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

Group Annual Report 2018

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 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.
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 Al 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 Al 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.

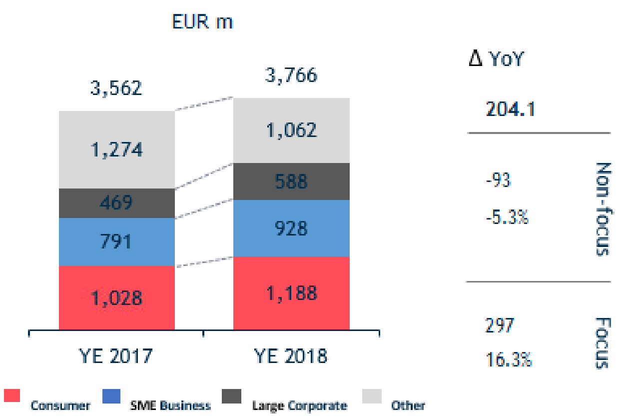
5. Segment reporting

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

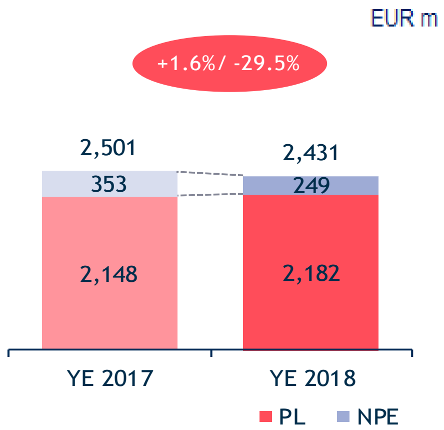
The segment result is driven by the new business strategy to focus on the Consumer lending and payments, while reducing the mortgage portfolio.

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.

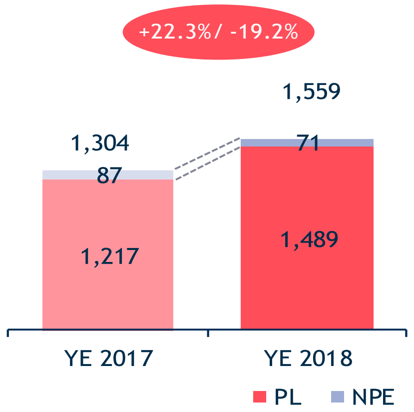
SME YE18 Business review

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.

EUR m



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

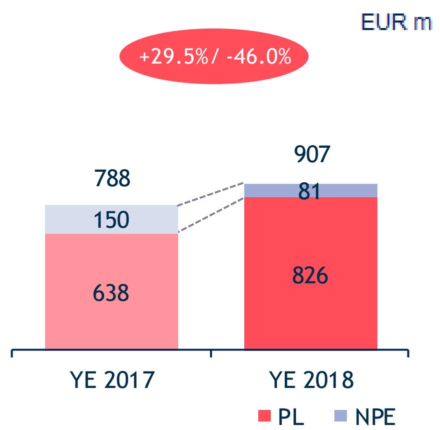
Addiko Bank services the largest local and international companies by centralized and specialized local teams supported by a strong expert unit. This way Addiko Bank is aiming to provide clients with seamless
service of financing across the Group by top quality customer relationship managers.

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

EUR m

Public Finance			
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.

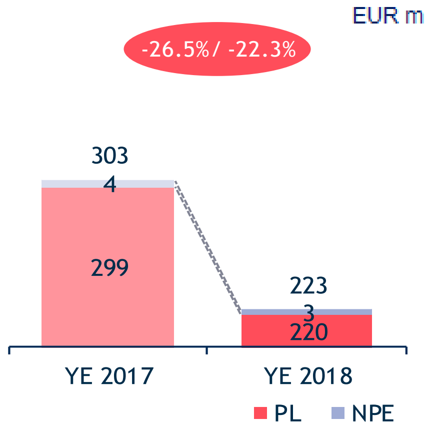
Public Finance YE18 Business review

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 underpenetrated 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

Consolidated Financial Statements

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

	Deferred Tax (netted)	Income statement	2018 Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	2017 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 Al 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 Al 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 bankruptcy 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 Al Lake (uxembourg) S.à r.l. 96.1% o Al Lake (Luxembourg) S.à r.l. is owned by Al Lake (Luxembourg) Holding S.à r.l., and 3.9% by natural persons. Al 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
					ECL			
Financial instruments	Exposure	ECLS1&2	Net	Exposure	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 break-down 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.

