Addiko Bank

Group Annual Report 2017

Addiko Bank

Key data based on the consolidated financial statements drawn up in accordance with IFRS

EUR m

	2017	2016
Selected items of the Profit or loss statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	165.3	158.8
Net fee and commission income	58.5	50.0
Other operating income	3.2	-21.7
Operating expenses	-190.1	-212.4
Operating result	**36.9**	**-25.4**
Impairment or reversal on loans and receivables	-15.1	4.4
Result after tax	**41.6**	**-23.9**
Selected items of the Statement of financial position	**31.12.**	**31.12.**
Loans and advances to customers	3,691.9	3,730.5
Deposits of customers	4,933.8	4,435.6
Equity	844.0	994.7
Total assets	6,485.5	7,216.1
Risk-weighted assets	4,653.1	4,470.8
Key ratios	**1.1.-31.12.**	**1.1.-31.12.**
Cost/income ratio	83.8%	113.6%
Net interest margin	2.4%	2.2%
Bank-specific figures	**31.12.**	**31.12.**
Core Tier 1 ratio	14.9%	15.0%
Total capital ratio	17.1%	16.4%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	2,953	3,152
Number of locations	199	202

Letter from the CEO

Dear Shareholders, Customers and Employees,

we have transformed Addiko Group into a successful SEE Retail and SME bank. The year 2017 is the first year in which Addiko Group's turnaround is visible. All SEE banking subsidiaries achieved positive results, with the Group more than delivering on our market guidance with a first time profit after tax (PaT) of EUR 41.6 million. This result is achieved on a sound basis. We have recorded increased business volume in consumer loans and SME loans and a substantial growth in retail net fee and commission income. Addiko Group is growing client deposits throughout all our markets. As a result of our successful efforts over the year, we have achieved a strong increase in operating profit.

We remain focused on our retail strategy, accelerating disbursements in consumer lending by 27.5% to EUR 559 million and the consumer loan book growing by 49% to EUR 889 million. We have demonstrated the success of straightforward banking; be it the fast and efficient account opening in Serbia and Croatia, the convenient consumer loan processes in Serbia or the opening of our new "Addiko Express" branches in Slovenia and Croatia. As a result, we were able to increase the volume of the newly created account packages by 96,000, increasing the retail net fee and commission income by 21.5%.

Implementing our new SME end-to-end credit process, we reduced our decision time on average by a staggering 40%, which was completed in close cooperation between our Corporate and Risk streams. We have also implemented new SME account packages that meet the needs of our customers and supported our credit decisions, implementing improved cash flow analytics. All these efforts are clearly reflected in the significant growth of our SME loan disbursements by 22.6% to EUR 492 million, outperforming the overall SME market, and in increasing the net fee and commission income in the SME segment by 21%.

Addiko Group invested heavily in its digital platform as we firmly believe that the future of consumer and SME banking is digital and the digital platform reflects our promise of being focused and efficient with significantly improved customer experience. Out of our 1 million customers, digital customers increased by 40% to 140,000, with an overall increase of digital transactions by 33% which clearly confirms the success of our digital strategy in a market that is still dominated by branch business.

We have continued the further growth of client deposits across all SEE countries, resulting in a solid funding base and liquidity position. Customer deposits are supported by online deposits gathering in Germany and Austria.

The positive year-end result of EUR 41.6 million marks a significant year-on-year improvement (2016: EUR -23.9 million) driven by an increase of net interest income (+4.1%) and net fee and commission income (+17%), a further cost reduction of EUR 22.4 million (-10.5%) and very favorable risk costs as part of our improved risk processes.

By additionally improving its lending portfolio and asset quality, Addiko Group has posted a better-than-average NPL ratio of 8.1% (9.2% in 2016) and a solid NPL coverage ratio of 67.0% (67.5% in 2016). Addiko Group has successfully dealt with the negative impacts arising from the economic collapse of a large corporate debtor based in Croatia.

With a strong capital base and an above average TCR of 17.1%, Addiko Group continues to rank amongst the best capitalized banks in the SEE region.

All these results confirm that we are successfully back in business and we highly appreciate that this is also reflected in the view of market surveys and in the media, recognizing our successes and the improved way we serve our customers. We received a reward for our excellent digital platform in Serbia, were acknowledged as the best retail bank in Croatia, and just recently received a certificate for being the most customer friendly bank in Croatia, Serbia and Slovenia.

Addiko Group's results demonstrate what we stand for and what we want to work for in order to achieve customer satisfaction. This customer focus is the real value of Addiko Group as it will support us in the years to come. It is the foundation of our future.

A future built on straightforward banking, delivering customer appreciation and satisfaction which results in financial success – sustainability in its true sense. In 2018, we will continue to significantly invest in our straightforward proposition and customer promise.

We are well on track delivering straightforward banking and achieving long term sustainable profitability and growth.

Truly Yours,

Ulrich Kissing

Chief Executive Officer

Addiko Bank AG

Group Annual Report 2017

Group Management Report

1. Overview of Addiko Group

Addiko Group (herein after referred to also as the Addiko Bank) is an international financial group headquartered in Vienna, Austria, operating through seven banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro with over one million customers. The strategy of Addiko Group is focused on markets in the south- and easteuropean (SEE) region delivering core products and services relevant to the customers, while also providing online deposit services in Austria and Germany. The holding company Al Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor and the European Bank for Reconstruction and Development (EBRD).

Addiko Bank has operated under this name since July 11, 2016 following a successful rebranding and strategic repositioning of Addiko Group providing straightforward banking to its retail and SME target customer base. Addiko Group delivers essential banking products in an efficient way and makes its products and services simple to understand from a customer perspective. In 2017 Addiko Group got recognized locally and internationally as e.g. most innovative brand, highly innovative branch concept and best mobile banking app. Addiko Group successfully concluded partnerships with various companies to create an ecosystem where Addiko Group is a digital challenger to incumbent banks. On the one hand, Addiko Group provides innovative, state-of-the art digital services like peer-to-peer payments on social platforms via Viber banking, and on the other hand, Addiko Group provides a scalable platform through an innovative Target Operating Model (TOM) and balanced outsourcing of non-core activities.

A customer centric business model, a focus on providing high operational stability, significant efforts addressing emerging cyberrisks, and a prudent approach to credit risk management are key pillars of the current operating model.

2. General economic conditions 2017

The GDP growth forecasts for Slovenia, Croatia and Montenegro have been upgraded amid external demand surprises, while keeping forecasts for Serbia and Bosnia and Herzegovina unchanged.

Slovenian GDP increased by 4.9% year on year in Q3/2017, driven by net exports and private consumption, with robust exports and resurgent capex supporting the 2017 growth forecast structurally healthy and tracking 3.2%. That said, stronger export growth reflects the acceleration in the euro area GDP, ongoing competitiveness and a fair movement up the value chain. Slovenian growth, after peaking in 2017, is in 2018 expected to remain at 4,0% with firmer global activity, stronger capital expenditures, post-crisis catch-up effects and domestic demand as the main drivers.

Croatian GDP rose by 3.3% year on year in Q3/2017, driven by private consumption thanks to a stellar tourist season and ensuing robust consumption additionally driven by employment growth and net wage growth, lower savings rates, resurgent consumer credit dynamics and strong car sales. While the ever stronger external demand will continue to push exports, import-driven domestic demand will still produce a negative impact of net trade on the overall growth.

Serbian GDP growth accelerated to 2.1% year on year (vs. 1.2% year on year in H1/2017), driven by private consumption, somewhat stronger investments into tradable sectors and public capex. However, stronger growth was constrained by a drought–inflicted agricultural output slump and the slowly normalizing energy sector.

In Bosnia and Herzegovina, the 2017 GDP growth forecast remains at 2.7% on the back of solid consumption and industry trends in Q3/2017 and beyond, while construction is still in red due to International Monetary Fund tranche absence.

Montenegro´s 2017 GDP forecast was upgraded by 0.5 basis points to 3.7% due to better-than-expected GDP growth in H1 and strong hard data for Q3/2017 and beyond.

The IMF, World Bank and similar institutions expect the SEE countries to grow faster on average compared to the euro zone average GDP growth. Most of SEE countries have also achieved stronger-than-expected fiscal consolidation over the past year, which helps them maintain public debt on a declining path in the short-to-medium run.

3. Significant events in 2017

3.1. Financial performance in brief

The Addiko Group reported a positive profit after tax of EUR 41.6 million at year-end 2017 (EUR -23.9 million in 2016), fulfilling its main goal to return to profitability.

In line with expectations, in 2017 key revenue drivers continued to perform, mainly driven by further growth in the loan portfolio regarding Consumer Finance and Corporate/SME with a healthy composition and continuous improvements in the customer deposits structure and pricing. With the focus on changing the loan portfolio mix towards unsecured lending and small/medium Corporates, the Addiko Group further increased the share of higher margin products in its target areas Consumer Finance (25.0% of interest bearing loan portfolio) and Corporate/SME (36.8% of interest bearing loan portfolio) in 2017. The strategic reduction in less profitable business segments such as mortgages and public finance was continued.

The improved operating profit of EUR 36.9 million (2016: EUR -25.4 million) is a result of the significant progress in the restructuring of the Addiko Group. The cost base was further reduced to EUR 190.1 million (2016: EUR 212.4 million) showing a clear indication that the new strategy of Addiko Group bears fruits.

Net interest income improved by 4.1% to EUR 165.3 million (2016: EUR 158.8 million) with an improved net interest margin at 2.4% (+23 basis points) despite increased interest expenses of EUR 19.3 million (2016: EUR 6.9 million) for the additional Tier 2 capital of EUR 130 million issued in February 2017.

Net fee and commission income improved by 17.0% to EUR 58.5 million (2016: EUR 50.0 million) as a consequence of product and customer focus, as increased sales performance as well as supported by new functionality (dynamic currency conversion) implemented across the whole ATM network as a successful conclusion of the outsourcing of all ATMs to a strategic partner.

Major contributors for this positive performance can be detailed as follows:

New disbursement performance (+19.0% compared to 2016) that exceeded loan book amortization resulting in a stable development of the loan book in all banking subsidiaries.

The shift of the business mix towards the segment Consumer Finance can be seen in the positive development of the cash loan portfolio, showing an increase in volume of 48.9% from EUR 597.0 million in 2016 to EUR 889.0 million in 2017. In addition, the Corporate / SME loan balance increased from EUR 1,185.6 million in 2016 to EUR 1,310.5 million in 2017, showing an improvement of 10,5%. Due to the strategic decision to reduce exposure towards the public segment the public loan volume decreased from EUR 509.3 million in 2016 to EUR 275.1 million in 2017.

Successful further customer deposit gathering reached a total of EUR 4,933.8 million customer deposits (+11.2% since 2016) resulting in a solid funding base and liquidity position with above 90.0% of funding provided by customer deposits, supported by online deposits gathering in Germany and Austria totaling EUR 409.3 million (EUR 233.5 million in 2016) while at the same time reducing overall pricing of deposits in the banking subsidiaries on average by 34 basis points compared to 2016.

Total operating expenses were further reduced by EUR 22.4 million (-10.5% since 2016), to EUR 190.1 million, reflecting the successful conclusion of the restructuring program, the new Target Operating Model and results of further cost improvement initiatives. Total net savings amount to EUR 47.1 million (2015: EUR 237.2 million vs. EUR 190.1 million). Gross savings were significantly higher and a significant portion was invested in qualification and performance management of the future workforce, which in 2017 stabilized below 3,000 FTE's (full time equivalents) with a healthier distribution between front-office and back-office/support functions.

The reduction of NPLs remained above expectations, driven by a strong focus on workout and collection as well as debt sales programs, leading to a decline in non-performing-loans to EUR 605.7 million at year-end 2017 (EUR 760.8 million in 2016). The impact related to the financial troubles of a large corporate debtor based in Croatia has been taken into account. As of year-end 2017, the prudent risk profile is demonstrated by an NPL LLP coverage ratio of 67.0% (2016: 67.5%) and a further reduced NPL ratio to 8.1% (2016: 9.2%). Subsequent to a major reduction in passive legal claims, a net release of EUR 9.5 million in legal provisions contributed as a one-time effect to the results in 2017.

3.2. Addiko brand anniversary

In Q3/2017, the Addiko brand under which the Addiko Group has been operating since July 11, 2016 had its first anniversary. The launch of the new brand marked the start of the business turnaround for the Addiko Group, and its clear focus on strategic business segments, on raising the efficiency of operations and reaffirming Addiko Bank as a strong and stable institution in the SEE region, providing straightforward banking services to its customers.

3.3. Customer centricity driving the business

With Addiko Group dedicated to delivering its straightforward banking brand promise and providing its customers with high quality service, several key initiatives were introduced in 2017 with a goal of further improving customer experience at every touchpoint.

The already implemented Sales Force Effectiveness (SFE) program in Retail and the End-to-End (E2E) credit process improvement project in Corporate/SME, both already delivered tangible results with an immediate positive impact on branch performances and sales of all targeted products, and a significantly faster loan approval process, while the new account packages and advanced client advisory services contributed to a double digit growth in the SME living loan volumes.

Addiko Bank made significant improvements in raising the service quality and in fostering customer loyalty by introducing new unique services, opening state-of-the-art digital "Express" branches, by enabling online current account openings, by significantly reducing the paperwork for a loan approval and by forming of a special new Customer Experience Committee.

The results of the customer-centric approach and growing customer satisfaction are also acknowledged by independent third parties as Addiko´s subsidiaries in Croatia, Slovenia and Serbia, received a Customer's Friend Certificate issued by an International Certification Association following an in-depth analysis of the Bank’s reputation, customer experience, communication and the trust factor.

3.4. Leading innovation with improved digital capabilities

One of the big challenges and opportunities the banking industry faces is the rapid pace of change driven by technology advancements and regulatory requirements. Systematic digitalization is one of the strategic focus points of Addiko Group. This is why Addiko Bank continuously invests into enhancing its digital capabilities, improvements of its technological infrastructure, leveraging open API's for strategic partnerships within the ecosystem, and development of new digital platforms ensuring greater customer convenience, efficiency and operating excellence in the process.

Addiko Bank continues to digitally transform and is committed to making banking more convenient for its customers by focusing on essentials, delivering efficiency and communicating simply. The roll-out of the Group wide mobile and e-banking solution for retail customers, which was initiated in 2016, was successfully concluded with the last remaining country go-live in 2017. The customer service was further enhanced by "Addiko Chat Banking", a unique Viber-based payments service, which was launched in Bosnia and Herzegovina, Montenegro, Croatia and Serbia garnering international attention, with Addiko Bank becoming the first commercial bank in the SEE/CEE and one of the first in the world to provide payment services via one of the globally most popular social media messaging and communication platforms. At the same time, further "Addiko Express" digital branches were opened in Slovenia and Croatia, building on the success of the first branch opened in 2016. Fully integrated digital capabilities for retail customers now include online current account opening, fast processing of online loan applications and an automated cash/ consumer loan processing platform, which was launched in all branches in Serbia in 2017. Decisions are made within minutes by an integrated credit decision engine, which is fully parameterized by the risk management function. As a result, the productivity and disbursements in the branches increased significantly.

Finally, it should be mentioned that the development of digital capabilities for SME customers, which are a result of a clearly formulated Digital SME Strategy, was a major focus in 2017. Building on the foundations created for Retail customers and leveraging the capabilities created through the group Digital Competence Center (DCC) in Belgrade, different light-house features are currently being developed in a agile approach and will be rolled out 2018.

3.5. Organizational structure and operating platform provide foundation for profitable growth

The year 2017 was the first full year where the turnaround was visible not only in the significant increase of business volumes which lead to a strong increase of operating profit, but also in the raised levels of productivity and improved efficiency across the organization. Such positive developments prove Addiko Group is well positioned to develop its business further in a competitive market environment.

The implemented initiatives support the growth-based business model and corporate strategic goals based on sustainable revenue growth, efficient end-to-end processes and prudent standardized risk management, all of which together embody the Addiko Group’s "Six Countries – One Winning Team" approach.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that consolidates and streamlines processes across the Addiko Group and brings steering and decision making closer to the business.

Through the specialization and concentration in the banking subsidiaries the quality of service delivery and steering is significantly enhanced while simultaneously cost of delivery across the Group is significantly reduced. The TOM provides for a flexible and scalable operating platform which enables significant further revenue growth without concomitant cost increases. The incremental cost-to-income ratio (CIR) is defined as a key steering parameter. Addiko Group is well positioned for further significant improvement of the overall efficiency and continuous decline of the absolute cost-to-income ratio (CIR) across the organization.

The "Central Steering" and "Group Shared Service" functions allow Addiko Group to implement industry best practices and develop in line with international standards in a efficient and effective way internal knowledge management is well supported and facilitated. Investments are leveraged across Addiko Group with competitive time to market for new business functionalities like the digital capabilities mentioned above. New approaches addressing e.g. cyber risk, which is regarded by the management as a key emerging risk category for the banking industry and consequently defined as a key investment area, are rolled out consistently across the Addiko Group. The TOM ultimately ensures a higher level of service quality across its six countries and significantly enhances operational stability.

3.6. Business operations in Austria and Germany

Focusing on digital services and channels, and building on the successful launch in October 2016 of the broker operated online deposit gathering in Germany, Addiko Group launched the online deposit gathering in Austria with "Addiko Tagesgeld" in June 2017 and "Addiko Online Term Deposits" in October 2017. The launch of the first Addiko Bank services introduced to the Austrian market comes after a successful launch of a direct online deposit service in the German market in October 2016. With these services Addiko Bank provides Austrian customers with attractive and easy-to-use deposit opportunities and at the same time diversifies the Group's funding base.

3.7. Settlement with HETA ASSET RESOLUTION AG

In February 2017, the holding company Al Lake (Luxembourg) S.à r.l. terminated all warranties and mutual contractual agreements with HETA ASSET RESOLUTION AG the previous owner of Addiko Bank. With the repayment of the outstanding funding lines by Addiko Bank in the amount of EUR 973.9 million, all current and future claims and rights under the initial purchase contract have been settled.

3.8. Sale of non-core assets

In line with the strategy of focusing on its core banking business, the exit from non-core assets i.e. leasing and asset management is mostly completed. Following the sale of the Slovenian leasing and asset management business in 2016, the sale of the Croatian asset management entity was completed in Q3/2017. The successful wind-down of the leasing portfolio in Croatia and in Bosnia and Herzegovina significantly decreased the related total assets, leading to the exclusion of both entities from the scope of consolidation.

4. Financial development of the Group

4.1. Analysis of profit or loss statement

EUR m

	1.1-31.12.2017	1.1-31.12.2016	Change
Net interest income	165.3	158.8	6.5
Net fee and commission income	58.5	50.0	8.5
Gains and losses on financial assets and liabilities	9.7	20.3	-10.6
Other operating result	-6.5	-42.1	35.5
Operating income	**226.9**	**187.0**	**39.9**
Personnel expenses	-97.4	-99.8	2.4
Other administrative expenses	-80.9	-93.1	12.2
Depreciation and amortization	-11.7	-19.5	7.8
Operating expenses	**-190.1**	**-212.4**	**22.4**
Operating result	**36.9**	**-25.4**	**62.3**
Impairment or reversal on loans and receivables	-15.1	4.4	-19.5
Result before tax	**21.8**	**-21.0**	**42.8**
Taxes on income	19.9	-2.9	22.8
Result after tax	**41.6**	**-23.9**	**65.6**

The year 2017 is marked by a significant improvement of the **net interest income** which increased to EUR 165.3 million, compared to EUR 158.8 million in December 2016. By neutralizing the impact of additional interest expenses generated by subordinated capital instruments issued in March 2016 and in February 2017, the underlying net interest income of the Addiko Group in 2017 even shows a result improved by EUR 18.9 million compared with the same period of the previous year. This positive development is supported by the strong growth in high margin consumer loans as well as lower interest rates for customer deposits as a consequence of Addiko's strategic repositioning within all markets. Compared to the prior-year period, the **net interest margin** increased up to 240 basis points, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Net fee and commission income amounted to EUR 58.5 million (2016: EUR 50.0 million), with the development mainly due to higher income from card business and payment transactions. The positive impact is supported by the initiatives to increase net commission income launched at the end of 2016.

Gains and losses on financial assets and liabilities amounted to EUR 9.7 million compared to EUR 20.3 million in 2016. The positive result for 2017 is mainly due to the sale of bond portfolios, resulting in a gain of EUR 8.5 million. In the corresponding period 2016 the positive result was mainly driven by the sale of equity investments in Croatia (Visa shares) with a gain of EUR 8.5 million as well as income from trading of financial instruments in the amount of EUR 11.0 million.
The **other operating result** showed a positive development from EUR -42.1 million to EUR -6.5 million, whereas last year's result was mainly influenced by the recognition of provisions for legal cases. During 2017 a clear litigation resolution approach strategy allowed Addiko to significantly reduce existing passive legal disputes leading to a release of the provision in the amount of EUR 9.7 million. This positive impact is offset by the impairment of non-financial assets planned to be disposed in the short term in the amount of EUR 4.7 million. Additionally, expenses for the banking levies, including expenses for the recovery and resolution fund, in the amount of EUR 2.1 million as well as expenses for deposit guarantee costs in the amount of EUR 7.9 million are included.

Operating expenses declined from EUR -212.4 million in 2016 to EUR -190.1 million at the current reporting date. The reduction of EUR 22.4 million is mainly due to lower other administrative expenses and lower depreciation. The decrease in administrative expenses is ensure by a strict cost management and monitoring throughout the whole Addiko Group. The Addiko Group Cost and Investment Committee (CIC) provides clear governance and full transparency for all stakeholders. The effects of the implementation of the new Target Operating Model (TOM), with the goal of establishing a lean, efficient, more agile and integrated organization throughout the Addiko Group, are visible in the position personnel expenses. The cost-income ratio decreased by 30 points to 83.7% compared to 2016.

Depreciation and amortization of fixed assets decreased to EUR -11.7 million from EUR -19.5 million in the previous year. This development reflects the Group's strategy to focus on the core business and therefore decreasing the involvement in leasing business, leading to lower depreciation and amortization expenses.

In total, **operating income** amounts to EUR 226.9 million (2016: EUR 187.0 million) while operating expenses sum up to EUR -190.1 million (2016: EUR -212.4 million). This resulted in an **operating result** in the amount of EUR 36.9 million compared to EUR -25.4 million in 2016.

The development of **impairment or reversal on loans and receivables** from EUR 4.4 million to EUR -15.1 million includes the impact related to the financial troubles of a large corporate debtor based in Croatia. This negative impact has been compensated by the release of risk provisions based on strong collection and recovery activities as well as the sale of non-performing Retail portfolios.
Taxes on income amounted to EUR 19.9 million (2016: EUR -2.9 million), which reflects the fact that starting from year end 2017 deferred tax assets on existing tax loss carryforwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences have been recognized in the Addiko Group. The recognition is based on the successful turnaround process initiated by the new ownership, which led the Addiko Group back to a stronger market presence and better result by implementing a new business strategy, raising the efficiency of operations and the quality service level.

The **result after tax** for the year 2017 with EUR 41.6 million is significantly higher than the loss of EUR -23.9 million in 2016.

4.2. Analysis of consolidated statement of financial position

EUR m

	31.12.2017	31.12.2016	Change
Assets			
Cash, cash balances at central banks and other demand deposits	1,285.9	1,878.2	-592.4
Financial assets held for trading	19.8	17.4	2.4
Available-for-sale financial assets	1,234.3	1,309.3	-75.0
Loans and receivables	3,757.2	3,779.9	-22.7
Loans and advances to credit institutions	65.3	49.4	16.0
Loans and advances to customers	3,691.9	3,730.5	-38.6
Held-to-maturity investments	42.5	82.6	-40.1
Derivatives – Hedge accounting	0.1	0.1	0.0
Tangible assets	57.3	70.4	-13.1
Intangible assets	21.8	17.3	4.5
Tax assets	22.3	2.6	19.7
Current tax assets	1.6	2.6	-0.9
Deferred tax assets	20.6	0.0	20.6
Other assets	24.8	18.9	5.9
Non-current assets and disposal groups classified as held for sale	19.5	39.3	-19.8
Total assets	**6,485.5**	**7,216.1**	**-730.6**

Total assets of the Addiko Group decreased by EUR 730.6 million (10.1%) from EUR 7,216.1 million to EUR 6,485.5 million. This reduction is due to the repayment of refinancing lines to the former owner in the amount of EUR 973.9 million as well as the reduction in the available-for-sale portfolio in the amount of EUR 75.0 million and the leasing portfolio in a total amount of EUR 37.4 million.

Total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III phased-in) increased to EUR 4,653.1 million (2016: EUR 4,470.8 million).

Cash, cash balances at central banks and other demand deposits decreased by EUR 592.4 million to EUR 1,285.9 million (2016: EUR 1,878.2 million) mainly due to the early repayment of refinancing lines to the former owner, which was executed in the first quarter of 2017. The trading and investment securities held in the category **financial assets available for sale** decreased by EUR 75.0 million compared to the previous year.

Overall **net receivables** (gross receivables less credit risk provisions) decreased from EUR 3,779.9 million (2016) to EUR 3,757.2 million. Loans and receivables to credit institutions (net) increased to EUR 65.3 million (2016: EUR 49.4 million). Loans and receivables to customers (net) decreased to EUR 3,691.9 million (2016: EUR 3,730.5 million).

Tangible assets decreased by EUR 13.1 million from EUR 70.4 million in 2016 to EUR 57.3 million. This decline is mainly due to the decision to focus on the banking business and consequently initiate the sale of non-core assets, which triggered the reclassification of certain assets to the position Non-current assets and disposal groups classified as held for sale.

Intangible assets increased to EUR 21.8 million compared to year end 2016 (EUR 17.3 million) due to the introduction of new digital applications.

Tax assets increased to EUR 22.3 million (EUR 2.6 million), including the deferred tax assets recognized on existing taxable losses.

Other assets increased to EUR 24.8 million compared to EUR 18.9 million at the end of 2016.

The position **non-current assets and disposal groups classified as held for sale** decreased from EUR 39.3 million to EUR 19.5 million in 2017. At year-end 2016, this position included the Croatian leasing portfolio in the amount of EUR 37.4 million. The decrease related to the successful wind down process for this portfolio was compensated by the new reclassification of EUR 13.0 million in non-performing loans and EUR 5.2 million in non-core real estate assets in 2017.

EUR m

	31.12.2017	31.12.2016	Change
Equity and liabilities			
Financial liabilities held for trading	1.8	9.1	-7.3
Financial liabilities designated at fair value through profit or loss	0.0	25.0	-25.0
Financial liabilities measured at amortised cost	5,521.2	6,040.4	-519.1
Deposits of credit institutions	341.6	316.0	25.6
Deposits of customers	4,933.8	4,435.6	498.2
Issued bonds, subordinated and supplementary capital	198.5	73.5	125.1
Other financial liabilities	47.3	1,215.3	-1,038.0
Derivatives – Hedge accounting	0.0	6.9	-6.9
Provisions	83.3	107.8	-24.5
Tax liabilities	1.3	1.4	-0.1
Current tax liabilities	0.9	1.0	-0.1
Deferred tax liabilities	0.5	0.5	0.0
Other liabilities	33.8	28.1	5.7
Liabilities included in disposal groups classified as held for sale	0.0	2.7	-2.7
Equity	844.0	994.7	-150.7
thereof attributable to equity holders of parent	844.0	994.7	-150.7
Total equity and liabilities	**6,485.5**	**7,216.1**	**-730.6**

On the liabilities' side, **financial liabilities measured at amortized cost** decreased by EUR 519.1 million from EUR 6,040.4 million to EUR 5,521.2 million in the reporting period, primarily as result of the repayment of outstanding funding lines. This effect is offset by an increase in deposits from credit institutions and customers by EUR 523,8 million, from EUR 4,751.6 million to EUR 5,275.4 million compensated.

At year-end 2016, the position **financial liabilities designated at fair value through profit or loss** included financial liabilities against the previous owner, which were repaid in total during the settlement process in the first quarter of 2017.

Deposits increased by EUR 523.8 million to EUR 5,275.4 million in 2017 (2016: EUR 4,751.6 million). This development is mainly driven by increase in deposits from customers to EUR 4,933.8 million (2016: EUR 4,435.6 million) - due to direct deposit collection in Austria and Germany - as well as increased deposits from banks from EUR 316.0 million at year end 2016 to EUR 341.6 million in 2017.

Provisions decreased from EUR 107.8 million at year end 2016 to EUR 83.3 million in 2017. Included are provisions for passive legal cases, which should further decrease as an active settlements approach is also planned for 2018, as well as the provisions for ongoing restructuring.

The development of **equity** from EUR 994.7 million to EUR 844.0 million is related to a dividend payment in the amount of EUR 430.0 million of which EUR 130.0 million were returned by the sole shareholder of the Group in the form of supplementary capital. This capital alignment followed a capital increase of EUR 219.8 million granted by AI Lake (Luxembourg) S.à r.l. resulting from the final settlement with the previous owner HETA ASSET RESOLUTION AG.

Since 2014, the Addiko Group has calculated its consolidated **regulatory capital** according to Basel III. The calculation follows the requirements as defined by the Capital Requirements Regulation (CRR). As at December 31, 2017 the total capital ratio (Basel III) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 17.1% (2016: 16.4%), well above the legal minimum requirement (8.0%).

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

The year 2017 was marked by an overall positive financial performance, with all Addiko banks recording a positive result and a total EUR 41.6 million profit after tax for the Addiko Group. As such Addiko Group is delivering on the straightforward banking promise and successfully transforming into a key regional Retail and SME bank.

The outlined developments reflect Addiko Groups dedication to growing its market share in core Retail and SME segments, digital transformation, high-quality asset portfolio management, prudent risk management and ensuring greater customer experience while at the same time increasing customer loyalty and new business.

By raising its productivity and efficiency across the organization, supported by effective cost management, the operational cost base has already been reduced significantly. Addiko Bank will continue to simplify, automate and outsource non-core activities, maximizing the performance of its new, distributed Target Operating Model, putting itself in a favorable position to develop the business further in 2018 and in the years to come.

The focus in 2018 will be on serving the real economy, growing the client base, utilizing cross-selling potential, driving operating excellence on all levels and thereby generating a long-term sustainable and profitable business growth.

5.2. Human Resources management

The Human Resources strategy underpins the cultural transformation of Addiko Bank. The Target Operating Model enables employees at all levels to drive for results via team work and cross-boundary collaboration. Building strong HR processes in performance, recruitment, talent, learning and leadership development is needed to ensure agility in employee attitudes and capabilities.

The performance and talent management frameworks are key processes used to identify, develop, reward and recognize high performance and talented employees. The two processes support Addiko Bank’s journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

In 2017, there were many areas of focus in Human Resources, with new training programs piloted to develpopment specific capabilities. Standardizing HR processes was continued in the areas of recruitment, on boarding and personnel cost reporting. A key enabler of culture change was introducing leadership standards for managers and desirable work-place behaviors (the Addiko "Values and Behaviors"). These will be integrated into the Performance and Talent processes.

Several efficiency and rightsizing programs came to a close in 2017. At 2017 yearend, the Addiko Group had 2,953 FTE's. In the upcoming period, the focus will be on integrating "Values and Behaviors" into daily activities, accelerating the cultural transformation and ensuring process effectiveness in the Target Operating Model. This will require effective talent, leadership and development metrics in place to ensure the development of employees' skills and the realization of their potential.

6. Internal Control System for accounting procedures

Addiko Bank has an Internal Control System (ICS) for accounting procedures, in which suitable structures and processes are defined and implemented throughout the organization. The management in each organizational unit is responsible for implementing Group-wide policies and procedures. Compliance with policies is monitored as part of the audits performed by internal and local internal auditors. The ICS, as part of the Addiko Bank’s risk management system, has the following general objectives:

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

The particular objectives with regard to Addiko Group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. In addition, it should ensure that no errors or deliberate actions (fraud) prevent facts from adequately reflecting the organization’s financial position and performance.

