts in the amount of EUR 9.6 million (2015: EUR 12.7 million) as well as for pending legal disputes in the amount of EUR 3.1 million. More detailed explanations on the legal disputes that are the subject of these provisions are presented in note (73) Risks in the portfolio relating to historical interest rate directives, and in note (74) Legal risks. In the previous year, these items included provisions in connection with the legally required conversion of customer loans (Swiss francs into euros) in Croatia and Montenegro.

The development of provisions for risks arising from the lending business (commitments and guarantees issued) is disclosed under note (40) Loans and receivables.
The calculated amount for provisions for restructuring measures, pending legal disputes and tax litigation as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

49.2. Provisions - development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarized.

EUR m

	2016	2015
Present value of the defined benefit obligations as of 1.1.	**2.4**	**1.7**
+ Current service cost	0.2	0.1
+ Contributions paid to the plan	0.0	0.4
+/- Actuarial gains/losses	-0.1	0.1
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.1	0.0
+/- Actuarial gains/losses arising from changes from assumptions based on experience	-0.1	0.1
- Payments from the plan	-0.4	-0.1
+ Past service cost	0.0	-0.1
+/- Business combinations and disposals	0.0	0.6
+/- Other changes	-0.1	-0.2
Present value of the defined benefit obligations as of 31.12.	**2.1**	**2.4**

Due to the low amount of personnel provisions for the Addiko Group as at December 31, 2016, further disclosures according to IAS 19 are omitted.

49.3. Provisions - development of other provisions

Other provisions excluding provisions for risks arising from the lending business developed as follows in the respective reporting periods:

EUR m

	Carrying amount 1.1.2016	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2016
Pensions and other defined benefit obligations towards employees	2.4	0.0	0.3	-0.5	-0.2	0.0	2.1
Other long term employee benefits	0.4	0.0	0.1	-0.1	0.0	0.0	0.4
Restructuring measures	18.5	0.0	2.6	-12.6	-0.1	-1.1	7.2
Pending legal disputes and tax litigation	41.6	0.0	29.0	-4.2	-5.5	0.0	60.9
Other provisions	236.1	2.1	10.5	-199.4	-24.5	-0.2	24.6
Total	**299.0**	**2.1**	**42.5**	**-216.8**	**-30.3**	**-1.3**	**95.3**

EUR m

	Carrying amount 1.1.2015	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2015
Pensions and other defined benefit obligations towards employees	1.7	0.0	0.6	-0.2	-0.2	0.6	2.4
Other long term employee benefits	0.2	0.0	0.1	0.0	0.0	0.2	0.4
Restructuring measures	1.6	0.0	17.4	-0.7	0.0	0.2	18.5
Pending legal disputes and tax litigation	23.8	0.0	27.7	-6.9	-2.3	-0.7	41.6
Other provisions	0.9	-0.5	236.6	-0.7	-0.2	0.0	236.1
Total	**28.2**	**-0.5**	**282.3**	**-8.6**	**-2.6**	**0.3**	**299.0**

(50) Other liabilities

EUR m

	31.12.2016	31.12.2015
Deferred income	1.7	2.1
Accruals and other liabilities	26.4	29.8
Total	**28.1**	**31.9**

(51) Equity

EUR m

	31.12.2016	31.12.2015
Thereof attributable to equity holders of parent	**994.7**	**752.6**
Subscribed	5.0	5.0
Capital reserves	336,2	792.6
Available-for-sale-reserves	7.6	8.2
Foreign currency reserve	-21.1	-22.1
Cumulative results and other reserves	667,0	-31.2
Non-controlling interests	**0.0**	**0.0**
Total	**994.7**	**752.6**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at December 31, 2016. Of this amount, EUR 5.0 million (2015: EUR 5.0 million) corresponds to the fully paid in share capital of Addiko bank AG, which is divided into 1,000 (2015: 1,000) no-par bearer shares. The proportionate amount of the share capital per share amounts EUR 5.0 thousand (2015: EUR 5.0 thousand). The capital reserve mainly consists of the contribution of the bank participations in Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro by the former parent company Hypo Alpe-Adria International AG as at June 28, 2013, as well as of an increase in the amount of EUR 189.0 million by the parent company AI Lake (Luxembourg) S.à.r.l., arising from a claim against Heta Asset Resolution AG (formerly Hypo Alpe Adria-Bank International AG) for the compensation of impairment in the course of the sale of the former Hypo Group Alpe Adria AG which was granted to AI Lake (Luxembourg) S.à.r.l. Furthermore, it includes a capital contribution by the parent company in the amount of EUR 265 million which also results from a claim to compensate for warranty claims of AI Lake (Luxembourg) S.à.r.l. against the former parent company and was contributed by AI Lake (Luxembourg) S.à.r.l. on March 10, 2016 to Addiko Bank AG. In the fiscal year 2016 EUR 722.1 million were rebooked from the capital reserve to the the position “Cumulative results and other reserves”.

Only a small amount of equity is attributable to non-controlling interests.

The available-for-sale reserves include negative available-for-sale-reserves in amount of EUR 3.0 million. Other reserves contain also a liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A

certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 430.0 million in the financial year 2016. In the next General Assembly a proposal will be made to allocate this profit as follows: (i) an amount of EUR 130.0 million will be used as supplementary capital by the sole shareholder to fulfill the Tier 2 loan agreement dated February 22, 2016 concluded between the sole shareholder and the Company, and (ii) an amount of EUR 300.0 million will be distributed by the Company.

(52) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Addiko Group due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Addiko Group contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers, and debt securities issued. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity investments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries made for the acquisition of subsidiaries.

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Risk Report

(53) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimizing the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this vein, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Addiko Group to the bank's overall controlling:
- Clearly defined processes and organizational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for the purpose of identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(54) Risk strategy & Risk Appetite Framework (RAF)

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

2016 saw a change in direction regarding risk management, which is critical to enable to Group's business to grow sustainably within the risk appetite that the Group is willing to take. The Addiko Group's risk strategy reflects key risk management approaches included in the business strategy. This is reflected in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities. The applicable criteria are:

1. Immersive risk culture: Risk is more prevalent across the business and risk culture; risk awareness will be enhanced and embedded across the business.
2. Defined roles and responsibilities: Roles and responsibilities and a suitable governance structure are clearly defined and documented.
3. Streamlined and efficient processes: Duplicate activities will be removed and process effectiveness will be enhanced through automation.
4. Improved understanding of customers: Backed up by data, knowledge of our customers' behavioral scores is expanded and used to improve risk control.
5. Supporting business growth: Leverage business expertise to allow our bank to expand our business operations and enter new markets.
6. Analytical excellence: The Risk department supports the business units as a center of analytical excellence.

These objectives are related to all individual components of the Risk Management Framework and affect the business strategy, the risk appetite statement, the governance of processes, policies and capabilities (data, skills, resources).

The aforementioned objectives are incorporated in the following major goals for the risk strategy:

- The risk strategy sets up limits for risk appetite in the way that business continuity is always guaranteed.
- The primary goal of the risk strategy is preservation of internal capital and liquidity position, with the ability to bear risks required both in normal and stress scenarios.
- The secondary goal of risk strategy is to define an adequate and acceptable structure of risk aligned with the Addiko Group's business strategy. Finally, it is necessary to define the risk profile as well as certain criteria and rules for risk-taking and risk measuring to maintain the defined risk profile.
- Efficient steering (including data quality) and the implementation of a forward looking approach respecting early warning indicators aimed to align the internal capital and liquidity position in the long term.
- Provide an organizational framework for routine management and decision-making processes that ensures prudent and continuous limit-compliant steering of all risks inherent to the Addiko Group business model.
- Establish a risk policies and documents framework stating compliance requirements.
-

These risk strategy goals enable the Addiko Group to:

- Prevent losing the current customer base as well as prevent losing existing customer business
- Focus on the desired customer range
- Support new business lending with an understanding of the risks associated and how to mitigate them
- Align the products the Group offers
- Understand the customer lifecycle and the long-term cycle of profitability
- Ensure consistency of the overall risk profile, and capital and liquidity position
- Aim to/realize the highest possible return on risk taken
- In 2016, risk appetite was also redefined within the Risk Appetite Framework. This Risk Appetite Framework contains the risk dimensions to be managed, including a statement and the defined measures and performance indicators.

The Risk function launched an optimization program in 2016, aiming to achieve the below stated improvements:

- Optimization of policy
  - Review of policies was carried out
  - The number of policies was significantly reduced to eliminate overlaps and unnecessary complexity
  - Increase in efficiency of roles and responsibilities was achieved
- Streamlining reporting:
  - KPIs relevant for steering were defined
  - Reporting process automatism was advanced to be able to spend more time on quality assurance
  - Alignment between risk and finance was intensified
- Data streamlining
  - An improvement in the definition of data dictionary and data process mapping was achieved
  - Delivery of subsidiary data to the parent was optimized
  - Targeted resolution of outstanding data quality areas was prepared and largely implemented
- Process streamlining
  - "Cockpit" style processes were prepared
  - Controls for cockpit style processes were defined
  - Effectiveness KPIs were used to prepare recommendations for process changes and target/actual analyses

(55) Risk organization

Ensuring adequate risk management structures and processes is in the responsibility of the Group's Chief Risk Officer (CRO), who is a member of the Addiko Bank AG Executive Board. The CRO acts independently of market and trading units, with a focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganization of problem loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and managing the risk capital that is required from an economic and regulatory point of view.

In 2016, the entire risk division was restructured.

The Addiko Group's Risk Office consisted of the following pillars:

- Risk Control
- Credit Operations
- Retail Risk Management

In the course of restructuring, the following functions were introduced:

Corporate Credit Risk provides underwriting, individual risk assessment, monitoring, and review to all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial Institutions. The function has both an operational and strategic role related to credit risk management. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned activities.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis, retail collections and modelling.

Distressed Asset Management provides pre-workout, restructuring, collection and workout to all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions.

Credit Risk Portfolio Management provides credit reporting and credit portfolio steering activities for the Addiko Group as well as the respective individual institutes. In particular, the following activities are included: data governance, preparation of monthly risk reports, regulatory reports, coordinating the risk budget process including monthly steering and limit steering.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing, recovery plans, resolution plans and MREL steering, coordination of national bank examinations, steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Provisioning, Forbearance, Default (PFD) Methodology provides and manages methodologies for provisioning, forbearance and default detection/recovery topics. PFD Methodology includes: calculation of portfolio IFRS provisions for all subsidiaries, technical implementation of forbearance rules and technical and methodological definitions of default triggers (including delay counters, definition of materiality thresholds, recovery criteria, etc.).

Credit Risk Validations provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is situated in Austria and works closely with local Credit Risk functions.

Market Risk & Liquidity Risk oversees activities related to market risk (foreign exchange risk, interest rate risk, commodity risk, ...) and the bank's liquidity risk. The team is situated in Austria and works closely with locally based Market and Liquidity Risk teams in each of the countries.

Operational Risk provides strategic direction, controls and monitoring for all operational risk-related activities. This includes risk assessments, scenario analysis, loss management, and training activities.

The respective country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country.

(56) Internal risk management guidelines

The Addiko Group states its Group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardized manner. These guidelines are promptly adjusted to reflect organizational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing regulations are assessed at least once a year to determine whether an update is required. This ensures that the actual and documented processes match. In accordance with the new business and risk strategy, various policies have been revised in 2016.

The Addiko Group has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility is carried out by Internal Audit. The Addiko Group therefore has fully comprehensive and state-of-the-art internal risk management guidelines in place.

(57) Projects

57.1. Project "Adria Post Closing"

Subject of the project "Adria Post Closing" was the implementation of the rights and obligations agreed upon in the SPA (Share Purchase Agreement) between Heta Asset Resolution AG and "Al Lake", and was focusing on the following subject matters:

Legal issues
- Control of pending legal disputes according to the regulations set out in the SPA
- Enforcement of claims with regard to warranties and indemnities

Risk issues
- Special retail high-risk portfolio indemnity (selection of loan to value (LTV) greater than 80% of the portfolios and enforcement of associated indemnities)

Financial implications
- Heta funding management (monitoring of refinancing guidelines and the associated provision of collateral)
- Financial impact (analysis of financial implications and reflection on such implications in budget and business plan)

57.2. Risk Enhancement Program

The second phase of the "Risk Enhancement Program" started in 2016 and is still ongoing. While the first phase (completed in 2015) was designed to adjust the risk management of the Addiko Group to the new post-sale business strategy, the second phase aims at consolidating and improving the risk management environment of the Addiko Group through activities in three pillars:
- Strategic and Regulatory Requirements
- Process Enhancement
- Risk Target Operating Model

Under "Strategic and Regulatory Requirements", a new risk strategy, Risk Appetite Framework, Forbearance identification at single account level and a reporting framework were developed. Furthermore, a detailed analysis of risk policies was initiated and is ongoing, evaluating existing documents, simplifying and aligning them to the new mission and vision of the Addiko Group.

The "Process Enhancement" pillar covers continuous improvements of the corporate credit process, monitoring, early warning system and Distressed Asset Management process improvements, as well as a review and update of credit risk models, market and liquidity risk models and the stress testing framework and activities.

The new "Risk Target Operative Model" management pillar, with the goal of optimizing the risk organization at the holding and individual entities' level through the setup of the corresponding Group Functions and Shared Service Centers was structured, approved by the Management Board and set up in the third quarter of 2016.

Additionally to the presented pillars, two task force initiatives were started and monitored under the Risk Enhancement Program but steered under the overall Data Integrity Project:

- "Credit Risk Reporting" with the goal to establish one unique data source for overall credit risk reporting, standardize the reporting process and governance model for credit risk reporting and portfolio management, and
- "Market and Liquidity Risk" aims to close open audit findings in the area of market and liquidity risk and improve quality of the data used in M&L risk management while implementing the Kamakura system.

57.3. Austrian Federal Law on Recovery and Resolution of Banks (BaSAG)

Following the Austrian Federal Law on Recovery and Resolution of Banks ("Bundesgesetz über die Sanierung und Abwicklung von Banken", BaSAG) as well as the Austrian Bank Recovery Plan Regulation ("Bankensanierungsplanverordnung", BaSaPV") issued by the Financial Market Authority (FMA) in February 2015, the Addiko Group has prepared and timely submitted (deadline: September 30, 2016) the Group Recovery Plan to the regulatory authorities.

The Recovery Plan is one of the main strategic documents representing the list of measures which a bank plans to adopt in case of a serious deterioration in its financial position. In order to react properly in a potential crisis situation, the plan defines crucial indicators which are monitored and required to be reported within the existing bank governance framework. In case of breaching defined thresholds, the bank will have to react according to the measures stated in the Recovery Plan. The Recovery Plan is updated annually or if there are material changes to the business strategy.

57.4. Forbearance

The Implementing Technical Standards with regard to forbearance measures are continuously being developed further by the European Banking Authority (EBA). The Forbearance Project that was launched by the Addiko Group in 2015 in order to comply with the currently applicable EBA requirements was successfully completed in 2016.

The Forbearance Project was carried out in two phases, with the first phase including the roll-out to countries with the "Hibis" core banking system (Croatia, Slovenia) and the second phase focusing on countries with the T24 core banking system (Serbia, Montenegro, Bosnia and Herzegovina). In cooperation with local subsidiary banks a new forbearance policy was rolled out and full implementation of the process was already completed in 2016. The basis for this new process is the implementation of a forbearance algorithm in the core bank system which is automatically started when an account is identified as forborne. The main forbearance status "forbearance performing", "forbearance non-performing" and "forbearance performing reclassified from non-performing" are available in the system, enabling the Addiko Group to better and more closely monitor forbearance cases. The entry/exit criteria are part of the algorithm and for each forbearance status a probation period was established as a part of regular routine. The exit criteria depend on the forborne status and are mainly based, among others, on a minimum probation period of two years, days in delay and regular payment.