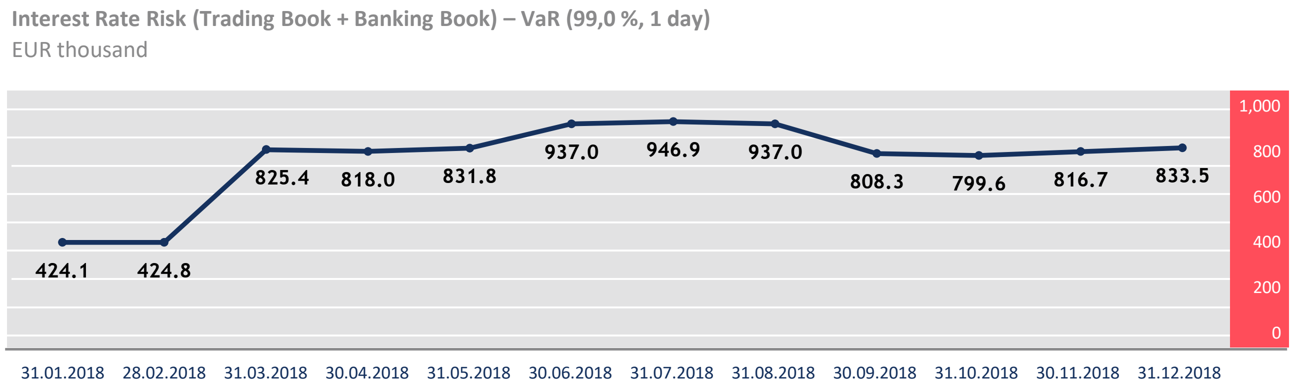
72.2. Risk measurement

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).

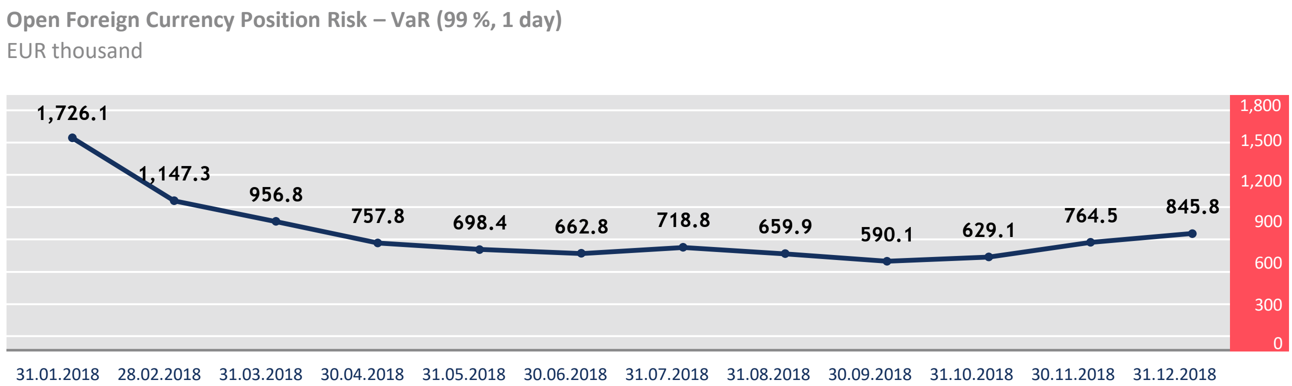
Regulatory requirements state that the proportion of interest risk – in the form of the standardised 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; 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:



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.

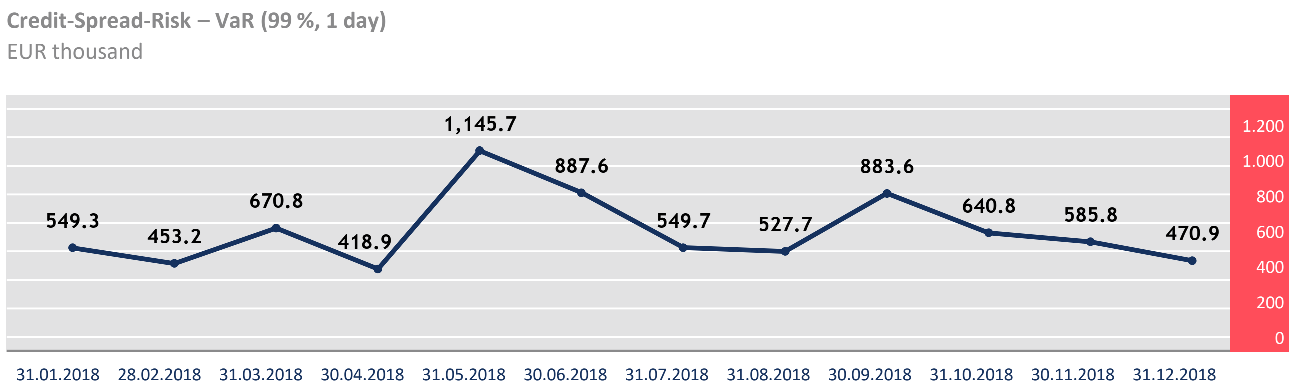
72.3.3. EQUITY RISK

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 Al 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 Al Lake	31.12.2017 Al 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 Al Lake	31.12.2017 Al 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

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