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

7. Other disclosures

In relation to the required information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date please refere to Note (95). With respect to the explanations on substantial financial and non-financial risk as well as the goals and methods of risk management please refere to the risk report. In addition, information on the use of financial instruments are presented in the note (60).

8. Research & Development

Addiko Bank does not conduct any R&D activities pursuant to section 267 Austrian Commercial Code (UGB)

9. Branches

At year end 2017 Addiko Group operates a total of 199 branches (2016: 202), whereas 72 (2016: 75) are located in Bosnia and Herzegovina,, 60 (2016: 61) are located in Croatia, 38 (2016: 38) are located in Serbia, 18 (2016: 17) are located in Slovenia and 11 (2016: 11) are located in Montenegro.

10. Outlook

Supported by a benign market environment Addiko Group delivered significantly improved results in 2017, with all banking subsidiaries having contributed to this year's profit. The overall objective for the coming years is the delivery of straightforward banking, based on the newly established organizational structure and operating platform of Addiko Group which will result in achieving long term sustainable profitability.

This objective will be supported among others by the following key initiatives in 2018:

- continue deployment of innovative functions within the fully integrated digital platform for retail customers including the roll-out of the fully automated Application Processing System/Credit Decision Engine (APS/CDE) in Croatia, Slovenia, Bosnia and Montenegro.
- roll out of digital light-house features for SME and Corporate Customers in all banking subsidiaries i.e. Digital E2E Loans (End to End), Digital Trade Finance Products and Digital Transactional Banking Features

In 2018, the positive development of the economy should be reflected by a faster GDP growth in Serbia, Bosnia and Herzegovina and Montenegro, supported by personal consumption and investments. For Croatia and Slovenia the GDP growth will be expected to be stable due to above-trend EU demand and a steady consumption growth.

Vienna, February 27, 2018

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch	Christian Kubitschek
Markus Krause	Csongor Bulcsu Németh
Martin Stefan Thomas	Razvan Munteanu

Consolidated Financial Statements

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2017	1.1. - 31.12.2016
Net interest income	(25)	165.3	158.8
Net fee and commission income	(26)	58.5	50.0
Gains and losses on financial assets and liabilities*	(27)	9.7	20.3
Other operating result	(28)	-6.5	-42.1
Operating income		**226.9**	**187.0**
Personnel expenses	(29)	-97.4	-99.8
Other administrative expenses	(30)	-80.9	-93.1
Depreciation and amortization	(31)	-11.7	-19.5
Operating expenses		**-190.1**	**-212.4**
Operating result		**36.9**	**-25.4**
Impairment or reversal on loans and receivables	(32)	-15.1	4.4
Result before tax		**21.8**	**-21.0**
Taxes on income	(33)	19.9	-2.9
Result after tax		**41.6**	**-23.9**
thereof attributable to equity holders of parent		41.6	-23.9

* Previous-year figures adjusted: In 2016, the positions "Trading income”, "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L" were shown as a separate income statement position. In 2017, those items were summarized in the position "Gains and losses on financial assets and liabilities".

Other comprehensive income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Result after tax	**41.6**	**-23.9**
Other comprehensive income	**18.0**	**0.4**
Items that will not be reclassified to profit or loss	**0.0**	**0.0**
Actuarial gains or losses on defined benefit plans	0.0	0.0
Items that may be reclassified to profit or loss	**18.0**	**0.4**
Foreign currency translation	13.2	1.0
Gains/losses of the current period	13.2	1.0
Reclassification amounts	0.0	0.0
Available-for-sale financial assets	6.3	-2.4
Gains/losses of the current period	14.8	9.1
Reclassification amounts	-8.5	-11.5
Income tax relating to items that may be reclassified to profit or (-) loss	-1.4	1.8
Gains/losses of the current period	-1.9	-0.3
Reclassification amounts	0.5	2.0
Total comprehensive income for the year	**59.6**	**-23.6**
thereof attributable to equity holders of parent	59.6	-23.6

II. Consolidated statement of financial position

EUR m

	Note	31.12.2017	31.12.2016
Assets			
Cash, cash balances at central banks and other demand deposits	(34)	1,285.9	1,878.2
Financial assets held for trading	(35)	19.8	17.4
Available-for-sale financial assets	(36)	1,234.3	1,309.3
Loans and receivables	(37)	3,757.2	3,779.9
Loans and advances to credit institutions		65.3	49.4
Loans and advances to customers		3,691.9	3,730.5
Held-to-maturity investments	(38)	42.5	82.6
Derivatives - Hedge accounting		0.1	0.1
Tangible assets	(39)	57.3	70.4
Intangible assets	(40)	21.8	17.3
Tax assets	(33)	22.3	2.6
Current tax assets		1.6	2.6
Deferred tax assets		20.6	0.0
Other assets	(42)	24.8	18.9
Non-current assets and disposal groups classified as held for sale	(43)	19.5	39.3
Total assets		**6,485.5**	**7,216.1**
Equity and liabilities			
Financial liabilities held for trading	(44)	1.8	9.1
Financial liabilities designated at fair value through profit or loss		0.0	25.0
Financial liabilities measured at amortised cost	(45)	5,521.2	6,040.4
Deposits of credit institutions		341.6	316.0
Deposits of customers		4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital*		198.5	73.5
Other financial liabilities		47.3	1,215.3
Derivatives - Hedge accounting		0.0	6.9
Provisions	(46)	83.3	107.8
Tax liabilities	(33)	1.3	1.4
Current tax liabilities		0.9	1.0
Deferred tax liabilities		0.5	0.5
Other liabilities	(47)	33.8	28.1
Liabilities included in disposal groups classified as held for sale	(43)	0.0	2.7
Equity	(48)	844.0	994.7
thereof attributable to equity holders of parent		844.0	994.7
Total equity and liabilities		**6,485.5**	**7,216.1**

* Previous-year figures adjusted: In 2016, subordinated and supplementary capital in amount of EUR 66.9 million was reclassified from the position "Other financial liabilities" to the position "Issued bonds, subordinated and supplementary capital".

III. Group statement of changes in equity

EUR m

	Subscribed	Additional paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2017	**5.0**	**336.2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	41.6	41.6	0.0	41.6
Other comprehensive income	0.0	0.0	4.9	13.2	0.0	18.0	0.0	18.0
Total comprehensive income	0.0	0.0	4.9	13.2	41.6	59.6	0.0	59.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	-430.0	-430.0	0.0	-430.0
Other changes	0.0	201.6	0.0	0.1	18.0	219.7	0.0	219.7
Equity as at 31.12.2017	**5.0**	**537.8**	**12.5**	**-7.9**	**296.7**	**844.0**	**0.0**	**844.0**

In the item "Other changes" a shareholder contribution in the amount of EUR 219.8 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is presented.

EUR m

	Subscribed	Additional paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2016	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-23.9	-23.9	0.0	-23.9
Other comprehensive income	0.0	0.0	-0.6	1.0	0.0	0.4	0.0	0.4
Total comprehensive income	0.0	0.0	-0.6	1.0	-24.0	-23.6	0.0	-23.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	-456.4	0.0	0.0	722.1	265.8	0.0	265.8
Equity as at 31.12.2016	**5.0**	**336.2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**

For further information about equity, please refer to note (24) Equity.

IV. Group statement of cash flows

For further information about the statement of cash flows, please refer to note (49) Statement of cash flows.

EUR m

	2017	2016
Cash and cash equivalents at end of previous period (1.1.)	**1,878.2**	**1,319.0**
Result after tax	**41.6**	**-23.9**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	62.6	-30.2
Depreciation and amortisation of intangible assets, tangible fixed assets and financial investments	18.2	28.2
therof financial instruments	0.4	-0.3
thereof intangible and tangible assets	17.8	28.5
Change in risk provisions	13.4	-29.6
Change in provision	-2.2	4.4
Gains (losses) from disposals of intangible assets, tangible fixed assets and financial investments	-8.3	-9.3
Financial assets	-8.5	-9.0
Intangible and tangible assets	0.2	-0.3
Subtotal	**62.6**	**-30.2**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-206.5	454.1
Loans and advances to credit institutions and customers	-202.3	485.5
Financial assets	90.8	-43.9
Trading assets	-2.4	-6.6
Other assets	-23.4	21.7
Financial liabilities measured at amortised cost	-230.0	125.1
Trading liabilities	-32.3	-19.5
Provisions	-22.6	-216.7
Other liabilities from operating activities	-4.2	-17.0
Payments for taxes on income	-1.3	-0.2
Interests received	227.6	207.4
Payments for interests	-70.7	-51.5
Dividends received	1.8	0.1
Cash flows from operating activities	**-206.5**	**454.1**
Proceeds from the sale of:	43.8	95.1
Financial investments and participations	40.1	84.5
Tangible assets, investment properties, operate lease assets and intangible assets	3.7	10.6
Payments for purchases of:	-23.3	-20.9
Financial investments and participations	-4.6	-0.7
Tangible assets, investment properties, operate lease assets and intangible assets	-18.7	-20.2
Other changes	11.4	30.4
Cash flows from investing activities	**31.9**	**104.6**
Dividends paid	-430.0	0.0
Cash flows from financing activities	**-430.0**	**0.0**
Effect of exchange rate changes	12.2	0.5
Cash and cash equivalents at end of period (31.12.)	**1,285.9**	**1,878.2**

* Previous-year figures adjusted: In 2016, the cashflow for taxes, dividends and interests were presented in a separate table, in 2017 those positions were integrated in the group statement of cashflows

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The capital increase in the amount of EUR 219.8 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a settlement agreement between AI Lake (Luxembourg) S.à r.l. and the previous parent company executed in a from of a debt waiver, and is therefore not presented as cash capital contribution.

V. Notes to the consolidated financial statements

Company

Addiko Group is a network of six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro under the umbrella of the joint holding company, Addiko Bank AG. The holding company AI Lake (Luxembourg) S.à r.l. as the direct parent company of Addiko Bank AG is indirectly owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development. Addiko Bank AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Vienna under company registration number FN 350921k. The Groups headquarter is located at Wipplingerstraße 34, 1010 Vienna, Austria.

The Group is focusing its business primarily on retail as well as small and medium-sized companies while also maintaining a strong foothold in local corporations. Starting in 2017, Addiko Group also provides online deposit services in Austria and Germany.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Addiko Bank AG website at www.addiko.com.

Group accounting policies

(1) Accounting principles

These consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) adopted by the EU as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), and in compliance with the requirements of Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (51) Maturities pursuant to IAS 1.

The consolidated financial statements of the Addiko network are based on the reporting packages of all fully consolidated subsidiaries prepared according to uniform Group-wide standards and IFRS provisions. All subsidiaries prepare their financial statements as at December 31. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 8, please refer to note (3) Use of estimates and assumptions/material uncertainties in relation to estimates.

The figures in the consolidated financial statements are generally stated in millions of euros (EUR million); the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On 27. February 2018, the Management Board of Addiko Bank AG approved the consolidated financial statements as at December 31, 2017 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at December 31, 2017.

(2) New standards and amendments adopted by the Group

The following new and/or amended standards and interpretations pursuant to IFRS/IAS issued by the IASB and adopted by the EU have been adopted – if applicable - by the Addiko Group for the first time in 2017:

Standard	Description		Effective for financial year
IAS 7	Amendments to IAS 7 Statement of Cash Flows	Disclosure Initiative	2017
IAS 12	Amendments to IAS 12 Income Taxes	Recognition of Deferred Tax Assets for Unrealized Losses	2017

The amendments to **IAS 7** are designed to improve the quality of disclosed information regarding changes in an entity's debt and related cash flow (and non-cash changes) and therefore require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. Further a number of specific disclosures are suggested that may be necessary to fulfill these requirements. Adopting these amendments did not result in any changes to the consolidated financial statements of Addiko Group as cash advances and loans to financial institutions are classified as operating activities since they relate to the main revenue-producing activity of the Group.

The amendments to **IAS 12** clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. Additionally the amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable proftis excludes tax deductions resulting from the reversal of those deductible temporary differences. These amendments did not result in any material changes to the consolidated financial statements.

The following new standards and interpretations issued by the IASB and adopted by the EU were not yet effective:

Standard	Description		Effective for financial year
IFRS 9	Financial Instruments	Accounting for financial instruments	2018
IFRS 15	Revenue from Contracts with Customers incl. amendments	Recognizing revenue	2018
IFRS 15	Amendments to IFRS 15 Revenue from Contracts with Customers	Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
IFRS 16	Leases	Recognition, presentation and disclosure of leases	2019
IFRS 4	Amendments to IFRS 4 Insurance Contracts	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018

2.1. IFRS 9

In July 2014, the IASB published the final version of **IFRS 9** Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change to IAS 39 Financial Instruments.

Recognition and Measurement
The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement of financial assets and financial liabilities
IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing categories according to IAS 39 – held-to-maturity, loans and receivables and available-for-sale - no longer exist.

On initial recognition, a financial asset is classified into one of the categories, the basis of this classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset.

Business model assessment
In 2017 the Addiko Group made an assessment of business models for all segments and set up documentation including the policies and objectives for each relevant portfolio as this best reflects the way the business is managed and information is provided to management. The information that was taken into account includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management´s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets
- How the performance of the portfolio is evaluated and reported to the Group's management
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of an overall assessment on how the Group´s stated objective for managing the financial assets is achieved and how cash flows are realized.

Contractual cash flow characteristics
For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (“SPPI”), Addiko Group considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration for the time value of money.

Based on the entity’s business model and the contractual cash flow characteristics IFRS 9 defines the following principal classification categories:

- A financial asset is measured at amortized cost only if the object of the entity’s business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (“SPPI criteria”).
- A financial asset is measured at fair value through other comprehensive income (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

For equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income (OCI). This election is available for each separate investment.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39. Changes to the fair value of liabilities resulting from changes in own credit risk of the liability are recognized in other comprehensive income, the remaining amount of the change in the fair value will be presented in profit or loss.

Impairment
IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries). This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECL's
ECLs are a probability-weighted estimate of credit losses and will be measured as follows:
- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default
Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

This definition is largely consistent with the definition that will be used for regulatory purposes.
In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience where available, expert credit assessment and forward-looking information.
The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

- Credit risk grades - The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default (PD) and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower. Credit risk grades are targeted such that the risk of default occurring increases as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.
- Generating the term structure of PD - Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading, whenever meaningful. For some portfolios, information purchased from external credit reference agencies may also be used as well. The Group will employ statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include GDP growth, unemployment rate and others. The Group's approach to incorporating forward-looking information into this assessment is discussed below.

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group aims to monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Inputs into measurement of ECLs
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models, regulatory values as well as expert judgment. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors, wherever meaningful. Where it is available, market/external data may also be used as well. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. While PDs are based on statistical models, the risk parameters (LGD, CCF) are leveraging on regulatory values and/or expert assessment.

Forward-looking information
Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Group will formulate a "base case" view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and be aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Group will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk. These key drivers include within other factors also unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing historical data.

Derecognition and contract modification
IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognize any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition. The Group expects an immaterial impact from adopting these new requirements.

Hedge Accounting
IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: instead of the quantitative criterion (bandwidth of 80.0% to 125.0%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

Impacts on capital planning
The Group's lead regulator has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the ECL model on regulatory capital:

- phasing in the full impact over a five-year period; or
- recognizing the full impact on the day of adoption.

The Group has decided to adopt the first approach. As a consequence the Group's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will be limited in the first year to a increase in CET1 and total capital of approximately 8 basis points, compared with a reduction in CET1 and total capital of approximately 51 to 65 basis points as at January 1, 2018 in case no adjustments for phasing in would have been taken into consideration.

Impacts from initial application
The new standard will affect the classification and measurement of financial instruments held as at January 1, 2018 as follows:

- based on assessments undertaken to date, the major part of the loan portfolio classified as loans and advances according to IAS 39 will still be measured at amortised costs according to IFRS 9;
- financial assets held for trading will continue to be measured at FVTPL;
- The Addiko Group classified most debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities will be measured at FVTOCI as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- for the majority of the equity instruments that are classified as available for sale under IAS 39, the Addiko Group will exercise the option to irrevocable designate them at initial recognition at FVTOCI;
- held-to-maturity investmens measured at amortized cost under IAS 39 will be measured at FVTOCI according to IFRS 9;

No further significant changes regarding classification arose based on the business model criterion.

According to IFRS 9.7.2.21 it is allowed to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. Based on this accounting policy choice, the Addiko Group continues to apply the existing hedge accounting model in IAS 39 without any major impacts on the consolidated financial statements of the Group.

Regarding classification and measurement of financial liabilities no major impacts on the consolidated financial statements of the Addiko Group occurred based on new regulations of IFRS 9.

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impacts from initial application of IFRS 9 in the opening equity as of January 1, 2018. The Addiko Group does not restate comparative figures and presents the one-off effect in the opening retained earnings amounting to approximately EUR -30 to -38 million. This adjustment represents:

- a reduction of approximately EUR -37 to -45 million related to impairment requirements
- an increase of approximately EUR 9 million related to classification and measurement requirements, other than impairment

- an reduction of approximately EUR -2 million related to deferred tax impacts.

These assessments above are to be seen as preliminary because not the whole transition work has been finalized yet. The final impact of adopting IFRS 9 at the beginning of 2018 may change because:

- The Addiko Group is refining and finalizing its model for ECL calculations
- IFRS 9 will require the Addiko Group to revise its accounting processes and internal controls and these changes are not yet fully completed
- Addiko Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Addiko Group finalizes its first financial statements that include the date of initial application.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at January 1, 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

2.2. IFRS 15

The new **IFRS 15** "Revenue from Contracts with Customers" specifies when and at which amount an IFRS reporter has to recognize revenue. Under the core principle of this model, a company is to recognize revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognized at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to the following types of contracts:

- Leases within the scope of IAS 17
- Insurance contracts within the scope of IFRS 4
- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", and
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Consequently, interest income as well as dividend income are no longer within the scope of the revenue recognition standard. They become subject to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement. Since the Addiko Group primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15, this standard does not result in any significant changes within the Addiko Group. IFRS 15 replaces the current revenue recognition provisions of IAS 11, IAS 18 and the related interpretations. The standard is effective for financial years beginning on or after January 1, 2018.

The clarifications to IFRS 15 add descriptions in the following areas: identifying performance obligations, principal versus agent considerations and licensing application guidance. Additionally these amendments introduce practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented. These clarifications are effective for financial years beginning on or after January 1, 2018.

2.3. IFRS 16

IFRS 16 “Leases” was published by the IASB in January 2016. The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognizes all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either “operating” or “finance”. Instead, a right-of-use asset and a lease liability are recognized for all leases henceforth. The right-of-use asset is to be reported under non-current assets or as a separate item in the statement of financial position and to be written off on a straight-line basis over the term of the contract. The lease liability is initially measured at the present value of the lease payments payable over the lease term and carried using the effective interest method. Thus, all lease obligations are generally recognized pursuant to the “right-of-use” approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position. With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset. Conceptually, lessee accounting and lessor accounting are thus divided, which may result in additional challenges in the implementation of the new provisions.

Recognizing “right-of-use” assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss also change. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognized on a straight-line basis at the actual amount of effected payments in the operating result. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the financial result. Additionally, since the annual depreciation of right-of-use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating result increases. For EBITDA, the increase is even more substantial. The statement of cash flows will see a shift from cash flows from operating activities to cash flows from financing activities. While there is still the option to continue stating interest payments under cash flows from operating activities, it is mandatory to present the redemption of lease liabilities under cash flows from financing activities.

Due to the strategic decision of Addiko Group to focus on core banking business, the leasing portfolio was reduced and therefore IFRS 16 will not have a material impact on accounting. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group’s statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognized. For contracts under which the Addiko Group acts as lessee a right-of-use asset and at the same time a lease liability will be recognized in the statement of financial position. From a current point of view, we expect only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of

-12 basis points due to an increase of the total assets in the amount of approximately EUR 26 million. IFRS 16 will be effective from January 1, 2019, superseding the previous standard IAS 17 “Leases”. Early adoption is permitted.

2.4. IFRS 4

The different effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard **IFRS 4** could have a significant impact on insurers. In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the IASB has issued amendments to IFRS 4 Insurance Contracts which will be effective from January 1, 2018.

Except for the application of IFRS 9, no material changes to the consolidated financial statements are expected.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Group. The table also includes the expected effective dates:

Standard	Description		Effective for financial period
IFRS 2	Amendments to IFRS 2 Share-based Payment	Classification and Measurement of Share-based Payment Transaction	2018
IFRS 9	Amendments to IFRS 9 Financial Instruments	Prepayment Features with Negative Compensation	2019
IFRS 17	Insurance Contracts	Accounting for insurance contracts	2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	2018
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long-term Interests in Associates and Joint Ventures	2019
IAS 40	Amendments to IAS 40 Investment Property	Transfers of Investment Property	2018
IFRS 1, IFRS 12, IAS 28	Annual Improvements to IFRS Standards 2014-2016 Cycle	IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2017/2018
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

On 20 June 2016, the IASB issued amendments to **IFRS 2** Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The effective date of the amendments, is 1 January 2018.

The IASB also introduced amendments to **IFRS 9** in 2017. Based on these amendments financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation – can be measured at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

In May 2017, the International Accounting Standard Board (IASB) issued **IFRS 17** Insurance Contracts, applicable for annual periods beginning on or after 1 January 2021. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

In December 2016, the IFRS Interpretation **IFRIC 22** Foreign Currency Transactions and Advance Consideration has been issued. This interpretation clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Interpretation is applicable for annual reporting periods beginning on or after 1 January 2019.

The **IAS 28** amendments have been issued in October 2017 and clarify that companies should account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments to IAS 28 will be effective for accounting periods beginning on or after 1 January 2019.

The IASB has issued in December 2016 an amendment to **IAS 40** Investment property, clarifying when assets are transferred to, or from, investment properties. According to these amendments, a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. The amendments apply for annual periods beginning on or after 1 January 2018.

The collection of **annual improvements to IFRSs 2014-2016** includes amendments to the following standards: IFRS 1 First-time Adoption of IFRS removes outdated exemptions for first-time adopters of IFRS; IFRS 12 Disclosure of Interests in Other Entities means that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution; IAS 28 Investments in Associates and Joint Ventures implicates that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. Further a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Amendments to IFRS 1 are effective for annual periods beginning on or after 1 January 2018, amendments to IFRS 12 are effective retrospectively for annual periods beginning on or after 1 January 2017 and amendments to IAS 28 are effective retrospectively for annual periods beginning on or after 1 January 2018.

The collection of **annual improvements to IFRSs 2015-2017** includes amendments to the following standards: IFRS 3 Business Combinations clarifies that obtaining control of a business that is joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date. IFRS 11 Joint Arrangements clarifies that the party obtaining joint control of a business that is joint operation should not remeasure its previously held interest in the joint operation; IAS 12 Income Taxes clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity; IAS 23 Borrowing costs clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. All amendments are effective for annual periods beginning on or after 1 January 2019 with early application permitted.

(3) Use of estimates and assumptions/material uncertainties in relation to estimates

The consolidated financial statements contain values based on judgments and calculated using estimates and assumptions. Estimates and assumptions are based on historical experience and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in the Addiko Group relate to:

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions.

For further information on credit risk provisioning methodology, reference is made to loans and receivables in note (8) Financial instruments: recognition and measurement (IAS 39) as well as to the Risk Report under note (69) Development of provisions.

Fair value of financial instruments
For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see note (8) Financial instruments: recognition and measurement (IAS 39).

Deferred tax assets
Deferred tax assets on losses carried forward are only recognized when future tax profits that allow utilization appear highly likely. These estimates are based on the respective 5 years business plans, whereas the recognition is based on the taxable profit for the next two years.

Defined benefit plans
The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (22.1) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (22) Provisions.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (46).

Leases
From the perspective of the Addiko Group as a lessor, judgments are required – especially to differentiate between finance leases on the one hand and operating leases on the other hand. In doing so, the transfer of practically all risks and opportunities from the lessor to the lessee serves as the criterion. In addition, estimates as regards the amount of residual values are made when entering lease contracts.

(4) Scope of consolidation

These consolidated financial statements comprise 1 fully consolidated Austrian entity (2016: 1) – including Addiko Bank AG – and 6 (2016: 9) fully consolidated foreign entities. Further information is shown under note (95) Scope of consolidation:

	31.12.2017 Fully consolidated	31.12.2016 Fully consolidated
Start of period (1.1.)	10	12
Newly included in period under review	0	0
Excluded in period under review	-3	-2
End of period (31.12.)	**7**	**10**
thereof Austrian companies	1	1
thereof foreign companies	6	9

At the beginning of the financial year 2017, ADDIKO INVEST d.d., Zagreb, was excluded from the scope of consolidation due to insignificance. Further, the Slovenian leasing entity - Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o., Ljubljana - was no longer included in the scope of consolidation due to the sale of the company. Also, at the end of the financial year 2017, the Croatian leasing entity Hypo Alpe-Adria-Leasing d.o.o. u likvidaciji, Zagreb, was excluded from the scope of consolidation as the sale of a significant part of the portfolio of leasing activities was completed.

The removal of these subsidiaries does not significantly impact the result of the Addiko Group.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Addiko Invest d.d.	Zagreb	100.0%	Fully consolidated	Insignificant
Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o.	Ljubljana	100.0%	Fully consolidated	Sale
Hypo Alpe-Adria-Leasing d.o.o., u likvidaciji	Zagreb	100.0%	Fully consolidated	Insignificant

(5) Consolidation methods

Consolidation follows the consolidation principles pursuant to IFRS 3 “Business Combinations”, using the acquisition method. According to this method, all assets and liabilities of the respective subsidiary are to be measured at fair value at the acquisition date. The cost of a business acquisition is calculated as the total of consideration transferred, measured at fair value at the acquisition date, and non-controlling interests in the entity acquired. Goodwill, if any, is initially measured a cost, calculated as the excess of the total consideration transferred as well as the amount of non-controlling interests in the identifiable assets and assumed liabilities acquired by the Group. If a negative difference remains after reassessment, it is recognized immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year.

The date of initial consolidation corresponds to the date when the Group acquires control over the entity in question. Subsidiaries acquired during the year are included in the Group statement of comprehensive income from the date of acquisition. The results of subsidiaries disposed of during the year are included in the statement of comprehensive income until the date of disposal.

If further investments are acquired in an already fully consolidated but not yet wholly-owned entity, any resulting differences are reported directly in equity as transaction with non-controlling interests.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are fully eliminated. In the same way, intragroup income and expenses are offset within the framework of expense and income consolidation.

The share of equity and results of the consolidated subsidiaries allocated to non-Group third parties is reported separately in equity and in profit or loss under non-controlling interests. A subsidiary’s comprehensive income is attributed to non-controlling interests even if this results in a negative balance.

(6) Foreign currency translation

Foreign currency translation within the Addiko Group follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date. Insofar as monetary items are not part of a net investment in foreign operations, the result of the conversion is generally reported under exchange differences through profit or loss.

Open forward transactions are translated at forward rates at the reporting date.

The assets and liabilities of foreign operations are translated into euros at the exchange rates prevailing at the reporting date. Income and expenses are translated using the average rates for the period, as long as they do not fluctuate markedly. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency translation. The amount for a foreign operation recorded in other comprehensive income (OCI) is to be reclassified into the statement of profit or loss in the event of the sale of the foreign operation.
Exchange differences attributable to non-controlling interests are shown under non-controlling interests.

The respective local currency is the functional currency for all entities.

The following exchange rates published by the European Central Bank or the Oesterreichische Nationalbank (OeNB) have been used for the currency conversion of the foreign financial statements:

Foreign currency translation Rates in units per EUR	Closing date 31.12.2017	Average 2017	Closing date 31.12.2016	Average 2016
Bosnian mark (BAM)	1.95583	1.95583	1.95580	1.95580
Croatian kuna (HRK)	7.44000	7.46522	7.55970	7.54410
Serbian dinar (RSD)	118.47270	121.39523	123.47230	123.07080

(7) Income/expenses

In accordance with IAS 18, income is recognized when it is probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies. Dividend income is recognized at the time that a legal right to payment arises. For all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale, interest income and interest expenses are recorded based on the effective interest rate. This is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognized upon completion of the underlying transaction.

(8) Financial instruments: recognition and measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities must be recognized in the statement of financial position. Financial instruments are recognized at fair value at the time of acquisition (usually at cost). Financial assets or liabilities that are not measured at fair value through profit or loss also include transaction costs directly attributable to the acquisition of an asset or the issue of a liability. The addition and disposal of derivatives and financial instruments that mature within a term customary in the market (regular way contracts) are recognized by the Addiko Group at the trade date.

Financial assets are eliminated from the statement of financial position when the contractual rights to the cash flows are lost or when the transition criteria of IAS 39 are met. Financial liabilities are derecognized when they have been repaid or have expired.

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used or the fair value is determined on the basis of accepted measurement models. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark.

With the measurement models that are used, the fair value is generally determined on the basis of observable prices or market parameters. If none can be determined, then the parameters must be determined by expert estimates on the basis of past experience and applying an appropriate risk premium.

For subsequent measurement, all financial assets have to be assigned to one of the four measurement categories according to IAS 39:

- Financial assets at fair value through profit or loss
  a. Financial assets held for trading
  b. Financial instruments designated at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

Financial liabilities are divided into the following categories in accordance with IAS 39:

- Financial liabilities at fair value through profit or loss
  a. Financial liabilities held for trading
  b. Financial liabilities designated at fair value through profit or loss
- Other liabilities

Financial assets at fair value through profit and loss

a. Financial assets held for trading

Financial instruments that were acquired with the intent of reselling them within a short period of time or that are part of a portfolio with a short-term profit objective have to be classified as held for trading, i.e. securities and receivables held for trading are reported under assets held for trading.

This item also includes positive fair values of derivatives not classified as hedging instruments. Therefore, both banking book derivatives and derivatives held for trading are reported under assets held for trading. On the other hand, derivatives that meet the requirements of IAS 39 for hedge accounting are reported under “Derivatives – hedge accounting”. Financial assets held for trading are measured at fair value, which corresponds to the market price for listed products. Measurement techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not traded on an active market.

Realized gains and losses, results from foreign currency valuation as well as unrealized measurement results are reported in profit or loss in the result from trading as part of position “gains and losses on financial assets and liabilities”. Interest income and expenses from financial assets held for trading as well as current dividends are shown in net interest income.

b. Financial assets designated at fair value through profit or loss

Regardless of the intent to trade them, IAS 39 permits irrevocably designating financial instruments as “financial assets designated at fair value through profit or loss” when they are acquired (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial instrument contains one or more material separable embedded derivatives
- Through the fair value option, accounting mismatches can be avoided or significantly reduced, or
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation based on the first two characteristics results in an overall improvement in the presentation of the net assets and results of operations. This designation option cannot, however, be used for equity instruments that have no quoted market price and whose fair value cannot be determined reliably. Designating financial instruments in this category makes it possible to represent economic hedging relationships without meeting the strict requirements for hedge accounting.

Financial instruments designated at fair value are measured at their fair value, corresponding to the quoted price in the case of listed financial instruments. For non-listed financial instruments, the fair value is established using the net present value method or other appropriate measurement techniques.

Realized gains and losses as well as unrealized measurement results are recorded through profit or loss under gains and losses on financial assets and liabilities, measured at fair value through profit or loss. Interest income and expenses as well as dividends on these financial instruments are included in net interest income.