Contrary to the previous presentation of forbearance in the Addiko Group, the exposure is calculated at account level starting in 2016. Furthermore, identifying forbearance cases is no longer directly tied to the rating — which only serves as an indication for assessment — but every case is additionally assessed on an individual basis. In the course of implementation of the new forbearance process, the Addiko Group also aligned its default definition with the "forbearance non-performing" definition, which constitutes a more conservative approach. The Forbearance Project was monitored and managed from Group side which ensured that the handling of the forbearance algorithm is uniform for all entities.

The forbearance exposure at the Addiko Group is presented in note "Breakdown of financial assets by degree of impairment".

57.5. Market & Liquidity Task Force

The Market & Liquidity Risk Task Force is a part of the Data Integrity Program initiated mid-2016 in the Addiko Group. The project aims to systematically close open audit findings in the area of market and liquidity risk and improve the market and liquidity risk management systems. The project team not only consists of Addiko holding employees — the core team also includes specialists from the entire Addiko Group.

In addition to improving data quality, the Market & Liquidity Risk Task Force's project also aims to automate and standardize liquidity and interest rate risk reporting and notifications. In the second half of 2016, the project team mainly focused on data cleaning and data integration. The next project phases include automation and simplification of reports relevant for steering. The update process of relevant processes goes hand in hand with strategy, manual and work instruction updates. Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in market and liquidity risk. Ultimately this will lead to faster, more efficient and more consistent steering of market and liquidity risks both at holding and individual subsidiary level.

57.6. Credit Risk Task Force

Same as the Market & Liquidity Risk Task Force, the Credit Risk Reporting Task Force is an integral part of the Data Integrity Program initiated mid-2016. This program aims to define a standardized set of reports which are sourced by a unique database throughout the Group and which should be used at Group and local level to steer the credit risk portfolio. In order to obtain this overall goal, several milestones and sub-targets have been defined: (1) Definition of a clear reporting map, (2) gap analysis with regard to required data fields and data sets, (3) process standardization and automation of steering reports, as well as (4) data integration and improvements regarding data delivery.

The overall project team is made up of Addiko holding employees as well as employees of local subsidiaries in all core countries. In order to cover the high technical requirements with regard to the technical implementation, also Group and local IT departments are heavily involved.

In the second half of 2016, the Credit Risk Reporting Task Force strongly focused on the Group-wide technical setup as well as additional data gathering at subsidiary level. Moreover, the first standardized structure of the monthly risk report was aligned with local and Group risk units.

The project primarily aims to implement a uniform reporting structure across the entire Group based on a unique data source both at Group and subsidiary level, ensuring an optimized and transparent reporting structure as well as optimization of resources and enabling a stronger focus on portfolio management and steering at the risk units.

57.7. NPL sale

By the end of 2015, the bank began to press ahead with the systematic sale of non-performing loans and successfully implemented this strategic project for the first time in 2016. In the fourth quarter of 2016, non-performing customer loan portfolios not secured by collateral were sold. The stated sale of receivables includes both the sale of existing loan portfolios and loans becoming non-performing in the future (forward flow agreement) overdue by more than 180 days. The sale of receivables significantly contributes to the further reduction of the NPL portfolio.

57.8. End-to-end credit approval process

In order to optimize the overall credit approval process for COR/SME and Public Finance observed end to end, an adequate project supported by PwC was performed in 2016.

The duration of the project was 3 months, and it was split into the following four phases:

- Phase 1 – Goal and strategy
- Phase 2 – As is analysis
- Phase 3 – To be design
- Phase 4 – Implementation and start up

The following was defined within the project:

- Roles, responsibilities and initiatives at holding and local level
- Actions/tasks including quick wins
- Future detailed implementation roadmap, together with responsibilities and timelines
- Adequate monitoring tools and reporting process

Besides the above mentioned definitions of actions, responsibilities and timelines, additional main results of the project were the following:

- Two basic process types:
  - standardized - small tickets & small enterprises; lean and standardized documentation, templates, conditions and tools
  - tailor-made - Corporates & big tickets; differentiation made between simple and complex cases
- Process blueprints for the main process steps of both mentioned types of processes developed (standards, tools, key outputs)
- Design principles for the seven main pillars of process design defined – for each pillar key questions & recommendations, improvements guidance, examples of tools to be used given

Due to the fact that market conditions and environment are changing and getting more challenging, it is necessary to enable continuous optimization of the credit process since that is the only way to keep the efficiency and competitiveness on an adequate level.

Driven by exactly that aim, adequate persons responsible at holding level were identified for driving and managing and continuously optimizing the above mentioned COR/SME/PF credit process.

57.9. IFRS 9 project

IFRS 9, the new standard on the recognition of financial instruments, was published in its final version on July 24, 2014 and was taken over from EU and replaces the previously applicable IAS 39 from its effective date January 1, 2018:

- Amended model for classification and measurement of financial assets which relies more strongly on principles and is based on the business model and its cash flow characteristics
- New impairment model which not only records losses incurred (as it did previously) but also future expected losses (requiring an early setup of risk provisions)
- Amended provisions and a design more reliant on principles for hedge accounting

In order the implement the IFRS 9 project in the Addiko Group, three project streams (Classification & Measurement, Impairment and IT) were determined to deal with, develop and implement the individual topics.

(58) Brush activities

The Share Purchase Agreement (SPA) concluded between Heta Asset Resolution AG and Advent enabled the Addiko Group (formerly Hypo Group Alpe Adria) to carry out an additional brush to reduce existing and future risks resulting from its portfolio until March 2016.

The transaction was executed in the first quarter of 2016 either a) in the course of a true sale, i.e. a transfer to Heta Asset Resolution AG, or b) via P/L settlement, i.e. the risk in connection with the remaining portfolio positions intended for the brush was covered by Heta Asset Resolution AG via P/L settlement. All effects on profit or loss were already taken into account in the statement of financial position 2015.

The transfer of the selected brush items to Heta Asset Resolution AG results in their derecognition in the statement of financial position of the Addiko Group, thus leading to an improvement in financial performance indicators – especially the non-performing loan portion and the loan/deposit ratio – of the units affected as well as in regulatory capital ratios.

(59) Development of risk provisions

59.1. Method of calculating risk provisions

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

For individual, non-significant exposures (that are below certain thresholds), the Specific Risk Provision Collective Impaired method (SRP CI) is used instead of an individual analysis. Thresholds, parameters and assumptions used for SRP CI calculation can be found in the document "Portfolio Provisioning Technical Specification v1.0". Receivables not subject to the calculation of (collective) specific provisions for impairment losses are included in the calculation of portfolio impairment. Incurred but not reported losses are used to calculate the portfolio impairment („Incurred but not Reported Loss Model"). Please refer to note "Recognition and measurement (IAS 39)" for further details on calculation.

59.2. Development of risk provisions

Despite the ongoing tensed macro-economic environment in the core markets, the Addiko Group and its network banks successfully released risk provisions in 2016.

This positive development is mainly due to effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate segment. At the same time, due to improved processes with regard to early warning systems (continuously analyzing the economic situation), migrations into the non-performing portfolio and the corresponding risk provisions were prevented.

The direct write-off of CHF loans in Croatia and Montenegro that became necessary in the first half of the year resulted in further risk provision releases primarily in the Retail segment (one-off effect). This effect is resulting out of lower gross receivables in combination with stable collaterals (evaluated in EUR). Further positive effects were achieved by process improvements.

As regards early collections, a daily monitoring supported by clear performance goals was introduced. Together with the also introduced Incentive Program, this lead to a considerable improvement in the early collections result and a significant reduction of the NPL portfolio.

As regards late collections, positive effects were achieved through selling receivables in the area of problematic Retail loans not secured by collateral at a high existing provision ratio.

As regards to the majority of the collateralized NPL receivables (especially within the Retail segment), the Addiko Group together with its customers either agreed on voluntary collateral sales or concluded settlement agreements.

These measures also significantly contributed to reducing the NPL portfolio in 2016, releasing risk provisions at the same time.

59.3. Changes in the calculation of portfolio risk provisions

In the course of 2016, the Addiko Group implemented a uniform Group-wide method of calculating portfolio risk provisions for all subsidiaries, aiming to simplify and standardize the process cycle. Further main goals were to increase transparency, to additionally include and take into account country-specific exceptions initiated and required by local regulatory authorities but differing from IAS/IFRS principles, as well as determining a standardized parametrization with regard to risk models both at Group and subsidiary level.

Using this new method, the Addiko Group created a sound strategic basis for the future IFRS 9 standard which will come into effect by January 1, 2018, with regard to:

- Adequate risk provisions across the entire Group with probabilities of default entirely based on statistical data, tested by historical simulations, as well as recognizing loss given defaults which are either deducted based on the market or a workout approach depending on data and model availability
- Standardized parametrization with regard to the Group's risk models towards local subsidiary banks
- Recognition of new parameters creating a favorable point of departure for simulating capital requirements within pillar II
- Expected Loss (EL), generated by the process change, constituting a meaningful benchmark for IFRS 9 estimates

For detailed information on calculating portfolio risk provisions in accordance with the new method, see note "Financial instruments: recognition and measurement (IAS 39)".

59.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the entire risk provisions to non-performing loans) increased from 61.7% to 67.5% in the financial year 2016.

The following table shows the NPL and coverage ratio according to the new internal segmentation implemented in 2016:

EUR m
31.12.2016

Segment	Exposure	NPL	Provisions	NPL Ratio	Coverage Ratio
Public Finance	1,453	6	3	0.4%	48.0%
Financial Institutions	2,285	8	2	0.4%	28.4%
Large Corporate	894	142	66	15.9%	46.6%
Medium and Small Corporate	1,131	125	58	11.1%	46.4%
Retail	2,547	480	384	18.8%	80.1%
Total	**8,309**	**761**	**514**	**9.2%**	**67.5%**

The following table shows provisions and coverage ratio according to the internal segmentation valid at December 31, 2015.

EUR m
31.12.2015

Segment	NPL	Provisions	Coverage Ratio
Corporate	632	304	48.1%
Retail	576	446	77.5%
Public Finance	22	9	40.3%
Total	**1.229**	**759**	**61.7%**

The increase in the coverage ratio primarily results from the brush transaction performed in March of this year which lead to a reduction in non-performing loans particularly in the Corporate portfolio.

(60) Measurement of real estate collateral and other collateral

Management of all collateral in the Addiko Group is determined in the “Collateral Management & Monitoring Policy” and the related “Collateral Management & Monitoring Manual”. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitization values may only be deviated from if the stated values are stricter than the original ones.

The Group-wide control of real estate pledged as collateral is of crucial importance, as this constitutes the majority of all collateral internally reported as recoverable. Measurement for all commercial real estate is performed using a market value above 1.0 million using individual measurements pursuant to the ABG Real Estate Valuation Standard.

All measurements are requested on the part of the front office three months at the lastest before remeasurements are due. The market value of all real estate with a market value less than EUR 1.0 million is determined using the TnT tool, a statistically validated electronic measurement tool (market value adjustment method), with the initial measurement always constituting an individual measurement (based on the evaluation by a qualified appraiser).

ICV = market value * recovery rate in % (acc. to “Collateral Management & Monitoring Manual”)

The internal collateral values (ICV) are shown in the following table for December 31, 2016 as well as December 31, 2015:

EUR m

Collateral Distribution	31.12.2016	31.12.2015
Exposure	8,309	8,587
Internal Collateral Value (ICV)	2,348	3,214
thereof CRE	837	1,070
thereof RRE	1,001	1,492
thereof financial collateral	33	37
thereof guarantees	347	399
thereof other	130	217
ICV coverage rate	**28.3%**	**37.4%**

The decrease in value of commercial real estate results primarily from a decrease in exposure (non-core assets in 2016) but not from a decrease in collateral coverage at the overall portfolio level. The mentioned decrease in exposure (non-core assets) is primarily related to a certain non-performing loan portfolio sale to HETA and a decrease in lease exposure (due to a sale or wind-down strategy, depending on the institute).

Decrease of RRE Collateral is due to two factors:
The decrease of Portfolio through 2016 mortgage lending was not a key focus and across the Group there was a continual reduction in the portfolio with a corresponding reduction in RRE Collateral .

Revision of adjustments, based on location of collateral adjustments were made in the expected liquidation value and corresponding ICV. While primarily made in 2015 these had a further impact in 2016.

(61) Measures to improve risk management

61.1. Basel III – Liquidity risk and liquidity risk management

With regard to ongoing regulatory requirements under the Capital Requirements Regulation (CRR), Additional Liquidity Monitoring Metrics (ALMM) was implemented in 2016 in addition to the existing reporting of the LCR (both pursuant to CRR and the Delegated Regulation), NSFR and asset encumbrance based on the ITS (Implementing Technical Standards).

61.2. Development of rating procedures

The Addiko Group currently employs the following rating tools: corporate, small and medium enterprises, retail behavior rating, expert, support, start-up, project finance, commercial real estates, municipalities, countries, insurance firms, banks and scorecards for private customers. Procedures are improved and validated in accordance with standards issued by the regulatory authorities.

61.3. Validation of rating procedures and processes

The procedures are validated as stipulated by the standards issued by the regulatory authorities.

In the second half of 2016, an internal "Model Monitoring Reporting System" was implemented. It is used to monitor rating processes, default processes and performance of the respective rating procedures at subsidiary level on a monthly basis. Performance of rating procedures focuses on:

- Accuracy of forecasts
- Calibration
- Stability

Based on the Model Monitoring Reporting System, Credit Risk Model Validation Reports were prepared for all subsidiary banks as well as for the holding company at the beginning of December 2016.

61.4. Further development of retail risk management

Group Retail Risk Management was established, which constitutes the back office function to Retail Sales and Marketing and reports directly to the Group Chief Risk Officer.

Group Retail Risk Management's responsibilities include retail portfolio management, data analysis and reporting, managing the collection process, making decisions on credits as well as credit checks and quality assurance. Furthermore, Retail Risk Management is also responsible for defining and developing Retail Credit Policies.

The cornerstones of the framework plan for Retail Risk Management have already been successfully implemented:

- Retail Credit Policy
- Retail Collections Policy
- Retail Risk Restructuring Policy
- Remarketing Policy
- Retail Fraud Policy
- Integrating collections into the Retail Risk division in the fourth quarter of 2015
- Analyzing and managing portfolios based on retail-specific key risk indicators

61.5. Overnight index swap discounting, tenor curves and credit/debit value adjustment

In measuring the bank's derivative items, the base spread and counterparty risks are fully taken into account. The base spread risk results from the existence of significant differences between fixings with varying maturities. The counterparty risk results from the difference between the value of derivative items and the collateral provided. In particular, implementation in the portfolio management system (PMS) includes the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in market interest curves, both within a single currency as well as between two currencies
- Consideration in yield curve models
- Calculation of credit and debit value adjustment (CVA & DVA) using the American Monte Carlo method

(62) Risk reporting

Timely, independent and risk-adequate reporting to decision makers is guaranteed for all risk types. Requests for ad-hoc reports are fulfilled at all times.

In 2016, the monthly Group risk report was adjusted to the new situation, the requirements of the new decision-making bodies as well as the new strategy.

In the course of the Credit Risk Reporting Task Force (for more information, see note “Credit Risk Task Force), taking into account all risk units at Group as well as at local level, the monthly risk report is currently being completely revised in terms of contents and structure in accordance with the requirements. First and foremost, the goal is to be able to better and faster identify risks and to adjust the contents of the report to the Addiko Group’s new strategies. For reasons of improving transparency, the project (which will be completed in 2017) additionally aims to create a central preparation process for the monthly report at Group level in the credit steering function “Credit Risk Portfolio Management”.

Operational risk reports are prepared on an ad-hoc basis and brought to the attention of the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board on a semi-annual basis and to the Audit and Compliance Committee on a quarterly basis.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the Group, which include standardized daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

As part of governance, all the Group reports are also available at local level and are distributed regularly to the Group entities.