Held-to-maturity investments

This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group intends to and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. Measurement is at amortized cost, with premiums and discounts being allocated over the term through profit or loss using the effective interest method. Permanent impairment is included in the statement of financial position by reducing the carrying amount and in the income statement under “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”.

Since new designations for this item are handled restrictively, the portfolio of the Addiko Group is small.

Loans and receivables

Loans and receivables are all non-derivative financial assets with fixed or determinable payments, which are not held for trading and not listed in an active market. They are measured at amortized cost using the effective interest method, with impairments reducing the carrying amount of the assets directly as credit risk provisions. Lease receivables are measured at present value less impairment.

This item mainly includes granted loans, lease receivables, overnight loans and time deposits as well as unquoted debt securities. Loans and receivables also include cash balances at central banks that are not daily due. They are reported including accrued interest after the deduction of impairment. Premiums and discounts are spread over the respective term and are also shown in net interest income, which also includes interest income.

Default risks in the lending business are included in the category loans and receivables through the recognition of specific provisions and portfolio provisions for impairment losses and/or by recognizing provisions for obligations not included in the statement of financial position.

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, taking pledged collateral into account.

Specific provisions for impairment losses are either calculated individually or based on a collective estimate (rules-based approach). For major customers, the expected future cash flows are individually estimated by the risk manager. A customer is considered major if the total receivable, defined as the sum of all receivables (both those included in the statement of financial position and those not included), exceeds an established materiality threshold. Otherwise, the customer is not considered significant and a rules-based approach is used to calculate the specific provision for impairment losses.

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognized as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognized if the present value of the agreed cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses applied by the Group companies, receivables are grouped into homogeneous portfolios with comparable risk properties and the business not included in the statement of financial position is also taken into account.

Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment on credit portfolios at the reporting date. For the calculation of these provisions for impairment losses performed by the Group, receivables are grouped into homogeneous portfolios with comparable risk properties, whereas subsidiary specific data is also taken into account. For the purpose of obtaining a uniform and transparent approach, the portfolio provision assessment is done centrally, at the Group level, for all Addiko entities.

In addition to the exposure determining the portfolio provisions for impairment losses, the following parameters are also taken into account:

- The time elapsed between the occurrence and identification of the loss event (loss identification periods)
- The probability of default
- The loss given default

Basically, the Addiko Group assumes the following loss identification periods (known as LIP factors) for the determination of portfolio provisions for impairment losses after taking into account the customer segment and volume: 0.1 for banks and governments, 0.5 for corporate and retail customers. If local conditions demand, more conservative LIP factors (up to 1) can be applied.

Specific provisions for exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis. Such individually insignificant loans are grouped according to similar credit risk characteristics and impaired accordingly. Since the end of 2016, the assessment of collective impairment for specific provisions has been performed at the level of the Group for all Addiko subsidiaries. These exposures are impaired based on loss given default, which differs depending on the subsidiary and the segment.

Probabilities of default for the retail portfolio are determined by the realized historical default rates per subsidiary and segment. Probabilities of default for the non-retail portfolio are determined by the results of the respective rating models. For the non-retail portfolio, scaling factors for probabilities of default of the rating models are applied if there are significant differences between the realized historical default rates and the exposure-weighted probabilities of default of the rating models (per subsidiary and segment).

The realized historical default rates are determined by semi-annual averaging of realized one-year default rates calculated monthly. A default event is counted insofar as at least one default has occurred within a year according to the internal definition of default.

The realized historical default rates are recalculated/validated at least once a year. Should there be a need for changes, the parameters in the model are adjusted.

The loss given default rates are estimated per customer segment. To maintain consistency, these factors are also applied to determine impairment in the Collective Impaired model of the Addiko Group.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognized are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the expected loss and also based on the probability of default specific to each subsidiary and segment and the loss given default.

Available-for-sale financial assets
This category includes all non-derivative financial assets that are not assigned to any of the above-stated categories. Subsequent measurement is at fair value and the measurement result – after taking deferred taxes into account – is included in other comprehensive income (OCI) without affecting profit or loss. Upon disposal, the difference to the carrying amount recorded in the remeasurement reserve is released to profit or loss. Impairment losses and any reversals of impairment are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are released over the respective term by means of the effective interest method. Impairment is also recognized in profit or loss.

The Addiko Group classifies most debt securities and other fixed-income securities as well as shares and other securities not bearing fixed interest as available for sale, as long as they are traded in an active market.

These investments are initially measured at their fair value (including transaction costs) which corresponds to their quoted price. Alternatively, the fair value is established on the basis of comparable instruments or by applying accepted measurement techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not included in cost. Subsequent measurement is based on the fair value (excluding transaction costs). In addition, long-term investments as well as shares in non-consolidated subsidiaries are also classified as available-for-sale financial assets. Such equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairment.

The measurement result for this category – after taking deferred taxes into account – is included in other comprehensive income (OCI). In case of a significant or permanent impairment, impairment is recognized through profit or loss and reported under “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Reversals of impairment of debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the income statement but included in other comprehensive income (OCI). Gains and losses on disposal are also included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”. Foreign currency translation results are included in exchange differences of the result from trading for debt instruments, and in other comprehensive income (OCI) for equity instruments.

Revenues from fixed-income securities, including allocated premiums and discounts, as well as dividend income are included in net interest income. Current income from securities not bearing fixed interest (shares, investment funds, equity investments, etc.) are included in the item “result on financial instruments not measured at fair value through profit or loss” as part of position “gains and losses on financial assets and liabilities”.

For investments in equity instruments which are carried at fair value, a significant reduction in the fair value below cost indicates impairment. A decrease in the fair value by more than 20.0% below original cost or a permanent reduction in the market value below historical cost over a period of more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognized as an expense in the income statement.

Financial liabilities held for trading
Financial liabilities held for trading are generally measured at fair value. However, this item only includes derivatives at the reporting date.

Financial liabilities measured at amortized cost
This category encompasses financial liabilities, including debt securities issued, for which the fair value option was not used. As a general rule, they are recognized at amortized cost. Premiums and discounts are spread over the respective term using the effective interest method and reported under interest expenses.

Embedded derivatives
Structured finance products are characterized by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires a separation of the embedded derivative from the host contract if:

- The characteristics and risks of the embedded derivative are not closely linked to those of the host contract,
- The structured finance product is not already measured at fair value through profit or loss, and
- The design of the embedded derivatives meets the requirements for a derivative according to IAS 39.

Embedded derivatives that are separated are reported under financial assets held for trading. The measurement result is reported through profit or loss in the statement of comprehensive income. Embedded derivatives that are not required to be separated are measured together with the host contract according to the applicable general requirements of the category.

(9) Financial instruments: net gains and losses

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss, impairment losses and impairment reversals, realized disposal gains as well as credit risk provisions.

(10) Classes of financial instruments according to IFRS 7

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments. For details see note (9) Financial instruments: recognition and measurement (IAS 39)

(11) Hedge accounting

Underlying transactions (usually receivables, securities and liabilities) can be subject to different measurement principles than hedging transactions (derivatives) which always belong to the category “at fair value through profit or loss”. With the application of hedge accounting according to IAS 39, changes in value arising from changes in the market price of the underlying transaction are compensated through profit or loss by concluding an opposing hedging transaction.

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period, derivatives must be monitored continuously to ensure that they are effectively compensating for changes in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80.0% to 125.0%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

The Addiko Group only uses fair value hedges for hedge accounting. These serve to hedge changes in the market values of assets and liabilities (underlying transactions). The risks to be hedged are the interest risk and the foreign currency risk. If the hedging relationship is 100% effective, the measurement effects of the underlying transaction offset those of the hedging transaction and there is no effect on profit or loss. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognized in the result from hedge accounting as part of position “gains and losses on financial assets and liabilities”.

(12) Leases

For the classification and recognition of leases as a lessor, the economic effect of the lease contract prevails over the legal ownership of the leased asset. A finance lease according to IAS 17 is a lease that substantially transfers all the risks and opportunities associated with the ownership of an asset to the lessee; all other leases are operating leases.

The lease contracts concluded by the Addiko Group as a lessor are mainly classified as finance leases. They are reported under loans and receivables in the statement of financial position at the net investment value (present value); see note (40) Loans and receivables. The lease payments received are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating leases concluded in the local currency for which repayments by the lessee were agreed in a foreign currency, an embedded foreign currency derivative is separated in the event that IAS 39 criteria were met.

With the exception of real estate, leased assets are reported under the item “property, plant and equipment” in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the item “other operating result” and scheduled depreciation under “depreciation and amortization”.

Real estate leased under an operating lease is reported in the statement of financial position under the item “investment properties” in tangible assets.

Assets not yet or no longer leased out are included in other assets. Impairment is included in the other operating result.

(13) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IAS 39, the seller continues to recognize the asset in its statement of financial position if the material risks and rewards remain with the seller. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognizes a receivable.

(14) Fiduciary transactions

Fiduciary transactions concluded by the Addiko Group in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(15) Financial guarantees

Financial guarantees are contracts that oblige the Company to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognized as liabilities at fair value less transaction costs directly related to the guarantee issued. Liabilities are subsequently measured on the basis of the best possible estimate of the expenses required for covering all current obligations as at the reporting date. If, however, the fair value amounts to zero at initial recognition, an assessment as to whether a provision pursuant to IAS 37 should be recognized is made during subsequent measurements.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at nominal value.
Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

(17) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (12) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at amortized cost. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. The following depreciation rates and expected useful lives are used:

Depreciation rate	in percent	in years
for immovable assets (buildings)	2 - 4%	25 - 50 yrs
for movable assets (plant and equipment)	5 - 33%	3 - 20 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are carried at amortized cost, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Group is reported separately under depreciation and amortization in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under the other operating result.

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognized. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “other operating result”. If the reasons for the impairment cease to exist, the previously recognized impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after deprecation if no impairment loss had been recorded for the asset in previous years.

(18) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortization.

Scheduled amortization is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortization. The following amortization rates and expected useful lives are used:

Depreciation rate or useful life	in percent	in years
for software	14 –33%	3 –7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “other operating result”.

(19) Tax assets and tax liabilities

Current and deferred income taxes assets and liabilities are jointly reported in the statement of financial position under “tax assets” and “tax liabilities”. Current income taxes are determined according to the tax law regulations of the respective countries.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognized if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognized for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. If there is a series of losses in the recent past, the more stringent criterions for recognizing deferred tax assets according to IAS 12 have to be considered. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Tax rate changes are taken into account in the determination of deferred taxes insofar as they are known at the time the consolidated financial statements are prepared. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be sufficiently available. This assessment is generally based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period.

Establishment and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income (e.g. remeasurement reserve for available-for-sale financial instruments).

(20) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but no financial instruments.

Deferred assets are recognized at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

(21) Non-current assets and disposal groups classified as held for sale

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets
- Commitment to a plan to sell the asset, active search to locate a buyer
- High probability of sale
- Sale within a period of twelve months

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (46) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale.

(22) Provisions

22.1. Provisions for retirement benefits and similar obligations

The Addiko Group maintains both defined contribution and defined benefit plans. Under defined contribution plans, a fixed contribution is paid to an external provider. These payments are recognized under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit obligations relate to pension commitments and severance obligations. These schemes are unfunded, i.e. all of the funds required for coverage remain within the Company.

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 1.97% as at December 31, 2017 (2016: 1.5%) and a salary increase of 3.0% p.a. (2016: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2008 P generation mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. Serbia is calculation with an actuarial interest rate of 5.5% (2016: 7.0%) while Slovenia is using 1.0% (2016: 1.5%). The fluctuation discounts amounts 0.0%-4.3% (2016: 0.0%) in Serbia and Slovenia.

The expenditure to be recognized through profit or loss consists of service cost reported under personnel expenses and interest expense which is recorded as such; actuarial gains and losses are reported under equity in other comprehensive income without affecting profit or loss.

22.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions. Provisions are made both for individual cases and at portfolio level.
Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “impairment or reversal of impairment on loans and receivables”.

22.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the Company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.
For disclosure of restructuring expenses, see note (28) Other operating result.

22.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq.

(23) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognized at their nominal value, the liabilities at amortized cost.

(24) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Subscribed capital represents the amounts paid in by shareholders in accordance with the articles of association. The cumulative gain or loss includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reserves include the statutory reserves and the risk reserve.

The available-for-sale reserve includes the measurement results – after taking deferred taxes into account – for the financial assets classified as available for sale.

Notes to the income statement

(25) Net interest income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Interest income	**232.4**	**238.1**
Financial assets held for trading	6.2	5.0
Available-for-sale financial assets	15.7	14.4
Loans and receivables	207.3	211.0
Held-to-maturity investments	2.7	4.0
Derivatives - Hedge accounting, interest rate risk	0.3	2.7
Other assets	0.3	1.0
Dividend income	**1.8**	**0.1**
Total	**234.2**	**238.2**
Interest expenses		
Financial liabilities held for trading	-2.2	-5.2
Financial liabilities measured at amortised cost	-64.8	-69.9
Derivatives - Hedge accounting, interest rate risk	0.0	-1.7
Other liabilities	-1.9	-2.6
Total	**-68.9**	**-79.4**
Net Interest Income	**165.3**	**158.8**

Interest income includes unwinding proceeds of EUR 9.5 million (2016: EUR 10.5 million) and commissions similar to interest. In February 2017 the EUR 60.0 million Tier 2 capital was increased by EUR 130.0 million to EUR 190.0 million, the corresponding interest expenses in the amount of EUR 19.2 million (2016: EUR 6.9 million) are reflected in interest expenses from financial liabilities measured at amortized costs. The issued tranche in 2016 in amount of EUR 60.0 million has an annual interest rate of 14.0% and is due on the March 10, 2026. The new emission in the amount of EUR 130.0 million with an annual interest rate of 10.0% was issued in euros and matures on February 27, 2027. If the Tier 1 Ratio falls below a predefined amount, the tranche issued in 2016 can be converted to equity (conversion right).

Interest and similar income as well as interest expenses break down by instrument and sector as follows:

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives - Trading	**6.1**	**4.7**
Debt securities	**18.5**	**18.8**
General governments	16.2	15.8
Credit institutions	1.6	1.9
Other financial corporations	0.0	0.3
Non-financial corporations	0.7	0.8
Loans and advances	**207.3**	**211.0**
Central banks	0.8	0.7
General governments	12.2	17.9
Credit institutions	0.4	0.5
Other financial corporations	1.6	1.4
Non-financial corporations	59.1	69.9
Households	133.2	120.6
Other assets	**0.3**	**1.0**
Derivatives - Hedge accounting, interest rate risk	**0.3**	**2.7**
Dividend income	**1.8**	**0.1**
Total	**234.2**	**238.2**

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives - Trading	**-2.2**	**-5.2**
Deposits	**-45.0**	**-54.2**
Central banks	-0.2	-0.3
General governments	-0.7	-1.1
Credit institutions	-2.2	-3.6
Other financial corporations	-2.2	-2.4
Non-financial corporations	-7.1	-6.1
Households	-32.6	-40.8
Other financial liabilities	**-19.7**	**-15.7**
Derivatives - Hedge accounting, interest rate risk	**0.0**	**-1.7**
Other liabilities	**-1.9**	**-2.6**
Total	**-68.9**	**-79.4**

(26) Net fee and commission income

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Payment services	49.2	41.1
Lending business	9.5	9.4
Loan commitments granted and received	5.9	5.4
Financial guarantees granted and received	3.6	4.0
Custody	1.7	3.0
Securities	0.2	0.3
Clearing and settlement	0.0	-0.3
Asset management	0.0	0.1
Fiduciary business	0.0	0.1
Other	-2.2	-3.6
Total	**58.5**	**50.0**

(27) Gains and losses on financial assets and liabilities

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Trading income	1.8	11.0
Result from hedge accounting	-0.2	0.1
Result on financial instruments not measured at fair value through profit or loss	8.1	9.3
Total	**9.7**	**20.3**

* Previous-year figures adjusted: In 2016, the positions "Trading income", "Result from hedge accounting" and "Result on financial assets and liabilities not measured at FV through P&L" were shown as a separate income statement position. In 2017, those items were summed up to the position "Gains and Losses on financial assets and liabilities".

27.1. Result from trading

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Exchange differences	-24.1	1.5
Gains or losses on financial assets and liabilities held for trading	26.0	9.4
Total	**1.8**	**11.0**

27.1.1. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET – BY INSTRUMENT

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Derivatives	25.8	9.2
Debt securities	0.2	0.3
Total	**26.0**	**9.4**

27.1.2. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET – BY RISK

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Interest rate instruments and related derivatives	9.0	-4.4
Foreign exchange trading and derivatives related to foreign exchange and gold	17.1	13.6
Other	0.2	0.3
Total	**26.0**	**9.4**

27.2. Result from hedge accounting

This is the result from hedge accounting according to IAS 39 based on the measurement of the hedging derivatives and the underlying transactions.

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Fair value changes of the hedging instrument [including discontinuation]	0.0	-1.9
Fair value changes from underlying transaction hedged	-0.2	2.1
Total	**-0.2**	**0.1**

27.3. Result on financial instruments not measured at fair value through profit or loss

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	8.5	9.0
Impairment or reversal of impairment on available for sale financial assets	-0.4	0.3
Total	**8.1**	**9.3**

27.3.1. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES, NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – BY CATEGORY

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Available-for-sale financial assets	8.6	8.8
Loans and receivables	0.0	0.3
Held-to-maturity investments	-0.1	-0.1
Total	**8.5**	**9.0**

27.3.2. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES, NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – BY INSTRUMENT

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Equity instruments	0.1	8.5
Debt securities	8.4	0.3
Loans and advances	0.0	0.3
Total	**8.5**	**9.0**

27.3.3. IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Expenses from impairment	-0.4	-0.3
Income from write-up	0.0	0.6
Total	**-0.4**	**0.3**

(28) Other operating result

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Other operating income	2.5	29.6
Other operating expenses	-9.0	-71.6
Total	**-6.5**	**-42.1**
Result from operate lease assets	2.9	6.3
Restructuring expenses and income	-1.4	-5.5
Provisions and expenses for passive legal cases*	9.5	-37.0
Impairment or reversal of impairment on non-financial assets	-6.1	-8.9
Resolution fund*	-2.1	-1.6
Deposit guarantee*	-7.9	-9.0
Banking levies and other taxes	-3.2	-5.7
Other*	1.7	19.5
Total	**-6.5**	**-42.1**

* Previous-year figures adjusted: In 2016, both positions “Resolution fund” and “Deposit guarantee” were included in position “Resolution fund and deposit protection”. From 2017 onwards, those positions are disclosed separately. Further, results from investment properties and from derecognition of non-financial assets as well as income from assets and disposal groups classified as held for sale are now reported under the item “other”. Furthermore, expenses for passive legal cases in the amount of EUR -10,5 million were reclassified from position “other” to position “provisions and expenses for passive legal cases”.

The item “provisions and expenses for passive legal cases” contains in 2017 a release of provisions for potential legal risks in connection with existing customer claims in the amount of EUR 16.2 million (2016 adjusted: EUR 42.5 million expenses) which is the result of the clear litigation resolution approach of the Addiko Group. Additionally, an amount of EUR 6.7 million was allocated for pending legal cases. This net development of EUR 9.5 million can be explained with individual aspects, like for example the starting of insolvency proceeding of individual plaintiffs, improved level of information on the underlying cases, which allowed to performed more detailed assessments of the expected amounts necessary to reach a settlement in the different court cases, etc. Addiko Group expects that this clear litigation resolution approach will lead to a further reduction of the overall amount in dispute in the years 2018 and 2019. For further details concerning legal risk, please refer to Note (84) Legal risk.

In the financial year 2017, mainly tangible assets are affected by impairment losses in amount of EUR -6.1 million (2016: EUR -8.9 million). According to the new Addiko business strategy, the Group is planning to exit from all non-core activities and concentrate on the pure banking business. As a part of this strategy, the Group started to review all owned real estate assets, with the purpose to identify which assets could be disposed in the short term. Once the selection process was terminated, updated appraisals have been ordered for all relevant properties. By comparing the carrying amount of the assets for sale with the fair value less cost to sell from the updated appraisals an impairment need in amount of EUR -4.3 million has been identified and recognized in the consolidated financial statements. In 2016, the main reasons for the recognition of impairment has been the relocation of the Bosnia and Herzegovina headquarters from Mostar to Sarajevo as well as the outsourcing of IT services in Croatia.

The item “banking levies and other taxes” includes the yearly payment for the stability fee in connection with the Austrian banking tax in the amount of EUR 0.9 million (2016: EUR 3.6 million).

In position “other” the result from assets and disposal groups classified as held for sale in the amount of EUR 1.6 million (2016: EUR 3.7 million) is included. In the previous year, the item “other” mainly included income in connection with the CHF conversion losses in Croatia in the amount of EUR 12.9 million.

(29) Personnel expenses

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016*
Wages and salaries	-69.1	-70.2
Social security	-15.1	-15.9
Voluntary social expenses	-0.7	-0.5
Other taxes expenses depending on amount of wages/salaries	-3.7	-3.6
Expenses for retirement benefits	-0.4	-0.2
Expenses for severance payments	-0.3	-0.9
Variable payments	-10.1	-10.1
Other personnel expenses	-0.7	-1.4
Income from release of other employee provisions	2.5	3.0
Total	**-97.4**	**-99.8**

* Previous-year figures adjusted: In previous years, the position Social security included also taxes and surtax on salaries and salaries compensations. In 2017 those components were recognized directly in Wages and salaries. To ensure comparability, the previous years figures concerning those positions were reclassified as well.

(30) Other administrative expenses

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Premises expenses (rent and other building expenses)	-16.2	-21.0
IT expense (other)	-28.5	-28.7
Office costs	-1.3	-1.5
Advertising costs	-7.8	-4.9
Communication expenses (phone, fax, internet etc.)	-6.7	-6.2
Legal and advisory costs	-9.3	-14.6
Other administrative expenses	-11.1	-16.3
Total	**-80.9**	**-93.1**

(31) Depreciation and amortization

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Tangible assets	-6.0	-14.7
Investment properties	-0.1	-0.1
Intangible assets	-5.7	-4.7
Total	**-11.7**	**-19.5**

(32) Impairment or reversal of impairment on loans and receivables

Impairment on loans and receivables breaks down as follows:

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Additions	-174.2	-99.0
Reversal	152.6	125.8
Proceeds from loans and receivables previously impaired	9.7	4.3
Directly recognised impairment losses	-3.2	-26.7
Total	**-15.1**	**4.4**

Impairment on loans and receivables includes credit risk provisions for transactions both included and not included in the statement of financial position. For detailed information on risk provisioning, see note (37) Loans and receivables.

(33) Taxes on income

33.1. Income tax

EUR m

	1.1. - 31.12.2017	1.1. - 31.12.2016
Current tax	-2.1	-1.7
Deferred tax	22.0	-1.3
Total	**19.9**	**-2.9**

The reconciliation from expected income tax to the effective tax is as follows:

EUR m

	1.1.-31.12.2017	1.1.-31.12.2016
Result before tax	**21.8**	**-21.0**
Theoretical income tax expense based on Austrian corporate tax rate of 25%	-5.4	5.2
Tax effects		
from divergent foreign tax rates	3.1	-4.9
from previous year	0.1	0.0
from foreign income and other tax-exempt income	0.6	1.5
from investment related tax relief and other reducing the tax burden	1.8	15.5
from non-tax deductible expenses	-0.4	-8.9
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-1.8	-12.3
from the change of deferred taxes on loss carry-forwards and temporary differences	21.8	1.4
from non-recognition of deferred taxes because temporary differences	0.0	0.0
from other tax effects	0.2	-0.5
Actual income tax (effective tax rate: 91.4% (2016: -13.8%))	**19.9**	**-2.9**

33.2. Deferred tax assets/liabilities

In the financial year 2017, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

EUR m

			2017			2016
	Deferred Tax (netted)	Profit or loss statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Profit or loss statement	Other comprehensive income (OCI)
Provisions for loans and advances	0.2	0.3	0.0	0.0	-0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.5	0.9	0.0	0.0	0.0	0.0
Revaluations of AFS investments to fair value	-0.6	-0.2	0.2	-0.6	0.0	0.3
Impairment on AFS debt instruments	0.0	0.0	0.0	0.0	0.0	1.6
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	0.0	0.0	0.0	-3.3	0.0
Post-employment benefits (pensions and other retirements)	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue fee income	0.0	-1.3	0.0	0.0	-0.7	0.0
Other	7.2	9.2	-1.6	0.0	-0.7	-0.1
Tax losses carried forward	13.0	13.0	0.0	0.0	3.7	0.0
Total deferred Tax	**20.3**	**22.0**	**-1.4**	**-0.6**	**-1.3**	**1.8**

The total year-on-year change in deferred taxes in the consolidated financial statements is EUR 20.7 million. Of this, EUR 22.0 million is reflected in the current income statement as deferred tax expense, and an amount of EUR -1.4 million has a positive effect on other comprehensive income in equity. The remainder of EUR 0.2 million is due to foreign-currency exchange differences.

The development of deferred taxes in net terms is as follows:

EUR m

	2017	2016
Balance at start of period (1.1.)	**-0.5**	**-1.1**
Tax income/expense recognised in profit or loss	22.0	-1.3
Tax income/expense recognised in OCI	-1.4	1.8
Fx-difference	0.2	0.1
Deferred taxes acquired in change of scope and other changes	0.0	0.0
Balance at end of period (31.12.)	**20.2**	**-0.5**

EUR m

	2017	2016
Deferred tax assets	20.6	0.0
Deferred tax liabilities	-0.5	-0.5
Deferred tax	**20.2**	**-0.5**

Of the unused tax losses in the amount of EUR 959.4 million (2016: EUR 944.7 million), EUR 307.9 million (2016: EUR 258.0 million) can be carried forward without restrictions, EUR 649.7 million (2016: EUR 664.0 million) can be carried forward for a maximum of 4 years subject to restrictions, and EUR 1.7 million (2016: EUR 22.7 million) can be carried forward for a maximum of 5 years subject to restrictions. As tax loss carry-forwards cannot be utilized by all Group companies, deferred tax assets in the amount of EUR 152.1 million (2016: EUR 157,5 million) on unused tax losses and deferred tax assets on temporary differences in the amount of EUR 0.2 million (2016: EUR 2,9 million) were not recognized.

Due to the fact that the subsidiaries recorded a series of losses in the recent past, the criteria for recognizing deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax is only allowed if there is convincing substantive evidence that sufficient taxable profits will be available. Starting from year end 2017, deferred tax assets on existing tax loss carryforwards in the amount of EUR 13.0 million and EUR 8.8 million on temporary differences have been recognized in the Group (2016: EUR 0.0 million) for certain entities. The recognition is based on the successful turnaround process initiated by the new ownership, which led the Group back to the market by implementing a new business strategy, raising the efficiency of operations and the quality service level.

Notes to the consolidated statement of financial position

(34) Cash, cash balances at central bank and other demand deposits

EUR m

	31.12.2017	31.12.2016
Cash	98.5	93.4
Cash balances at central banks	964.5	1,699.5
Other demand deposits	222.8	85.4
Total	**1,285.9**	**1,878.2**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 300.4 million (2016: EUR 296.2 million).

(35) Financial assets held for trading

EUR m

	31.12.2017	31.12.2016
Derivatives	**14.5**	**3.7**
Debt securities	**5.4**	**13.7**
General governments	5.4	13.7
Total	**19.8**	**17.4**

(36) Available-for-sale financial assets

EUR m

	31.12.2017	31.12.2016
Equity instruments	**22.3**	**17.7**
Debt securities	**1,212.0**	**1,291.6**
General governments	831.9	789.5
Credit institutions	312.2	400.9
Other financial corporations	25.7	18.6
Non-financial corporations	42.2	82.6
Total	**1,234.3**	**1,309.3**

(37) Loans and receivablees

EUR m

	31.12.2017	31.12.2016
Loans and advances	3,757.2	3,779.9
Total	**3,757.2**	**3,779.9**

37.1. Loans to and receivables from credit institutions

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	65.5	0.0	-0.2	65.3
Total	**65.5**	**0.0**	**-0.2**	**65.3**

EUR m

31.12.2016	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	49.6	0.0	-0.2	49.4
Total	**49.6**	**0.0**	**-0.2**	**49.4**

37.2. Loans to and receivables from customers

EUR m

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**
General governments	138.5	-1.0	-0.6	136.9
Other financial corporations	46.2	-3.9	-0.7	41.6
Non-financial corporations	1,604.2	-142.0	-14.4	1,447.9
Households	2,321.5	-234.6	-21.4	2,065.5
Total	**4,110.4**	**-381.5**	**-37.0**	**3,691.9**

EUR m

31.12.2016	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**
General governments	332.4	-1.1	-0.9	330.4
Other financial corporations	46.8	-12.9	-0.9	33.1
Non-financial corporations	1,546.3	-143.0	-12.0	1,391.3
Households	2,340.0	-346.4	-17.9	1,975.7
Total	**4,265.6**	**-503.4**	**-31.7**	**3,730.5**

37.3. Impairment on loans and receivables

EUR m

	As at 1.1.2017	Foreign-exchange-differences	Allocations	Releases	Utilization	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2017
Specific provisions	-503.4	6.7	-138.9	127.4	69.8	0.0	9.2	47.6	-381.5
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances	-503.4	6.7	-138.9	127.4	69.8	0.0	9.2	47.6	-381.5
Portfolio provisions	-31.9	-0.3	-22.0	10.7	8.6	0.0	0.3	-2.5	-37.2
Subtotal credit risk provisions on loans and receivables	**-535.3**	**6.4**	**-160.9**	**138.1**	**78.4**	**0.0**	**9.5**	**45.1**	**-418.7**
Provisions for risks arising from the lending business	**-12.6**	**-0.1**	**-13.2**	**14.5**	**0.0**	**0.0**	**0.0**	**0.0**	**-11.4**
Specific provisions	-8.4	-0.1	-3.1	5.5	0.0	0.0	0.0	0.0	-6.1
Portfolio provisions	-4.2	0.0	-10.1	9.1	0.0	0.0	0.0	0.0	-5.2
Total	**-547.9**	**6.3**	**-174.1**	**152.6**	**78.4**	**0.0**	**9.5**	**45.1**	**-430.1**

The item “Other” mainly includes risk provisions for non-performing loans which are subject to a currently ongoing sales process in Croatia and Serbia and which are, therefore, classified under the position “non-current assets and disposal groups classified as held for sale".

EUR m

	As at 1.1.2016	Foreign-exchange-differences	Allocations	Releases	Utilization	Changes to the consolidated Group	Un-winding	Other	As at 31.12.2016
Specific provisions	-599.0	-2.4	-74.7	103.3	58.4	-1.2	10.5	1.8	-503.4
Portfolio provisions	-24.0	-0.2	-18.7	9.3	1.3	0.0	0.0	0.4	-31.9
Subtotal credit risk provisions on loans and receivables	**-623.0**	**-2.6**	**-93.4**	**112.5**	**59.7**	**-1.2**	**10.5**	**2.2**	**-535.3**
Provisions for risks arising from the lending business	**-20.2**	**-0.1**	**-5.6**	**13.3**	**0.0**	**0.0**	**0.0**	**0.0**	**-12.6**
Specific provisions	-11.0	-0.1	-2.2	4.8	0.0	0.0	0.0	0.0	-8.4
Portfolio provisions	-9.2	0.0	-3.4	8.4	0.0	0.0	0.0	0.0	-4.2
Total	**-643.2**	**-2.7**	**-99.0**	**125.8**	**59.7**	**-1.2**	**10.5**	**2.2**	**-547.9**

(38) Held-to-maturity investments

EUR m

	31.12.2017	31.12.2016
Debt securities	**42.5**	**82.6**
General governments	38.6	78.8
Non-financial corporations	3.9	3.9
Total	**42.5**	**82.6**

(39) Tangible assets

EUR m

	31.12.2017	31.12.2016
Property plant and equipment	55.3	67.9
Investment properties	2.0	2.5
Total	**57.3**	**70.4**

(40) Intangible assets

EUR m

	31.12.2017	31.12.2016
Purchased software	21.3	17.1
Other intangible assets	0.5	0.2
Total	**21.8**	**17.3**

(41) Development of tangible and intangible assets

41.1. Development of cost and carrying amounts

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 1.1.2017	109.3	94.2	0.0	5.3	93.4	302.3
Foreign exchange differences	1.0	1.5	0.0	0.0	1.2	3.7
Additions	2.9	3.8	0.0	0.1	11.8	18.7
Disposals	-2.2	-9.2	0.0	-0.3	-2.9	-14.6
Other changes	-14.2	-0.1	0.0	-0.9	0.0	-15.3
Acquisition cost 31.12.2017	96.9	90.2	0.0	4.3	103.5	294.9
Cumulative depreciation 31.12.2017	-52.6	-79.2	0.0	-2.3	-81.6	-215.7
Carrying amount 31.12.2017	44.3	11.0	0.0	2.0	21.8	79.1
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	87.8

The item “Other changes” includes tangible assets which are subject to a currently ongoing sales process in Croatia, Serbia and Bosnia and Herzegovina and which are, therefore, classified under the position “non-current assets and disposal groups classified as held for sale".

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 1.1.2016*	110.3	102.8	35.5	7.9	82.5	338.9
Foreign exchange differences	0.5	0.2	0.4	0.0	0.2	1.3
Additions	1.4	5.3	2.4	0.0	11.1	20.2
Disposals	-2.2	-4.9	-13.9	-3.1	-1.7	-25.7
Other changes	-0.7	-9.2	-24.4	0.5	1.4	-32.4
Acquisition cost 31.12.2016	109.3	94.2	0.0	5.3	93.4	302.3
Cumulative depreciation 31.12.2016	-54.2	-81.4	0.0	-2.8	-76.1	-214.6
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	87.8
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	119.6

* Previous-year figures adjusted: In previous years, fully amortized/depreciated tangible and intangible assets were shown as disposal in the asset table although they were still in use by the company. In 2017, it was decided to show them in the asset table as well as in the cumulative amortization/depreciation table starting from 1.1.2016.

41.2. Development of depreciation and amortization

EUR m

31.12.2017	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 1.1.2017	-54.2	-81.4	0.0	-2.8	-76.1	**-214.6**
Foreign exchange differences	-0.5	-1.3	0.0	0.0	-0.9	**-2.7**
Disposals	1.5	8.0	0.0	0.1	1.2	**10.8**
Scheduled depreciation	-2.2	-3.8	0.0	-0.1	-5.7	**-11.8**
Impairment	-5.3	-0.7	0.0	0.0	-0.1	**-6.2**
Other changes	8.0	0.1	0.0	0.4	0.0	**8.6**
Write-ups	0.1	0.0	0.0	0.0	0.0	**0.1**
Cumulative depreciation 31.12.2017	-52.5	-79.2	0.0	-2.3	-81.6	**-215.7**

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 1.1.2016*	-49.6	-81.3	-12.9	-5.5	-70.0	**-219.3**
Foreign exchange differences	-0.3	-0.1	-0.1	0.0	-0.2	**-0.7**
Disposals	2.0	3.9	6.4	3.1	0.0	**15.4**
Scheduled depreciation	-2.3	-7.4	-5.0	-0.1	-4.7	**-19.5**
Impairment	-4.5	-4.4	-0.2	0.0	-0.2	**-9.2**
Other changes	0.3	7.9	11.7	-0.3	-1.1	**18.6**
Write-ups	0.1	0.0	0.0	0.1	0.0	**0.3**
Cumulative depreciation 31.12.2016	-54.2	-81.4	0.0	-2.8	-76.1	**-214.6**

* Previous-year figures adjusted: In previous years, fully depreciated/amortized tangible and intangible assets were shown as disposal in the asset table although they were still in use by the company. In 2017, it was decided to show them in the asset table as well as in the cumulative depreciation/amortization table starting from 1.1.2016.

(42) Other assets

EUR m

	31.12.2017	31.12.2016
Prepayments and accrued income	8.4	3.1
Inventories (repossessed assets, emergency acquired assets, etc.)	4.8	4.3
Other remaining assets	11.6	11.5
Total	**24.8**	**18.9**

(43) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale

As at December 31, 2017, the item “non-current assets and disposal groups classified as held for sale” amounts to EUR 19.5 million. The line item loans and receivables include non-performing loans and receivables in Croatia and Serbia in amount of EUR 13.0 million for which a disposal is expected in the first half of 2018. The line items Property plant and equipment and Investment properties include 18 properties in Croatia, Bosnia and Herzegovina and Serbia which, as part of a Group project to dispose non-core assets, are actively marketed as of year 2017. The item “other assets” includes only inventories (repossessed assets, emergency acquired assets, etc.).

In the previous year, this item included the Croatian leasing portfolio which was successfully disposed during the year 2017 as part of the new strategy to wind down non-core operations.

EUR m

	31.12.2017	31.12.2016
Loans and receivables	13.0	29.0
Property plant and equipment	5.2	8.4
Investment properties	0.5	0.1
Other assets	0.9	1.8
Total	**19.5**	**39.3**

The following table presented in 2016 non-current liabilities in relation to the disposal group of the Croatian leasing portfolio.

EUR m

	31.12.2017	31.12.2016
Financial liabilities measured at amortised cost	0.0	1.3
Provisions	0.0	0.3
Other liabilities	0.0	1.1
Total	**0.0**	**2.7**

(44) Financial liabilities held for trading

EUR m

	31.12.2017	31.12.2016
Derivatives	1.8	9.1
Total	**1.8**	**9.1**

(45) Financial liabilities measured at amortized cost

EUR m

	31.12.2017	31.12.2016*
Deposits	5,275.4	4,751.6
Deposits of credit institutions	341.6	316.0
Deposits of customers	4,933.8	4,435.6
Issued bonds, subordinated and supplementary capital	198.5	73.5
Debt securities issued	1.7	6.5
Subordinated and supplementary capital	196.9	66.9
Other financial liabilities	47.3	1,215.3
Total	**5,521.2**	**6,040.4**

* Previous-year figures adjusted: In 2016, EUR 66.9 million subordinated and supplementary capital was reported under the item "other financial liabilities".

The decrease in other financial liabilities is mainly due to the repayment of financing lines to HETA ASSET RESOLUTION AG in the amount of EUR 973.9 million.

45.1. Deposits of credit institutions

EUR m

	31.12.2017	31.12.2016
Current accounts / overnight deposits	32.3	5.8
Deposits with agreed terms	309.3	310.2
Total	**341.6**	**316.0**

45.2. Deposits of customers

EUR m

	31.12.2017	31.12.2016
Current accounts / overnight deposits	**2,113.9**	**1,761.0**
General governments	38.3	30.9
Other financial corporations	182.0	134.9
Non-financial corporations	663.3	672.7
Households	1,230.3	922.6
Deposits with agreed terms	**2,731.6**	**2,634.1**
General governments	120.0	118.0
Other financial corporations	179.3	155.2
Non-financial corporations	609.6	507.9
Households	1,822.6	1,853.1
Deposits redeemable at notice	**67.6**	**40.5**
General governments	7.2	12.6
Other financial corporations	8.8	5.7
Non-financial corporations	18.3	22.1
Households	33.3	0.1
Total	**4,933.8**	**4,435.6**

45.3. Debt securities issued

EUR m

	31.12.2017	31.12.2016*
Subordinated liabilities	196.9	66.9
Supplementary capital	196.9	66.9
Debt securities issued	1.7	6.5
Certificates of deposit	1.7	6.5
Total	**198.5**	**73.5**

* Previous-year figures adjusted: In 2016, EUR 66.9 million subordinated and supplementary capital was reported under the item “other financial liabilities”.

(46) Provisions

EUR m

	31.12.2017	31.12.2016*
Pensions and other post employment defined benefit obligations	1.9	2.1
Other long term employee benefits	0.4	0.4
Restructuring measures	3.4	7.2
Pending legal disputes and tax litigation	45.5	64.0
Commitments and guarantees granted	11.3	12.6
Provision for variable payments	11.2	4.2
Other provisions	9.6	17.3
Total	**83.3**	**107.8**

* Previous-year figures adjusted: In 2016, a provision of EUR 4.2 million related to "variable payments" was reported under the item “other provisions”; a provision of EUR 3.1 million related to "pending legal disputes and tax litigation " was reported under the item “other provisions”.

Details regarding restructuring measures are presented in note (22.3) Provisions for restructuring. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2017.

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in one of the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item.

No further disclosures according to IA 37.92 are made in order to protect the Addiko Group’s position in these legal disputes. More detailed explanations on the legal disputes that are the subject of these provisions are presented in note (84) Risks in the portfolio relating to historical interest rate directives, and in note (85) Legal risks.

Other provisions mainly include provisions for onerous contracts in the amount of EUR 3.0 million (2016: EUR 7.0 million).

The development of provisions for risks arising from the lending business (commitments and guarantees issued) is disclosed under note (37) Loans and receivables.

The calculated amount for provisions for restructuring measures, pending legal disputes and tax litigation as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

46.1. Provisions – development of provisions for retirement benefits and severance payments

The development of the present value of obligations relating to retirement benefits and severance payments is displayed below. For reasons of immateriality, disclosures were summarized.

EUR m

	2017	2016
Present value of the defined benefit obligations as of 1.1	2.1	2.4
+ Current service cost	0.3	0.2
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	-0.1	-0.1
+/- Actuarial gains/losses arising from changes in demographic assumptions	-0.1	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	0.1
+/- Actuarial gains/losses arising from changes from experience assumptions	0.0	-0.1
- Payments from the plan	-0.4	-0.4
+ Past service cost	0.0	0.0
+/- durch die Zusammenfassung von Geschäftstätigkeiten und Veräußerungen	0.0	0.0
+/- Other changes	0.0	-0.1
Present value of the defined benefit obligations as of 31.12	1.9	2.1

Due to the low amount of personnel provisions for the Addiko Group as at December 31, 2017, further disclosures according to IAS 19 are omitted.

46.2. Provisions – development of other provisions

EUR m

	Carrying amount 1.1.2017	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2017
Pensions and other post employment defined benefit obligations	2.1	0.0	0.2	-0.2	-0.1	0.0	1.9
Other long term employee benefits	0.4	0.0	0.1	0.0	-0.1	0.0	0.4
Restructuring measures	7.2	0.0	0.9	-4.8	0.0	0.0	3.4
Pending legal disputes and tax litigation	64.0	0.3	6.7	-9.3	-16.2	0.0	45.5
Provision for variable payments	8.6	0.0	9.1	-4.6	-1.9	0.0	11.2
Other provisions	17.3	0.2	1.0	-8.3	-2.1	1.6	9.6
Total	**99.7**	**0.5**	**17.9**	**-27.2**	**-20.4**	**1.6**	**72.0**

*In 2017, the provision for variable payments is fully shown in "provisions". Therefore, to obtain comparability, it was decided to present in the opening balance of provision for variable payments also the EUR 4.0 million shown in 2016 in "other liabilities".

EUR m

	Carrying amount 1.1.2016	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2016
Pensions and other post employment defined benefit obligations	2.4	0.0	0.3	-0.5	-0.2	0.0	2.1
Other long term employee benefits	0.4	0.0	0.1	-0.1	0.0	0.0	0.4
Restructuring measures	18.5	0.0	2.6	-12.6	-0.1	-1.1	7.2
Pending legal disputes and tax litigation	41.6	0.0	32.1	-4.2	-5.5	0.0	64.0
Provision for variable payments*	0.0	0.0	4.2	0.0	0.0	0.0	4.2
Other provisions	236.1	2.1	3.2	-199.4	-24.5	-0.2	17.3
Total	**299.0**	**2.1**	**42.5**	**-216.8**	**-30.3**	**-1.3**	**95.3**

* Previous-year figures adjusted: In 2016, a provision of EUR 4.2 million related to variable payments was reported under the item “other provisions”, the remaining amount for variable payments of EUR 4.0 million was reported under the item "other liabilities". In addition a provision of EUR 3.1 million related to "pending legal disputes " was reclassified from the item “other provisions”.

(47) Other liabilities

EUR m

	31.12.2017	31.12.2016
Deferred income	1.4	1.7
Accruals and other liabilities	32.4	26.4
Total	**33.8**	**28.1**

(48) Equity

EUR m

	31.12.2017	31.12.2016
Equity holders of parent	**844.1**	**994.7**
Subscribed	5.0	5.0
Capital reserves	537.8	336.2
Available-for-sale-reserves	12.5	7.6
Foreign currency reserve	-7.9	-21.1
Cumulative results and other reserves	296.7	667.0
Non-controlling interest	**0.0**	**0.0**
Total	**844.0**	**994.7**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at December 31, 2017. Of this amount, EUR 5.0 million (2016: EUR 5.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 1,000 (2016: 1,000) no-par registered shares. The proportionate amount of the share capital per share amounts EUR 5.0 thousand (2016: EUR 5.0 thousand).

The capital reserve mainly consists of the contribution of the bank participations in Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro by the former parent company Hypo Alpe-Adria Bank International AG as at June 28, 2013.

In 2015 the capital reserves were increased in the amount of EUR 189.0 million by a contribution from the parent company Al Lake (Luxembourg) S.à.r.l., arising from a claim against HETA ASSET RESOLUTION AG for the compensation of impairment, which was granted to Al Lake (Luxembourg) S.à r.l. in the course of the sale of the former Hypo Group Alpe Adria AG.

A further capital contribution by the parent company in the amount of EUR 265 million was recognised in the capital reserves in 2016. This contribution also resulted from a claim to compensate for warranty claims of Al Lake (Luxembourg) S.à r.l. against the former parent company and was contributed on March 10, 2016. In addition, in the financial year 2016, EUR 722.1 million were rebooked from the capital reserve to the position “Cumulative results and other reserves”. In 2017 a further capital contribution by the parent company in the amount of EUR 219.8 million was recognized in the capital reserves. This contribution resulted from a settlement of warranty claims of Al Lake (Luxembourg) S.à r.l. against the former parent company and was contributed on February 6, 2017. In the financial year 2017, EUR 18.1 million were rebooked from the capital reserve to the position “Cumulative results and other reserves”.

Only a small amount of equity is attributable to non-controlling interests.

The available-for-sale reserves include negative available-for-sale-reserves in amount of EUR 1.3 million. Other reserves contain also a liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 170.0 million in the financial year 2017. In the next General Assembly, a proposal will be made to distribute an amount of EUR 170.0 million by the Company. The dividend per share will be EUR 170.0 thousand (2016: EUR 430.0 thousand).

(49) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Addiko Group due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Addiko Group contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers, and debt securities issued. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity in-vestments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries made for the acquisition of subsidiaries.

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Supplementary information required by IFRS

(50) Analysis of remaining maturities

EUR m

Analysis of remaining maturity as at 31.12.2017	thereof: due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	985.5	290.9	5.0	3.2	1.3	**1,285.9**
Financial assets held for trading	0.1	1.7	6.7	9.4	2.0	**19.8**
Available-for-sale financial assets	103.2	42.9	118.8	798.7	170.7	**1,234.3**
Loans and receivables	347.0	83.6	520.0	1,191.1	1,615.4	**3,757.2**
Held-to-maturity investments	0.0	0.0	0.0	30.9	11.6	**42.5**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	**0.1**
Non-current assets and disposal groups classified as held for sale	1.0	15.0	3.5	0.0	0.0	**19.5**
Total	**1,436.8**	**434.2**	**654.0**	**2,033.3**	**1,801.1**	**6,359.3**
Financial liabilities held for trading	0.0	1.4	0.1	0.1	0.1	**1.8**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial liabilities measured at amortised cost	1,776.6	898.2	1,300.6	785.5	760.3	**5,521.2**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0	0.0	**0.0**
Total	**1,776.6**	**899.7**	**1,300.7**	**785.6**	**760.4**	**5,523.0**

EUR m

Analysis of remaining maturity as at 31.12.2016	thereof: due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	1,279.8	591.3	4.2	2.6	0.4	**1,878.2**
Financial assets held for trading	0.1	1.4	1.6	13.7	0.7	**17.4**
Available-for-sale financial assets	112.9	55.1	172.6	820.1	148.6	**1,309.3**
Loans and receivables	390.2	118.5	526.2	1,488.6	1,256.3	**3,779.9**
*Held-to-maturity investments	0.0	40.6	0.0	30.5	11.5	**82.6**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	0.1
Non-current assets and disposal groups classified as held for sale	0.0	0.5	38.8	0.0	0.0	**39.3**
Total	**1,783.0**	**807.4**	**743.4**	**2,355.4**	**1,417.6**	**7,106.8**
Financial liabilities held for trading	0.0	2.1	0.1	6.4	0.5	**9.1**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	25.0
Financial liabilities measured at amortised cost	1,822.8	599.3	1,864.6	1,606.2	147.4	6,040.4
Derivatives - Hedge accounting	0.0	0.0	0.0	2.6	4.3	6.9
Liabilities included in disposal groups classified as held for sale	0.0	0.0	2.7	0.0	0.0	2.7
Total	**1,822.8**	**601.4**	**1,867.4**	**1,640.2**	**152.2**	**6,084.1**

* Previous-year figures adjusted: In position "Held-to-maturity investments" a reclassification between from "3 month to 1 year" to "from 1 year to 5 years" and "> 5 years" was done.

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(51) Maturities pursuant to IAS 1

EUR m

31.12.2017	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,281.4	4.5
Financial assets held for trading	8.5	11.3
Available-for-sale financial assets	264.9	969.4
Loans and receivables	950.7	2,806.5
Held-to-maturity investments	0.0	42.5
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	57.3
Intangible assets	0.3	21.5
Tax assets	4.4	17.9
thereof current tax assets	1.6	0.0
thereof deferred tax assets	2.7	17.9
Other assets	17.1	7.8
Non-current assets and disposal groups classified as held for sale	19.5	0.0
Total	**2,546.7**	**3,938.8**
Financial liabilities held for trading	1.5	0.3
Financial liabilities designated at fair value through profit or loss	0.0	0.0
Financial liabilities measured at amortised cost	3,975.5	1,545.8
Derivatives - Hedge accounting	0.0	0.0
Provisions	37.3	46.1
Tax liabilities	1.2	0.2
thereof current tax liabilities	0.9	0.0
thereof deferred tax liabilities	0.3	0.2
Other liabilities	33.6	0.2
Liabilities included in disposal groups classified as held for sale	0.0	0.0
Total	**4,049.0**	**1,592.4**

EUR m

31.12.2016	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,875.3	3.0
Financial assets held for trading	3.1	14.4
Available-for-sale financial assets	340.6	968.7
Loans and receivables	1,035.0	2,744.8
Held-to-maturity investments*	40.6	42.0
Derivatives – Hedge accounting	0.0	0.1
Tangible assets	0.0	70.4
Intangible assets	0.0	17.3
Tax assets	2.6	0.0
thereof current tax assets	2.6	0.0
thereof deferred tax assets	0.0	0.0
Other assets	18.7	0.2
Non-current assets and disposal groups classified as held for sale	39.3	0.0
Total	**3,355.2**	**3,860.9**
Financial liabilities held for trading	2.2	6.9
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortised cost	4,286.7	1,753.6
Derivatives – Hedge accounting	0.0	6.9
Provisions	45.9	61.9
Tax liabilities	0.3	1.1
thereof current tax liabilities	0.0	1.0
thereof deferred tax liabilities	0.3	0.1
Other liabilities	27.9	0.1
Liabilities included in disposal groups classified as held for sale	2.7	0.0
Total	**4,365.8**	**1,855.6**

* Previous-year figures adjusted: In position "Held-to-maturity investments" a reclassification between from "3 month to 1 year" to "from 1 year to 5 years" and "> 5 years" was done.

(52) Finance leases from the view of Addiko Group as lessor

Receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2017	31.12.2016
Minimum lease payments (agreed instalments + guaranteed residual value)	2.4	5.2
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	**2.4**	**5.2**
up to 1 year	1.0	0.0
from 1 to 5 years	1.5	5.2
over 5 years	0.0	0.0
Unrealized financial income (interest) (-)	-0.1	-0.4
Net investment value (=)	**2.3**	**4.8**
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	**2.3**	**4.8**
up to 1 year	0.9	2.4
from 1 to 5 years	1.4	2.4
over 5 years	0.0	0.0

The accumulated provisions for impairment losses for uncollectible outstanding minimum lease payments from finance leases for 2017 amount to EUR 0.0 million (2016: EUR 0.0 million). The total amount of contingent rental payments from finance leases recognized as revenue in the reporting period was EUR 0.0 million (2016: EUR 0.0 million).

Assets leased under finance leases (leased assets) break down as follows:

	31.12.2017	31.12.2016
Other movables	2.3	4.8
Total	**2.3**	**4.8**

(53) Operating leases

53.1. Operating leases from the view of Addiko as lessor

The future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2017	31.12.2016
up to 1 year	0.2	0.2
from 1 year to 5 years	0.0	0.1
more than 5 years	0.0	0.0
Total	**0.2**	**0.3**

The breakdown of minimum lease payments from non-cancellable operating leases, by leased assets, is as follows:

EUR m

	31.12.2017	31.12.2016
Tangible assets	0.0	0.0
Investment properties	0.2	0.3
Total	**0.2**	**0.3**

53.2. Operating leases from the view of Addiko as lessee

The Group leases the majority of its offices and branches under various rental agreements. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. For further details regarding the provision for onerous contracts please refer to note (46) The lease agreements do not include any clauses that impose any restrictions on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

(54) Assets/liabilities in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

EUR m

	31.12.2017	31.12.2016
Assets	2,328.1	2,240.7
Liabilities	2,347.3	2,177.3

The majority of the difference between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(55) Return on total assets

As at December 31, 2017, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 0.3% (2016: -0.3%).

(56) Transfer of financial assets - repurchase agreements

At year-end, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

At year-end 2016, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

(57) Contingent liabilities and unused credit lines

EUR m

	31.12.2017	31.12.2016
Contingent liabilities	307.5	300.6
from financial guarantees	135.6	132.6
from other commitments	171.9	167.9
Unused credit lines	512.3	465.7
Total	**819.9**	**766.3**

(58) Measurement categories in accordance with IAS 39

The statement of financial position as at December 31, 2017 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2017
Cash, cash balances at central banks and other demand deposits	1,285.9						1,285.9
Financial assets held for trading		19.8					19.8
Available-for-sale financial assets				1,234.3			1,234.3
Loans and receivables	3,757.2						3,757.2
Held-to-maturity investments					42.5		42.5
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,043.0**	**19.8**	**0.0**	**1,234.3**	**42.5**	**0.1**	**6,339.8**
Financial liabilities held for trading		1.8					1.8
Financial liabilities designated at fair value through profit or loss			0.0				0.0
Financial liabilities measured at amortised cost	5,521.2						5,521.2
Derivatives - Hedge accounting						0.0	0.0
Total financial liabilities	**5,521.2**	**1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**5,523.0**

The statement of financial position as at December 31, 2016 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2016
Cash, cash balances at central banks and other demand deposits	1,878.2						1,878.2
Financial assets held for trading		17.4					17.4
Available-for-sale financial assets				1,309.3			1,309.3
Loans and receivables	3,779.9						3,779.9
Held-to-maturity investments					82.6		82.6
Derivatives – Hedge accounting						0.1	0.1
Total financial assets	**5,658.1**	**17.4**	**0.0**	**1,309.3**	**82.6**	**0.1**	**7,067.5**
Financial liabilities held for trading		9.1					9.1
Financial liabilities designated at fair value through profit or loss			25.0				25.0
Financial liabilities measured at amortised cost	6,040.4						6,040.4
Derivatives – Hedge accounting						6.9	6.9
Total financial liabilities	**6,040.4**	**9.1**	**25.0**	**0.0**	**0.0**	**6.9**	**6,081.4**

Explanations:

LAR:	loans and receivable	FVO:	designated at fair value through profit and loss (fair value option)
LAC:	liabilities at cost	AFS:	available for sale
HFT:	held for trading	HTM:	held to maturity

(59) Net gains or losses on financial instruments

EUR m

	Net interest income	Measurement and Sale	Risk provisions	1.1. - 31.12.2017 Other comprehensive income (OCI)
Loans and receivables	207.3	0.0	-15.1	
Financial assets held for trading	6.2	0.2		
Available-for-sale financial assets	15.7	8.2		4.9
Held-to-maturity investments	2.7	-0.1		
Derivatives - Hedge accounting, interest rate risk	0.3			
Other assets	0.3			
Financial liabilities measured at amortised cost	-64.8	0.0		
Financial liabilities held for trading	-2.2	0.0		
Derivatives - Hedge accounting, interest rate risk	0.0			
Other liabilities	-1.9			
Total	**163.5**	**8.3**	**-15.1**	**4.9**

EUR m

	Net interest income	Measurement and Sale	Risk provisions	1.1. - 31.12.2016 Other comprehensive income (OCI)
Loans and receivables	211.0	0.3	4.4	
Financial assets held for trading	5.0	0.3		
Available-for-sale financial assets	14.4	9.1		-0.6
Held-to-maturity investments	4.0	-0.1		
Derivatives - Hedge accounting, interest rate risk	2.7			
Other assets	1.0			
Financial liabilities measured at amortised cost	-69.9	0.0		
Financial liabilities held for trading	-5.2	0.0		
Derivatives - Hedge accounting, interest rate risk	-1.7			
Other liabilities	-2.6			
Total	**158.7**	**9.5**	**4.4**	**-0.6**

(60) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on the fair value origin, the following fair value hierarchy results:

- Quoted prices in active markets (Level I): the fair value of financial instruments traded in active markets is best established through quoted prices where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- Value determined using observable parameters (Level II): if there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using observable prices or parameters must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments.
- Value determined using non-observable parameters (Level III): this category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models appropriate for the respective financial instrument. This model makes use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument.

Equity instruments
Equity instruments are reported under Level I if prices are quoted in an active market. If no quoted prices are available, they are reported under Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortized cost. Equity instruments measured at amortized cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows. These are reported under Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under Level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under Level II or Level III depending on the input factors used.

Fixed-interest receivables and liabilities
The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under Level I. The fair value is determined on the basis of risk premium curves in the event that there is no active market. The proximity to

the risk premium curve used determines whether these instruments are reported under Level II or Level III. They are reported under Level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under Level III.

Hedge accounting
Within the scope of hedge accounting, the Addiko Group uses only fair value hedges to hedge the market values of financial instruments. Receivables hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the receivable. The hedge serves above all to minimize the market value risk caused by interest rate changes.

No separate calculation of the fair value was carried out so as to hedge interest rate risks.
As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.

For this purpose, the Addiko Group established the expected series of payments for each financial instrument and discounted it at a rate based on market data.

60.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value to their level in the fair value hierarchy.

EUR m

31.12.2017	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	4.5	15.3	0.0	19.8
Available-for-sale financial assets	898.6	332.1	3.6	1,234.3
Derivatives – Hedge accounting	0.0	0.1	0.0	0.1
Total	**903.1**	**347.6**	**3.6**	**1,254.3**
Liabilities				
Financial liabilities held for trading	0.0	1.8	0.0	1.8
Total	**0.0**	**1.8**	**0.0**	**1.8**

There were no reclassifications between the individual levels in 2017.

EUR m

31.12.2016	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	4.3	13.2	0.0	17.4
Available-for-sale financial assets	1,112.8	193.5	2.9	1,309.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**1,117.1**	**206.8**	**2.9**	**1,326.8**
Liabilities				
Financial liabilities held for trading	0.0	9.1	0.0	9.1
Financial liabilities designated at fair value through profit or loss	0.0	0.0	25.0	25.0
Derivatives - Hedge accounting	0.0	6.9	0.0	6.9
Total	**0.0**	**16.0**	**25.0**	**41.0**

There were no reclassifications between the individual levels in 2016.

The level III position "Available-for-sale financial assets" includes EUR 3.6 million (2016: EUR 2.9 million) equity instruments, which in accordance with IAS 39.46.b are measured at cost. For these instruments, no sensitivity disclosures are presented.

The reconciliation of the assets reported under Level III as at December 31, 2017 was as follows:

EUR m

31.12.2017	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.6	3.5
Total	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**3.5**
Liabilities									
Financial liabilities designated at fair value through profit or loss	25.0	0.0	0.0	0.0	0.0	0.0	0.0	-25.0	0.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-25.0**	**0.0**

The column “Total gains/losses” contains both income and expenses from financial instruments which were held as at December 31, 2017, as well as from financial instruments which were no longer on the books as at December 31, 2017.

The reduction of "Financial liabilities designated at fair value through profit or loss" is due to the repayment of financial liabilities as part of the settlement process with the previous owner during the first quarter 2017 and is therefore not disclosed as "disposal".

The reconciliation of the assets reported under Level III as at December 31, 2016 was as follows:

EUR m

31.12.2016	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	8.5	0.0	0.0	0.0	-5.6	0.0	0.0	0.0	2.9
Total	**8.5**	**0.0**	**0.0**	**0.0**	**-5.6**	**0.0**	**0.0**	**0.0**	**2.9**
Liabilities									
Financial liabilities designated at fair value through profit or loss	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0
Total	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**25.0**

60.1.1. MEASUREMENT METHODS USED TO DETERMINE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined. While market prices for some of the Level III items are provided externally, the market prices are either supplied with low frequency or from only one source.

The following measurement techniques are applied to items that are measured internally based on models:

Present value of the future cash flows
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

60.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. This applies to the risk premium of the Addiko Group.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

60.1.3. FAIR VALUE ADJUSTMENTS

Credit value adjustment (CVA) and debt value adjustment (DVA)

Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting
The Addiko Group measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

60.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognized financial instruments and assets not carried at fair value are compared to the respective fair values below:

EUR m

31.12.2017	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,757.2	3,932.2	175.0	0.0	0.0	3,932.2
Held-to-maturity investments	42.5	51.8	9.3	0.0	51.8	0.0
Investment properties	2.0	2.1	0.1	0.0	0.0	2.1
Non-current assets and disposal groups classified as held for sale	19.5	19.5	0.0	0.0	0.0	19.5
Total	**3,821.1**	**4,005.6**	**184.5**	**0.0**	**51.8**	**3,953.8**
Liabilities						
Financial liabilities measured at amortised cost	5,521.2	5,477.1	44.1	0.0	0.0	5,477.1
Total	**5,521.2**	**5,477.1**	**44.1**	**0.0**	**0.0**	**5,477.1**

EUR m

31.12.2016	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,779.9	3,710.4	-69.5	0.0	0.0	3,710.4
Held-to-maturity investments*	82.6	93.8	11.2	0.0	93.8	0.0
Investment properties	2.5	2.7	0.2	0.0	0.0	2.7
Non-current assets and disposal groups classified as held for sale	39.3	39.3	0.0	0.0	0.0	39.3
Total	**3,904.3**	**3,846.2**	**-58.1**	**0.0**	**93.8**	**3,752.4**
Liabilities						
Financial liabilities measured at amortised cost*	6,040.4	6,006.6	33.8	0.0	176.8	5,829.8
Total	**6,040.4**	**6,006.6**	**33.8**	**0.0**	**176.8**	**5,829.8**

* Previous-year figures adjusted: HTM investments are classified in Level II due to restricted market activity. Level III of financial liabilities measured at amortized cost were adjusted.

The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, uncertainties with regard to the calculation of the own credit spread exist. The calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in SEE/CEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists.