(63) Capital management

The term “own capital funds for the purpose of solvency” refers to modified available equity (pursuant to regulatory provisions) that largely comprises the following items:

- Core tier 1 capital (CET1: common equity tier 1) or core capital (tier 1 capital) and
- Deductibles

Supplementary capital (Tier 2)

Core tier 1 capital (CET1) or core capital (tier 1) is largely comprised as follows:

- Paid-in capital
- Reserves
- Deductions

Basel requirements are also taken into consideration in the planning process, including:

- regulatory requirements relating to capital ratios (including buffer requirements), and
- the calculation of the Group’s regulatory own capital funds and RWA (risk-weighted assets) based on IFRS (in consideration of the regulatory scope of consolidation).

In terms of the calculation of material risk positions (RWA) in the first Basel I pillar at Group level (for regulatory reporting), the following approaches are applied:

- Credit risk standard approach (CSA) for credit risk and
- Basic indicator approach (BIA) for operational risk at holding and at Al Lake Group level
- Standardized Approach (STA / activities divided into eight defined business divisions) for the operational risk at Group level (from the reporting date March 31, 2015)

Regulatory own capital funds planning is based on compliance with the Basel III own capital funds ratios listed below:

- Common equity tier 1 capital ratio (core tier 1 capital ratio)
- Tier 1 capital ratio (core capital ratio)
- Total capital ratio

The minimum capital ratios defined by regulatory authorities,

- standardized Basel III requirements in consideration of transitional regulations under CRR/CRD IV as well as
- regulatory requirements according to the supervisory review and evaluation process (SREP)

must be complied with or exceeded at all times. This also applies to the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG). Capital ratios define the upper limit of the risk positions from the holding company’s business activities and those at Addiko Group as well as at Al Lake Group level for the planning period.

On a monthly basis, the Executive Board receives a standardized report on the capital ratios as well as the related minima and takes appropriate measures in case of target/actual deviations.

Aside from regulatory restrictions on distributions of capital on the basis of EU-wide capital requirements that apply to all financial institutions based in Austria, the Group also complies with the minimum capital requirements of local regulatory authorities. It also complies with the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG) for the banks in Croatia, Serbia and Slovenia.

In the Federation of Bosnia and Herzegovina, the Group is subject to significant restrictions imposed by the local regulatory authority. Advance approval must be obtained from the regulatory authority before deposits are transferred back to the parent company. Profits (dividends) can only be distributed if the respective local subsidiary bank holds an overall equity ratio of 14.5% at the time of distribution. In any case, under regulatory provisions the local subsidiary banks are required to report a Tier 1/RWA ratio of at least 11.5% and an overall equity/RWA ratio of at least 12% at 2016 year-end.

Similar rules apply to Serbia. The subsidiary bank located in Serbia is required to report an equity ratio of at least 14.5% to enable a distribution of dividends. The standardized regulatory minimum for the overall equity ratio stands at 12%.

63.1. ICAAP – Internal Capital Adequacy Assessment Process

Securing the Group's ability to bear economic risks forms a central part of steering activities within the Addiko Group; to which end the Group possesses an institutionalized internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Addiko Group is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Integrated Risk Management and presented to the Group Risk Executive Committee (GREC), where they are discussed and, if required, measures are decided. In this regard, the GREC serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organization and stress test assumptions) for the Group. Additionally, the report is submitted to the Executive Board on a monthly basis and presented to the committees of the Supervisory Board.

(64) Credit risk (counterparty default risk)

64.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Addiko Group. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilized collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

Other risk types that are also included under counterparty default risks, such as country and participation risks, are measured, controlled and monitored separately.

64.2. General requirements

The credit risk strategy provides concrete specifications for the organizational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a Group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Executive Board and Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Addiko Group and the highest body for making credit decisions, subordinated only to the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Executive Board is required for issues of fundamental importance.

64.3. Risk measurement

The Addiko Group network uses its own rating procedures to analyze and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

64.4. Risk limitation

The steering of total Group-wide commitments with an individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

In the banking division, limits are set and monitored independently by a Risk Control unit. If limits are exceeded, this is communicated immediately to the CRO and reported to the Group Risk Executive Committee. In all other segments, limit control is carried out through a Group-wide authorization level policy ("*Pouvoir-Ordnung*"). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Executive Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

64.5. Portfolio overview – credit risk

In economic risk control, market values are used to calculate the relevant exposure for securities, whereas amortized cost is used for loans. The presentation in note "Credit risk (counterparty default risk)" is based on exposure before deduction of impairment. Unless explicitly stated differently, all values in the risk report are shown inclusive the portfolio that is classified as held for sale according to IFRS 5.

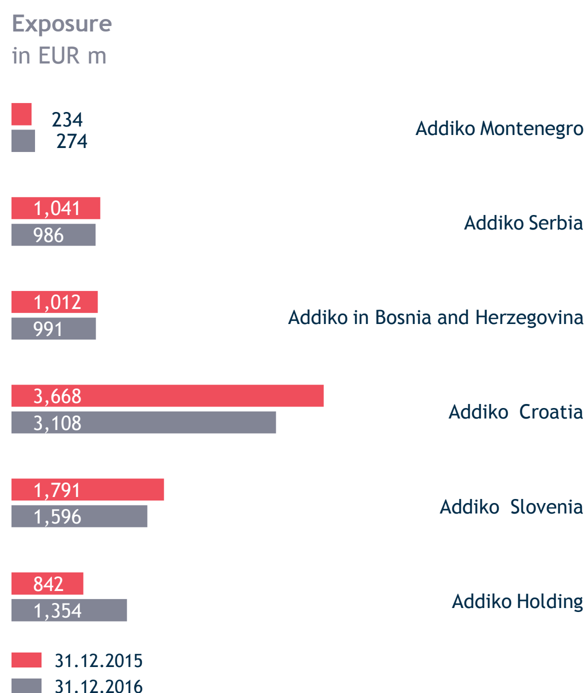
Breakdown of net exposure within the Group in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio):

EUR m

	31.12.2016	31.12.2015
Cash balances at central banks and other demand deposits	1,785	1,198
Financial assets held for trading	17	11
Available-for-sale financial assets	1,309	1,261
Loans and advances to customers	3,780	4,263
Held-to-maturity investments	83	82
Other commitments	754	678
Total	**7,728**	**7,493**

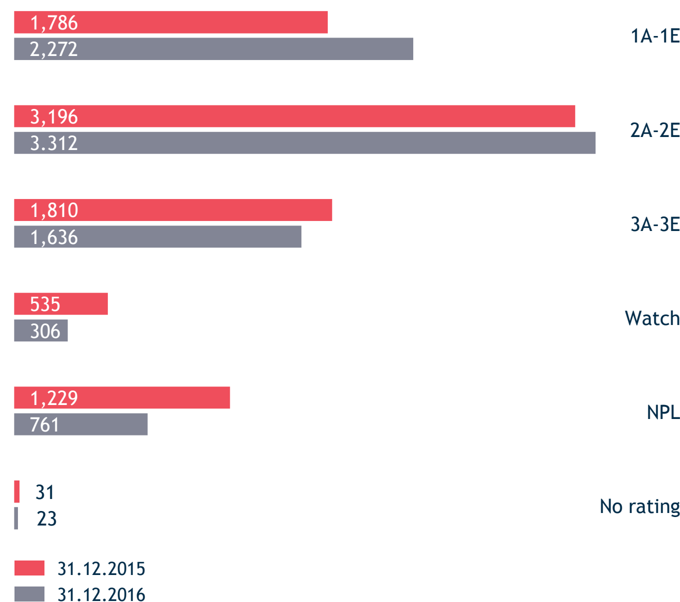
Allocation of exposure within the Group
In the reporting year, the exposure within the Group declined by EUR 277.9 million or 3.2%. The decline mainly results from the brush transactions performed primarily in the Corporate segment in Croatia (see note "Brush activities").

The Addiko Group has total free credit lines and financial guarantees in the loan and credit area of approximately EUR 764.8 million (2015: EUR 702.9 million). Within the Group, exposure breaks down as follows:



Exposure by rating class within the Group
Roughly 27.3% (2015: 20.8%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions and public institutions.

Non-performing loans showed a sharp decline in the reporting period mainly resulting from the brush carried out.



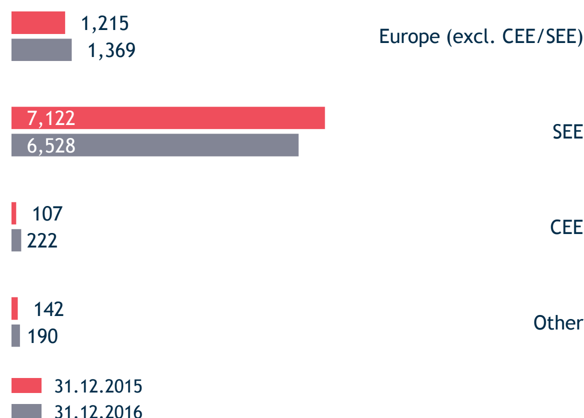
In 2016, the definition of default was adjusted in the course of rolling out the new Forbearance Policy in the Addiko Group. A non-performing loan (default) exists if at least one of the following criteria applies:

- A material liability from the debtor to a Group bank has been overdue for more than 90 days (Internal Ratings Based Counter)
- The bank significantly doubts the customer's credit standing
- Risk-oriented restructuring (forbearance) of the customer
- Specific risk provision (IFRS) accounted for
- Write-offs of liabilities
- Risk-driven sale of assets
- Insolvency/bankruptcy

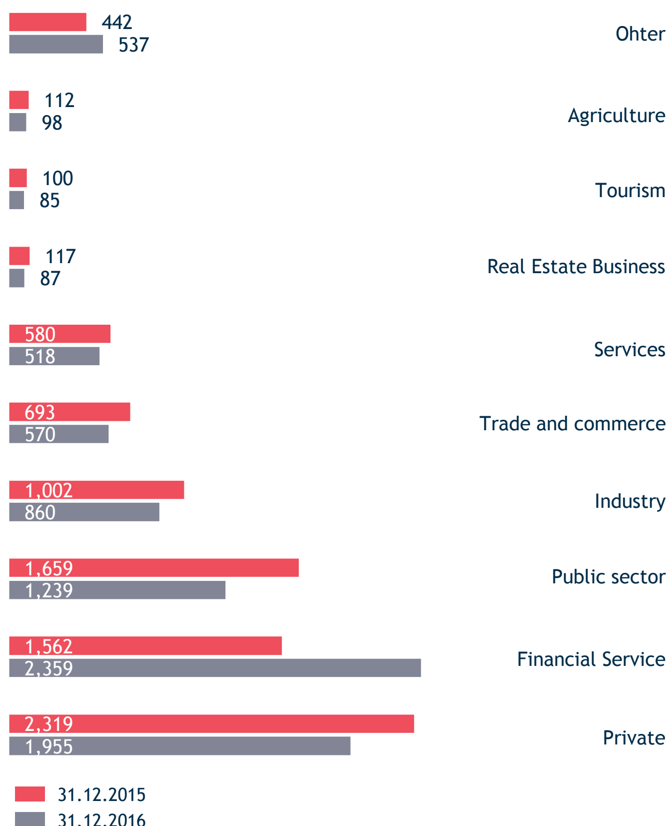
A customer can only recover in full from this status if none of the previously identified default criteria (according to the definition) apply any longer and a period of good conduct of at least three months has been complied with. In non-performing forbearance cases as well as if forbearance applies together with other default criteria, the minimum period of good conduct to be complied with is one year. An automatic recovery after a three-month period of good conduct is only possible in case of defaults due to payments being overdue by more than 90 days. In case of all other default criteria, an approval by the Distressed Asset Management division is required in addition to compliance with the period of good conduct.

Exposure by region within the Group

The Addiko Group's country portfolio focuses on South Eastern Europe. The following chart shows the breakdown of exposure by region within the Group (at customer level):



Exposure by business sector within the Group
A uniform classification code (NACE Code 2.0) is used throughout the Addiko Group for the economic steering and strategic focus of business sector exposure. This code is mapped into ten business sectors for reporting purposes. The lower-risk business sector groups – financial institutions and the public sector – account for a share of 43.3% (2015: 37.5%). The well-diversified private customers sector accounts for a share of 23.5% (2015: 27.0%).



Exposure by business sector and region

When classifying them by business sectors and regions, the majority of financial services providers clearly come from Europe (excluding CEE/SEE). The following table shows the exposure by business sector and region as at December 31, 2016:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	5	1,950	1	0	1,955
Financial services	1,254	954	0	151	2,359
Public sector	82	936	221	0	1,239
Industry	17	820	0	23	860
Trade and commerce	0	570	0	0	570
Services	11	505	0	3	518
Real estate business	0	87	0	0	87
Tourism	0	85	0	0	85
Agriculture	0	98	0	0	98
Other	1	524	0	12	537
Total	**1,369**	**6,528**	**222**	**190**	**8,309**

The following table shows the exposure by business sector and region as at December 31, 2015:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	4	2,314	1	1	2,319
Financial services	663	865	0	34	1,562
Public sector	500	987	106	67	1,659
Industry	36	930	0	36	1,002
Trade and commerce	0	693	0	0	693
Services	6	571	0	3	580
Real estate business	0	117	0	0	117
Tourism	0	100	0	0	100
Agriculture	0	112	0	0	112
Other	6	433	0	3	442
Total	**1,215**	**7,122**	**107**	**142**	**8,587**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Group's core countries in South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail business.

Presentation of exposure by size classes

Around 36.1% (2015: 39.0%) of the exposure is found in the size range <= EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 2.6 billion (2015 year-end: EUR 1.4 billion) of exposure in the range > EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

	31.12.2016		31.12.2015	
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	486	316,610	488	332,519
10.000-50.000	947	42,427	847	36,997
50.000-100.000	580	8,375	713	10,178
100.000-250.000	522	3,637	746	5,179
250.000-500.000	227	660	283	827
500.000-1.000.000	234	336	276	397
1.000.000-10.000.000	1,439	485	1,662	582
10.000.000-50.000.000	1,169	57	1,211	57
50.000.000-100.000.000	71	1	935	14
> 100,000,000	2,632	8	1,427	6
Total	**8,309**	**372,596**	**8,587**	**386,756**

64.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

		31.12.2016		31.12.2015
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	2,271	109	1,784	119
2A-2E	3,242	989	3,167	1,182
3A-3E	1,588	631	1,766	804
Watch	277	143	464	273
NPL	9	5	28	21
No rating	21	4	24	12
Total	**7,407**	**1,880**	**7,232**	**2,410**

The non-performing loans stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant. The receivables for which no specific risk provisions were identified are treated under the portfolio risk provisions approach.

Overdue but not impaired financial assets:

EUR m

		31.12.2016		31.12.2015
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers				
- overdue to 30 days	128	37	106	58
- overdue 31 to 60 days	19	9	38	27
- overdue 61 to 90 days	4	3	8	5
- overdue 91 to 180 days	1	0	1	1
- overdue 181 to 365 days	0	0	1	1
- overdue over 1 year	0	0	2	2
Total	**152**	**49**	**156**	**95**

The primary reason for not taking into account specific risk provisions for the exposures over 90 days is that, after performing an impairment test, there is a need for a specific risk provision for impairment losses of EUR 0 through primary and secondary cash flows.

Impaired financial assets:

EUR m

Loans and advances to customers	31.12.2016	31.12.2015
Exposure	750	1,198
Provisions	514	759
Collateral	420	709

The factors that are considered when identifying impairment are stipulated in the Default Detection and Recovery Policy. Events which indicate objective evidence that a financial instrument may be impaired are listed in note Exposure by Rating class.

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of SRP. Consequently, an impairment calculation according to note “Method of calculating provisions” is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.
The over-collateralization (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the applied provisioning methodology (SRPci), in which no collateral values are recognized.

64.6.1. FORBEARANCE
In the year 2016, the Addiko Group developed its Forbearance Policy based on based on CRR Regulation (EU) 575/2013 of the European Parliament and of the Council and on the Commission Implementing Regulation (EU) No. 2015/227, Annex V.