The fair value of held-to-maturity financial assets is determined based on external price sources.

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method.

(61) Offsetting

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognized financial assets and financial liabilities. Also reported are the amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the statement of financial position.

EUR m

	31.12.2017	31.12.2016
ASSETS	Derivative financial instruments	
a) Gross amounts of recognised financial instruments (I and II)	**12.8**	**1.7**
b) Amounts that are set off for financial instruments I	1.4	1.7
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**11.4**	**0.0**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0
Amounts related to financial collateral (including cash collateral);	6.8	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**4.6**	**0.0**

* Financial instruments I: Financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

	31.12.2017	31.12.2016
LIABILITIES	Derivative financial instruments	
a) Gross amounts of recognised financial instruments (I and II)	**1.4**	**15.5**
b) Amounts that are set off for financial instruments I	1.4	1.7
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.0**	**13.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0
Amounts related to financial collateral (including cash collateral);	0.0	13.8
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

* Financial instruments I: financial assets and financial liabilities that are already offset in the statement of financial position.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination (e.g. insolvency), these are not offset in the statement of financial position.

(62) Derivative financial instruments

62.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

EUR m

	31.12.2017			31.12.2016		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**384.1**	**1.5**	**0.2**	**411.7**	**2.3**	**7.1**
OTC options	50.1	0.2	0.2	39.8	0.1	0.3
OTC other	334.1	1.3	0.1	371.9	2.2	6.8
b) Foreign exchange and gold						
OTC-products	**378.0**	**13.0**	**1.5**	**468.6**	**1.4**	**2.0**
OTC other	378.0	13.0	1.5	468.6	1.4	2.0

62.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2017			31.12.2016		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**9.0**	**0.1**	**0.0**	**54.0**	**0.1**	**6.9**
OTC other	9.0	0.1	0.0	54.0	0.1	6.9
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
OTC other	0.0	0.0	0.0	0.0	0.0	0.0
FAIR VALUE HEDGES	**9.0**	**0.1**	**0.0**	**54.0**	**0.1**	**6.9**

The majority of derivative transactions serves the purpose of hedging fluctuations related to interest rates and foreign currency rates. Primarily, micro hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of derivatives, see note (8) Financial instruments: recognition and measurement, and note (11) Hedge accounting.

(63) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. 95.4% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 4.6% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Development (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Business relation with the European Bank for Reconstruction and Development, previously shown as "Associates and joint ventures" are disclosed in other related parties in 2016 and 2017. Key management positions at the Company or the parent company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the Management Boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

Business relations with related parties are as follows at the respective reporting date:

EUR m

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**1.2**	**6.1**
Debt securities	0.0	0.0	0.0	0.0	6.1
Loan and advances	0.0	0.0	0.0	1.2	0.0
Financial liabilities	**196.9**	**0.0**	**0.0**	**4.3**	**5.1**
Deposits	0.0	0.0	0.0	4.3	5.1
Other financial liabilities	196.9	0.0	0.0	0.0	0.0
Other liabilities	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**2.1**	**6.0**
Debt securities	0.0	0.0	0.0	0.0	5.8
Loan and advances	0.0	0.0	0.0	2.1	0.2
Financial liabilities	**66.9**	**0.0**	**0.0**	**2.0**	**0.2**
Deposits	0.0	0.0	0.0	2.0	0.2
Other financial liabilities	66.9	0.0	0.0	0.0	0.0
Other liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.2	0.0	0.0
Interest expenses	-19.2	0.0	0.0	-0.1	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	-0.2	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-19.4**	**0.0**	**0.2**	**0.0**	**0.0**

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.0	0.1
Interest expenses	-6.9	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Other administrative expenses	0.0	0.0	0.0	0.0	0.0
Increase/(-) decrease in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0	0.0
Total	**-6.9**	**0.0**	**0.0**	**0.0**	**0.1**

Remuneration received by key members of management at the Company or the parent company are presented as follows:

EUR m

	31.12.2017	31.12.2016
Short-term benefits	10.1	9.5
Benefits after termination of employment relationship	0.0	0.0
Other long-term benefits	1.0	0.2
Payments resulting from the termination of employment relationships	0.0	0.0
Share-based payment	0.0	0.0
Total	**11.2**	**9.7**

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (92) Relationships with members of the Company’s boards.

Risk Report

(64) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimizing the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Addiko Group to the bank's overall controlling:

- Clearly defined processes and organizational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for the purpose of identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(65) Risk strategy & Risk Appetite Framework (RAF)

The Addiko Group's risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organizational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Company's business strategy and risk positioning. It is also a management tool of the highest level for the purposes of bank's risk steering and as such it provides a framework for controlling, monitoring and limiting risks inherent in the banking business, as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

The Addiko Group's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities. In 2017, the risk strategy was enriched with sub risk strategies for the major risk types.

Addiko has also established a Risk Appetite Framework (RAF) which sets the bank's risk profile and forms part of the-process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The Risk Dimensions cluster the measures with a clear statement of risks covered within and guiding principles for monitoring and steering. The framework of risk appetite measures defines the risk level the bank is willing to accept. Measures are split in primary measures giving calibrated numerical limits and secondary measures giving additional support. The calibration of measures takes into consideration the Budget 2018 and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(66) Risk organization

Ensuring adequate risk management structures and processes is in the responsibility of the Group's Chief Risk Officer (CRO), who is a member of the Addiko Bank AG Management Board. The CRO acts independently of market and trading units, with a focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganization of problem loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and managing the Pillar 2 risk capital that is required from an economic point of view.

In 2017, the following organizational units were operative:

Corporate Credit Risk is responsible for underwriting as well as individual risk assessment, review and monitoring for all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial Institutions. The function has both an operational and strategic role related to credit risk management. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned activities.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis, retail collections and modelling.

Distressed Asset Management is responsible for early warning system and portfolio monitoring, pre-workout, restructuring, collection and workout to all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions.

Credit Risk Portfolio Management provides credit reporting and credit portfolio steering activities for the Addiko Group as well as the respective individual institutes. In particular, the following activities are included: data governance, preparation of monthly risk reports, regulatory reports, coordinating the risk budget process including monthly steering and limit steering.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing, recovery plans, resolution plans and MREL steering, coordination of national bank examinations, managing the regulatory office and SPOC function, steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Provisioning, Forbearance, Default (PFD) Methodology provides and manages methodologies for provisioning, forbearance and default detection/recovery topics. PFD Methodology includes: calculation of portfolio IFRS provisions for all subsidiaries, technical implementation of forbearance rules and technical and methodological definitions of default triggers (including delay counters, definition of materiality thresholds, recovery criteria, etc.).

Risk Validation provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is situated in Austria and works closely with local Credit Risk functions.

Market Risk & Liquidity Risk oversees activities related to market risk (foreign exchange risk, interest rate risk, credit spread risk and equity risk) and the bank's liquidity risk. The team is partially situated in Austria and Slovenia and works closely with locally based Market and Liquidity Risk teams in each of the countries.

Operational Risk provides strategic direction, controls and monitoring for all operational risk-related activities. This includes risk assessments, scenario analysis, loss management, and training activities.

The respective country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country.

(67) Internal risk management guidelines

The Addiko Group states its Group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardized manner. These guidelines are promptly adjusted to reflect organizational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing regulations are assessed at least once a year to determine whether an update is required. This ensures that the actual and documented processes match.

The Addiko Group has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility is carried out by Internal Audit. The Addiko Group therefore has fully comprehensive and state-of-the-art internal risk management guidelines in place.

(68) Projects

68.1. Risk Enhancement Program

The second phase of the “Risk Enhancement Program” started in 2016 and is still ongoing. While the first phase (completed in 2015) was designed to adjust the risk management of the Addiko Group to the new post-sale business strategy, the second phase aims at consolidating and overview of activities of material impact on the risk management environment of the Addiko Group through activities in three pillars:

- Regular updates of existing policies and plans (Risk Strategy and Appetite, Recovery Plan, Collateral Policy…)
- Process Optimization Activities (Change of Economic Capital Calculation, Improvement to Credit Approval Process, Improvement of Monitoring process…)
- One-Off Activities (Stress testing Review, RWA Optimization, Risk TOM implementation…)

Additionally, the activities of two task forces steered under the overall Data Integrity Project are monitored under the Risk Enhancement Program:

- “Credit Risk Reporting” with the goal to establish one unique data source for overall credit risk reporting, standardize the reporting process and governance model for credit risk reporting and portfolio management, and
- “Market and Liquidity Risk” with the goal to close open audit findings in the area of market and liquidity risk and improve quality of the data used in M&L risk management while implementing the Kamakura system.

The implementation of the calculation of provisions according to the IFRS 9 standard was also tracked in the Risk Enhancement Program, although being steered under a separate IFRS 9 project.

The Steering Committee of the Risk Enhancement Program meets to review the activities and gives opinions on next steps at regular intervals.

68.2. Austrian Federal Law on Recovery and Resolution of Banks (BaSAG)

Following the Austrian Federal Law on Recovery and Resolution of Banks (“Bundesgesetz über die Sanierung und Abwicklung von Banken”, BaSAG) as well as the Austrian Bank Recovery Plan Regulation (“Bankensanierungsplanverordnung”, BaSaPV”) issued by the Austrian Financial Market Authority (FMA) in February 2015, the Addiko Group has prepared and timely submitted (deadline: September 30, 2017) the Group Recovery Plan to the regulatory authorities. Comments received from the regulatory authority on improvements compared to the Group Recovery Plan prepared in 2016 were taken into account during the preparation of Group Recovery Plan 2017.

Also, based on a request from the regulatory authority, Addiko prepared and delivered to the regulatory authority (on August 8,th 2017) the work plan for the preparation of a fully integrated Addiko Group recovery plan, which will be prepared in 2018.

The Recovery Plan is one of the main strategic documents representing the list of measures which a bank plans to adopt in case of a serious deterioration in its financial position. In order to react properly in a potential crisis situation, the plan defines crucial indicators which are monitored and required to be reported within the existing bank governance framework. In case of breaching defined thresholds, the bank will have to react according to the measures stated in the Recovery Plan. The Recovery Plan is updated annually or if there are material changes to the business strategy.

68.3. Forbearance

The Implementing Technical Standards with regard to forbearance measures are continuously being developed further by the European Banking Authority (EBA). The Forbearance Project that was launched by the Addiko Group in 2015 in order to comply with the currently applicable EBA requirements was successfully completed in 2016.

The Forbearance Project was carried out in two phases, with the first phase including the roll-out to countries with the "Hibis" core banking system (Croatia, Slovenia) and the second phase focusing on countries with the T24 core banking system (Serbia, Montenegro, Bosnia and Herzegovina). In cooperation with local subsidiary banks a new forbearance policy was rolled out and full implementation of the process was already completed in 2016. The basis for this new process is the implementation of a forbearance algorithm in the core bank system which is automatically started when an account is identified as forborne. The main forbearance status "forbearance performing", "forbearance non-performing" and "forbearance performing reclassified from non-performing" are available in the system, enabling the Addiko Group to better and more closely monitor forbearance cases. The entry/exit criteria are part of the algorithm and for each forbearance status a probation period was established as part of the regular routine. The exit criteria depend on the forborne status and are mainly based, among others, on a minimum probation period of two years, days in delay and regular payment.

Contrary to the previous presentation of forbearance in the Addiko Group, the exposure is calculated at account level starting in 2016. Furthermore, identifying forbearance cases is no longer directly tied to the rating which only serves as an indication for assessment but every case is additionally assessed on an individual basis. In the course of implementation of the new forbearance process, the Addiko Group also aligned its default definition with the "forbearance non-performing" definition, which constitutes a more conservative approach. The Forbearance Project was monitored and managed from Group side which ensured that the handling of the forbearance algorithm is uniform for all entities. Moreover, the successful implemented forbearance algorithm will also contribute as regards IFRS 9 in terms of underlying criteria within the staging concept (increase of credit risk).

The forbearance exposure at the Addiko Group is presented in note "Breakdown of financial assets by degree of impairment".

68.4. Market & Liquidity Task Force

The Market & Liquidity Risk Task Force is part of the Data Integrity Program initiated in the year 2016 in the Addiko Group. The project aims to improve the reporting and management of market and liquidity risk.

In addition to improving data quality, the Market & Liquidity Risk Task Force's project also aims to automate and standardize liquidity and interest rate risk reporting and notifications. In 2017, the main focus was on the implementation of the Kamakura risk system and solving deficiencies that were identified during various audits. The main focus of the Kamakura implementation was on the IRRBB (Interest Rate Risk of the Banking Book) part and on the Liquidity Risk part as well as on improving data integration and data cleaning. The next steps within the task force project are the automatization of the interest rate risk and liquidity risk relevant in steering reports, such as: LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio), Liquidity Stress Testing, IR gap, BPV, IR stress testing or NII sensitivity. Additionally, the project team will also further focus on data quality and switch to daily report preparation. The updated process goes hand in hand with strategy, manual and work instruction updates. Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in market and liquidity risk. Ultimately, this will lead within 2018 to faster, more efficient and more consistent steering of market and liquidity risks both at holding and individual subsidiary level.

68.5. Credit Risk Task Force

Same as the Market & Liquidity Risk Task Force, the Credit Risk Reporting Task Force is an integral part of the Data Integrity Program initiated mid-2016. This program aims to define a standardized set of reports which are sourced by a unique database throughout the Group and which should be used at Group and local level to steer the credit risk portfolio. In order to obtain this overall goal, several milestones and sub-targets have been defined: (1) Definition of a clear reporting map, (2) gap analysis with regard to required data fields and data sets, (3) process standardization and automation of steering reports, as well as (4) data integration and improvements regarding data delivery.

The overall project team is made up of Addiko holding employees as well as employees of local subsidiaries in all core countries. In order to cover the high technical requirements with regard to the technical implementation, also Group and local IT departments are heavily involved.

In the second half of 2016, the Credit Risk Reporting Task Force strongly focused on the Group-wide technical setup as well as additional data gathering at subsidiary level. Moreover, the first standardized structure of the monthly risk report was aligned with local and Group risk units.

In 2017, the Credit Risk Reporting Task Force started with centralized automation of internal reporting for credit risk steering purposes as well as the setup of additional data fields and data sets, ensuring the upcoming change of internal reporting in accordance with IFRS 9 instead of IAS 39.

The project primarily aims to implement a uniform reporting structure across the entire Group based on a unique data source both at Group and subsidiary level, ensuring an optimized and transparent reporting structure as well as optimization of resources and enabling a stronger focus on portfolio management and steering at the risk units.

68.6. NPL sale

During 2017 the Bank performed several debt sales of NPL portfolio using electronic auctions for bidding for the first time in the countries of operation. These one-offs significantly contributes to the further strategic reduction of the NPL portfolio. The regular forward flows of unsecured loans that reach 180 dpd continues in those countries where the law allows it.

68.7. End-to-end credit approval process

In order to optimize the overall credit approval process for COR/SME and Public Finance observed end-to-end, an adequate project was performed in 2016 and 2017. Among others, the main result of the project was a distinction between two Corporate/SME processes and the creation of two basic process types approaches:

- Standardized - applies to small-sized clients and Corporate clients with single accounting; this approach is based on a ‘scoring‘ model having in mind small-sized clients; it implies lean and standardized documentation, templates, conditions and tools;
- Tailor-made – applies to bigger Corporate clients with a focus on repayment potential and adequate future cash flows (corporate analysis is done on a ‘case by case’ basis), no standardization; designed primarily due to the need to implement the Korn&Korn approach in the Corporate/SME credit process and to further simplify/optimize existing credit applications.

In 2017, credit application templates for both process types (Tailor-made and Standardized), have been updated and based on that, three forms of credit applications (Simple, Short and Long) were defined for each process type, having in mind credit risk arising from the Client’s rating, financing amount, product types, tenor, etc.

The plan is to develop an automated credit approval process workflow solution/business tools based on selected web-based platforms already starting in 2018.

Due to the fact that market conditions and environment are changing and getting more challenging, it is necessary to enable continuous optimization of the credit process since that is the only way to keep the efficiency and competitiveness on an adequate level. Driven by exactly that aim, adequate persons responsible at holding level were identified for driving and managing and continuously optimizing the above mentioned COR/SME/PF credit process.

The further focus on educations, external and internal, for the purpose of improving financial analysis and risk assessment is also worth mentioning. External education is already provided for all key employees within the Group through trainings, focusing on adequate client business analysis, recognition of key drivers and risks, as well as projecting the same to future repayment potential. Based on this, internal educations are is further on planned in order to transfer know how and best practices to all levels of operative staff involved in the credit approval process (Market/Financial analysis and Underwriting).

68.8. IFRS 9 project

IFRS 9, the new standard on the recognition of financial instruments, was published in its final version on July 24, 2014, was adopted by the EU and replaces the previously applicable IAS 39 from its effective date January 1, 2018. For a detailed description about the key aspects and expected impacts from the implementation of the new standard please refer to Note 2 "New standards and amendments adopted by the Group".

68.9. Capital Requirements Optimization Initiative

The Capital Requirements Optimization Initiative was initiated in January by Management Board decision, with the following main goals:

- Optimize capital requirements (Pillar 1 and Pillar 2)
- Manage SREP findings to decrease additional own funds buffer
- Improve Economic Capital Calculation methodology
- Explore options of lowering local deductions impacting the availability of capital
- Foster a capital-efficient business model to ensure ongoing sustainability

The initiative involved activities in all entities, focused on data quality improvement as well as aligning the approach to capital requirements calculation amongst the countries.

By the end of 2017, the Capital Requirements Optimization Initiative will focus on capital efficient business performance and will transition into a component of regular business through:

- Activities of RWA management, planning and tracking, more focused on business / portfolio structure than on technical improvements (responsibility of Credit Risk Portfolio Management)
- Measuring profitability through Risk Adjusted Return on Capital (responsibility of Group Financial Controlling)
- Additional analysis of optimization options for market and operational risk, both in Pillar 1 and Pillar 2 reporting area (responsibility of Integrated Risk Management, Operational Risk Management, Market and Liquidity Risk Management)

68.10. Collateral Policy

In the fourth quarter of 2017, the Collateral Policy and Collateral Manual were connected into one document called Group Collateral Management Policy which gives a detailed overview of individual types of credit risk mitigation instruments acceptable within the Addiko Group, defines the rules of identifying acceptable instruments (eligibility criteria) and their valuation for the purpose of the credit approval process, risk provisions, ICAAP and RWA calculation, provides requirements regarding credit risk mitigation instruments monitoring and describes overall responsibilities related to instruments management.

The changes compared to previous Policy refer to the following:

- Clear definition of collateral usage/possible purposes within Addiko (business credit approval process, provisioning, ICAAP and RWA)
- Update and definition of general requirements relevant for all collateral types and guarantees (legal requirements, documents validity, monitoring, currency mismatch)
- Definition of collateral and guarantees monitoring
- Clear definition and update of eligibility criteria, valuation criteria and monitoring requirements for each collateral type
- Clear definition of responsibilities in overall collateral management process, on Holding and subsidiaries level

The basic aims and impacts of the mentioned changes are:

- Update of valuation criteria – increase internal haircuts for collateral types which bring low value of future cash flows (experience based)
- Update of eligibility criteria – define adequate eligibility criteria for different purposes, meaning the eligibility criteria provisioning, business approach (ex ante and ex post calculation for risk costs), as well as ICAAP and RWA
- Introduction of some new collateral categories and also simplification of existing categories where needed, as well as introduction of simplified internal value measurement where possible
- Structure the document adequately so that it is readable and adequate/easy to use
- Define overall Bank responsibilities related to collateral management

68.11. Economic Capital Overhaul

In the last months the current ICAAP calculation for single name credit risk was reviewed and an update needed to be performed to, on the one hand, achieve optimization potential, and on the other hand, to be fully Basel III compliant. In addition to that, a switch from the current hybrid Foundation IRB Approach to an Advanced IRB Approach was performed. The adoptions in the calculation include such topics as adjustments of correlation factors for residential mortage exposures, inclusion of firm size adjustment (turnover) to achieve a lower risk weight or the SME supporting factor. For exposures to countries, Addiko implemented a Permanent Partial Use (PPU) which foresees that the country exposures are treated like in Pillar I according to the Standardised Approach (STA).

68.12. APS

Addiko Group has decided to develop and roll out a Group-wide application processing sytem ("APS"). The process design of the new APS aims to significantly speed up the decision process. This is achieved by automating interfaces to internal data like payment behavior and blacklists, to external data like credit bureaus and by scoring the client directly in the system instead of any external portal.

Furthermore, the process is supported by a decision engine which is embedded in the application workflow in multiple stages. The decision engine ensures that all policy rules are always checked by the system and applicants with negative payment performance or any other negative indicators are immediately rejected. The decision engine is maintained by Addiko Group, allowing to adjust policy rules very quickly when needed, for example if fraud patterns are detected then fraud protection rules can be implemented within some hours.

The new APS has been rolled out to all branches of Addiko Serbia in November 2017, while business requirements for the second entity Addiko Bosnia have been completed and development has started. Roll-out to other entities will take place in 2018 and 2019.

68.13. Risk Assessments

The methodology for Outsourcing Risk Assessments has been developed and implemented. For the Target Operating Model (TOM) of the Addiko Group, Outsourcing Risk Assessments have been executed for all relevant functions. The new TOM approach helps Addiko improve the operational stability and quality levels. Significant efforts have been undertaken to comply with the CEBS outsourcing requirements, and all risk assessments are based on a structured and holistic report. Generally, the assessments show an overall low risk profile regarding outsourcing risks.

(69) Development of risk provisions

69.1. Method of calculating risk provisions

As part of the calculation of specific risk provisions for impairment losses, the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilization of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or utilization), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from real estate, the Addiko Group bases its assumptions on the collateral's market value, which is updated annually in commercial real estate business. Haircuts are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilization period and legal situation in relation to the real estate.

For individual, non-significant exposures (that are below certain thresholds), the Specific Risk Provision Collective Impaired method (SRP CI) is used instead of an individual analysis. Receivables not subject to the calculation of (collective) specific provisions for impairment losses are included in the calculation of portfolio impairment. Incurred but not reported losses are used to calculate the portfolio impairment („Incurred but not Reported Loss Model"). Please refer to note "Recognition and measurement (IAS 39)" for further details on calculation.

69.2. Development of risk provisions

The positive development of the portfolio is mainly due to effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate Segment as well as due to settlement agreements and debt sales within the Retail Segment. This resulted in a reduced NPL portfolio in 2017, and the release of risk provisions at the same time. The result was partially offset by provision allocations impacted by financial difficulties of one of the largest retailers in the region where Addiko Group is operating.

Besides the mentioned debt sale and settlement agreements (especially in Croatia and Serbia), the release of the holding period of CHF converted loans in Croatia resulted in further risk provision releases primarily within the Retail segment. Further positive effects were achieved by process improvements.

The introduced daily monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the early collections result and a significant reduction of the NPL portfolio.

69.3. Changes in the calculation of portfolio risk provisions

The Addiko Group performs a uniform Group-wide method of calculating portfolio risk provisions for all subsidiaries, aiming to simplify and standardize the process cycle. By doing so, increased transparency is achieved, as well as a standardized parametrization with regard to risk models both at Group and subsidiary level is determined.
Using this new method, the Addiko Group created a sound strategic basis for the future IFRS 9 standard which will come into effect by January 1, 2018, with regard to:

- Adequate risk provisions across the entire Group with probabilities of default entirely based on statistical data, tested by historical simulations, as well as recognizing loss given defaults which are either deducted based on the market or a workout approach depending on data and model availability
- Standardized parametrization with regard to the Group's risk models towards local subsidiary banks
- Recognition of new parameters creating a favorable point of departure for simulating capital requirements within pillar II
- Expected Loss (EL), generated by the process change, constituting a meaningful benchmark for IFRS 9 estimates

69.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the entire risk provisions to non-performing loans) slightly decreased from 67.5% to 67.0% during the financial year 2017.

The following table shows the NPL and coverage ratio (coverage ratio 1 consideres SRP stocks, while coverage ratio 2 additionally consideres collaterals):

EUR m
31.12.2017

Segment	Exposure	NPL	Provisions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Public Finance	1,209.8	4.3	2.1	2.7	0.4%	48.4%	112.0%
Financial Institutions	1,661.6	11.1	4.6	2.5	0.7%	41.8%	64.2%
Large Corporate	820.3	150.0	80.0	67.3	18.3%	53.3%	98.2%
Medium and Small Corporate	1,305.4	87.5	43.7	63.2	6.7%	50.0%	122.2%
Retail	2,501.0	352.7	275.1	153.5	14.1%	78.0%	121.5%
Total	**7,498.1**	**605.7**	**405.5**	**289.2**	**8.1%**	**67.0%**	**114.7%**

The following table shows provisions and coverage ratio according to the internal segmentation valid as of December 31, 2016:

EUR m
31.12.2016

Segment	Exposure	NPL	Provisions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Public Finance	1,452.8	5.7	2.8	3.3	0.4%	48.0%	105.3%
Financial Institutions	2,284.5	8.1	2.3	2.5	0.4%	28.4%	58.9%
Large Corporate	893.9	142.2	66.3	83.6	15.9%	46.6%	105.4%
Medium and Small Corporate	1,130.7	125.2	58.1	87.3	11.1%	46.4%	116.2%
Retail	2,546.8	479.6	384.1	249.7	18.8%	80.1%	132.2%
Total	**8,308.7**	**760.8**	**513.6**	**426.4**	**9.2%**	**67.5%**	**123.6%**

The decrease within the coverage ratio is driven majorly mainly driven by the execution of debt sales / settlements within the retail portfolio in Addiko Bank Croatia.

(70) Measurement of real estate collateral and other collateral

Management of all collaterals in the Addiko Group is determined in the new “Collateral Management Policy”. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas adjustments can be made if they are more stringent than the minimum standards pre-scribed by this document.

The Group-wide control of real estate pledged as collateral is of crucial importance, as this constitutes the majority of all collateral internally reported as recoverable. Measurement of all commercial real estate is performed if the market value is above EUR 1.0 million using individual measurements pursuant to the Addiko Group Real Estate Valuation Standard.

All measurements are requested on the part of the front office four months at the latest before remeasurements are due. For the market value of all commercial real estate with a market value of less than EUR 1.0 million statisti-cal methods are employed. Compared to the previous year, the threshold for residential real estate (RRE) dropped from EUR 1.0 million to EUR 700,000 if the RRE is located inside capital cities and EUR 400,000 if the RRE is located elsewhere. For such properties, a Demand List must be uploaded to the RED Portal automatically on a monthly basis, for evaluations that expire in four months as defined in the TNT Manual.

The internal collateral values (ICV) are shown in the following table for December 31, 2017 as well as December 31, 2016:

EUR m

Collateral Distribution	31.12.2017	31.12.2016
Exposure	7,498.1	8,308.7
Internal Collateral Value (ICV)	1,978.9	2,348.3
therof CRE	741.5	836.7
thereof RRE	858.8	1,001.4
thereof financial collateral	39.1	33.2
thereof guarantees	219.9	346.7
thereof other	119.5	130.3
ICV coverage rate	**26.4%**	**28.3%**

The predominant part of the stated collaterals refers to loans and advances (no or neglectable collaterals within other financial instruments).

With the decrease of gross exposure also internal collateral value decreased. Primarily real estates given as collaterals and guarantees were reduced. Collateral coverage did decrease slightly, but no significant decrease/change happened.

Addiko did not significantly change its policies in 2017 related to collateral coverage required, except for minor updates due to alignment with changed market conditions, nor has changed criteria used for internal collateral value measurement in 2017.

(71) Measures to improve risk management

71.1. Basel III – Liquidity risk and liquidity risk management

In 2017 the implementation of the LCR based on the Kamakura Risk Manager was intensified. Its final aim is to get a daily LCR out of the Group Data Warehouse as a single point of truth. Additionally, this solution will offer the planned view of that ratio and allows better steering. In the last quarter of 2017 also the development of the NSFR started in the same technical environment. Both solutions are expected to be implemented in the first half of 2018.In the second part of 2017, the development of the Maturity Ladder - as the last part of Additional Liquidity Monitoring Metrics - started. The implementation of its deterministic part is foreseen for the first quarter of 2018 – the final implementation is planned for mid of 2018.

71.2. Development of rating procedures

The Addiko Group currently employs the following rating tools: corporate, small and medium enterprises, retail behavior rating, expert, support, start-up, project finance, commercial real estates, municipalities, countries, insurance firms, banks and scorecards for private customers. Procedures are improved and validated in accordance with standards issued by the regulatory authorities.

71.3. Validation of rating procedures and processes

The procedures are validated as stipulated by the standards issued by the regulatory authorities. A Validation policy was implemented to define the process of validating models in the credit risk area. Furthermore, validation concepts for the regular PD models and the IFRS 9 framework were created. Based on those concepts all credit risk relevant PD models and the IFRS 9 methodology were validated and respective validation reports were distributed to all relevant stakeholders.

The minimum requirements for the validation reports are defined as follows:

- Overview page with the major results (“traffic lights”)
- Executive Summary of the results in written form
- List of findings and recommendations (old and new)
- Model design / Methodology chapter describing the main model process/functionality

- Qualitative questionnaire covering use test, data quality, model design and process as a minimum
- Quantitative tests covering performance, calibration and stability aspects as a minimum

Monthly model monitoring calls are conducted with all subsidiaries to ensure a proper progress for implementing the recommendations from the 2016 validation reports.

The model monitoring and reporting is mainly based on the internal "Model Monitoring Reporting System" which was further enhanced in 2017. It is used to monitor rating processes, default processes and performance of the respective rating procedures at subsidiary level on a monthly basis. Performance of rating procedures focuses on:

- Accuracy of forecasts
- Calibration
- Stability

71.4. Further development of retail risk management

Group Retail Risk Management was established, which constitutes the back office function to Retail Sales and Marketing and reports directly to the Group Chief Risk Officer.
Group Retail Risk Management's responsibilities include retail portfolio management, data analysis and reporting, managing the collection process, making decisions on credits as well as credit checks and quality assurance. Furthermore, Retail Risk Management is also responsible for defining and developing Retail Credit Policies.

The cornerstones of the framework plan for Retail Risk Management have already been successfully implemented:

- Retail Credit Policy and Fraud Management
- Retail Collections Policy
- Retail Risk Restructuring Policy
- Remarketing Policy
- Unification of the PQR and Collection rerport for all countries, with strict scheduled deliveries
- Analyzing and managing portfolios based on retail-specific key risk indicators

71.5. Overnight index swap discounting, tenor curves and credit/debit value adjustment

In measuring the bank's derivative items, the base spread and counterparty risks are fully taken into account. The base spread risk results from the existence of significant differences between fixings with varying maturities. The counterparty risk results from the difference between the value of derivative items and the collateral provided. In particular, implementation in the portfolio management system (PMS) includes the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in market interest curves, both within a single currency as well as between two currencies
- Consideration in yield curve models
- Calculation of credit and debit value adjustment (CVA & DVA) using the American Monte Carlo method

(72) Risk reporting

Timely, independent and risk-adequate reporting to decision makers is guaranteed for all risk types. Requests for ad-hoc reports are fulfilled at all times.

Credit Risk Reporting comprises regular reports on Addiko's credit portfolio and permits continuous monitoring of credit risk developments including comparison to forecasted and budgeted data and therefore enables the management to take controlling measures.

In the course of the Credit Risk Reporting Task Force (for more information, see note "Credit Risk Task Force), taking into account all risk units at Group as well as at local level, the monthly risk report is currently being revised in terms of contents and structure in accordance with the requirements. First and foremost, the goal is to be able to better and faster identify risks and to adjust the contents of the report to the Addiko Group's new strategies. For reasons of improving transparency, the project (which will be completed in 2018) additionally aims to create a central preparation process for the monthly report at Group level in the credit steering function "Credit Risk Portfolio Management", ensuring centralized analysis and application of ratios according to unified methods and segmentation.

Operational risk reports are prepared on an ad-hoc basis and brought to the attention of the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board on a semi-annual basis and to the Board Audit Committee on a quarterly basis.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the Group, which include standardized daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

As part of governance, all the Group reports are also available at local level and are distributed regularly to the Group entities.

(73) Capital management

The term "own capital funds for the purpose of solvency" refers to modified available equity (pursuant to regulatory provisions) that largely comprises the following items:

- Core tier 1 capital (CET1: common equity tier 1) or core capital (tier 1 capital) and
- Deductibles

Supplementary capital (Tier 2)

- Regulatory accountable amount: Daily phase-out after a residual maturity of 5 years to take into account

Core tier 1 capital (CET1) or core capital (tier 1) is largely comprised as follows:

- Paid-in capital
- Reserves
- Deductions

Basel requirements are also taken into consideration in the planning process, including:

- regulatory requirements relating to capital ratios (including buffer requirements), and
- the calculation of the Group's regulatory own capital funds and RWA (risk-weighted assets) based on IFRS (in consideration of the regulatory scope of consolidation).

In terms of the calculation of material risk positions (RWA) in the first Basel I pillar at Group level (for regulatory reporting), the following approaches are applied:

- Credit risk standard approach (CSA) for credit risk and
- Basic indicator approach (BIA) for operational risk at Holding and at Al Lake Group level
- Standardised Approach (STA / activities divided into eight defined business divisions) for the operational risk at Group level (from the reporting date March 31, 2015)

Regulatory own capital funds planning is based on compliance with the Basel III own capital funds ratios listed below:

- Common equity tier 1 capital ratio (core tier 1 capital ratio)
- Tier 1 capital ratio (core capital ratio)
- Total capital ratio

The minimum capital ratios defined by regulatory authorities,

- standardized Basel III requirements in consideration of transitional regulations under CRR/CRD as well as
- regulatory requirements according to the supervisory review and evaluation process (SREP)
-

must be complied with or exceeded at all times. This also applies to the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG). Capital ratios define the (Pillar 1) upper limit of the risk positions from the holding company's business activities and those at the Addiko Group as well as at AI Lake Group level for the planning period.

On a monthly basis, the Management Board receives a standardized report on the capital ratios as well as the related minima and takes appropriate measures in case of target/actual deviations.

Aside from regulatory restrictions on distributions of capital on the basis of EU-wide capital requirements that apply to all financial institutions based in Austria, the Group also complies with the minimum capital requirements of local regulatory authorities. It also complies with the threshold values as defined annually under the Austrian Federal Law on Recovery and Resolution of Banks (BaSAG) for the banks in Croatia, Serbia and Slovenia.

In the Federation of Bosnia and Herzegovina, the Group is subject to significant restrictions imposed by the local regulatory authority. Advance approval must be obtained from the regulatory authority before deposits are transferred back to the parent company. Profits (dividends) can only be distributed if the respective local subsidiary bank holds an overall equity ratio of 14.5% at the time of distribution. In any case, under regulatory provisions the local subsidiary banks are required to report a Tier 1/RWA ratio of at least 11.5% (2018) and an overall equity/RWA ratio of at least 12% at 2017 year-end (for the bank in Banja Luka, an increase to 15% is under discussion with the responsible agency).

As of the half year 2017, Serbia has to fullfill the Basel III requirements. The subsidiary bank located in Serbia is required to report a regulatory equity ratio of at least 13.5%.

73.1. ICAAP – Internal Capital Adequacy Assessment Process

Securing the Group's ability to bear economic risks forms a central part of steering activities within the Addiko Group; to which end the Group processes an institutionalized internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Addiko Group is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Integrated Risk Management and presented to the Group Risk Executive Committee (GREC), where they are discussed and, if required, measures are decided. In this regard, the GREC serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organization and stress test assumptions) for the Group. Additionally, the report is submitted to the Management Board on a monthly basis and presented to the committees of the Supervisory Board.

(74) Credit risk (counterparty default risk)

74.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Addiko Group. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilized collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

Other risk types that are also included under counterparty default risks, such as country and participation risks, are measured, controlled and monitored separately.

74.2. General requirements

The credit risk strategy provides concrete specifications for the organizational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a Group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Management Board and Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Addiko Group and the highest body for making credit decisions, subordinated only to the Management Board.

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Management Board is required for issues of fundamental importance.

74.3. Risk measurement

The Addiko Group network uses its own rating procedures to analyze and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

74.4. Risk limitation

The steering of total Group-wide commitments with an individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

In the banking division, limits are set and monitored independently by a Risk Control unit. If limits are exceeded, this is communicated immediately to operative risk unit as well as front office and reported to the Group Risk Executive Committee. In all other segments, limit control is carried out through a Group-wide authorization level policy ("*Pouvoir-Ordnung*"). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

74.5. Portfolio overview – credit risk

In economic risk control, market values are used to calculate the relevant exposure for securities, whereas amortized cost is used for loans. The presentation in note "Credit risk (counterparty default risk)" is based on exposure before deduction of impairment. Unless explicitly stated differently, all values in the risk report are shown inclusive the portfolio that is classified as held for sale according to IFRS 5.

Breakdown of net exposure within the Group in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio, respectively shown as total net position) as at December 31, 2017:

EUR m

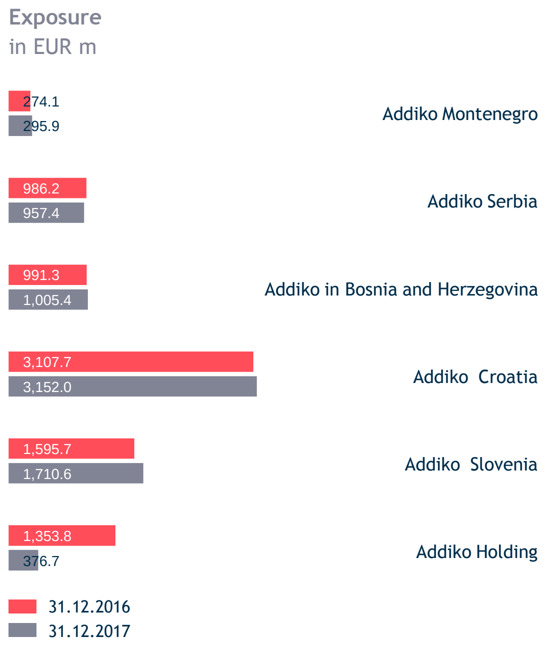
	Performing			Non Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash balances at central banks and other demand deposits, excluding cash on hand	1,187.3		1,187.3				1,187.3	1,187.3
Financial assets held for trading							19.8	19.8
Available-for-sale financial assets, Debt securities	1,212.0	0.0	1,212.0	0.0	0.0	0.0	1,212.0	1,212.0
Loans and advances to customers	3,622.5	-37.2	3,585.3	553.4	-381.5	171.9	4,175.9	3,757.2
Held-to-maturity investments	42.5	0.0	42.5	0.0	0.0	0.0	42.5	42.5
Other Assets - IFRS 5 (LAR)	0.0	0.0	0.0	30.9	-17.8	13.0	30.9	13.0
On balance total	6,064.3	-37.2	6,027.1	584.3	-399.4	184.9	6,668.5	6,231.8
Off balance	798.5	-5.2	793.3	21.4	-6.1	15.3	819.9	808.6
Total	6,862.8	-42.4	6,820.4	605.7	-405.5	200.2	7,488.3	7,040.4

The following table shows the exposure in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio, respectively show as total Net Position) as at December 31, 2016:

EUR m

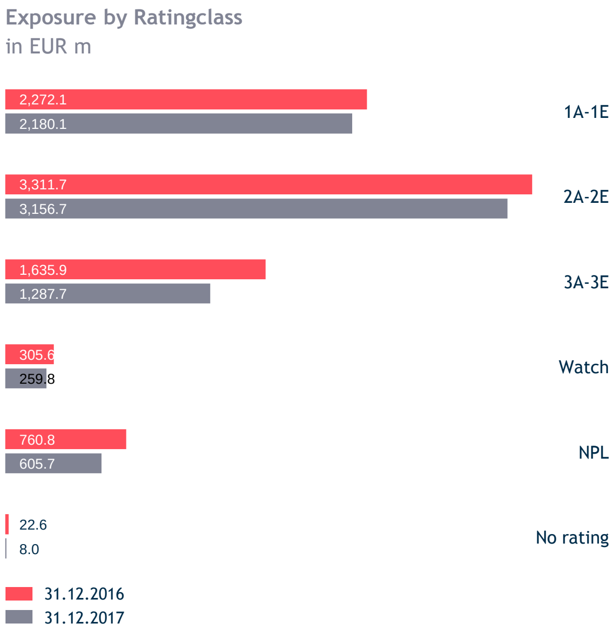
	Performing			Non Performing			Total	
Financial instruments	Exposure	PRP	Net	Exposure	SRP	Net	Exposure	Net
Cash balances at central banks and other demand deposits, excluding cash on hand	1,784.8		1,784.8				1,784.8	1,784.8
Financial assets held for trading							17.4	17.4
Available-for-sale financial assets, Debt securities	1,291.6	0.0	1,291.6	0.0	0.0	0.0	1,291.6	1,291.6
Loans and advances to customers	3,625.1	-31.9	3,593.2	690.1	-503.4	186.7	4,315.2	3,779.9
Held-to-maturity investments	82.6	0.0	82.6	0.0	0.0	0.0	82.6	82.6
Other Assets - IFRS 5 (LAR)	0.0	0.0	0.0	30.9	-1.9	29.0	30.9	29.0
On balance total	6,784.2	-31.9	6,752.3	720.9	-505.3	215.6	7,522.5	6,985.3
Off balance	725.8	-3.6	722.1	39.9	-8.3	31.6	766.3	753.7
Total	7,510.0	-35.5	7,474.4	760.8	-513.6	247.2	8,288.8	7,739.0

Allocation of exposure within the Group
In the financial year, the exposure within the Group declined by EUR 810.7 million or 9.8%. The decline mainly re-sults from reduction of the exposure towards the Oesterreichische Nationalbank as a result of the repaid refinancing lines to the former owner. Within the Group, exposure breaks down as follows:



Exposure by rating class within the Group

Roughly 29.1% (2016: 27.3%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions and public institutions. The decrease of this share is a result of the National-bank Exposure decrease at Addiko Holding level. Non-performing loans slightly increased in the first half of 2017, given the migration of one large ticket into NPL, but the increase was overcompensated by NPL reduction in different parts of the portfolio. Even so, the NPL ratio still does not reflect already announced debt sales of Addiko Bank Croatia (approx. EUR 40 million), which will further reduce the NPL stock.

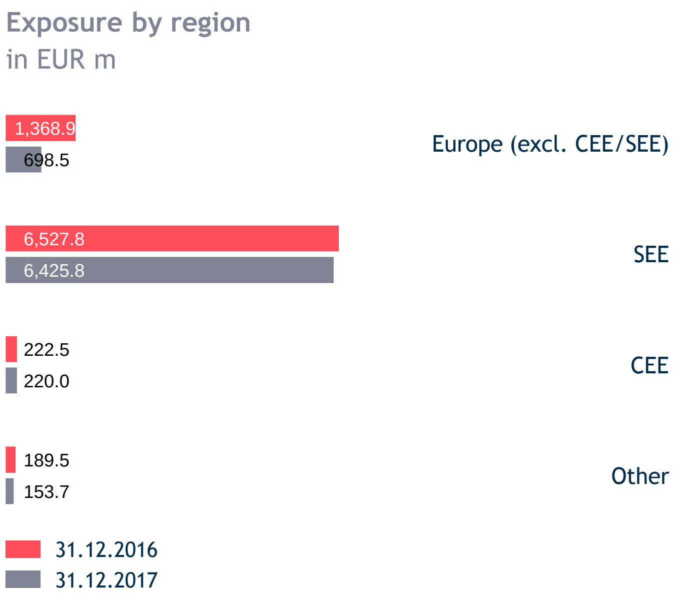


A non-performing loan (default) exists if at least one of the following criteria applies:

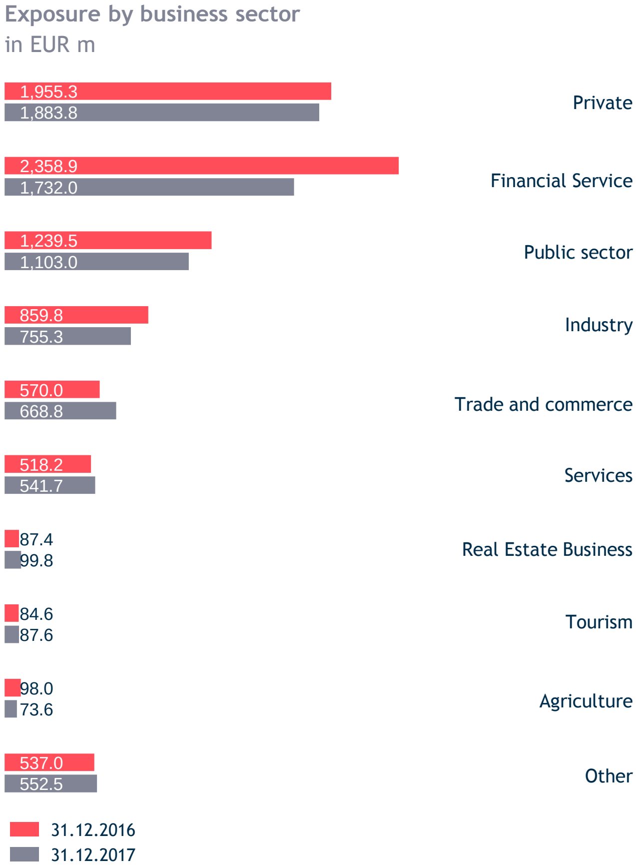
- A material liability from the debtor to a Group bank has been overdue for more than 90 days (Internal Ratings Based Counter)
- The bank significantly doubts the customer's credit standing
- Risk-oriented restructuring (forbearance) of the customer
- Specific risk provision (IFRS) accounted for
- Write-offs of liabilities
- Risk-driven sale of assets
- Insolvency/bankruptcy

A customer can only recover in full from this status if none of the previously identified default criteria (according to the definition) apply any longer and a period of good conduct of at least three months has been complied with. In non-performing forbearance cases as well as if forbearance applies together with other default criteria, the minimum period of good conduct to be complied with is one year. An automatic recovery after a three-month period of good conduct is only possible in case of defaults due to payments being overdue by more than 90 days. In case of all other default criteria, an approval by the Distressed Asset Management division is required in addition to compliance with the period of good conduct.

Exposure by region within the Group
The Addiko Group's country portfolio focuses on South Eastern Europe. The following chart shows the breakdown of exposure by region within the Group (at customer level):



Exposure by business sector within the Group
A uniform classification code (NACE Code 2.0) is used throughout the Addiko Group for the economic steering and strategic focus of business sector exposure. This code is mapped into ten business sectors for reporting purposes. The lower-risk business sector groups – financial institutions and the public sector – account for a share of 37.8% (2016: 43.3%). The well-diversified private customers sector accounts for a share of 25.1% (2016: 23.5%).



Exposure by business sector and region

The following table shows the exposure by business sector and region as at December 31, 2017:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.3	1,880.8	0.6	0.2	1,883.8
Financial services	571.0	1,039.4	0.0	121.6	1,732.0
Public sector	110.0	757.1	219.2	16.7	1,103.0
Industry	14.5	738.7	0.0	2.0	755.3
Trade and commerce	0.0	664.1	0.0	4.8	668.8
Services	0.0	539.2	0.1	2.5	541.7
Real estate business	0.0	99.8	0.0	0.0	99.8
Tourism	0.0	87.6	0.0	0.0	87.6
Agriculture	0.0	73.6	0.0	0.0	73.6
Other	0.7	545.6	0.2	6.0	552.5
Total	**698.5**	**6,425.8**	**220.0**	**153.7**	**7,498.1**

The following table shows the exposure by business sector and region as at December 31, 2016:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	4.7	1,949.7	0.8	0.2	1,955.3
Financial services	1,253.6	954.0	0.0	151.4	2,358.9
Public sector	82.3	935.8	221.4	0.0	1,239.5
Industry	16.8	820.1	0.0	22.9	859.8
Trade and commerce	0.0	570.0	0.0	0.0	570.0
Services	10.9	504.6	0.0	2.8	518.2
Real estate business	0.0	87.4	0.0	0.0	87.4
Tourism	0.0	84.6	0.0	0.0	84.6
Agriculture	0.0	98.0	0.0	0.0	98.0
Other	0.7	523.7	0.2	12.4	537.0
Total	**1,368.9**	**6,527.8**	**222.5**	**189.5**	**8,308.7**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Group's core countries in South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail business.

Presentation of exposure by size classes

Around 40.1% (2016: 36.1%) of the exposure is found in the size range <= EUR 1.0 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1.6 billion (2016 year-end: EUR 2.6 billion) of exposure in the range > EUR 100.0 million is entirely attributable to central banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

		31.12.2017		31.12.2016
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	539.3	314,296	486.4	316,610
10,000-50,000	1,100.7	50,381	946.6	42,427
50,000-100,000	490.4	7,109	579.9	8,375
100,000-250,000	426.3	2,973	522.4	3,637
250,000-500,000	207.9	601	227.5	660
500,000-1,000.000	244.4	356	234.4	336
1,000,000-10,000,000	1,353.1	476	1,439.0	485
10,000,000-50,000,000	1,043.8	52	1,169.2	57
50,000,000-100,000,000	526.5	8	71.2	1
> 100,000,000	1,565.7	7	2,632.3	8
Total	**7,498.1**	**376,259**	**8,308.7**	**372,596**

74.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2017 Collateral	Exposure	31.12.2016 Collateral
1A-1E	2,179.3	417.0	2,270.8	109.0
2A-2E	3,136.6	738.1	3,241.6	988.5
3A-3E	1,262.5	400.7	1,588.1	630.6
Watch	217.1	105.3	276.9	143.1
NPL	2.6	1.0	9.3	4.7
No rating	8.0	0.6	20.5	3.8
Total	**6,806.1**	**1,662.6**	**7,407.2**	**1,879.7**

The non-performing loans stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant. The receivables for which no specific risk provisions were identified are treated under the portfolio risk provisions approach.

Overdue but not impaired financial assets:

EUR m

	Exposure	31.12.2017 Collateral	Exposure	31.12.2016 Collateral
Loans and advances to customers				
- overdue to 30 days	75.8	23.9	127.6	36.5
- overdue 31 to 60 days	8.1	2.6	18.7	8.9
- overdue 61 to 90 days	4.3	1.2	4.5	2.7
- overdue 91 to 180 days	0.1	0.1	0.7	0.3
- overdue 181 to 365 days	0.0	0.0	0.4	0.3
- overdue over 1 year	0.3	0.3	0.1	0.1
Total	**88.5**	**28.0**	**152.0**	**48.8**

The predominant part of the overdue but not impaired financial assets results from loans and advances to custom-ers (no or neglectable exposure within other financial instruments).

The primary reason for not taking into account specific risk provisions for the exposures over 90 days is that, after performing an impairment test, there is no need for a specific risk provision for impairment losses through primary and secondary cash flows.

Impaired financial assets:

EUR m

Loans and advances to customers	31.12.2017	31.12.2016
Exposure	603.4	749.5
Provisions	405.5	513.6
Collateral	288.4	419.8

The factors that are considered when identifying impairment are stipulated in the Default Detection and Recovery Policy. Events which indicate objective evidence that a financial instrument may be impaired are listed in note “Exposure by Rating class”.

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of SRP. Consequently, an impairment calculation according to note “Method of calculating provisions” is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

The over-collateralization (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the applied provisioning methodology (SRPci), in which no collateral values are recognized.

74.6.1. FORBEARANCE

In 2016, the Addiko Group developed its Forbearance Policy based on CRR Regulation (EU) 575/2013 of the European Parliament and of the Council and on the Commission Implementing Regulation (EU) No. 2015/227, Annex V.

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments (“financial difficulties”). Therefore, a good knowledge of the financial situation of the borrower is of utmost importance and must result in a correct analysis of the reasons for a modification of existing terms and conditions. Based on these financial difficulties, the bank decides (i.e., gives concessions toward the borrower):

a) to modify the previous terms and conditions of the contract to allow the borrower sufficient ability to service the debt, that would not have been granted had the borrower not been in financial difficulties,
b) to restructure the contract, either totally or partially, that would not have been granted had the borrower not been in financial difficulties (refinancing means the use of new debt contracts to ensure the total or partial payment of other debt contracts the current terms of which the borrower is unable to comply with).

If a modification of contract and financial difficulties based on qualitative bank expert judgment are identified, the forbearance decision is taken and a daily algorithm starts automatically. The different types of modifications (interest rate reduction, partial debt write-off, debt restructuring, debt to equity swap, payment holidays on interest and principal above 6 months, repayment made by taking possession of the collateral, etc.) are available and identified in the system. Forbearance measures and risks are monitored by the operative risk units responsible for corporate and retail as a part of the regular semi-annual review.

In the assessment, a forbearance measure shall be considered as an indicator when performing an impairment test according to IAS 39.59 (c). In accordance with IAS 39.63, the entity shall measure the amount of the impairment loss as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate (specifics are considered for floating interest rates, hedge accounts). In all of the cases in which the present value of estimated future cash flows, discounted at the original effective interest rate, is lower than the asset’s carrying amount, an impairment loss must be recognized. It is important to note that, the terms non-performing, default and impaired are standardized and harmonized within the Addiko Group.

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2017. The off-balance positions only include loan commitments.

EUR m

	OPENING balance 1.1.2017	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2017
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	9.6	2.2	-2.7	0.0	0.1	-4.1	5.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	10.6	0.0	-10.6	0.0	0.0	0.0	0.0
Non-financial corporations	175.1	30.2	-104.9	0.2	3.0	11.7	115.4
Households	70.2	10.5	-40.1	0.3	1.2	0.9	43.0
Loans and advances	**265.4**	**42.9**	**-158.3**	**0.5**	**4.3**	**8.5**	**163.4**
Loan commitments given	0.9	0.1	-0.4	0.0	0.0	-0.2	0.4

The following table shows the forbearance status in the course of the year 2016:

EUR m

	OPENING balance 1.1.2016	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2016
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	16.5	0.0	-6.4	0.0	0.1	-0.6	9.6
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.4	10.6	-0.4	0.0	0.0	0.0	10.6
Non-financial corporations	298.7	37.2	-129.0	-1.0	0.1	-30.9	175.1
Households	223.1	41.3	-194.9	0.0	1.5	-0.9	70.2
Loans and advances	**538.6**	**89.2**	**-330.7**	**-1.0**	**1.7**	**-32.4**	**265.4**
Loan commitments given	6.4	0.7	-5.4	0.0	0.0	-0.8	0.9

Forbearance exposure was as follows in 2017:

EUR m

	Closing Balance 31.12.2017	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	5.0	2.8	0.0	2.2	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	115.4	22.1	0.2	93.1	3.9
Households	43.0	13.9	0.7	28.4	0.8
Loans and advances	**163.4**	**38.8**	**0.9**	**123.7**	**4.7**

Forbearance exposure was as follows in 2016:

EUR m

	Closing Balance 31.12.2016	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	9.6	7.3	0	2.3	0.4
Credit institutions	0	0	0	0	0
Other financial corporations	10.6	0	0	10.6	0
Non-financial corporations	175.2	28.7	0.6	145.9	7.5
Households	70.1	27.5	1.5	41.2	3.2
Loans and advances	**265.5**	**63.4**	**2.1**	**200.0**	**11.1**

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof 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 Corporate	41.7	40.6	0.0	0.1	0.0	1.0
Medium and Small Corporate	44.2	37.3	1.7	0.4	0.8	4.2
Retail	27.3	5.5	20.7	0.4	0.6	0.1
Total	**116.0**	**85.8**	**22.4**	**0.8**	**1.3**	**5.7**

74.6.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2017, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 5.7 million (2016: EUR 6.4 million), of which EUR 0.9 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfillment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate). The Addiko Group does not have inventories according to IAS 2.

(75) Country risk

75.1. Definition

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all because of governmental directives or economic/political problems. For example, country risk may arise from a possible deterioration of national economic conditions, a political or social upheaval, the nationalization or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargoes, wars, revolutions, or coups d'état in the respective country.

75.2. General requirements

As part of its business activities and in pursuit of its long-term strategy, the Addiko Group knowingly assumes country risks that are limited in size.

75.3. Risk measurement

Country risk is measured in relation to the exposure relevant to country risk for each country and takes into account the respective external country rating and the country's specific LGD (loss given default) and PD (probability of default) in accordance with the Capital Requirements Regulation (CRR).

Exposure relevant to country risk is composed of all non-EMU cross-border transactions for which a currency mismatch between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted) exists.

The Internal Ratings Based (IRB) approach for companies, banks and countries as outlined in the CRR is used in order to quantify country risk. The country risk determined by this method is backed by economic capital.

75.4. Risk limitation

Country risk is restricted by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit being discussed and approved by the Executive Board.

Cross-border transactions by the Group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries are subject to separate controls that emanate directly from the Management Board.

75.5. Risk control and monitoring

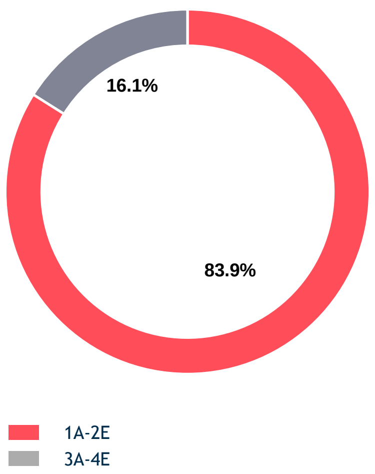
Integrated Risk Management centrally monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Management Board as part of regular country limit utilization reporting. Ad-hoc reports are additionally prepared upon request.

75.6. Portfolio overview - country risk

Exposure by country rating:
The share of exposure in countries with ratings better than 3A amounts to 83.9% (year-end 2016: 86.3%).

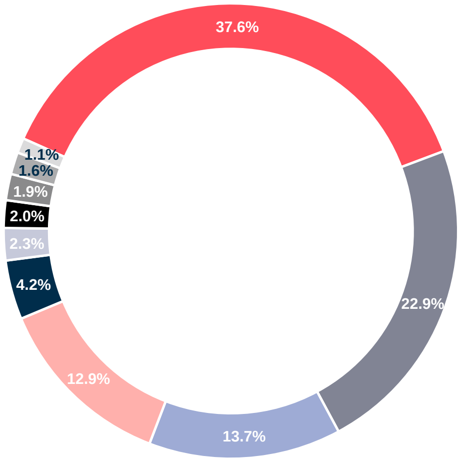
Consequently, around EUR 1.2 billion of the exposure was in countries with a rating between 3A and 4E at the end of 2017 (2016: EUR 1.1 billion). The following graph shows the exposure by country rating and the top 10 countries by exposure (country share in top 10 total exposure) for 2017 as well as their share in top 10 exposures in 2016.

Exposure country rating breakdown
in percent



Top 10 countries by exposure:
The figures are broken down according to the country of the customer's registered office. The top 10 countries' share in the overall volume stands at 93.9% (2016: 94.6%). As was the case in 2016, Croatia and Slovenia account for the largest share. The Addiko Group's clear strategy is to focus on the core markets in the SEE network. In the financial year, the Austrian portfolio decreased significantly, mainly due to the reduced exposure towards the Oesterreichische Nationalbank.

Top 10 countries by exposure in 2017
in percent



	2017	2016	
	37.6 %	36.0 %	Croatia
	22.9 %	19.9 %	Slovenia
	13.7 %	12.7 %	Serbia
	12.9 %	11.1 %	Bosnia and Herzegovina
	4.2 %	3.5 %	Montenegro
	2.3 %	11.3 %	Austria
	2.0 %	2.1 %	USA
	1.9 %	1.7 %	Germany
	1.6 %	0.0 %	Great Britain
	1.1 %	0.0 %	Spain

(76) Participation risk

76.1. Definition

In addition to counterparty default risks from the credit business, risks from participations may also be incurred (shareholder risks). These include potential losses from equity provided, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (coverage of losses).

76.2. General requirements

The handling of participation risks is describeed in the “ICAAP Policy”. The policy also governs the differentiation between participations that are strategic and those that are non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for participations at the Addiko Group and at its strategic and non-strategic participations across the Group, as well as to describe the participation process, controlling and reporting in more detail. The Addiko Group influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees. In addition, all participations are continuously monitored regarding results and risk.

76.3. Risk measurement

The Addiko Group uses the PD/LGD approach pursuant to Article 155 (3) CRR for measuring participation risk for the ICAAP.

76.4. Risk control and monitoring

In Group Integrated Risk Management, the Addiko Group has its own independent central unit with the authority to set guidelines on all methods and processes connected with the management of participation risk. The respective business units are responsible for the operational implementation of risk controlling instruments.

The Group's strategic participations are integrated into the annual strategy and planning process of the Addiko Group. Representation on shareholder and supervisory committees allows the Group to exert influence over business and risk policies. When it acts as a provider of equity capital or a lender of capital, the Group evaluates the additional risks, especially those arising from its status as a lender of capital.

(77) Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These include, in particular, concentrations of loans and advances in individual industry sectors, geographic regions as well as concentrations from an uneven distribution of collateral providers.

As a result, the Addiko Group analyzes, measures and manages the following concentration risks:

- Single name concentrations
- Industry sector concentrations
- Geographical concentrations
- Collateral concentrations
- Large indirect credit exposures
- Concentration risk associated with the investment of assets, from funding sources and Maturities concentration
- Concentration risk arising from risk factor correlations
- Counterparty default, industry sector and collateral concentrations are measured, managed and backed with capital within the context of the regular ICAAP calculations. Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor which, based on the type of concentration, is dependent on the amount of credit volume

(78) Market price risk

78.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Addiko Group places a special emphasis on identifying, measuring, analyzing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

78.2. General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury unit. Resolutions on the combined business and risk strategy at Group level are passed exclusively in the Group Asset Liability Committee (Group ALCO) and are discussed in the risk committee.

78.3. Risk measurement

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so-called “stress tests”, and analyzed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Corresponding back-testing is performed on the applied methods and models for defined market risk factors and portfolios at Group level. The interest rate risk in the banking book is determined as a present value risk, as are all market risks of the Addiko Group. The interest rate risk in the banking book is predominantly integrated into ongoing risk monitoring according to the value at risk in market risk controlling.

Contractual cancellation rights are modelled as an option and taken into account in the risk calculation. All stochastic positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept. Alongside the value at risk calculation, classic interest rate gap analysis is also used to measure interest rate risk in the banking book. Present value changes from the 200 base points interest shock scenario, which is still a regulatory requirement, always remain under the threshold of 20% of own capital funds at the Addiko Group. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

78.4. Risk limitation

A limit for market risk of the distributable risk capital has been set for the Addiko Group. This defined risk capital represents the maximum loss for assuming market risks. The allocation of market risk capital is carried out based on a defined limit application process, setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity price risk (customer default and investments) and credit spread risk) and taking into account a market risk limit reserve. Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the market risk limit system early on.