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments (“financial difficulties”). Therefore, a good knowledge of the financial situation of the borrower is of utmost importance and must result in a correct analysis of the reasons for a modification of existing terms and conditions. Based on these financial difficulties, the bank decides (i.e., gives concessions toward the borrower):

a) to modify the previous terms and conditions of the contract to allow the borrower sufficient ability to service the debt, that would not have been granted had the borrower not been in financial difficulties,
b) to restructure the contract, either totally or partially, that would not have been granted had the borrower not been in financial difficulties (refinancing means the use of new debt contracts to ensure the total or partial payment of other debt contracts the current terms of which the borrower is unable to comply with).

If a modification of contract and financial difficulties based on qualitative bank expert judgment are identified, the forbearance decision is taken and a daily algorithm starts automatically. The different types of modifications (interest rate reduction, partial debt write-off, debt restructuring, debt to equity swap, payment holidays on interest and principal above 6 months, repayment made by taken possession of the collateral, etc.) are available and identified in the system. Forbearance measures and risks are monitored by the Retail Restructuring and Non-Retail Task Force and are done as a part of the regular semi-annual review.

In the assessment, a forbearance measure shall be considered as an indicator when performing an impairment test according to IAS 39.59 (c). In accordance with IAS 39.63, the entity shall measure the amount of the impairment loss as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate (specifics are considered for floating interest rates, hedge accounts). In all the cases in which the present value of estimated future cash flows, discounted at the original effective interest rate, is lower than the asset’s carrying amount, an impairment loss must be recognized. It is important to note that, the terms non-performing, default and impaired are standardized and harmonized within the Addiko Group.

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2016. The off balance positions only include loan commitments.

EUR m

	OPENING balance 1.1.2016	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2016
Central banks	0	0	0	0	0	0	0
General governments and government related entities	16	0	-6	0	0	-1	10
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	11	0	0	0	0	11
Non-financial corporations	299	37	-129	-1	0	-31	175
Households	223	41	-195	0	2	-1	70
Loans and advances	**539**	**89**	**-331**	**-1**	**2**	**-32**	**265**
Loan commitments given	6	1	-5	0	0	-1	1

Forbearance exposure was as follows in 2016:

EUR m

	Closing Balance 31.12.2016	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	10	7	0	2	0
Credit institutions	0	0	0	0	0
Other financial corporations	11	0	0	11	0
Non-financial corporations	175	29	1	146	8
Households	70	27	1	41	3
Loans and advances	**265**	**63**	**2**	**200**	**11**

Forbearance exposure was as follows in 2015:

EUR m

	Closing Balance 31.12.2015	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	16	14	0	2
Credit institutions	0	0	0	0
Other financial corporations	0	0	0	0
Non-financial corporations	299	91	9	198
Households	223	84	16	122
Loans and advances	**539**	**190**	**25**	**323**

The distribution of internal collateral values (ICV) in connection with forborne receivables in 2016 is as follows:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarante es	thereof other
Public Finance	3	2	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	55	52	0	0	0	3
Medium and Small Corporate	62	52	3	0	2	5
Retail	52	12	38	0	1	0
Total	**172**	**117**	**42**	**1**	**3**	**9**

64.6.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2016, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 6.4 million (2015: EUR 26.5 million), of which EUR 2.0 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfillment of a credit contract by a customer. This includes especially assets from the leasing business (e.g. vehicles) and rescue acquisitions from the banking business (especially real estate). The Addiko Group does not have inventories according to IAS 2.

(65) Country risk

65.1. Definition

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all because of governmental directives or economic/political problems. For example, country risk may arise from a possible deterioration of national economic conditions, a political or social upheaval, the nationalization or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargoes, wars, revolutions, or coups d'état in the respective country.

65.2. General requirements

As part of its business activities and in pursuit of its long-term strategy, the Addiko Group knowingly assumes country risks that are limited in size.

65.3. Risk measurement

Country risk is measured in relation to the exposure relevant to country risk for each country and takes into account the respective external country rating and the country's specific LGD (loss given default) and PD (probability of default) in accordance with the Capital Requirements Regulation (CRR).

Exposure relevant to country risk is composed of all non-EMU cross-border transactions for which a currency mismatch between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted) exists.

The Internal Ratings Based (IRB) approach for companies, banks and countries as outlined in the CRR is used in order to quantify country risk. The country risk determined by this method is backed by economic capital.

65.4. Risk limitation

Country risk is restricted by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit being discussed and approved by the Executive Board.

Cross-border transactions by the Group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries are subject to separate controls that emanate directly from the Executive Board.

65.5. Risk control and monitoring

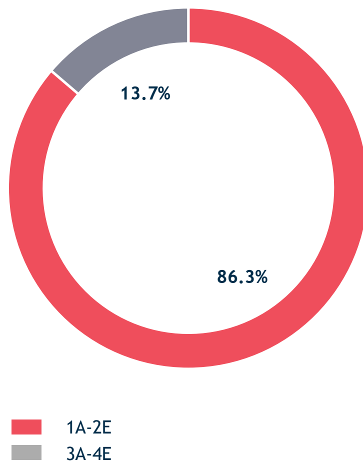
Integrated Risk Management centrally monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Executive Board as part of regular country limit utilization reporting. Ad-hoc reports are additionally prepared upon request.

65.6. Portfolio overview – country risk

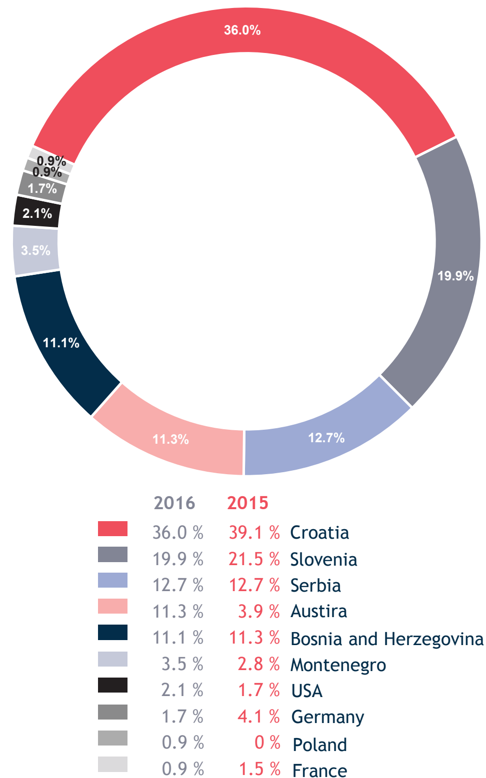
Exposure by country rating:
The share of exposure in countries with ratings better than 3A amounts to 86.3% (year-end 2015: 86.6%).

Consequently, around EUR 1.1 billion of exposure was in countries with a rating between 3A and 4E at the end of 2016 (2015: EUR 1.1 billion). The following graph shows the exposure by country rating and the top 10 countries by exposure (country share in top 10 total exposure) for 2016 as well as their share in top 10 exposures in 2015.

Exposure country rating breakdown
in percent



Top 10 countries by exposure in 2016
in percent



2016	2015	
36.0 %	39.1 %	Croatia
19.9 %	21.5 %	Slovenia
12.7 %	12.7 %	Serbia
11.3 %	3.9 %	Austira
11.1 %	11.3 %	Bosnia and Herzegovina
3.5 %	2.8 %	Montenegro
2.1 %	1.7 %	USA
1.7 %	4.1 %	Germany
0.9 %	0 %	Poland
0.9 %	1.5 %	France

Top 10 countries by exposure:
The figures are broken down according to the country of the customer's registered office. The top 10 countries' share in the overall volume stands at 94.6% (2015: 94.9%). As was the case in 2015, Croatia and Slovenia account for the largest share. The Addiko Group's clear strategy is to focus on the core markets in the SEE network. In the reporting period, the Austrian portfolio increased significantly, mainly due to a rise in exposures of banks and the public sector, from 3.9% of the top 10 portfolio in 2015 to 11.3% at the end of 2016.

(66) Participation risk

66.1. Definition
In addition to counterparty default risks from the credit business, risks from participations may also be incurred (shareholder risks). These include potential losses from equity provided, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (coverage of losses).

66.2. General requirements
The handling of participation risks is descriebed in the "ICAAP Policy". The policy also governs the differentiation between participations that are strategic and those that are non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for participations at the Addiko Group and at its strategic and non-strategic participations across the Group, as well as to describe the participation process, controlling and reporting in more detail. The Addiko Group influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees. In addition, all participations are continuously monitored regarding results and risk.

66.3. Risk measurement
The Addiko Group uses the PD/LGD approach pursuant to Article 155 (3) CRR for measuring participation risk for the ICAAP.

66.4. Risk control and monitoring
In Group Integrated Risk Management, the Addiko Group has its own independent central unit with the authority to set guidelines on all methods and processes connected with the management of participation risk. The respective business units are responsible for the operational implementation of risk controlling instruments.

The Group's strategic participations are integrated into the annual strategy and planning process of the Addiko Group. Representation on shareholder and supervisory committees allows the Group to exert influence over business and risk policies. When it acts as a provider of equity capital or a lender of capital, the Group evaluates the additional risks, especially those arising from its status as a lender of capital.

(67) Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These include, in particular, concentrations of loans and advances in individual industry sectors, geographic regions as well as concentrations from an uneven distribution of collateral providers.

As a result, the Addiko Group analyzes, measures and manages the following concentration risks:

- Counterparty default concentrations (see the paragraph on presentation of exposure by size classes in note "Portfolio overview - credit risk"),
- Industry sector concentration risks (see the paragraph on exposure by business sector and region in note "Portfolio overview - credit risk"),
- Geographical concentrations (see the paragraph on portfolio overview – country risk in note "Country risk"),
- Collateral concentrations,
- Concentration risks from large indirect loans,
- Concentration risks from investments in assets, financing and maturities, and Concentrations from correlating risk factors,
- Counterparty default, industry sector and collateral concentrations are measured, managed and secured by capital within the context of the regular ICAAP calculations. Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor which, based on the type of concentration, is dependent on the amount of credit volume.

(68) Market price risk

68.1. Definition
Market risks consist of potential losses arising from a change in market prices. The Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Addiko Group places a special emphasis on identifying, measuring, analyzing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

68.2. General requirements
The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury unit. Resolutions on the combined business and risk strategy at Group level are passed exclusively in the Group Asset Liability Committee (Group ALCO) and are discussed in the risk committee.

68.3. Risk measurement

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a specific time period for each risk factor.

The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so-called “stress tests”, and analyzed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Corresponding back-testing is performed on the applied methods and models for defined market risk factors and portfolios at Group level.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks of the Addiko Group. The interest rate risk in the banking book is predominantly integrated into ongoing risk monitoring according to the value at risk in market risk controlling.

Contractual cancellation rights are modelled as an option and taken into account in the risk calculation. All stochastic positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept.

Alongside the value at risk calculation, classic interest rate gap analysis is also used to measure interest rate risk in the banking book. Present value changes from the 200 base points interest shock scenario, which is still a regulatory requirement, always remain under the threshold of 20% of own capital funds at the Addiko Group. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

68.4. Risk limitation

A limit for market risk of the distributable risk capital has been set for the Addiko Group. This defined risk capital represents the maximum loss for assuming market risks. The allocation of market risk capital is carried out based on a defined limit application process, setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity price risk (customer default and investments) and credit spread risk) and taking into account a market risk limit reserve. Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the market risk limit system early on.

68.5. Risk control and monitoring

In market risk reporting, the value at risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are updated on a daily basis. Should limits be exceeded, escalation processes are defined up to the level of the Executive Board.

The Group Executive Board also receives a separate monthly report on the current market risk situation of the Addiko Group. The control of interest risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest risk statistics. The Group Asset Liability Committee – which consists of the Group’s Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyze and decide on measures related to controlling the structure of the statement of financial position as well as liquidity. In addition to Group-level controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

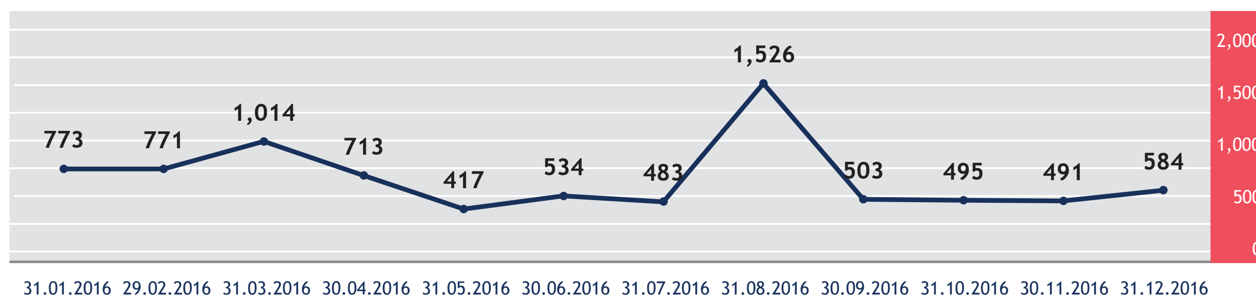
68.6. Overview – market risk

68.6.1. INTEREST RATE RISK
The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group in 2016 (comparable VaR figure as at December 31, 2015: EUR 1.57 million).

The interest rate gap profile for the Addiko Group contains all interest-rate-relevant items (whether included in the statement of financial position or not) with their next interest rate fixing date and/or their replicated interest sensitivity. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest rate gap profiles of local banks and local leasing companies are consolidated at Group level and combined into the Group interest rate gap profile. All interest-bearing items in the statement of financial position are taken as the basis for calculating interest-rate risk and thus limited risks. Any non-interest-bearing items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Development in interest risk for the Addiko Group in 2016:

Interest Rate Risk (Trading Book + Banking Book) – VaR (99,0 %, 1 day)
EUR thousand



The trading items of the Addiko Group were relatively stable in 2016. Changes in interest risk mainly resulted from adjustments to rolling interest positions and shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.8% on average in 2016 as compared to 5.6% on average in 2015).

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges (fair value hedges), thereby mitigating interest risk.

Regulatory requirements state that the proportion of interest risk – in the form of the standardized 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well-balanced. Non-interest-bearing (NIB) positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

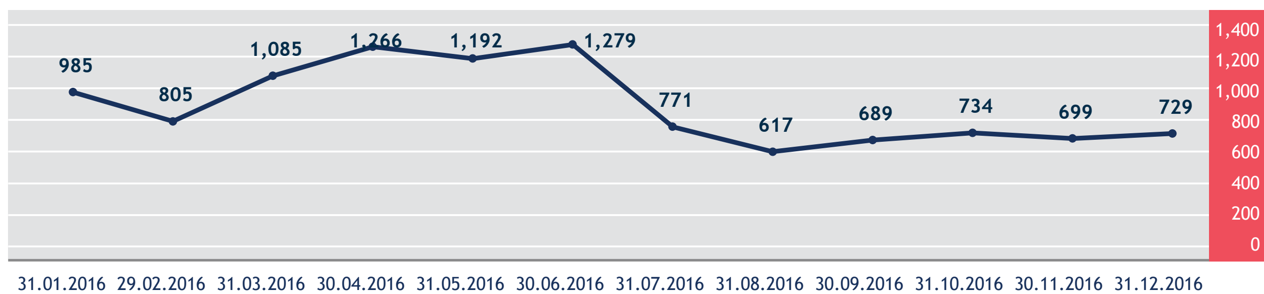
The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at December 31, 2016 amounts to EUR 153 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2015 was EUR 217 thousand.

68.6.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for foreign currency risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of the Addiko Group. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at December 31, 2016 is roughly EUR 0.80 billion (volume per December 31, 2015 of approx. EUR 0.51 billion), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign currency risk was approximately EUR 0.73 million per day as at December 31, 2016 (value at risk as at December 31, 2015: EUR 0.94 million), at a confidence interval of 99.0%. The limit of EUR 2.00 million was adhered to as at December 31, 2016.

Development in foreign currency risk for the Addiko Group in 2016:

Open Foreign Currency Position Risk – VaR (99,0 %, 1 day)
EUR thousand



Aside from foreign currency risk from operating activities, the Addiko Group is also exposed to an additional foreign currency risk from the consolidation of the Addiko AGs strategic investment in Addiko a.d. Beograd (volume of approx. EUR 0.17 billion) and Addiko d.d. Zagreb (volume of approx. EUR 0.36 billion) as recorded in the statement of financial position. As at December 31, 2016, the value at risk (99.0%, one day) of this foreign currency risk was approx. EUR 0.73 million (value at risk as at December 31, 2015: EUR 0.99 million). The strategic currency risk thus represents the majority of the risk in open currency items at the Addiko Group.

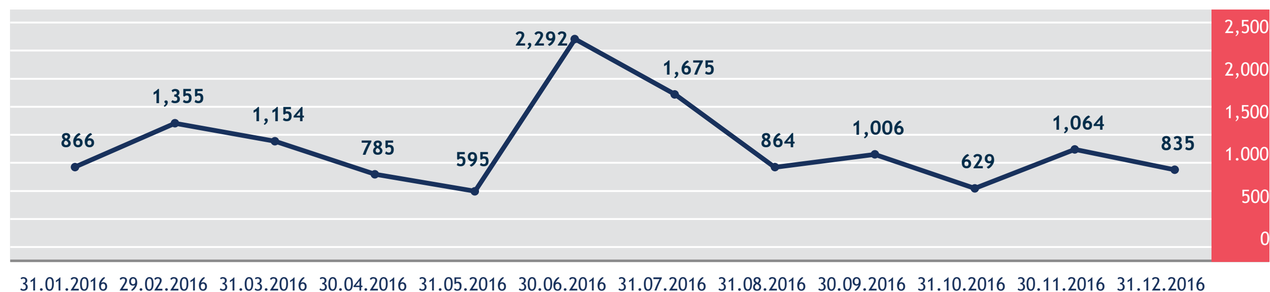
68.6.3. EQUITY PRICE RISK

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Addiko Group makes a distinction between equity price risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments). The value at risk for the equity price risk (customer default) at the Addiko Group amounted to EUR 4,704 as at December 31, 2016 (value at risk as at December 31, 2015: EUR 5,059) with a one-day holding period and a confidence level of 99.0% and EUR 2,280 (value at risk as at December 31, 2015: EUR 3,763) for the equity price risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at December 31, 2016.

68.6.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.84 million at year-end 2016 with a one-day value at risk and a confidence level of 99.0% (value at risk as at December 31, 2015: EUR 0.37 million). The limit of EUR 2.50 million was adhered to as at December 31, 2016. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items.

Development in credit spread risk at the Addiko Group in 2016:



68.6.5. IMPACT OF "BREXIT" ON MARKET RISK

In a referendum on June 23, 2016, a majority of the United Kingdom electorate voted in favor of the UK leaving the European Union ("Brexit"). At the Addiko Group, fluctuations in volatility primarily in the CDS area caused by Brexit mainly had an impact on the credit spread risk and on economic profit and loss. However, the effects on market risk caused by Brexit and the corresponding sudden rise in credit spread VaR as well as economic losses were back to their original level (both from a risk and from a profit and loss perspective) only a few days after the referendum, owing to a further restriction of the credit spread relevant to the Addiko Group.

(69) Liquidity risk

69.1. Definition

The Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

69.2. General requirements

The strategic principles of handling liquidity risks at the Addiko Group are defined in the liquidity risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. A Liquidity Risk Policy and a Liquidity Risk Manual that apply across the entire Group govern the content and organizational framework for the management and controlling of liquidity risks.

At the Addiko Group, liquidity controlling and management at Group level are the responsibility of Group Balance Sheet Management & Treasury. It is here that the steering of situational and structural liquidity and the coordination of funding potential at Group level take place. The local treasury units are responsible for operational liquidity steering and liquidity offset. At the Addiko Group, liquidity risk controlling at Group level is the responsibility of the CSF Market & Liquidity Risk division. At a local level, the respective risk controlling units are in charge. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The Addiko Group has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

69.3. Risk measurement

The main methodological tool for measuring, analyzing, monitoring and reporting on liquidity risk within the Addiko Group is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realizable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favorable conditions. It shows options regarding the coverage of liquidity gaps and hence all liquidity risks related to cash flows. The most important components of the liquidity coverage potential (counterbalancing capacity) are as follows:

- Securities eligible for Central Bank
- Securities eligible for Repo
- Credit claims eligible for Central Bank or Repo
- Obligatory reserves (countable)
- Cash reserves at Central Bank (locked)
- Other liquefiable assets
- Committed/required credit lines
- New issuance and securitization

In addition to the normal scenario, the risk measurement spectrum is supplemented by other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation crises), market crises (restrictive funding options on the capital market, increased cash outflow as well as transfer limits) as well as combined scenarios.
On the basis of the liquidity overviews, key indicators are determined for the different scenarios which allow a compact assessment of the liquidity situation. In addition, an internal liquidity coverage ratio limit restricts the short-term liquidity risk.
For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal net stable funding ratio limit restricts the structural liquidity risk.

69.4. Risk control

A bundle of different liquidity reserves ensures the Addiko Group's solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

In 2016, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	524,200
Securities eligible for Repo	439,667
Credit Claims eligible for Central Bank or Repo	2,187
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	119,935
Counterbalancing Measures	**Addiko Group countable**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,085,989**

In 2015, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	579,021
Securities eligible for Repo	503,263
Credit Claims eligible for Central Bank or Repo	7,779
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	161,640
Counterbalancing Measures	**Addiko Group countable**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,251,703**

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for the Group through the Group holding.
A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. For the purposes of short-term controlling, forecast data is elicited directly at the sales units based on customer transactions, while planned budget data are used for medium-term controlling.
Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and, as described above, to stress situations, depending on the market situation.
Besides structural controlling, care is also taken to ensure that general regulatory requirements in the various Group countries are adhered to. From 2015 onwards, in Austria this also includes LCR compliance. Moreover, since the end of September 2016, the Addiko Group has reported on and complied with the LCR pursuant to the Delegated Regulation.

69.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the key indicators LCR, NSFR, local loan stable funding ratio (LLSFR), the liquidity value at risk (LVaR) as funding spread risk as well as time-to-wall under normal and stress conditions and, on the other hand, through the integration of the structural liquidity risk into the bank's overall controlling. Appropriate limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity coverage potential, threshold values are defined for all scenarios; and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the responsible controlling units.

69.6. Overview – liquidity situation

Overall, the liquidity situation of the Addiko Group in 2016 was characterized by a liquidity surplus. All liabilities were met without the need to draw on liquidity reserves. Capital market activities were therefore not necessary.

At a Group-wide growth to approx. EUR 4.4 billion, the Addiko Group recorded a continuously positive development in primary funds. Since October 2016, direct deposits are gathered with the Austrian banking license via a German broker using an online platform. On the basis of anticipated inflows and outflows, a comfortable liquidity position is also expected for 2017.

For the purposes of further diversification and thus a reduction of existing concentrations of funding, the direct deposit gathering in Germany was introduced as a complementary measure to the expansion of the deposit business in the SEE units.

Below is a breakdown of maturities for the financial liabilities of the Addiko Group, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day,

- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day. Equity components, provisions, impairment and positions not relevant to liquidity are not represented.

EUR m

At 31 December 2016	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,875	3	0	1,878
Financial assets held for trading	3	14	1	17
Available-for-sale financial assets	341	820	149	1,309
Loans and advances	1,035	1,489	1,256	3,780
Held-to-maturity investments	74	8	0	83
Non-current assets and disposal groups classified as held for sale	39	0	0	39
Subtotal	*3,367*	*2,333*	*1,406*	*7,107*
Financial liabilities				
Financial liabilities held for trading	2	6	1	9
Erfolgswirksam zum beizulegenden Zeitwert bewertete finanzielle Verbindlichkeiten	0	25	0	25
Financial liabilities measured at amortized costs	4,287	1,606	147	6,040
Derivatives - Hedge accounting	0	3	4	7
Liabilities included in disposal groups classified as held for sale	3	0	0	3
Subtotal	*4,292*	*1,640*	*152*	*6,084*
Total	**-924**	**693**	**1,254**	**1,023**

As at December 31, 2016, assets relevant to liquidity at the Addiko Group came to EUR 7.1 billion. The main item of EUR 3.8 billion is attributable to loans and advances, which therefore represent 53.2% of assets. About EUR 3.4 billion (47.4%) of these are due in one year or less (2016). The negative liquidity gap in the first year is casued by the static view in which all positions mature with their contractual maturity. New business as well as rollover of running-off business are not included in this view. Such the closing of the gap of the liquidity transformation with planned business is not shown here.

Liabilities totaled EUR 6.1 billion – 70.5% of which are due in one year or less.

EUR m

At 31 December 2015	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,216	69	34	1,319
Financial assets held for trading	10	1	0	11
Available-for-sale financial assets	696	523	43	1,262
Loans and advances	1,317	1,494	1.452	4,263
Held-to-maturity investments	3	59	20	82
Subtotal	*3,242*	*2,146*	*1,549*	*6,937*
Financial liabilities				
Financial liabilities held for trading	18	2	8	28
Financial liabilities measured at amortized costs	4,370	1,750	113	6,233
Derivatives - Hedge accounting	0	11	7	18
Subtotal	*4,388*	*1,763*	*128*	*6,279*
Total	**-1,146**	**383**	**1,421**	**658**

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book (hedge accounting): Hedge transactions with regard to asset items of the statement of financial position (e.g. fixed rate bonds)

- Market risk steering B2B: Back-to-back transactions by the Addiko Holding on the basis of the hedge requirement of the individual subsidiaries
- Market risk steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

EUR m

At 31 December 2016	1 Y -2017	2 Y -2018	3 Y -2019	4 Y -2020	5 Y -2021	> 5 Y (> 2021)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-3	-3	-3	-2	0	0	-11
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	0	0	-1	0	0	0	-1
Total	**-3**	**-3**	**-3**	**-2**	**0**	**0**	**-11**

* relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at December 31, 2016, the simulated total of cash flows from derivatives relevant to liquidity was EUR -11 million.

EUR m

At 31 December 2015	1 Y -2016	2 Y -2017	3 Y -2018	4 Y -2019	5 Y -2020	> 5 Y (> 2020)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-7	-5	-5	-3	0	0	-20
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	-8	1	1	0	0	0	-6
Total	**-15**	**-5**	**-3**	**-3**	**0**	**0**	**-26**

* relevant to liquidity

As at December 31, 2015, the simulated total of cash flows from derivatives relevant to liquidity was EUR -26 million.

(70) Operational risk

The Addiko Group defines operational risk (OpRisk) as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks, but not reputational risks and strategic risks. The aim of operational risk management at the Addiko Group is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses).

The Addiko Group's Internal Control System (ICS) is closely linked to OpRisk management and aims to ensure the protection of owner and investor assets as well as the reinforcement of trust in the accuracy of reporting. In order to achieve these goals, uniform high standards in reporting - with regard to national and international standards - are required to be applied and controlled. The Internal Control System defines the basis for complying with the implemented standards and for measuring their sustainability.

Subsidiaries included in the scope of consolidation are required to implement operational risk within the context of the respective local conditions based on standardized methods defined by the Group. The OpRisk responsibility of sub-organizations of the subsidiaries is in the responsibility of the subsidiary concerned.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results. Operational risks are identified and evaluated so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined. The following methods are used to support the strategy:

- Loss database for the systematic recording of operational risks throughout the entire organization
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board. The current threshold for the reporting of losses within the Addiko Group has been set at EUR 5,000.

OpRisk 2016 milestones and results

Several restructuring measures were implemented in the Addiko Group in 2016. In the course of this transformation process, the decision was taken to strengthen the OpRisk area and to introduce a cross-national Central Steering Function, ensuring that OpRisk at holding level as well as at all relevant subsidiaries is subject to structured risk management despite the restructuring measures. Special emphasis was placed on the holding in the fourth quarter, increasingly performing pro-active risk management. In particularly, risk-relevant processes were actively assessed with regard to their risk in cooperation with process management.

The focus was and will remain on the following matters:

- Raising awareness and training
- Active control and risk management
- Data analysis and data quality improvement measures
- Reporting and management reporting
- Tool improvement measures

(71) Object risk

At the Addiko Group, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by the Addiko Group. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Capital requirements are calculated according to the methodology of the Standardized Approach. To this end, the market value is multiplied by a risk weighting of 100% and then by a weighting factor.

(72) Other risks

The following risk types are backed up with capital under “Other risks”:

- Strategic risk and business risk
- Capital risk
- Legal risk
- Residual risk arising from loan-reducing methods
- Risk arising from excessive debt
- Securitization risk
- Macro-economic risks
- Risks arising from money laundering and financing of terrorism
- Systemic risks
- Model risks
- Risks arising from new business or new markets

For the “Other risks” an economic capital is considered in the risk bearing capacity calculation.

(73) Risks in the portfolio relating to historical interest rate directives

Extensive Group-wide surveys on interest rate directives in loan agreements have been conducted at Group level already since the first half of 2013. In order to effectively monitor the associated legal risks and as a consequence of the abandonment of the cap on the minimum CHF rate in January 2015, a regular reporting on legal and regulatory measures, pending legal proceedings as well as developments in connection with foreign currency loans, particularly in CHF, was implemented at the South Eastern European subsidiaries. The reporting's purpose is to determine, monitor and accordingly cover by legal provisions the legal risk resulting from these developments and from the pending legal disputes.

a) Monitoring and provisioning of legal risks
Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group-wide monitoring of such legal disputes has been intensified as a consequence of the increasing number of regulations on handling foreign currency loans in the South Eastern European countries (e.g. “forced conversion”). Regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary. Ultimately, the reports consolidated on the basis of the information gathered serve as the foundation for strategic business decisions taken by the Executive Board and Supervisory Board. Starting in 2017, a Litigation and Claims Manager will take over the Group-wide monitoring of legal disputes.

b) Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions

Particularly in the past ten years, numerous private customers in South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous three years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organizations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Serbia, Croatia, Slovenia, Bosnia and Herzegovina, and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

The subsidiary bank in Slovenia, Addiko Bank d.d. Ljubljana, has been party to nine legal disputes in connection with CHF loans since 2015. Addiko Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, as first-instance courts in similar proceedings against other Slovenian banks have passed verdicts in favor of the banks. While the regulatory authority (Slovenian central bank) and the Slovenian ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against the Addiko subsidiary bank; neither are there plans for any corresponding legal amendments.

In Serbia, the class action filed by the bank customer “Efektiva” against Addiko Bank a.d. and two other banks was already rejected in favor of the defendants at first instance in 2014. No ruling has been issued yet on the appeal against the verdict lodged by the interest group. However, it is expected that the appeal will be rejected in favor of Addiko Bank a.d., as the constitutional court declared those provisions of the civil procedural law permitting a class

action filed by an association as unconstitutional. Currently, there are indications that the courts — due to the significant increase in value of the CHF — may change their judgments in CHF loan proceedings, rule in favor of the complaining customer and permit a termination of CHF loan agreements. The first final verdict in this respect was passed by a second-instance court in Novi Sad in September 2016. The court rejected the appeal lodged by Erste Bank Beograd and confirmed the first-instance verdict according to which the CHF loan agreement may be terminated due to changed circumstances. The Serbian subsidiary bank also faces a similar court verdict at the second-instance court in Beograd, where the first-instance verdict originally decided in favor of the subsidiary bank was set aside. Furthermore, the first-instance court was ordered by the second-instance court to determine whether a considerable increase in the CHF exchange rate occurred during the term of the loan. An indication as to the outcome of the CHF loan proceedings in Serbia will be offered by a supreme court statement on these new lower-instance judgments. The supreme court statement is expected for March 2017.