78.5. Risk control and monitoring

In market risk reporting, the value at risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are updated on a daily basis. Should limits be exceeded, escalation processes are defined up to the level of the Management Board. The Group Management Board also receives a monthly report on the current market risk situation of the Addiko Group. The control of interest risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest risk statistics. The Group Asset Liability Committee – which consists of the Group’s Management Board as well as key staff in Treasury, Risk Management and Financial Controlling – meets on a regular basis to analyze and decide on measures related to controlling the structure of the statement of financial position as well as liquidity. In addition to Group-level controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

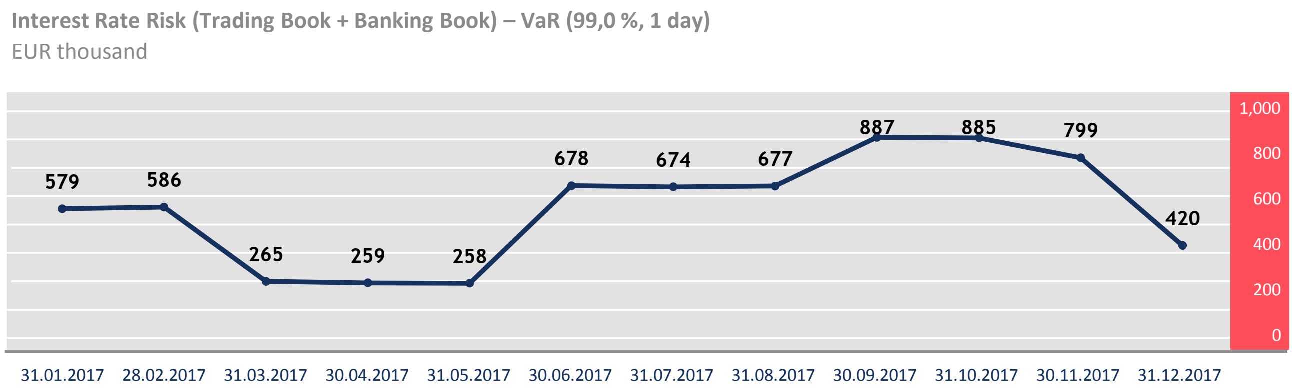
78.6. Overview – market risk

78.6.1. INTEREST RATE RISK

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group in 2017 (comparable VaR figure as at December 31, 2016: EUR 0.58 million).

The interest rate gap profile for the Addiko Group contains all interest rate-relevant items (whether included in the statement of financial position or not) with their next interest rate fixing date and/or their replicated interest sensitivity. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest rate gap profiles of local banks and local leasing companies are consolidated at Group level and combined into the Group interest rate gap profile. All interest-bearing items in the statement of financial position are taken as the basis for calculating interest-rate risk and thus limited risks. Any non-interest-bearing items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Development in interest risk for the Addiko Group in 2017:



The trading items of the Addiko Group were relatively stable in 2017. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 3.2% on average in 2017 as compared to 5.6% on average in 2016).
The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges (fair value hedges), thereby mitigating interest risk.

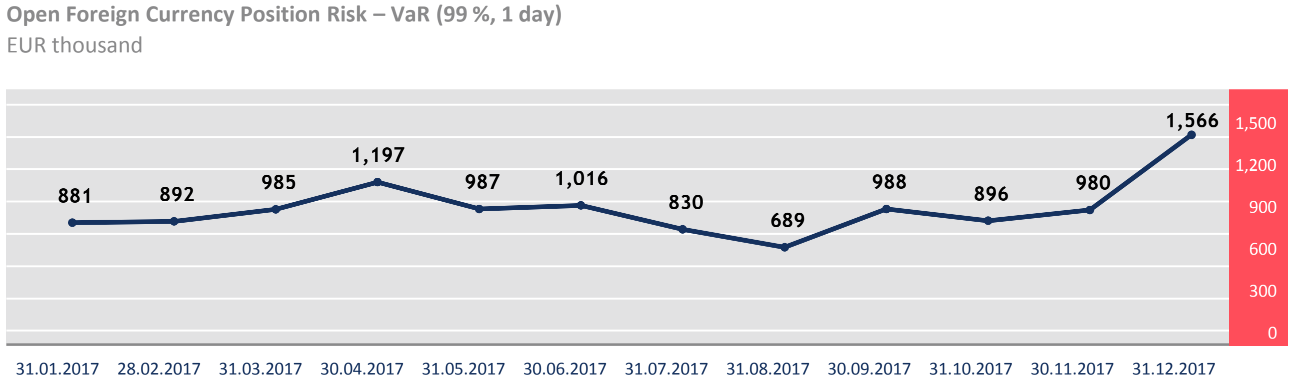
Regulatory requirements state that the proportion of interest risk – in the form of the standardized 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well-balanced. Non-interest-bearing (NIB) positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at December 31, 2017 amounts to EUR -94 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2016 was EUR 153 thousand.

78.6.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for foreign currency risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of the Addiko Group. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at December 31, 2017 is roughly EUR 0.64 billion (volume per December 31, 2016 of approx. EUR 0.80 billion), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign currency risk was approximately EUR 1.57 million per day as at December 31, 2017 (value at risk as at December 31, 2016: EUR 0.73 million), at a confidence interval of 99.0%. The limit of EUR 2.03 million was adhered to as at December 31, 2017.

Development in foreign currency risk of the Addiko Group in 2017:



Aside from foreign currency risk from operating activities, the Addiko Group is also exposed to an additional foreign currency risk from the consolidation of Addiko Bank AG's strategic investment in Addiko a.d. Beograd (volume of approx. EUR 0.19 billion) and Addiko d.d. Zagreb (volume of approx. EUR 0.38 billion) as recorded in the statement of financial position. The strategic currency risk thus represents the majority of the risk in open currency items at the Addiko Group. In addition to monitoring VaR in respect of foreign currency, the Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on monthly basis within the Group Asset Liability Committee.

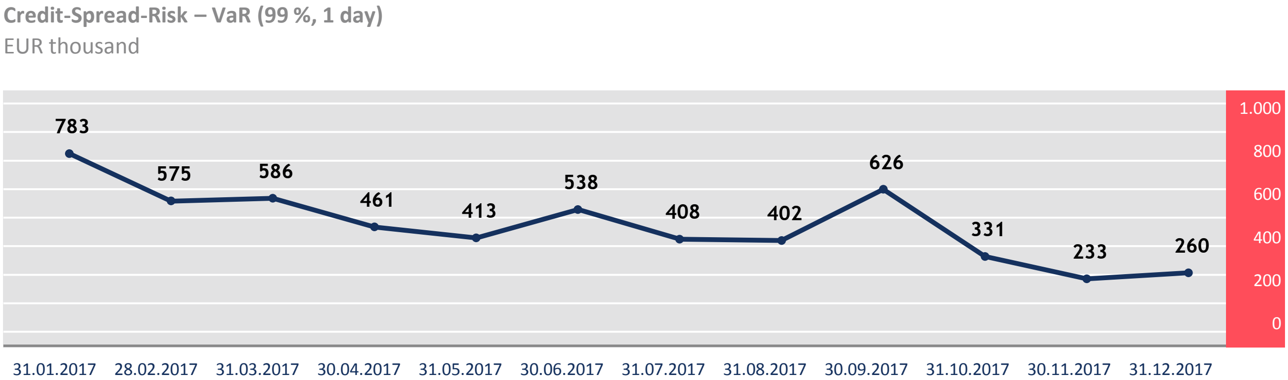
78.6.3. EQUITY PRICE RISK

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Addiko Group makes a distinction between equity price risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments). The value at risk for the equity price risk (customer default) at the Addiko Group amounted to EUR 4,272 as at December 31, 2017 (value at risk as at December 31, 2016: EUR 4,704) with a one-day holding period and a confidence level of 99.0% and EUR 2,488 (value at risk as at December 31, 2016: EUR 2,280) for the equity price risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at December 31, 2017 and therefore also no major concentration risk exists here.

78.6.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.26 million at December 31, 2017 with a one-day value at risk and a confidence level of 99.0% (value at risk as at December 31, 2016: EUR 0.84 million). The limit of EUR 2.50 million was adhered to as at December 31, 2017. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, the Addiko Group also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

Development in credit spread risk at the Addiko Group in 2017:



(79) Liquidity risk

79.1. Definition

The Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or - in the event of a liquidity crisis - only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

79.2. General requirements

The strategic principles of handling liquidity risks at the Addiko Group are defined in the liquidity risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. A Liquidity Risk Policy and a Liquidity Risk Manual that apply across the entire Group govern the content and organizational framework for the management and controlling of liquidity risks.

At the Addiko Group, liquidity controlling and management at Group level are the responsibility of Group Balance Sheet Management & Treasury. It is here that the steering of situational and structural liquidity and the coordination of funding potential at Group level takes place. The local treasury units are responsible for operational liquidity steering and liquidity offset. The liquidity risk control at Group level is the responsibility of CSU Market & Liquidity Risk. At a local level, the respective risk control units are in charge. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The Addiko Group has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

79.3. Risk measurement

The main methodological tool for measuring, analyzing, monitoring and reporting on liquidity risk within the Addiko Group is the liquidity gap analysis. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realizable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favorable conditions. It shows options regarding the coverage of liquidity gaps and hence all liquidity risks related to cash flows. The most important components of the liquidity coverage potential (counterbalancing capacity) are as follows:

- Securities eligible for Central Bank
- Securities eligible for Repo
- Credit claims eligible for Central Bank or Repo
- Obligatory reserves (countable)
- Cash reserves at Central Bank (locked)
- Other liquefiable assets
- Committed/required credit lines
- New issuance and securitization

In addition to the normal scenario, the risk measurement spectrum is supplemented by other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation crises), market crises (restrictive funding options on the capital market, increased cash outflow as well as transfer limits) as well as combined scenarios.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios which allow a compact assessment of the liquidity situation. In addition, an internal liquidity coverage ratio limit restricts the short-term liquidity risk. For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal net stable funding ratio limit restricts the structural liquidity risk.

79.4. Risk control

A bundle of different liquidity reserves ensures the Addiko Group's solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

Per December 2017, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	484,121
Securities eligible for Repo	493,098
Credit Claims eligible for Central Bank or Repo	1,296
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	95,409
Counterbalancing Measures	**1,073,924**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,073,924**

In 2016, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	524,200
Securities eligible for Repo	439,667
Credit Claims eligible for Central Bank or Repo	2,187
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	119,935
Counterbalancing Measures	**1,085,989**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,085,989**

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for the Group through the Group holding. A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. For the purposes of short-term controlling, forecast data is elicited directly at the sales units based on customer transactions, while planned budget data are used for medium-term controlling.

Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and, as described above, to stress situations, depending on the market situation.

Besides structural controlling, care is also taken to ensure that general regulatory requirements in the various Group countries are adhered to.

79.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the key indicators LCR, NSFR, local loan stable funding ratio (LLSFR), the liquidity value at risk (LVaR) as funding spread risk as well as time-to-wall under normal and stress conditions and, on the other hand, through the integration of the structural liquidity risk into the bank's overall controlling. Appropriate limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity coverage potential, threshold values are defined for all scenarios; and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Management Board and the responsible controlling units.

79.6. Overview – liquidity situation

Overall, the liquidity situation of the Addiko Group in 2017 was characterized by a liquidity surplus. All liabilities were met without the need to draw liquidity reserves. Capital market activities were therefore not necessary.

During the financial year, the Addiko Group recorded a continuous growth of deposits that reached the level of approx. EUR 5.3 billion at the end of the year. An important liquidity event was the repayment of all refinancing lines to HETA ASSET RESOLUTION AG executed in February 2017. This step reduced the risk of funding concentration. Additionally, in addition to Germany, the Group started to collect the direct deposits in the Austrian market. The presence of the market in Austria allows further diversification of collected funds from the product and geographical point of view. Based on anticipated inflows and outflows, a comfortable liquidity position is also expected for 2018.

The concentration of the liquidity risk is followed with the diversification of funding based on the main products and the most important currency. The biggest positions in the funding are a-vista and term-deposits and equity. The most important currency in funding (more than 70%) is EUR, followed by HRK and BAM. Both, products and currencies are followed through time dimensions. Additionally, the Group is following the impact of big customers on the concentration risk: the biggest ten counterparties belonging to banks, corporate and institution (non-financial) clients are compared against total deposits.

Below is a breakdown of maturities for the financial liabilities of the Addiko Group, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day,
- Dead stock cash flows (primary funds) are excluded (only the legal due date is decisive) and are also set as due on the next working day. Equity components,tangible and intangible assets, provisions, tax, impairment and positions not relevant to liquidity are not represented.

EUR m

At 31 December 2017	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,281	3	1	1,286
Financial assets held for trading	9	9	2	20
Available-for-sale financial assets	265	799	171	1,234
Loans and receivables	951	1,191	1,615	3,757
Held-to-maturity investments	0	31	12	43
Derivatives - Hedge accounting	0	0	0	0
Non-current assets and disposal groups held for sale	20	0	0	20
Subtotal	***2,525***	***2,033***	***1,801***	***6,359***
Financial liabilities				
Financial liabilities held for trading	2	0	0	2
Financial liabilities designated at FVtP&L	0	0	0	0
Financial liabilities measured at amortized costs	3,976	786	760	5,521
Derivatives - Hedge accounting	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0
Subtotal	***3,977***	***786***	***760***	***5,523***
Total	**-1,452**	**1,248**	**1,041**	**836**

As at December 31, 2017, assets relevant to liquidity at the Addiko Group came to EUR 6,4 billion. The main item of EUR 3,8 billion is attributable to loans and receivables, which therefore represent 59.1% of assets. Liabilities totaled EUR 5,5 billion.

EUR m

At 31 December 2016	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,875	3	0	1,878
Financial assets held for trading	3	14	1	17
Available-for-sale financial assets	341	820	149	1,309
Loans and advances	1,035	1,489	1,256	3,780
Held-to-maturity investments	74	8	0	83
Non-current assets and disposal groups classified as held for sale	39	0	0	39
Subtotal	*3,367*	*2,333*	*1,406*	*7,107*
Financial liabilities				
Financial liabilities held for trading	2	6	1	9
Financial liabilities designated at FVtP&L	0	25	0	25
Financial liabilities measured at amortized costs	4,287	1,606	147	6,040
Derivatives - Hedge accounting	0	3	4	7
Liabilities included in disposal groups classified as held for sale	3	0	0	3
Subtotal	*4,292*	*1,640*	*152*	*6,084*
Total	**-924**	**693**	**1,254**	**1,023**

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book (hedge accounting): Hedge transactions with regard to asset items of the statement of financial position (e.g. fixed rate bonds)
- Market risk steering B2B: Back-to-back transactions by the Addiko Bank AG on the basis of the hedge requirement of the individual subsidiaries
- Market risk steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

EUR m

At 31 December 2017	1 Y -2018	2 Y -2019	3 Y -2020	4 Y -2021	5 Y -2022	> 5 Y (> 2022)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-1	0	0	0	0	0	-1
Market Risk Steering B2B	0	0	0	0	0	0	1
Market Risk Steering FX	7	5	0	0	0	0	12
Total	**6**	**5**	**0**	**0**	**0**	**0**	**12**

* relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at December 31, 2017, the simulated total of cash flows from derivatives relevant to liquidity was EUR 12.0 million.

EUR m

At 31 December 2016	1 Y -2017	2 Y -2018	3 Y -2019	4 Y -2020	5 Y -2021	> 5 Y (> 2021)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-3	-3	-3	-2	0	0	-11
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	0	0	-1	0	0	0	-1
Total	**-3**	**-3**	**-3**	**-2**	**0**	**0**	**-11**

* relevant to liquidity

As at December 31, 2016, the simulated total of cash flows from derivatives relevant to liquidity was EUR -11.0 million.

(80) Operational risk

80.1. Definition

The Addiko Group defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

80.2. General requirements

The aim of operational risk management at the Addiko Group is to proactively manage operational risks, instead of reactively managing operational risk losses. The strategy for operational risk management is supported by different instruments and methods to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results. Operational risks are identified and evaluated in order that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation, can be defined. The following methods are used to support the management of operational risk:

- Loss database for the systematic collection of operational risk losses and related mitigation measures throughout the entire organization
- Qualitative instruments such as scenario analyses and risk assessments to determine and evaluate the risks within business processes
- Regular analysis and reporting of relevant operational risks to the Managment Board.

The set-up of operational risk management in the Addiko Group is based on a central OpRisk management function and decentralized OpRisk officers in all relevant areas of the banks. While the central function is mainly focused on methods definition risk measurement and analysis, the decentralized risk management sets and implements measures to mitigate, minimize or transfer risks.

The current threshold for the reporting of OpRisk losses within the Addiko Group has been set at EUR 5,000.
Subsidiaries included in the scope of consolidation are required to implement operational risk within the context of the respective local conditions based on standardized methods defined by the Group. The OpRisk responsibility of sub-organizations of the subsidiaries is in the responsibility of the subsidiary concerned.

80.3. Risk monitoring

Operational Risk Management reports on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Board Audit Committee in order to provide an overview of the operational risk situation to the management to enable the related risk steering and to integrate the operational risk management into the bank processes.

80.4. Overview – operational risk management

In 2017 the focus was on the following topics:

- Implementing the new functional set-up of the OpRisk management function.
- Risk assessments methodology development as well as refinement and execution of relevant assessments in the area of outsourcing risk assessments and risk and control assessments of relevant processes, including trainings for relevant stakeholders.
- Moreover, the reporting was restructured and efforts on improving the operational risk management tools have been continued.
- Improvement activities related to the loss database
- Further development of the overall operational risk managemt approach and methods

The focus in 2018 will remain on the following matters:

- Raising awareness and training in order to support the risk culture of the Addiko Group
- Active control and risk management
- Data analysis and ongoing data quality improvements
- Continuous reporting enhancement
- Further tool improvement measures
- Increased Groupwide governance of OpRiskmangement

(81) Object risk

At the Addiko Group, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by the Addiko Group. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Capital requirements are calculated according to the methodology of the Standardised Approach. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(82) Other risks

The following risk types are backed up with capital under “Other risks”:

- Strategic risk and business risk
- Capital risk
- Legal risk
- Residual risk arising from loan-reducing methods
- Risk arising from excessive debt
- Securitization risk
- Macro-economic risks
- Risks arising from money laundering and financing of terrorism
- Systemic risks
- Model risks
- Risks arising from new business or new markets

For material “other risks”, economic capital is considered in the risk bearing capacity calculation.

(83) Historical unilateral interest change clause risks

In 2017, a Group-wide amount of EUR 50.0 million was related to retail F/X, unilateral interest change disputes or claims for payment.

Monitoring and provisioning of legal risks
Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group-wide monitoring of such legal disputes has been intensified as a consequence of the

increasing number of regulations on handling foreign currency loans in the South Eastern European countries (e.g. “forced conversion”).

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions.
Particularly in the past ten years, numerous private customers in South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organizations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Serbia, Croatia, Slovenia, Bosnia and Herzegovina, and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

The subsidiary bank in Slovenia, Addiko Bank d.d. Ljubljana, has seven ongoing legal disputes in connection with CHF loans. Addiko Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, as first-instance courts in similar proceedings against other Slovenian banks have passed verdicts in favor of the banks. While the regulatory authority (Slovenian central bank) and the Slovenian ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against the Addiko subsidiary bank; neither are there plans for any corresponding legal amendments.

In Serbia, the class action filed by the bank customer “Efektiva” against Addiko Bank a.d. and two other banks was already rejected in favor of the defendants at first instance in 2014. No ruling has been issued yet on the appeal against the verdict lodged by the interest group. However, it is expected that the appeal will be rejected in favor of Addiko Bank a.d., as the constitutional court declared those provisions of the civil procedural law permitting a class action filed by an association as unconstitutional. Currently, there are indications that the courts — due to the significant increase in value of the CHF — may change their judgments in CHF loan proceedings, rule in favor of the complaining customer and permit a termination of CHF loan agreements. The first final verdict in this respect was passed by a second-instance court in Novi Sad in September 2016. The court rejected the appeal lodged by Erste Bank Beograd and confirmed the first-instance verdict according to which the CHF loan agreement may be termi-nated due to changed circumstances. The Serbian subsidiary bank also faces a similar court verdict at the second-instance court in Beograd, where the first-instance verdict originally decided in favor of the subsidiary bank was set aside. Furthermore, the first-instance court was ordered by the second-instance court to determine whether a considerable increase in the CHF exchange rate occurred during the term of the loan. The Serbian Supreme Court envisaged for 2017 an opinion regarding CHF loans but only announced in 2017 that due to the “Venetian Rules” it abstained from such general opinion but will decide on a case by case basis. Additionally, increasing numbers re-garding changed circumstances, loan processing fees and claims in connection with loans secured by insurances by the National Housing Insurance Corporation regarding insurance fees paid by the borrowers are expected once a plaintiff will obtain a winning verdict.

As for the subsidiary bank in Serbia, there have not been any legislative initiatives yet, but there have been regu-latory initiatives. In Serbia, the National Bank of Serbia issued binding recommendations to all banks back in May 2013 stating that customers who took out CHF loans must be granted certain relief (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. Furthermore, the National Bank of Serbia’s “Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans”, which came into force in March 2015, provides for four contract amendment models (e.g. conversion into EUR based on certain criteria) which the bank must offer to customers who have taken out residential construction loans in foreign currencies and intend to convert their repayment instalments. Addiko Bank a.d. in Serbia has already fulfilled the implementation obligations resulting from the regulatory measures. However, it should be noted that only a small number of all borrowers accepted the offer. Legislative regulations are not expected in Serbia due to little media and political interest.

The same applies to Slovenia, where so far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. In any case, the resulting potential effects are investigated independently at bank level and are compensated for in compliance with the measures taken at Group level. Recently the Slovenian "Efektiva" tried to introduce a Conversion Law. The Slovenian Parliament voted against the application of such law.

In Bosnia and Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia and Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented the CHF Loan Settlement Project BiH. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards the conversion of CHF into the national currency BAM. Until November 30, 2017, 82% of the customers requested a conversion, of which 72% were converted and 7% were closed with-out conversion. The number of claims in this respect has therefore decreased considerably.

In Bosnia and Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighboring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia and Herzegovina entity, which was emphasized by the Bosnian government besides the danger of BIT proceedings costs as in Croatia and Montenegro. In November 2017, the national parliament rejected a revised draft for the proposal for a law on the forced conversion of CHF loans into the national currency in its first reading.

In Croatia, the Supreme Court ruled in favor of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favor of the plaintiff, the bank consumer association "Potrošač", in respect of the unlawfulness of the unilateral interest rate adjustment clause. Eight Croatian banks are affected by this ruling, including Addiko Bank d.d. in Zagreb, which has lodged an extraordinary appeal against it via constitutional claim, which was rejected as groundless, along with the constitutional claims filed by other Croatian banks. At third instance, the second-instance verdict was confirmed in all respects, with the addition that the borrowers participating in the class action cannot exert any direct claims from the verdict but have to file individual com-plaints. Udruga "Potrošač" also filed a constitutional claim, objecting the decision of the Supreme Court regarding the F/X clause. The constitutional court accepted Udruga "Potrošač"'s claim and ordered a retrial. The constitutional court used the same reasoning for its decision as the European Court of Human Rights in its decision C-186/16 dated September 20, 2017.

The borrowers included in the class action cannot exert any direct claims from the verdict but have to file individual complaints.

Currently, 866 proceedings, of which 627 against the Croatian subsidiary bank, at first or second instance are pend-ing regarding F/X or unilateral interest change clauses. Only 1 out of those 627 proceedings is related to the F/X clause. At first instance, civil courts have passed opposing verdicts in cases where plaintiffs concluded supplementary agreements on loan conversion pursuant to the consumer loan law: On the one hand, decisions were taken in favor of the bank, as from the point of view of the court, consumers having given their consent to convert the loan in line with the consumer loan law are no longer entitled to seek legal remedy for reimbursement of overpaid interest. On the other hand, decisions were taken in favor of the plaintiff, as according to the court, the consumer loan law deals with currency issues and not with unilateral interest rate adjustments. Therefore, the latter would have to be decided by a court on a case-by-case basis. The second instance courts have up to this moment in several decisions confirmed that the plaintiffs who converted their loans are not entitled to ask for reimbursement of overpaid interest and that the consumers who converted their loans are not entitled to ask for reimbursement of overpaid interest, either.

In 2015, the Croatian banks, including Addiko Bank d.d. Zagreb, filed an objection with the constitutional court against the third-instance verdict, in which objection they requested the review of constitutionality of the provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act, which regulate the conversion of CHF loans. The unlawfulness of the unilateral interest rate adjustment clause had been confirmed. In April 2017, the constitutional court rejected their claim as groundless and confirmed that the concerned provisions of the amendments to the Credit Institutions Act and the amendments to the Consumers Credit Act are constitutional.

The amendment to the consumer protection credit law passed in Croatia, according to which the exchange rate between HRK and CHF was fixed at 6.39% for a period of one year, ended on January 27, 2016. Addiko Bank d.d. in Croatia extended the period of the fixed exchange rate until April 1, 2016 on a voluntary basis. Furthermore, the Croatian subsidiary has concluded supplementary agreements on loan conversion under consumer loan credit law with a majority of its CHF borrowers in 2016 (the respective legal amendment became effective as at September 30, 2016). Also in the case of the Croatian Addiko Bank d.d. together with seven other banks, an objection was filed with the constitutional court, claiming the abovestated law to be unconstitutional. In April 2017, the constitutional court rendered a verdict against the Croatian banks, confirming the law. Regarding the Conversion Law, a BIT proceeding against the Republic of Croatia was commenced before the ICSID in Washington in September 2017.

No significant developments are to be reported with regard to Addiko Bank AG in Montenegro. The class action was won in first instance but plaintiffs filed an appeal.

National legislators and the respective national regulators have also increasingly taken action regarding the issue of foreign currency loans. This tendency has been considerably reinforced as a consequence of the abandonment of the exchange rate cap in January 2015. Starting in Montenegro, the national legislator has passed regulations on handling foreign currency loans which are meant to protect the borrower from the consequences of the abandonment of the exchange rate cap. At bank level, legislative intervention has a negative effect on the operative banking business and results in considerable losses. Also against the Republic of Montenegro, a BIT proceedings with the ICSID in Washington was commenced in September 2017.

On September 23, 2016, the law amending the CHF loan conversion law came into effect. Under this law, ongoing and already repaid loans are to be converted, not making a difference as to whether loans were repaid as scheduled or paid back due to distrainment orders. If, due to the conversion (as prescribed by law), it turns out that the customer has paid too much, the bank is required to reimburse the customer. Additionally, the bank may not charge a contractual penalty for the conversion. Furthermore, the bank is required to offer recalculation to those customers who have not accepted a conversion so far.

In accordance with the law amending the CHF loan agreement conversion law into EUR, the subsidiary bank in Montenegro has converted the respective loans and performed recalculations. The bank therefore acted in full compliance with legal provisions.

EUR m

EUR m

		31.12.2017		31.12.2016
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Holding	376.7	5.0	1,353.8	2.5
Addiko Slovenia	1,710.6	91.9	1,595.7	118.0
Addiko Croatia	3,152.0	66.5	3,107.7	99.0
Addiko in Bosnia and Herzegovina	1,005.4	46.4	991.3	74.3
Addiko Serbia	957.4	114.5	986.2	156.6
Addiko in Montenegro	295.9	6.9	274.1	9.1
Total	**7,498.1**	**331.2**	**8,308.7**	**459.5**

In 2017, the Addiko Group was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 460.0 million at the end of 2016 to EUR 331.0 million at the end of 2017.

(84) **Legal risks**

The overall number of passive legal disputes was reduced significantly in 2017. There are three major passive legal disputes pending within the Addiko Group (legal passive disputes with an amount in dispute exceeding EUR 15.0 million), a decrease by seven cases compared to 2016. Some of these cases were settled by exercising the active settlement strategy, for others final verdicts in favor of Addiko Bank AG's subsidiaries could be obtained, which is a result of joint efforts and collaboration by Addiko Bank AG and its respective subsidiaries. The majority of pending proceedings relate to the Croatian subsidiary. In the Republic of Serbia an increase of F/X disputes due to legal instrument of "changed circumstances" is detected.

The majority of pending proceedings are related to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries which are described in more detail under Note "Risks in the portfolio relating to historical interest rate directives".

Although the numbers of such cases are slightly decreasing, there is a future risk of increasing numbers of proceedings due to changed court practice and new laws (e.g. conversion laws, amendments to consumer credit acts, consumer protection acts).

The only case where Addiko Bank AG itself has been involved in a passive legal proceeding (amount in dispute EUR 223.0 million, Addiko Bank AG being second defendant, with HETA ASSET RESOLUTION AG being first defendant) was finally settled in December 2017.

Across the Addiko Group, a centralized legal data base has been established, which enables monitoring and steering by Addiko Bank AG, i.e. the holding company, as well as early perception of possible new developments and reasonings in the jurisdictions the Addiko Group is doing business in. Besides, other monitoring and steering tools have been implemented to establish and secure reliable data quality and dispute handling quality, and to monitor daily litigation work and the development of court cases.

Capital Management

(85) Own capital funds as defined by the CRR

The following table presents the own funds requirements within the Group including transitional arrangements with the capital requirements as at December 31, 2017 according to the CRR at IFRS amounts and the CRR scope of consolidation (Addiko Group and AI Lake Group). Since September 30, 2015, the regulatory reports have been provided at the level of Addiko Bank AG (holding), the Addiko Group and the AI Lake Group.

The own capital funds of the AI Lake Group as well as the Addiko Group as defined by EU Regulation 575/2013 (CRR) are made up as follows:

EUR m

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Core Capital (T1 = CET1)	807.5	695.3	746.9	671.4
Paid-in capital	54.3	5.0	56.0	5.0
Reserves and non-controlling interests	789.6	729.4	657.9	713.6
Intangible assets	-21.8	-21.8	-17.3	-17.3
Allowable profit/deductible loss after tax and minorities	0.0	0.0	56.8	-23.9
Adjustments to core capital (Prudential filters)	-14.6	-17.3	-6.4	-5.9
Tier 2 capital (T2)	0.0	100.0	0.0	60.0
Own funds (TC = T1 + T2)	807.5	795.3	746.9	731.4
Own funds requirements	373.7	372.2	358.8	357.7
Surplus - Own capital	433.8	423.0	388.1	373.8

* Previous-year figures have been adjusted: in 2016, an amount of EUR 376.4 million was reported as "Own funds requirements" for Addiko Group; in 2016 an amount of EUR 58.9 million was reported in the position "Result after tax and minorities" and an amount of EUR 377.6 million as "Own funds requirements" for AI Lake.

in %

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Core tier 1 ratio	17.3%	14.9%	16.7%	15.0%
Total capital ratio	17.3%	17.1%	16.7%	16.4%

* Previous-year figures have been adjusted: in 2016, a ratio of 14.3% and 15.6% was reported as respectively "Core tier 1 ratio" and "Total capital ratio" for Addiko; in 2016 a ratio of 15.9% was reported as "Core tier 1 ratio" and "Total capital ratio" for AI Lake.

EUR m

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO*
Credit risk pursuant to Standardised Approach	4,092.6	4,059.6	3,952.6	3,918.3
Position-, F/X-, commodities risk	176.3	176.3	128.2	128.2
Operational risk	393.4	408.4	397.3	416.8
Credit valuation adjustment risk (CVA)	8.7	8.7	7.5	7.5
Total risk position value	**4,671.0**	**4,653.1**	**4,485.6**	**4,470.8**

* Previous-year figures have been adjusted: in 2016, an amount of EUR 3,990.4 million was reported as "Credit risk pursuant to Standardized Approach" and EUR 290.2 million as "position, F/X-, commodities risk" for Addiko; in 2016 an amount of EUR 4,024.8 million was reported as "Credit risk pursuant to Standardized Approach" and EUR 290.2 million as "position, F/X-, commodities risk" for AI Lake.