As for the two subsidiary banks in Serbia and Slovenia, while there have not been any legislative initiatives yet, there have been regulatory initiatives. In Serbia, the National Bank of Serbia issued binding recommendations to all banks back in May 2013 stating that customers who took out CHF loans must be granted certain relief (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. Furthermore, the National Bank of Serbia's "Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans", which came into force in March 2015, provides for four contract amendment models (e.g. conversion into EUR based on certain criteria) which the bank must offer to customers who have taken out residential construction loans in foreign currencies and intend to convert their repayment instalments. Addiko Bank a.d. in Serbia has already fulfilled the implementation obligations resulting from the regulatory measures. However, it should be noted that only a small number of all borrowers accepted the offer. Legislative regulations are not expected in Serbia due to little media and political interest.

The same applies to Slovenia, where so far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. In any case, the resulting potential effects are investigated independently at bank level and are compensated for in compliance with the measures taken at Group level.

In Bosnia and Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia and Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented the CHF Loan Settlement Project BiH. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards conversion of CHF into the national currency BAM. More than 79% of customers requested a conversion. For more than 65% of eligible customers, the conversion was already performed (information as at November 30, 2016). The number of claims in this respect has therefore decreased considerably.

In Bosnia and Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighboring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In December 2015, the national parliament adopted a proposal for a law on the forced conversion of CHF loans into the national currency in its first reading. However, the bill did not pass the second reading, as the national parliament is not legally authorized to adopt a law like that at a whole-state level. In the Republik Srpska (one of the two Bosnian legal entities), the bill for a law regarding the retrospective conversion of CHF loans (similar to the bill at national level) was put on the agenda of the Srpska parliament as an urgent item. However, the bill was not passed there. The second legal entity, the Federation of Bosnia and Herzegovina, accepted the law regarding the conversion (similar to the bill at national level) in its proposed form. However, it is still unclear whether the law will ultimately be passed, as the government of the Bosnia and Herzegovina entity has made negative comments on the bill. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia and Herzegovina entity.

In Croatia, the supreme court ruled in favor of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favor of the plaintiff, the bank consumer association "Potrošač", in respect of the unlawfulness of the unilateral interest rate adjustment clause. Eight Croatian banks are affected by this ruling, including Addiko Bank d.d. in Zagreb, which has lodged an extraordinary appeal against it. At third instance, the second-instance verdict was confirmed in all respects, with the addition that the borrowers included in the class

action cannot exert any direct claims from the verdict but have to file individual complaints. Currently, 548 proceedings against the Croatian subsidiary bank at first or second instance are pending. At first instance, civil courts have passed opposing verdicts in cases where plaintiffs concluded supplementary agreements on loan conversion pursuant to the consumer loan law: On the one hand, decisions were taken in favor of the bank, as from the point of view of the court, consumers having given their consent to convert the loan in line with the consumer loan law are no longer entitled to seek legal remedy. On the other hand, decisions were taken in favor of the plaintiff, as according to the court, the consumer loan law deals with currency issues and not with unilateral interest rate adjustments, therefore the latter would have to be decided by a court on a case-by-case basis. Furthermore, the bank filed an objection with the constitutional court against the third-instance verdict in 2015, in which verdict the unlawfulness of the unilateral interest rate adjustment clause had been confirmed. When the constitutional court will pass a verdict cannot be predicted from a current point of view.

The amendment to the consumer protection law passed in Croatia, according to which the exchange rate between HRK and CHF was fixed at 6.39 for a period of one year, ended on January 27, 2016. Addiko Bank d.d. in Croatia extended the period of the fixed exchange rate until April 1, 2016 on a voluntary basis. Furthermore, the Croatian subsidiary has concluded supplementary agreements on loan conversion under consumer loan law with a majority of its CHF borrowers in 2016 (the respective legal amendment became effective at September 30, 2016). Also in the case of the Croatian Addiko Bank d.d., an objection was filed with the constitutional court, claiming the above-stated law to be unconstitutional. The proceedings are still pending as no verdict has been issued yet. While the success assessment clearly points towards a positive outcome of the proceedings also in this case, a decision ordering the repeal of the unconstitutional law would only take legal effect in the future and would not compensate for any of the considerable losses from the conversion.

No significant developments are to be reported with regard to Addiko Bank AG in Montenegro. As in the previous year, a total of six legal proceedings on the subject of foreign currency loans are pending, two of which class actions. As the success assessment clearly points towards the bank prevailing in this legal dispute, the bank is optimistic about the further course of the proceedings.

National legislators and the respective national regulators have also increasingly taken action regarding the issue of foreign currency loans. This tendency has been considerably reinforced as a consequence of the abandonment of the exchange rate cap in January 2015. Starting in Montenegro, the national legislator has passed regulations on handling foreign currency loans which are meant to protect the borrower from the consequences of the abandonment of the exchange rate cap. At bank level, legislative intervention has a negative effect on the operative banking business and results in considerable losses.

On September 23, 2016, the law amending the CHF loan conversion law came into effect. Under this law, ongoing and already repaid loans are to be converted, not making a difference as to whether loans were repaid as scheduled or paid back due to distrainment orders. If, due to the conversion (as prescribed by law), it turns out that the customer has paid too much, the bank is required to reimburse the customer. Additionally, the bank may not charge a contractual penalty for the conversion. Furthermore, the bank is required to offer recalculation to those customers who have not accepted a conversion so far.

In accordance with the law amending the CHF loan agreement conversion law into EUR, the subsidiary bank in Montenegro has converted the respective loans and performed recalculations. The bank therefore acted in full compliance with legal provisions.

The following table shows the CHF exposure (in EUR million) per institute country of the Addiko Group as at December 31, 2016.

EUR m

	31.12.2016		31.12.2015	
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Holding	1,354	2	842	14
Addiko Slovenia	1,596	118	1,791	140
Addiko Croatia	3,108	99	3,668	699
Addiko in Bosnia and Herzegovina	991	74	1,012	170
Addiko Serbia	986	157	1,041	193
Addiko in Montenegro	274	9	234	19
Total	**8,309**	**460**	**8,587**	**1,236**

Mainly as a result of the conversion of CHF loans performed in the first half-year and primarily in Croatia and Montenegro, the Addiko Group was able to significantly reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 1,236 million at the end of 2015 to EUR 460 million at the end of 2016.

(74) Legal risks

Ten major passive legal proceedings (all with amounts in dispute of over EUR 15 million) are currently pending across the entire Addiko network. The majority of pending proceedings relate to the Croatian subsidiary. It is estimated that the subsidiary banks are very likely to prevail in those proceedings. Furthermore, mainly claims for damages are only pending in Bosnia and Herzegovina.

Moreover, there are pending proceedings relating to FX transactions, margin increases and interest rate clauses at the subsidiary banks which are described in more detail under note “Risks in the portfolio relating to historical interest rate directives”.

Addiko Bank AG itself has been involved in legal proceedings (amount in dispute: EUR 223 million) as Second Defendant, with HETA Asset Resolution AG being First Defendant. The claim for damages was filed with the commercial court in Zagreb by a Croatian real estate project development company and was served on Addiko Bank AG on October 20, 2015. Subject of the claim is the sale of several subsidiaries of Hypo Alpe Adria Consultants Holding AG (hereinafter “Consultants” Group) to Plaintiff, which sale was carried out by Hypo Alpe-Adria-Bank International AG (“HBInt”, legal predecessor of HETA Asset Resolution AG) in 2006 and 2007. Addiko Bank AG takes the view that the claim is unfounded and that in particular Addiko Bank AG is not in a position to be made party to the proceedings, as its predecessor (Hypo Phönix Absicherungs GmbH) was only established in 2010 and had thus not even existed at the time of the Consultants sale in 2007. The timely submitted response to the claim included this argument. As the proceedings are still at a very early stage (no hearing date has been scheduled so far and there were no developments worth noting in 2016), reliable estimations as to the outcome cannot be made yet.

Supplementary information

(75) Analysis of remaining maturities

EUR m

Analysis of remaining maturity as at 31.12.2016	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Cash, cash balances at central banks and other demand deposits	1,279.8	591.3	4.2	2.6	0.4	**1,878.2**
Financial assets held for trading	0.1	1.4	1.6	13.7	0.7	**17.4**
Available-for-sale financial assets	112.9	55.1	172.6	820.1	148.6	**1,309.3**
Loans and receivables	390.2	118.5	526.2	1,488.5	1,256.3	**3,779.9**
Held-to-maturity investments	0.0	40.6	33.6	8.4	0.0	**82.6**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	**0.1**
Non-current assets and disposal groups classified as held for sale	0.0	0.5	38.8	0.0	0.0	**39.3**
Total	**1,783.0**	**807.4**	**777.1**	**2,333.3**	**1,406.1**	**7,106.8**
Financial liabilities held for trading	0.0	2.1	0.1	6.4	0.5	**9.1**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	**25.0**
Financial liabilities measured at amortized cost	1,822.8	599.3	1,864.6	1,606.2	147.4	**6,040.4**
Derivatives - Hedge accounting	0.0	0.0	0.0	2.6	4.3	**6.9**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	2.7	0.0	0.0	**2.7**
Total	**1,822.8**	**601.4**	**1,867.4**	**1,640.2**	**152.2**	**6,084.1**

EUR m

Analysis of remaining maturity as at 31.12.2015	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Cash, cash balances at central banks and other demand deposits	756.0	414.0	45.8	68.8	34.4	**1,319.0**
Financial assets held for trading	3.2	2.3	4.2	1.1	0.0	**10.8**
Available-for-sale financial assets	95.9	177.8	422.3	522.7	42.7	**1,261.3**
Loans and receivables	283.3	429.2	604.2	1,494.4	1,451.8	**4,262.8**
Held-to-maturity investments	0.0	2.6	0.0	59.1	20.2	**81.9**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.1	0.0	**0.1**
Non-current assets and disposal groups classified as held for sale	3.8	219.4	117.1	0.0	0.0	**340.4**
Total	**1,142.3**	**1,245.2**	**1,193.7**	**2,146.1**	**1,549.1**	**7,276.4**
Financial liabilities held for trading	0.1	17.9	0.2	2.4	8.1	**28.6**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	**25.0**
Financial liabilities measured at amortized cost	1,359.0	1,274.9	1,736.4	1,749.6	112.7	**6,232.5**
Derivatives - Hedge accounting	0.0	0.0	0.0	11.4	7.1	**18.4**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	6.1	0.0	0.0	**6.1**
Total	**1,359.0**	**1,292.8**	**1,742.7**	**1,788.4**	**127.8**	**6,310.7**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported sepa-

rately for each partial amount. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(76) Maturities pursuant to IAS 1

EUR m

31.12.2016	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,875.3	3.0
Financial assets held for trading	3.1	14.4
Available-for-sale financial assets	340.6	968.7
Loans and receivables	1,035.0	2,744.8
Held-to-maturity investments	74.2	8.4
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	70.4
Intangible assets	0.0	17.3
Tax assets	2.6	0.0
thereof current tax assets	2.6	0.0
thereof deferred tax assets	0.0	0.0
Other assets	18.7	0.2
Non-current assets and disposal groups classified as held for sale	39.3	0.0
Total	**3,388.7**	**3,827.4**
Financial liabilities held for trading	2.2	6.9
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortized cost	4,286.7	1,753.6
Derivatives - Hedge accounting	0.0	6.9
Provisions	45.9	61.9
Tax liabilities	0.3	1.1
thereof current tax liabilities	0.0	1.0
thereof deferred tax liabilities	0.3	0.1
Other liabilities	27.9	0.1
Liabilities included in disposal groups classified as held for sale	2.7	0.0
Total	**4,365.8**	**1,855.6**

EUR m

31.12.2015	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,215.9	103.1
Financial assets held for trading	9.7	1.1
Available-for-sale financial assets	696.0	565.4
Loans and receivables	1,316.7	2,946.1
Held-to-maturity investments	2.6	79.3
Derivatives - Hedge accounting	0.1	0.1
Tangible assets	1.0	106.2
Intangible assets	0.0	12.4
Tax assets	3.1	0.0
thereof current tax assets	3.1	0.0
thereof deferred tax assets	0.0	0.0
Other assets	16.0	0.4
Non-current assets and disposal groups classified as held for sale	340.4	0.0
Total	**3,601.3**	**3,814.2**
Financial liabilities held for trading	18.2	10.5
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortized cost	4,370.3	1,862.2
Derivatives - Hedge accounting	0.0	18.4
Provisions	265.3	53.9
Tax liabilities	1.0	0.1
thereof current tax liabilities	0.0	0.0
thereof deferred tax liabilities	1.0	0.1
Other liabilities	30.4	1.4
Liabilities included in disposal groups classified as held for sale	6.1	0.0
Total	**4,691.4**	**1,971.6**

(77) Finance leases

At the end of 2016, the entire leasing portfolio of the Slovenian leasing company was sold. The reported figures can therefore only be compared to the previous-year figures to a limited extent.
Receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2016	31.12.2015
Minimum lease payments (agreed instalments + guaranteed residual value)	5.2	186.9
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	**5.2**	**186.9**
up to 1 year	0.0	30.6
from 1 to 5 years	5.2	125.3
over 5 years	0.0	31.0
Unrealized financial income (interest) (-)	-0.4	-16.8
Net investment value (=)	**4.8**	**170.1**
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	**4.8**	**170.1**
up to 1 year	2.4	31.7
from 1 to 5 years	2.4	111.2
over 5 years	0.0	27.2

The accumulated provisions for impairment losses for uncollectible outstanding minimum lease payments from finance leases for 2016 amount to EUR 0.0 million (2015: EUR 2.9 million).

The total amount of contingent rental payments from finance leases recognized as revenue in the reporting period was EUR 0.0 million (2015: EUR 7.3 million).
Assets leased under finance leases (leased assets) break down as follows:

EUR m

	31.12.2016	31.12.2015
Movables - boats and motor vehicles	0.0	106.7
Real-estate leases	0.0	3.1
Other movables	4.8	60.2
Total	**4.8**	**170.1**

(78) Operating leases

Due to the classification of the Croatian leasing company – which owns the largest share of the Addiko Group's operating lease business - as IFRS 5, the reported figures can only be compared to the previous-year figures to a limited extent.

The future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2016	31.12.2015
up to 1 year	0.2	6.7
from 1 year to 5 years	0.1	10.0
more than 5 years	0.0	0.2
Total	**0.3**	**16.9**

The breakdown of minimum lease payments from non-cancellable operating leases, by leased assets, is as follows:

in EUR Mio.

	31.12.2016	31.12.2015
Tangible assets	0,0	13,3
Investement properties	0,3	3,7
Gesamt	**0,3**	**16,9**

(79) Assets/liabilities in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

EUR m

	31.12.2016	31.12.2015*
Assets	2,240.7	2,695.1
Liabilities	2,177.3	2,905.4

Previous-year figures adjusted: In the financial year 2015, assets in the amount of EUR 3,494.8 million as well as liabilities in the amount of EUR 3,286.4 million were reported.

The majority of the difference between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(80) Return on total assets

As at December 31, 2016, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to -0.3% (2015: -8.8%).

(81) Transfer of financial assets - repurchase agreements

At year-end, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

At year-end 2015, the following repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed:

EUR m

31.12.2015	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilites	Of which: repurchase agreements
Loans and receivables	**50.6**	**50.6**	**26.9**	**26.9**
Loans and advances	50.6	50.6	26.9	26.9
Total	**50.6**	**50.6**	**26.9**	**26.9**

(82) Assets pledged as collateral

Assets in the amount of EUR 23.7 million (2015: EUR 40.2 million) were pledged as collateral for own debts to third parties. These are cash collaterals pledged as collateral in relation to derivatives. Further, securities in the amount of EUR 10.6 million (2015: EUR 15.9 million) were deposited with the Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognized in the Addiko Group's statement of financial position.

(83) Contingent liabilities and other liabilities not included in the statement of financial position

The following commitments not included in the statement of financial position existed at the reporting date:

EUR m

	31.12.2016	31.12.2015
Loan commitments given	465.7	405.1
Financial guarantees given	132.6	175.2
Other commitments given	167.9	118.7
Total	**766.3**	**699.0**

(84) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2016	31.12.2015
Financial assets held for trading		
Debt securities	13.7	1.1
thereof listed	4.3	1.1
thereof unlisted	9.5	0.0
Available-for-sale financial assets		
Equity instruments	17.7	22.2
AFS-other participations (associates 0% -20%)	4.2	8.3
thereof listed	0.1	0.3
thereof unlisted	4.1	8.0
AFS-shares and other non- fixed-interest securities	13.5	13.9
thereof listed	0.0	0.0
thereof unlisted	13.5	13.9
Debt securities	1,291.6	1,239.2
thereof listed	1,154.6	1,054.9
thereof unlisted	137.0	184.3
Held-to-maturity investments		
Debt securities	82.6	81.9
thereof listed	82.6	81.9
thereof unlisted	0.0	0.0

(85) Expenses for the auditor

The following expenses for the auditor Deloitte were incurred in the reporting period:

EUR m

	31.12.2016	31.12.2015
Audit fees for the annual financial statements	**-0.6**	**-2.1**
Expenses for the current year	-0.6	-2.1
Expenses relating to the previous year	0.0	-0.1
Fees for other services	**-2.3**	**-4.0**
Other assurance services	0.0	-0.2
Other services	-2.2	-3.8
Total services	**-2.9**	**-6.2**

The audit expenses incurred in the financial year 2016 include the net audit fee (excluding VAT) as well as the related cash expenditure. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Deloitte Audit Wirtschaftsprüfungs GmbH, the total amount also includes services rendered directly by other companies within the Deloitte network to Addiko AG or to its Group companies.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) financial statements, the Group reporting packages of the subsidiaries audited by companies within the Deloitte network, as well as the costs of the consolidated financial statements themselves.

In the previous year expenses for the the auditor included expenses for both Deloitte Audit Wirtschaftsprüfungs GmbH and KPMG Austria GmbH as well as expenses for companies within the Deloitte and KPMG network.

(86) Measurement categories in accordance with IAS 39

The statement of financial position as at December 31, 2016 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2016
Cash, cash balances at central banks and other demand deposits	1,878.2						1,878.2
Financial assets held for trading		17.4					17.4
Available-for-sale financial assets				1,309.3			1,309.3
Loans and receivables	3,779.9						3,779.9
Held-to-maturity investments					82.6		82.6
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,658.1**	**17.4**	**0.0**	**1,309.3**	**82.6**	**0.1**	**7,067.5**
Financial liabilities held for trading		9.1					9.1
Financial liabilities designated at fair value through profit or loss			25.0				25.0
Financial liabilities measured at amortized cost	6,040.4						6,040.4
Derivatives - Hedge accounting						6.9	6.9
Total financial liabilities	**6,040.4**	**9.1**	**25.0**	**0.0**	**0.0**	**6.9**	**6,081.4**

The statement of financial position as at December 31, 2015 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2015
Cash, cash balances at central banks and other demand deposits	1,319.0						1,319.0
Financial assets held for trading		10.8					10.8
Available-for-sale financial assets				1,261.3			1,261.3
Loans and receivables	4,262.8						4,262.8
Held-to-maturity investments					81.9		81.9
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,581.8**	**10.8**	**0.0**	**1,261.3**	**81.9**	**0.1**	**6,936.0**
Financial liabilities held for trading		28.6					28.6
Financial liabilities designated at fair value through profit or loss			25.0				25.0
Financial liabilities measured at amortised cost	6,232.5						6,232.5
Derivatives - Hedge accounting						18.4	18.4
Total financial liabilities	**6,232.5**	**28.6**	**25.0**	**0.0**	**0.0**	**18.4**	**6,304.6**

Explanations:

LAR:	loans and receivable	FVO:	designated at fair value through profit and loss (fair value option)
LAC:	liabilities at cost	AFS:	available for sale
HFT:	held for trading	HTM:	held to maturity

(87) Net gains or losses on financial instruments

The net gains and losses on financial instruments by category are as follows:

EUR m

1.1. - 31.12.2016	Net interest income	Measurements and sale	Risk provisions	Other comprehensive income (OCI)
Loans and receivables	211.0	0.3	4.4	
Financial assets held for trading	5.0	0.3		
Available-for-sale financial assets	14.4	9.1		-0.6
Held-to-maturity investments	4.0	-0.1		
Derivatives - Hedge accounting, interest rate risk	2.7			
Other assets	1.0			
Financial liabilities measured at amortized cost	-69.9	0.0		
Financial liabilities held for trading	-5.2	0.0		
Derivatives - Hedge accounting, interest rate risk	-1.7			
Other liabilities	-2.6			
Total	**158.7**	**9.5**	**4.4**	**-0.6**

EUR m

1.1. - 31.12.2015	Net interest income	Measurements and sale	Risk provisions	Other comprehensive income (OCI)
Loans and receivables	252.2	-0.1	-318.1	
Financial assets held for trading	6.0	0.0		
Available-for-sale financial assets	12.3	-0.2		8.0
Held-to-maturity investments	4.1	-0.2		
Derivatives - Hedge accounting, interest rate risk	8.8			
Other assets	1.3			
Financial liabilities measured at amortized cost	-90.7	-6.8		
Financial liabilities held for trading	-3.7	0.0		
Derivatives - Hedge accounting, interest rate risk	-9.6			
Other liabilities	-0.5			
Total	**180.1**	**-7.4**	**-318.1**	**8.0**

(88) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on the fair value origin, the following fair value hierarchy results:

Quoted prices in active markets (Level I)
The fair value of financial instruments traded in active markets is best established through quoted prices where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (Level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using observable prices or parameters must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported under Level I if prices are quoted in an active market. If no quoted prices are available, they are reported under Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortized cost. Equity instruments measured at amortized cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows. These are reported under Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under Level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under Level II or Level III depending on the input factors used.

Fixed-interest receivables and liabilities
The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under Level I. The fair value is determined on the basis of risk premium curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under Level II or Level III. They are reported under Level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under Level III.

Hedge accounting
Within the scope of hedge accounting, the Addiko Group uses only fair value hedges to hedge the market values of financial instruments. Receivables hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the receivable. The hedge serves above all to minimize the market value risk caused by interest rate changes.
No separate calculation of the fair value was carried out so as to hedge interest rate risks.
As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.
For this purpose, the Addiko Group established the expected series of payments for each financial instrument and discounted it at a rate based on market data.

88.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value to their level in the fair value hierarchy.

EUR m

31.12.2016	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Financial assets held for trading	4.3	13.2	0.0	17.4
Available-for-sale financial assets	1,112.8	193.5	2.9	1,309.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**1,117.1**	**206.8**	**2.9**	**1,326.8**
Liabilities				
Financial liabilities held for trading	0.0	9.1	0.0	9.1
Financial liabilities designated at fair value through profit or loss	0.0	0.0	25.0	25.0
Derivatives - Hedge accounting	0.0	6.9	0.0	6.9
Total	**0.0**	**16.0**	**25.0**	**41.0**

There were no reclassifications between the individual levels in 2016.

EUR m

31.12.2015	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Financial assets held for trading	1.1	9.7	0.0	10.8
Available-for-sale financial assets	941.1	311.7	8.5	1,261.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**942.3**	**321.5**	**8.5**	**1,272.3**
Liabilities				
Financial liabilities held for trading	0.0	28.6	0.0	28.6
Financial liabilities designated at fair value through profit or loss	0.0	0.0	25.0	25.0
Derivatives - Hedge accounting	0.0	18.4	0.0	18.4
Total	**0.0**	**47.1**	**25.0**	**72.1**

There were no reclassifications between the individual levels in 2015.

The reconciliation of the assets reported under Level III as at December 31, 2016 was as follows:

EUR m

31.12.2016	Balance at start of period (+)	Total gains/ losses	Changes in Available For sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	8.5	0.0	0.0	0.0	-5.6	0.0	0.0	0.0	2.9
Total	**8.5**	**0.0**	**0.0**	**0.0**	**-5.6**	**0.0**	**0.0**	**0.0**	**2.9**
Liabilities									
Financial liabilities designated at fair value through profit or loss	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**25.0**

The column “Total gains/losses” contains both income and expenses from financial instruments which were held as at December 31, 2016, as well as from financial instruments which were no longer on the books as at December 31, 2016.

The reconciliation of the assets reported under Level III as at December 31, 2015 was as follows:

EUR m

31.12.2015	Balance at start of period (+)	Total gains/ losses	Changes in Available for sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	2.6	0.0	7.5	0.0	-1.5	0.0	0.0	-0.1	8.5
Total	**2.6**	**0.0**	**7.5**	**0.0**	**-1.5**	**0.0**	**0.0**	**-0.1**	**8.5**
Liabilities									
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	25.0
Total	**0.0**	**0.0**	**0.0**	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**25.0**

The column “Additions (+)” presents liabilities for which significant changes in the repayment terms occurred due to specific agreements made during the privatization process between the current and the previous owner. The nominal amount of these liabilities is EUR 100.0 million and the fair value amounts EUR 25.0 million.

88.1.1. MEASUREMENT METHODS USED TO DETERMINE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.
While market prices for some of the Level III items are provided externally, the market prices are either supplied with low frequency or from only one source.
The following measurement techniques are applied to items that are measured internally based on models:

Present value of the future cash flows
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

Option measurement models
The existing portfolio of Level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

88.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. This applies to the risk premium of the Addiko Group.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

88.1.3. FAIR VALUE ADJUSTMENTS

Credit value adjustment (CVA) and debt value adjustment (DVA)

Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting
The Addiko Group measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

88.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognized financial instruments and assets not carried at fair value are compared to the respective fair values below:

EUR m

31.12.2016	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,779.9	3,710.4	-69.5	0.0	0.0	3,710.4
Held-to-maturity investments	82.6	93.8	11.2	93.8	0.0	0.0
Investment properties	2.5	2.7	0.1	0.0	0.0	2.7
Non-current assets and disposal groups classified as held for sale	39.3	39.3	0.0	0.0	0.0	39.3
Total	**3,904.3**	**3,846.2**	**-58.3**	**93.8**	**0.0**	**3,752.4**
Liabilities						
Financial liabilities measured at amortized cost	6,040.4	6.006,6	33,8	0.0	176.8	4,588.2
Total	**6,040.4**	**6.006,6**	**33,8**	**0.0**	**176.8**	**4,588.2**

EUR m

31.12.2015	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	4,262.8	4,237.7	-25.1	0.0	0.0	4,237.7
Held-to-maturity investments	81.9	81.2	-0.7	81.2	0.0	0.0
Investment properties	2.5	2.5	0.0	0.0	0.0	2.5
Non-current assets and disposal groups classified as held for sale	340.4	280.2	-61.1	0.0	0.0	280.2
Total	**4,687,6**	**4,337.3**	**-85.9**	**81.2**	**0.0**	**4,256.0**
Liabilities						
Financial liabilities measured at amortized cost	6,232.5	6,314.4	-82.0	0.0	28.3	6,286,1
Total	**6,233.7**	**6,314.4**	**-82.0**	**0.0**	**28.3**	**6,286,1**

* Previous-year figures adjusted: In 2015, an amount of EUR 18.3 million was reported as fair value.

The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, uncertainties with regard to the calculation of the own credit spread exist. The calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in SEE/CEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists.
The fair value of held-to-maturity financial assets is determined based on external price sources.
The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method.

(89) Offsetting

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognized financial assets and financial liabilities. Also reported are the amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the statement of financial position.

EUR m

	31.12.2016	31.12.2015
ASSETS	Derivative financial instruments	
a) Gross amounts of recognized financial instruments (I and II)	**1.7**	**3.5**
b) Amounts that are set off for financial instruments I	1.7	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.0**	**3.5**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	3.5
Amounts related to financial collateral (including cash collateral);	0.0	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

* Financial instruments I: financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

	31.12.2016	31.12.2015
LIABILITIES	Derivative financial instruments	
a) Gross amounts of recognized financial instruments (I and II)	**15.5**	**30.8**
b) Amounts that are set off for financial instruments I	1.7	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**13.8**	**30.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	3.5
Amounts related to financial collateral (including cash collateral);	13.8	27.3
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

* Financial instruments I: financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination (e.g. insolvency), these are not offset in the statement of financial position.

(90) Derivative financial instruments

90.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

EUR m

	31.12.2016			31.12.2015		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**411.7**	**2.3**	**7.1**	**378.2**	**3.1**	**12.3**
OTC options	39.8	0.1	0.3	12.1	0.2	0.3
OTC other	371.9	2.2	6.8	366.1	2.9	12.1
b) Foreign exchange and gold						
OTC-products	**468.6**	**1.4**	**2.0**	**1,361.9**	**6.6**	**16.3**
OTC other	468.6	1.4	2.0	1,361.9	6.6	16.3

90.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2016			31.12.2015		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**54.0**	**0.1**	**6.9**	**129.8**	**0.0**	**18.4**
OTC other	54.0	0.1	6.9	129.8	0.0	18.4
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**11.7**	**0.1**	0.0
OTC other	0.0	0.0	0.0	11.7	0.1	0.0
FAIR VALUE HEDGES	**54.0**	**0.1**	**6.9**	**141.5**	**0.1**	**18.4**

The majority of derivative transactions serves the purpose of hedging fluctuations related to interest rates and foreign currency rates. Primarily, micro hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of derivatives, see note (9) Financial instruments: recognition and measurement, and note (12) Hedge accounting.

(91) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l.. 96.4% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 4.6% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Developemnt (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Key management positions at the Company or the parent company are the Executive Board and the Supervisory Board of Addiko Bank AG as well as the executive boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

Business relations with related parties are as follows at the respective reporting date:

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**5.8**	**2.1**	**0.2**
Loan and advances	0.0	0.0	0.0	2.1	0.2
Debt securities	0,0	0,0	5,8	0,0	0,0
Financial liabilities	**66.9**	**0.0**	**0.0**	**2.0**	**0.2**
Deposits	0.0	0.0	0.0	2.0	0.2
Other financial liabilities	66.9	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Notional amount of derivatives	**0.0**	**0.0**	**0,0**	**0.0**	**0.0**

EUR m

31.12.2015	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**4.9**	**0.0**
Equity instruments	0.0	0.0	0.0	0.0	0.0
Loan and advances	0.0	0.0	0.0	4.9	0.0
Financial liabilities	**0.0**	**0.0**	**0.0**	**3.0**	**0.0**
Deposits	0.0	0.0	0.0	3.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Notional amount of derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-6.9	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees	0.0	0.0	0.0	0.0	0.0
Total	**-6.9**	**0.0**	**0.0**	**0.0**	**0.1**

EUR m

31.12.2015	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.1	0.0
Interest expenses	0.0	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**

Remuneration received by key members of management at the Company or the parent company are presented as follows:

EUR m

	31.12.2016	31.12.2015
Short-term benefits	9.5	6.5
Benefits after termination of employment relationship	0.0	0.0
Other long-term benefits	0.2	0.0
Payments resulting from the termination of employment relationships	0.0	0.0
Share-based payment	0.0	0.0
Gesamt	**9.7**	**6.5**

The relationships with members of the Executive Board and Supervisory Board of Addiko Bank AG are shown in detail in note (96) Relationships with members of the Company's boards.

(92) Own capital funds as defined by the CRR

The following table presents the own funds requirements within the Group including transitional arrangements with the capital requirements as at December 31, 2016 according to the CRR at IFRS amounts and the CRR scope of consolidation (Addiko Group and AI Lake Group). Since September 30, 2015 the regulatory reports have been provided at the level of Addiko Bank AG (holding), the Addiko Group and the AI Lake Group.

The own capital funds of the AI Lake Group as well as the Addiko Group as defined by EU Regulation 575/2013 (CRR) are made up as follows:

EUR m

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO
Core Capital (T1 = CET1)	**749.1**	**671.4**	**795.0**	**728.4**
Paid-in capital	56.0	5.0	57.8	5.0
Reserves and non-controlling interests	657.9	713.6	3.1	1,422.8
Intangible assets	-17.3	-17.3	-12.4	-12.4
Result after tax and minorities	58.9	-23.9	752.4	-675.2
Adjustments to core capital (Prudential filters)	-6.4	-5.9	-5.9	-11.8
Tier 2 capital (T2)	**0.0**	**60.0**	**0.0**	**0.0**
Own funds (TC = T1 + T2)	**749.1**	**731.4**	**791.1**	**728.4**
Own funds requirements	**377.6**	**376.4**	**425.1**	**425.2**
Surplus - Own capital	**371.5**	**355.0**	**366.1**	**303.1**

* Previous-year figures adjusted: In 2015, an amount of EUR 748.5 million was reported in the position "Result after tax and minorities"

As a means to strengthen the capital structure, Addiko Bank AG received Tier 2 supplementary capital in the amount of EUR 60 million from the parent company AI Lake (Luxembourg) S.à r.l. on March 10, 2016.

The change in the core capital on AI Lake Group level is in particular due to a change of the ownership structure. Since December 2016 the EBRD is co-owner of the financial holding company of the AI Lake Group and is, therefore, compared to the previous structure, no longer presented as minority interests.

in %

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE	ADDIKO
Common Equity Tier 1 ratio	15.9%	14.3%	14.9%	13.7%
Own capital funds ratio	15.9%	15.6%	14.9%	13.7%

EUR m

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE	ADDIKO
Credit risk pursuant to Standardized Approach	**4,024.8**	**3,990.4**	**4,619.5**	**4,605.3**
position-, F/X-, commodities risk	290.2	290.2	269.4	269.4
operational risk	397.3	416.8	416.3	430.6
credit valuation adjustment risk (CVA)	7.5	7.5	10.1	10.1
Total risk position value	**4,719.8**	**4,704.9**	**5,315.3**	**5,315.4**

The Company is a member of the consolidated group headed by AI Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. AI Lake (Luxembourg) Holding S.à r.l. is the most senior parent company for which Addiko Bank AG as the primary credit institution according to the provisions of section 59 BWG produces consolidated financial statements. The consolidated financial statements of AI Lake (Luxembourg) Holding S.à r.l. are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG and are available at Addiko Bank AG headquarters in Vienna

(93) Trading book

The volume of the trading book of Addiko Bank AG breaks down as follows:

EUR m

	31.12.2016	31.12.2015*
Derivatives in trading book(nominal)	173.3	818,7
Debt securities (carrying amount)	13.7	1.1
Trading book volume	**187.0**	**819.8**

*Previous-year figures adjusted: In 2015 in the position Derivatives in trading book (nominal) an amount of EUR 1,741.1 million was presented.

(94) Employee data

	31.12.2016	31.12.2015
Employees at closing date (Full Time Equivalents - FTE)	3,152	3,756
Employees average (FTE)	3,318	3,770

(95) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent:

in TEUR

	31.12.2016		31.12.2015*	
	Severance payments	Pensions	Severance payments	Pensions
Key management personnel	84.0	5.9	32.8	5.6
Other employees	336.9	78.4	521.7	69.8
Members of Executive Board	58.3	18.9	85.6	63.3
Total	**479.2**	**103.2**	**640.1**	**138.7**

*Previous-year figures adjusted: In the previous year, expenses in the amount of EUR 134.4 million were reported under severance payments for other employees.

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 336.0 thousand (2015: EUR 321.0 thousand).

(96) Relationship with members of the Company's boards

96.1. Advances, loans and liabilities with regard to board members

As at December 31, 2016, the Addiko Bank AG boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

96.2. Breakdown of remuneration received by board members of the ultimate Group parent

Remuneration received by the members of the Executive Board and Supervisory Board of Addiko Bank AG for carrying out their functions, received from this or from another Group company, is presented as follows:

in TEUR

	31.12.2016	31.12.2015
Executive Board	**3,944.7**	**2,077.3**
thereof ongoing payments	3,944.7	2,077.3
Supervisory Board	**168.5**	**151.4**
Total	**4,113.2**	**2,228.6**

The members of the Executive Board and Supervisory Board are stated in note (97) Boards of the Company.

(97) Boards of the Company

January 1 to December 31, 2016

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Martin Handrich
Dragica Pilipović-Chaffey

Delegated by the Works Council:
Horst Floriantschitz
Christian Lobner
Saša Nedić, until May 9, 2016

Executive Board

Ulrich Kissing, Chairman of the Executive Board
Johannes Proksch, Member of the Executive Board
Markus Krause, Member of the Executive Board
Csongor Bulcsu Németh, Member of the Executive Board
Martin Stefan Thomas, Member of the Executive Board
Razvan Munteanu, Member of the Executive Board, from January 1, 2016
Christian Kubitschek, Member of the Executive Board, from April 16, 2016

(98) Scope of consolidation

The consolidated group of companies as defined under IFRS as at December 31, 2016 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered offices	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	100.0	31.12.2016	CI
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o.	Ljubljana	100.0	100.0	31.12.2016	FI
Addiko Bank d.d.	Zagreb	100.0	100.0	31.12.2016	CI
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.0	100.0	31.12.2016	FI
ADDIKO INVEST d.d.	Zagreb	100.0	100.0	31.12.2016	FI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	100.0	31.12.2016	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2016	CI
Addiko Bank d.d..	Sarajevo	100.0	100.0	31.12.2016	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8	99.8	31.12.2016	CI

(99) Events after the reporting date

At the end of January 2017, Addiko Bank AG received a decision with regard to the adequacy of its own funds as well as the proceedings with regard to the Group's liquidity (Joint Risk Assessment & Decision Process - JRAD) from the Austrian Financial Market Authority (FMA). Pursuant to this decision, own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, Addiko Bank AG is required to maintain a Total Capital Ratio (TCR) of 12.9% (2016: 14.5%), a TIER I ratio of 9.7% (2016: 10.9%) and a CET 1 ratio of at least 7.2% (2016: 8.1%) at holding level as well as at the level of the Addiko and Al Lake scopes of consolidation. Additionally, the capital conversation buffer is to be taken into account, which increases by 0.625% each year, starting at 0.625% in 2016 and scheduled to reach 2.5% in 2019.

At the beginning of February 2017, the current refinancing lines of Addiko Bank AG were transfered to HETA Asset Resolution AG based on a settlement, resulting in a positive effect on the equity base of the Addiko Group.

The warranties and mutual contractual connections between the current and the previous owner, HETA Asset Resolution AG, which had been agreed upon the disposal of the SEE banking network in 2014, have thus largely been terminated.

On February 14, 2017, Mr. Martin Handrich stepped down as Member of the Supervisory Board.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Martin Stefan Thomas

Razvan Munteanu

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

Auditor's Report

Report on the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Addiko Bank AG, Wien (the Company), and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the Group statement of comprehensive income, the Group statement of changes in equity and the Group statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion
We conducted our audit in with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB] and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee are responsible for overseeing the Group's financial reporting process.

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

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Report on the Management Report for the Group

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code and the Austrian Banking Act.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Vienna, February 23, 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker	Dr. Nikolaus Müller
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

Dear Shareholders,

The fiscal year 2016 marked an important milestone for the Group to begin a new era under the Addiko brand and by means of a successful restructuring the Group started to built the basis for profitable growth and fulfill its promise on delivering long term sustainable business.

In order to achieve operating excellence and cultural transformation, change was the dominant theme in 2016.

In line with the rebranding Addiko Group has established a clear vision of providing Straightforward Banking to the customers across the markets by focusing on essentials, delivering on efficiency and communicating simplicity.

Addiko's target remains on the key segments of Retail, SME and Corporate by focusing its activities on the key trends of digitalization and customer experience. Several key strategic projects, e.g. sales force effectiveness and end-2-end process optimization in Retail and Corporate, support the growth of Addiko's customer business.

The Group made a clean break from the past and decided to refrain from large, structured transactions and large real estate developments. In addition to focusing on its core business, Addiko is in the process of exiting non-core business like leasing and asset management.

An intelligent risk management with a strong risk culture, that balances risk and return, ensures that Addiko's risks are well under control and actively managed. For the Group this is a key to success in profitably growing its customer base and business volume, while ensuring compliance with all national and international regulatory re-quirements and professional compliance standards.

A new target operating model was prepared to achieve the overarching target of moving Addiko into profitability. With the implementation of a matrix organizational structure, a

one-bank approach was achieved, which realizes synergies and supports group wide efficiency and steering, while at the same time creating transparency.

Throughout the year Addiko Bank Group has shown cost discipline and delivered on significant cost reduction.

Local economies in 2016 are improving but are still volatile. Banks in Croatia, Bosnia and Herzegovina and Montene-gro were affected state measures concerning the past lending indexed in Swiss Franc, which impacted financial results of these subsidiary banks.

Activities of the Supervisory Board

During the year under report, the Supervisory Board performed all of the duties incumbent upon it, in a highly conscientious manner and in accordance with the law, the Company's statutes and its own terms of reference.

It assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the quarterly meetings of the Supervisory Board and its' Committees, the Management Board reported in depth on Addiko's financial situation and business performance. The Management Board discussed strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, it undertook the measures necessary to assure itself that the governance of Addiko's affairs was lawful, compliant and appropriate.

The Supervisory Board had formed the following six standing Committees,

- the Audit and Compliance Committee (which held seven meetings in 2016),
- the Credit Committee (which held nine meetings in 2016),
- the Risk Committee (which held five meetings in 2016),
- the Nomination Committee (which held two meetings in 2016),
- the Remuneration Committee (which held three meetings in 2016) and
- the Committee for Management Board Matters (which held two meetings in 2016).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committee's of Addiko's Supervisory Board were in regular contact with the Management Board.

The Supervisory Board within quarterly meetings was regularly informed on topics that included business performance in the previous quarter, financial performance, risk development and significant issues, as well as major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current devel-

opments in the form of monthly business reports. In addition, the Supervisory Board was also received regular reports of key executives, especially the Compliance and Internal Audit Officer.

The strategic discussions conducted by the Management Board and the Supervisory Board included, the aim to establish a final settlement with the previous owner with regard to an early repayment of the provided funding. These discussions intensified during the 2016 fiscal year and within several Supervisory Board meetings, the Management Board reported on the establishment of additional funding capabilities to achieve sufficient funds for an early repayment. During various Supervisory Board meetings, detailed reports on this plan and its inherent opportunities and risks were given, as well as Addiko's liquidity situation was conscientiously assessed. These finally led to the Management Board deciding in favor of an early repayment of the funding and thereby, establish a final settlement with the previous owner. This opinion was shared by the Supervisory Board, which therefore approved to conclude a three party settlement agreement to establish a final settlement within an extraordinary meeting held on the 21st of December 2016 and which was finally executed on the 6th of February 2017.

Personnel matters

At the beginning of 2016, Mr. Razvan Munteanu joined the Management Board of Addiko Bank AG as Chief Retail Banking Officer as of 1st of January 2016, in order to foster the market development within this area.

In addition, Mr. Christian Kubitschek joined the Management team as Chief Financial Officer on 16th of April 2016, while Johannes Proksch, former Chief Financial Officer, assumed the responsibility as Chief Transformation Officer.

During the year under report, changes were also made to the composition of the Supervisory Board, as the representative of the worker's council, Mr. Sasa Nedic decided to leave the company as of 31st of May 2016 and therefore his appointment within the Supervisory Board ceased to exist and the worker's council waived its' right to appoint a further representative.

Separate and Consolidated Financial Statements 2016

Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, registration number 36059d, audited the separate financial statements of Addiko Bank AG and the consolidated financial statements of Addiko Group as of 31st December 2016, as well as the Management Report and issued unqualified audit opinions.

The separate Financial Statements of Addiko Bank AG and the consolidated financial statements of Addiko Group are prepared in accordance with the regulation of the Austrian Banking Act (BWG) and -where applicable- with the provisions of the Austrian Commercial Code (UGB) and the Management Report and the Management Board's pro-posal for the allocation of the annual profit 2016 – all prepared by the Management Board – were thoroughly dis-cussed with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on the 27th of February 2017.

At the meeting, the aforementioned Committee resolved to propose approving the two sets of financial statements by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the committee's recommendations at the meeting of the Supervisory Board on 27th of February 2017. At this meeting the financial statements were examined thoroughly in the presence of the auditor and scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Report on Addiko Bank AG, as well as that of Addiko Group were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Addiko Bank AG has, pursuant to the Austrian Commercial Code in conjunction with the Austrian Banking Act, for the financial year 2016 a profit carried forward (Bilanzgewinn) in amount of EUR 430.0 mil-lion. Accordingly, it is proposed to the upcoming Annual General Meeting to used it as follows: (i) an amount of EUR 130.0 million will be used by the shareholder to fulfill the Tier 2 Loan Agreement concluded with the Company on the 22 February 2017 in order to generate subordinated capital, and (ii) an amount of EUR 300.0 million will be dis-tributed by the Company.

The result of the audit is that the Supervisory Board has no objections to the financial statements and the audit performed by the auditor.

The Supervisory Board therefore concurred with the results of the audit on 27th of February and approved the separate and consolidated financial statements of Addiko Bank AG, as well as the those of Addiko Group. The sepa-rate financial statements have therefore been adopted.

The Supervisory Board would like to express thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in the 2016 and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti
Chairman of the Supervisory Board

Vienna, February 27, 2017

Imprint

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Forward-looking statements and forecasts are based on information and data available at the time of going to press **(February 22, 2017)**. Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a transla-tion. Only the German is the authentic language version. All uses of the third person pro-noun in the masculine form in this Group Annual Report that were used in the interests of better legibility also cover the feminine form.
The Group Annual Report was produced in-house using Fire.sys.

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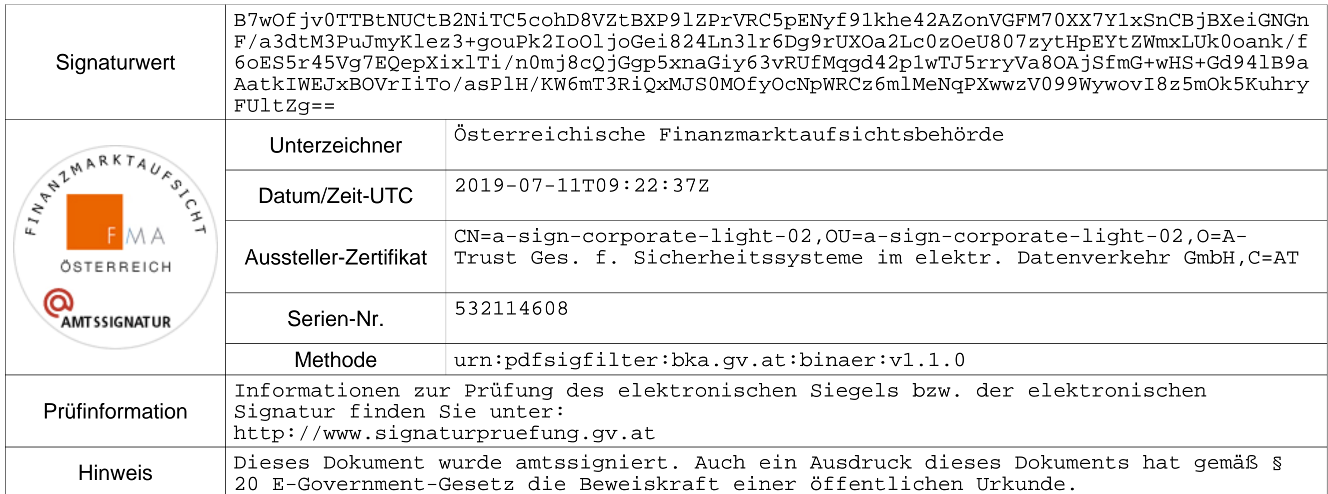

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