The Company is a member of the consolidated group headed by AI Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. AI Lake (Luxembourg) Holding S.à r.l. is the most senior parent company for which Addiko Bank AG as the primary credit institution according to the provisions of Section 59 BWG produces consolidated financial statements. The consolidated financial statements of AI Lake (Luxembourg) Holding S.à r.l. are prepared in accordance with the

International Financial Reporting Standards (IFRS) pursuant to the provisions of Section 59a BWG and are available at Addiko Bank AG headquarter in Vienna.

Supplementary information required by Austrian Law

(86) Assets pledged as collateral

Assets in the amount of EUR 5.5 million (2016: EUR 23.7 million) were pledged as collateral for own debts to third parties. These are cash collaterals pledged as collateral in relation to derivatives. Further, securities with a notional amount of EUR 9.5 million (2016: EUR 10.6 million) were deposited with Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognized in the Addiko Group's statement of financial position.

(87) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2017	31.12.2016
Financial assets held for trading		
Debt securities	5.4	13.7
thereof listed	4.5	4.3
thereof unlisted	0.9	9.5
Available-for-sale financial assets		
Equity instruments	22.3	17.7
AFS-other participations (associated companies 0% -20%)	3.9	4.2
thereof listed	0.2	0.1
thereof unlisted	3.7	4.1
AFS-shares and other not fixed-interest securities	18.4	13.5
thereof listed	0.0	0.0
thereof unlisted	18.4	13.5
Debt securities	1,212.0	1,291.6
thereof listed	1,074.3	1,154.6
thereof unlisted	137.7	137.0
Held-to-maturity investments		
Debt securities	42.5	82.6
thereof listed	42.5	82.6
thereof unlisted	0.0	0.0

(88) Expenses for the auditor

The following expenses for the group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna were incurred in the reporting period:

EUR m

	31.12.2017	31.12.2016
Audit fees for the annual financial statements	**-0.3**	**-0.5**
Expenses for the current year	-0.2	-0.5
Expenses relating to the previous year	0.0	0.0
Fees for other services	**-1.1**	**-0.0**
Other confirmation services	-0.3	0.0
Other services	-0.8	-0.0
Total services	**-1.3**	**-0.5**

The audit expenses incurred in the financial year 2017 include the gross audit fee (including VAT) as well as the related cash expenditure.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) financial statements as well as the costs of the consolidated financial statements themselves.

(89) Trading book

The volume of the trading book of Addiko Group breaks down as follows:

EUR m

	31.12.2017	31.12.2016*
Derivatives in trading book(nominal)	296.2	177.2
Debt securities (carrying amount)	5.4	13.7
Trading book volume	**301.6**	**191.0**

*Previous-year figures adjusted: The nominal amount of derivatives in trading book was adjusted.

(90) Employee data

	31.12.2017	31.12.2016
Employees at closing date (Full Time Equivalent - FTE)	2,953	3,152
Employees average (FTE)	3,052	3,318

(91) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent:

in TEUR

	31.12.2017		31.12.2016	
	Severance payments	Pensions	Severance payments	Pensions
Key management personnel	50.8	6.0	84.0	5.9
Other employees	230.8	61.8	336.9	78.4
Members of Management Board	60.0	36.0	58.3	18.9
Total	**341.6**	**103.8**	**479.2**	**103.2**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 230.8 thousand (2016: 336.9 thousand).

(92) Relationship with members of the Company's boards

92.1. Advances, loans and liabilities with regard to board members

As at December 31, 2017, the Addiko Bank AG boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

92.2. Breakdown of remuneration received by board members of the ultimate Group parent

in TEUR

	31.12.2017	31.12.2016
Management Board	**5,607.0**	**3,944.7**
thereof ongoing payments	5,607.0	3,944.7
Supervisory Board	**142.5**	**168.5**
Total	**5,749.5**	**4,113.2**

The members of the Management Board and Supervisory Board are stated in note (93) Boards of the Company.

(93) Boards and Officers of the Company

January 1 to December 31, 2017

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Martin Handrich (resigned as per 6 February 2017)
Dragica Pilipović-Chaffey

Delegated by the Works Council:
Horst Floriantschitz
Christian Lobner

Federal Supervisory Authorities

State Commissioner:
Judith Schmidl

Deputy State Commissioner:
Vanessa Koch (from August 1, 2017)
Andreas Pink (until July 31, 2017)

Management Board

Ulrich Kissing, Chairman of the Management Board
Johannes Proksch, Member of the Management Board
Markus Krause, Member of the Management Board
Csongor Bulcsu Németh, Member of the Management Board
Martin Stefan Thomas, Member of the Management Board
Razvan Munteanu, Member of the Management Board
Christian Kubitschek, Member of the Management Board

(94) Scope of consolidation

The consolidated group of companies as defined under IFRS as at December 31, 2017 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	100.0	31.12.2017	CI
Addiko Bank d.d.	Zagreb	100.0	100.0	31.12.2017	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	100.0	31.12.2017	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2017	CI
Addiko Bank d.d.	Sarajevo	100.0	100.0	31.12.2017	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8	99.8	31.12.2017	CI

(95) Events after the reporting date

At the beginning of January 2018, Addiko Bank AG received a decision with regard to the adequacy of its own funds as well as the proceedings with regard to the Group's liquidity (Joint Risk Assessment & Decision Process - JRAD) from the Austrian Financial Market Authority (FMA). Pursuant to this decision, own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, Addiko Bank AG is required to maintain a Total Capital Ratio (TCR) of 12.7% (2017: 12.9%), a TIER I ratio of 10.7% (2017: 9.7%) and a CET 1 ratio of at least 9.2% (2017: 7.2%) at holding level as well as at the level of the Addiko Group and Al Lake scopes of consolidation. Additionally, the capital conversation buffer is to be taken into account, which increases by 0.625% each year, starting at 0.625% in 2016 and scheduled to reach 2.5% in 2019.
Addiko Bank AG signed on the 27 of February with its sole shareholder Al Lake (Luxembourg) S.à r.l. an agreement waiving part of the future payments on the existing subordinated loans to align the capital structure with its risk profile and to achieve adequate return on equity in the coming years.

Vienna, February 27, 2018

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Martin Stefan Thomas

Razvan Munteanu

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, February 27, 2018
Addiko Bank AG

MANAGEMENT BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

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Martin Stefan Thomas

Razvan Munteanu

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Addiko Bank AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the group statement of comprehensive income, the group statement of changes in equity and the group statement of cash flows for the financial year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements under Section 245a Austrian Commercial Code and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the financial year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Impairment of loans and advances

Description of the individual key audit matter

Risk provisions are set up by impairing loans and advances to take into account risks of losses in the credit portfolio. As at December 31, 2017, loans and advances (loans and advances to customers and credit institutions) before impairment amount to EUR 4,176 million. Risk provisions amount to EUR 418.7 million.
Addiko Bank AG uses the following methods to determine the risk provision required:

- For defaulted loans and advances classified as significant (loans and advances exceeding certain internally defined thresholds), risk provisions are determined on a case-by-case basis.
- For defaulted loans and advances not individually classified as significant, the risk provisions required are calculated using models based on an estimate of loss-given default made by the credit institution.
- For losses already incurred at the reporting date but not identified by the credit institution, risk provisions are set up at portfolio level. Collectively determined risk provisions are calculated using models based on an estimate made by the credit institution of the probability of default and loss-given default as well as the period of time between the occurrence of a loss event and its identification by the credit institution.

We refer to the disclosures in Note (8) (Financial instruments: recognition and measurement (IAS 39)), Note (69) (Development of risk provisions) and Note (74) (Credit risk (counterparty default risk)).

As determining the impairment of loans and advances in all variations stated represents an estimate that is significantly defined by the identification of the loss event, the estimate of the expected cash flows and/or the identification of the calculation parameters used to illustrate them, we identified the amount of impairment of loans and advances as a key audit matter.

Audit approach

In order to assess the appropriateness of the risk provisions set up, we reviewed for the purposes of our audit the significant processes and models within credit risk management as well as a selection of loans. We identified and tested the significant controls in place for credit approval, continuous monitoring and especially in the early detection process of borrowers potentially at risk of default. We checked a selection of controls relevant for the audit with regard to the correct use of rating models and measurement of collateral.

We checked the design and implementation of a selection of controls relevant for the audit with regard to the assessment of the reliability of the models used in calculating collective risk provisions (back testing, continuous monitoring and validation of models and parameters on a regular basis; re-estimate and recalibration, if required, based on updated time series). We reperformed the submitted analyses of back testing and re-estimates.

We checked the appropriateness of individual risk provisions using a selection of test cases. In addition to compliance with internal regulations on rating as well as allocation and measurement of collateral, we checked whether loss events were fully identified. In doing so, we analyzed loans and advances not identified as defaulted by management as to whether events have occurred that significantly influence the borrower's repayment ability. For loans in the non-performing portfolio, we critically assessed the estimated cash flows expected from redemption and collateral and recalculated the present value.

- Deferred tax assets from losses carried forward and other deductible temporary differences

Description of the individual key audit matter

As at December 31, 2017, the Addiko Bank Group capitalized deferred tax assets amounting to EUR 20.6 million for the first time. The capitalized amount breaks down into EUR 13 million of deferred tax assets from losses carried forward as well as EUR 7.6 million of deferred tax assets from other deductible temporary differences.

The Addiko Bank Group reported a number of losses in the recent past. Deferred tax assets may only be recognized in the balance sheet if there is convincing substantive evidence that sufficient taxable results will be available in the future against which unrealized tax losses as well as other deductible temporary differences can be used.

Substantiation of sufficient future taxable results is based on corporate planning and the tax planning that results from it.

Expected taxable results are subject to a high degree of discretion. Slight changes to these assumptions will lead to significantly deviating results.

We refer to the disclosures in Note (33.2) (Deferred tax assets/liabilities).
Due to the sensitivity of the model and the high degree of discretion involved in the assumptions, we identified the capitalization of deferred tax assets from losses carried forward and other deductible temporary differences as a key audit matter.

Audit approach

We critically assessed the assumptions and estimates used to determine the significant parameters and input factors and compared the assumptions used for future taxable results with past performance and past planning accuracy. The figures and planning assumptions used were discussed with management and the responsible employees, and plausibility checks were performed using internal and external forecasts.

Furthermore, we verified the existence and amount of the available tax losses carried forward using external confirmations. In addition, we analyzed and reperformed the assumptions with regard to the realizability of deductible temporary differences.

Other Information
Management is responsible for the other information. The other information, which we obtained prior to the date of this auditor's report comprises all information included in consolidated non-financial report.
Our opinion on the consolidated financial statements does not cover the other infor-mation and we do not and will not express any form of assurance conclusion thereon. With re-spect to consolidated management report we refer to the section "Report on the Audit of the Consolidated Management Report".
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge ob-tained in the audit, or otherwise appears to be materially misstated.
If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements under Section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

The scope of the audit does not include assurance on the future viability of the Group or the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit

We also:

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

- In performing our audit in accordance with the applicable auditing standards, we take into account the Group's legal and other regulatory framework. However, we are not responsible for preventing or uncovering violations of the law and other legal requirements committed by the Group. The unavoidable risk due to the inherent limitations of an audit that some material misstatements of the financial statements might not be detected, even though the audit has been properly planned and performed, is higher in case of violations of other legal requirements. This is, i.a., because there are many laws and other legal requirements – mainly referring to a Group's operational aspects – which are not recorded by the Group's accounting-related information systems, and violations in this respect may involve attempts to conceal them.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Comments on the Management Report for the Group

Pursuant to the Austrian Commercial Code, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal requirements.

The Company's management is responsible for the preparation of the management report for the Group in accordance with the Austrian Commercial Code and the Austrian Banking Act.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion
Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Additional Information in Accordance with Article 10 of the EU Regulation

We were appointed as statutory auditor for the financial year ended December 31, 2017 at the ordinary general meeting dated September 30, 2016 and engaged to perform the audit by the supervisory board on September 30, 2016. We have audited the Group for an uninterrupted period since the financial year ended December 31, 2014.
We confirm that the audit opinion in the "Report on the Consolidated Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the Group in conducting the audit.

Vienna, March 1, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker Austrian Certified Public Accountant	ppa. Mag. Monika Dabrowska Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

Consolidated non-financial report

1. Introduction

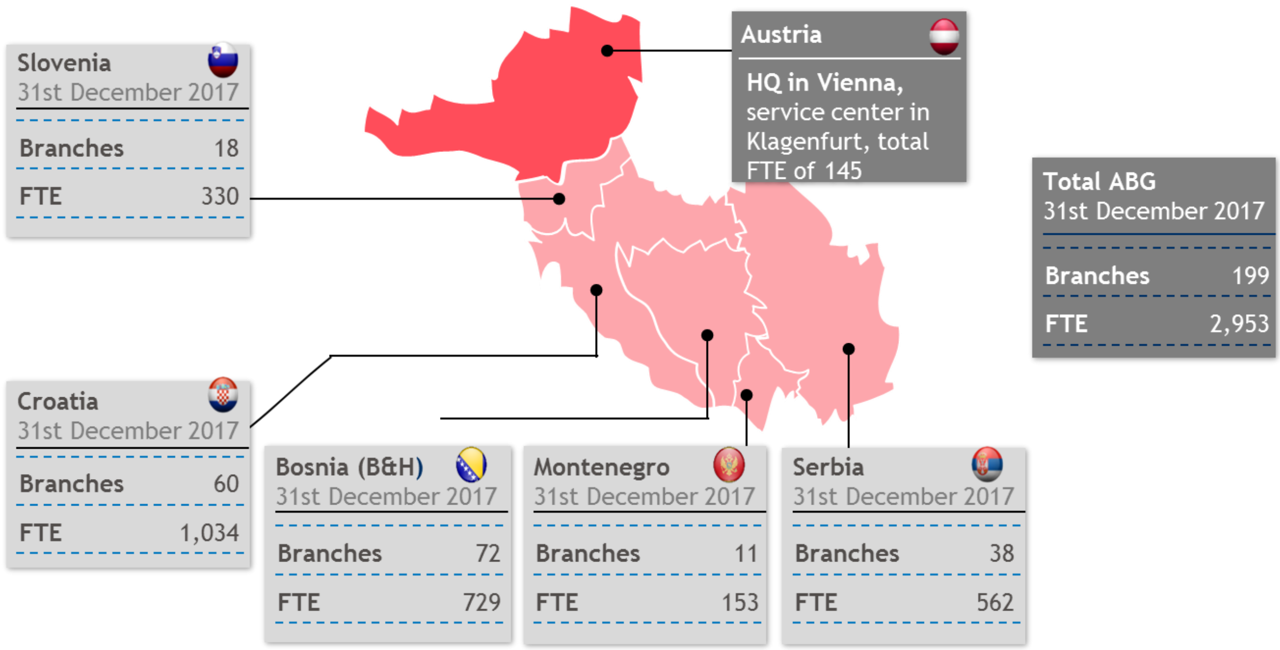
1.1. Consolidated non-financial statement

Addiko Group's consolidated non-financial statement discloses non-financial data in order to ensure a greater level of transparency. The statement provides insights into Addiko Group's ownership, corporate governance, strategy and business model.
In addition, the statement discloses the development of Addiko Group's activities related to social and employee matters, business ethics and environmental matters. Developments in these important areas support the transformation of Addiko Group.

1.2. Addiko Group banking network

Addiko Group (hereinafter as well referred to as Addiko Bank) is an international financial group headquartered in Vienna, Austria, operating via seven banks, with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, and providing daily banking services for over 1 million clients.

- Austrian based banking network,
- operating six banks in South-East Europe (bankable population of ~17 million)



Being clearly focused on markets and clients in the SEE region, Addiko Group puts the customers from this region at the core of its strategy, by promoting products and services relevant to the SEE economic environment, by implementing faster processes and decision making, and by delivering communication that is easy to understand.

2. Ownership, corporate governance, strategy and business model

2.1. Ownership

The holding company Al Lake (Luxembourg) S.à r.l. is the direct parent company of Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor, and the European Bank for Reconstruction and Development (EBRD). Addiko Group has been operating under this name since 11 July 2016, following a successful rebranding of the Group.

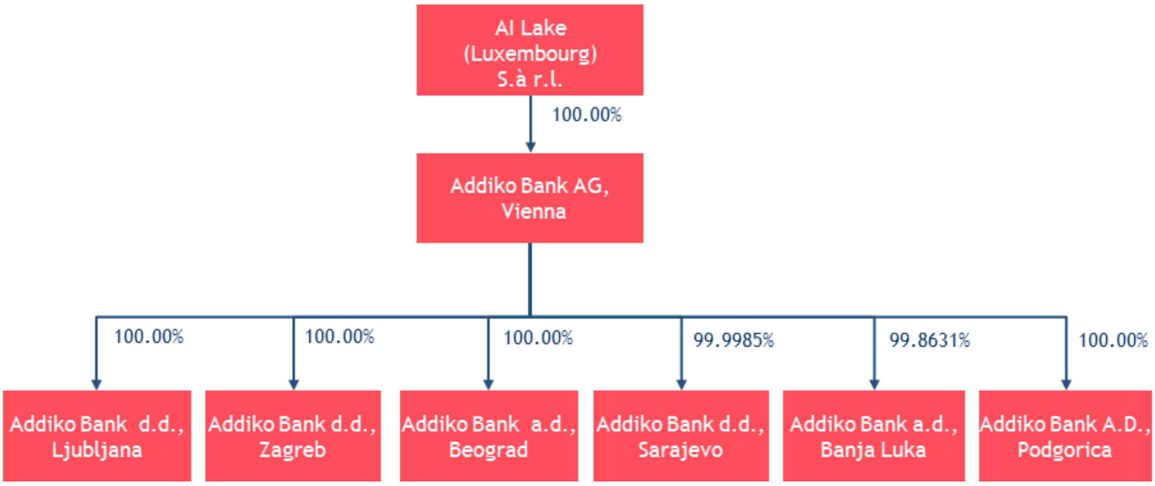
Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, they have established a globally integrated team of more than 190 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating a private equity strategy in 1989, they have invested USD 39 billion in over 335 private equity investments across 40 countries, and as of 30 September 2017, managed USD 42 billion in assets.

Founded in 1991, EBRD is a multilateral bank committed to the development of market-oriented economies and the promotion of private and entrepreneurial initiatives in more than 30 countries. The bank is owned by 66 countries, the EU and the European Investment Bank. EBRD has invested more than EUR 115 billion in over 4,500 projects, supporting prosperous economies based on a flourishing private sector, a sound banking sector, modern infrastructure and efficient use of energy. As an investor, EBRD promotes innovation, growth and transparency.

Both, Advent International and EBRD, have a strong track record of committing capital to the financial services sector as well as regionally in Central and South-Eastern Europe. Both owners have ambitious plans, with the goal of establishing Addiko Group as one of the top market players in the SEE region.

2.2. Corporate governance

Addiko Group consists of seven single banking entities. Whereas Addiko Bank AG, Vienna, acts as a holding company and only offers direct deposits in Austria and Germany, all other banks provide a full scope of services in line with Addiko Groups business strategy.



Addiko Bank AG, Vienna - steering Addiko Group – is managed and represented by the Management Board consisting of Mr. Ulrich Kissing (CEO), Mr. Markus Krause (CRO), Mr. Martin Thomas (COO), Mr. Csongor Nemeth (CCBO), Mr. Razvan Munteanu (CRBO), Mr. Christian Kubitschek (CFO) and Mr. Johannes Proksch (CTO).

Management Board members of Addiko Bank AG, Vienna, for Financial Year 2017

Name	Position	Area of responsibility
Ulrich Kissing	Chief Executive Officer	Group Audit, Group CEO Office, Group HR, Group Compliance, Group Treasury and Balance Sheet Management, Group Corporate Communication, Economic Research
Markus Krause	Chief Risk Officer	Group Corporate Credit Risk, Group Retail Risk Management, Integrated Risk Management, Credit Risk Portfolio Management, PFD Methodology, Group Risk Validation, Market and Liquidity Risk, Operational Risk Management
Martin Thomas	Chief Operating Officer	Group Operational Excellence, Group Operations, Procurement, CISO/Data Protection, Group IT, Group Digital Banking
Csongor Nemeth	Chief Corporate & SME Banking Officer	Sales Development, Corporate Process and Prices Management, Customer Experience and Digitalisation, Large Corporate, Corporate Product Management
Razvan Munteanu	Chief Retail Banking Officer	Group Sales Distribution&Customer Experience, Group Retail Product Management, Direct Deposit Austria&Germany, Group Customer Value Management, Group Marketing, Micro Business Segment
Christian Kubitschek	Chief Financial Officer	Group Finance Controlling, Group Data Integrity and Control, Group Accountig&Reporting, Finance Holding, Group Business&Sales Controlling, Group Cost& Investment Controlling
Johannes Proksch	Chief Transformation Officer	Group Legal and Corporate Development

In 2017 the composition of Management Board has not changed.

The Supervisory Board of Addiko Bank AG, Vienna, consists of Mr. Hermann Josef Lamberti (Chairman), Mr. Hans Lotter (Deputy), Mr. Henning Giesecke (Deputy), Mrs. Dragica Pilipovic-Chaffey, Mr. Horst Florianschitz and Mr. Christian Lobner. The last two members are delegated by the workers council. In 2017 the composition of Supervisory Board has changed insofar as Mr. Martin Handrich has resigned on 6 February 2017.

2.3. Strategy

Addiko Group's vision is to provide "Straightforward Banking" to its customers and be united as "Six Countries – One Winning Team". The strategy has been built on three strategic pillars which represent Addiko Groups's brand values.

Focus on the essentials:
We do a few things very well, rather than a lot just OK. This means fewer, essential products that deliver greater value to our customers.

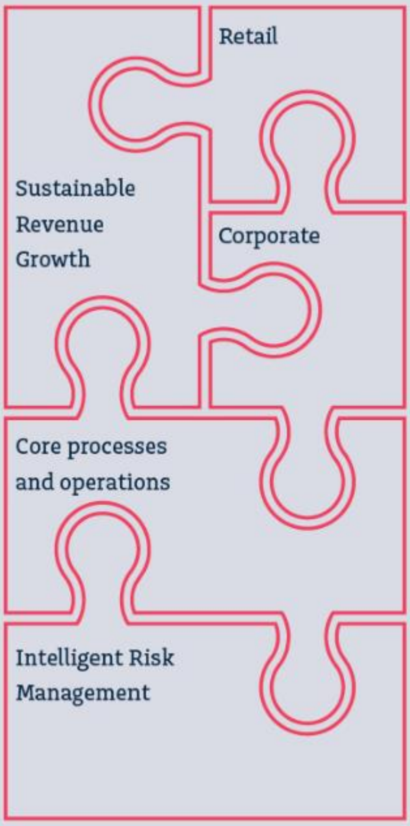
Deliver on efficiency:
We concentrate our energy on removing complexity for our customers and delivering what is relevant.

Communicate simplicity:
Our people, products and procedures "communicate" in the simplest terms to ensure a clear understanding.

All of the above relate to how Addiko Group presents itself both externally and internally. Hence, these brand values are applied both internally and when dealing with our customers.

Addiko Group’s strategy for delivering “Straightforward banking” to customers

Addiko Group will achieve its strategic goals by focusing on the following key areas:



- Mass market proposition to individuals and micro businesses
- Targeted branch network and advanced digital offering
- Focus on account packages, consumer lending and deposits

- Focus on SME and regional corporates
- Dedicated Account Managers and fully integrated digitised services
- Targeting the real economy with working capital, investments loans and a strong focus on trade finance products

- One winning team approach
- Efficient end-to-end process delivering a superior customer experience
- Open IT architecture with strategic partnerships

- Standardised decision making and underwriting processes
- Strong risk culture that balances risk and return
- Zero tolerance for non-compliance

2.4. Operating Model

Addiko Group’s Operating Model has been designed to support our strategy as follows:

- Shared/group wide services are more efficient and will provide better services than if each country had its own fully-fledged set of individual functions.
- Its strategy focuses on creating a simplified set of products that clearly serve Addiko Group’s key customer segments. Addiko Group’s customers can be clearly divided into two distinct groups: “Corporate” and “Retail”, which is reflected in its Operating Model.
- Addiko Group’s Operating Model focuses on the Front Office, making it simpler for its customers, even if this means more effort internally within Addiko Group. Enabling Functions, processes and systems support the customer touch points i.e. the Front Office functions.
- Enabling Functions are shared across countries, directly supporting Addiko Group’s “One Winning Team Approach” and efficient end-to-end processes delivering a superior customer experience.
- The Operating Model also allows Addiko Group’s employees to develop and provides them with additional opportunities across countries and functions.

Addiko Group’s Operating Model consists of Group and Local Functions. Group Functions are either Central Steering or Group Shared Services.

- Local Execution refers to the people working in regional Addiko Group businesses.
- Central Steering Functions (CSF) provide some or all the following: strategic direction, guidelines, monitoring, control, and expert services, e.g. Human Resources, Legal, Marketing, etc. They are available in any region

and the teams can be spread across countries. In many instances, the execution of such services will be performed locally, by local personnel that are part of the CSF.

- Group Shared Services (GSS) provide more operational services and have a higher concentration of people in one location, serving the greater Addiko Bank across countries, i.e. Transaction Banking Back Office, Digital Banking, etc.

Organizing Addiko Group as described allows the provision of better services for the whole of Addiko Group, with consistency and reduced cost at significantly lower operational risk. The CSF and GSS approach allows Addiko Group to follow best-in-industry practices and international standards, to improve internal knowledge management, mentoring and to ensure the transfer of skills to employees.

One of the biggest challenges identified in Addiko Groups business model includes the transformation of the operating platform so that it focuses on cost, customer experience and capability building, in line with an innovative mind-set. It is therefore important to continue with ongoing transformation initiatives to strengthen Addiko Group’s market position.

As "digital" will play an important role in Addiko Group’s future business it will become more central to the overall strategy. On the operational level, a sustainable system is being built to promote the use of digital products. Along with these digital developments, a Robotic Process Automation (RPA/ IPA) will be implemented in addition to the lean program that has already started.

3. Social and employees matters

3.1. Social matters

In 2017 Addiko Group implemented a Corporate Social Responsibility Framework focused on kids & youth related activities. In line with this framework, Addiko Group launched the corporate volunteering project "Addiko Cares", aimed at supporting children and young people across all markets and regions. As well as the broader benefits of involving children with literature, this corporate volunteering project is focused on reading to children so as to provide stories that can help children to transition from one milestone to another and to handle stressful situations. On November 20th (UN Children’s day) Addiko Group’s volunteers visited a number of different institutions in order to spend time reading with children. Additionally, books were donated to those organizations in order to enrich their libraries. Almost 200 volunteers participated across the Group, reading to 1,500 children at 28 different locations and donating 1,400 books. Addiko Group plans to further expand upon the "Addiko Cares" initiative in 2018.

Sponsorship plays a strategic rather than tactical role in Addiko Group’s development as it reinforces desired brand values and raises brand awareness. Addiko Group’s goal was to financially support those involved with the high quality organization of valuable cultural events, and in turn to indirectly have a positive impact on the community development.

- As such, in 2017 Addiko Group implemented the Group Sponsorship Strategy with the main aim of supporting music and film festivals in the region. Addiko Group’s most significant music festival sponsorship is the EXIT festival sponsorship which includes Sea Star in Croatia, EXIT in Serbia and Sea Dance in Montenegro. OK Fest and Demofest have been sponsored in Bosnia and Herzegovina.
- Moreover, in the film industry Zagreb Film Festival and the Motovun Film Festival have been sponsored.
- In addition to these sponsorships, Addiko Group started to sponsor nextbike (public bikes system) in Zagreb and Bosnia and Herzegovina. Via this sponsorship, it can positively influence the development of public transportation, with a focus on bikes, as a means of decreasing traffic jams and improving quality of life.

3.2. Employees matters

Addiko Group’s corporate culture is constantly evolving, reflecting its principles of trust, integrity and clear performance orientation. Its vision is to provide straightforward banking and by doing that, Addiko Group transforms its corporate culture into one that also defines how the bank drives its business - how employees aim for results and achieve them and how the bank recruits, employs, develops and motivates its employees who in turn can drive the business forward and generate revenue.

Addiko Group follows this approach by empowering its leaders to lead the change, reinforcing employee engagement and strengthening the "Values and Behaviors" in daily activities. The bank is focused on becoming a great place to work. Addiko Group is proud of its employees and their many achievements in becoming 'Six Countries and one Winning Team' - an innovative and forward thinking bank with high integrity, professional norms and industry excellence.

In order to nurture the cultural transformation, our management has put a lot of effort into reaching out to staff across our markets. Our senior leaders regularly promote the bank's vision through employee town hall meetings, breakfast with the Board, workshops and road shows to actively share and discuss employee questions, business plans and performance updates.

Addiko Group celebrates the winning teams across the countries and has spent a lot of time launching the new brand and its innovative and modern open space offices. Addiko Group is re-branding the branches and as such has re-designed the head offices. These meeting areas are café-style with bar stools and American diner stalls. Here, Addiko Group employees can hold regular, jour-fix meetings in a comfortable and friendly atmosphere and then move on quickly to get things done. The office space is unified across all countries, reflecting the new brand and cultural values that we want to promote.

At Addiko Group, we lead by how we behave. We have therefore defined the Addiko Group "Values and Behaviors" after conducting numerous workshops and surveys with employees across our countries. The objective is to integrate them into the way Addiko Group recruits employees, evaluates performance and develops leaders. They encourage employees to behave in a way that drives efficiency, respect and long-term responsible growth:

- Focus on the Essentials
- Deliver on Efficiency
- Communicate Simplicity
- Six Countries, One Winning Team

Diversity is important to the Addiko Group. It is an employer that works across six countries, speaks a variety of languages and strives to reflect the cultural diversity of Central and South Eastern Europe. As a result, its selection process is transparent, promoting equal opportunities for all candidates. Addiko Group is committed to abiding to local legislation and building an inclusive work force regardless of race, nationality, religion, national origin, ethnicity, sex, gender, age, citizenship, color, marital status or pregnancy in all banks. In 2018, we will set a diversity target for our bank, aiming to develop and elevate female leaders.

The Selection & Recruitment process is an important pillar of Addiko Group’s culture. Human Resources is responsible for managing the selection and recruitment process. Addiko Group seeks people with excellent industry experience, a passion for learning, those with the ability to be flexible and a willingness to roll up their sleeves in order to build an innovative and competitive bank. Employees are selected based on how their skills set and their culture fit with Addiko Group’s principles.

Addiko Group offers a competitive salary and discretionary variable pay or annual bonus, depending on the position and the function of its employees. Addiko Group's remuneration policy varies by country and is attractive within each local market.

Addiko Group onboarding represents a process of introducing newly hired employees to the bank and to their new job. It begins from the moment an employee has signed their offer letter, to the point when the employee has completed the probation period. In many countries, new employees will be assigned a mentor as a guide. They will also be given an induction plan and an invitation to the “Get Together” event for newly hired employees. A comprehensive introduction to the new team and to its ways of working is an important part of the onboarding program.

Addiko Group recognizes that its employees have many responsibilities and roles in addition to their work. Within the framework of local legislation, employees are encouraged to work from home and to use flexible working options to support their personal commitments outside their professional lives. Addiko Group respects the personal lives of its employees.

Addiko Bank’s corporate culture encourages community participation. Addiko Group has launched a number of "Addiko Cares" community events that underline the values and culture we want to promote.

Addiko Group employees have many on-the-job and in-class opportunities to learn and move their career forward. Employees are encouraged to shift to other departments, take developmental assignments in other countries and participate in international projects or to take work placements.

Addiko Group embraces a unique leadership style that is simple and friendly with an ability to work well as part of a team of lots of different people. Building trust and working closely with many diverse teams is part of Addiko Group identity.

Addiko Academy was launched in 2016 offering training opportunities in leadership, banking, sales, corporate banking and compliance. Addiko Bank is committed to strengthening the area of talent development and building talents and successors across all levels.

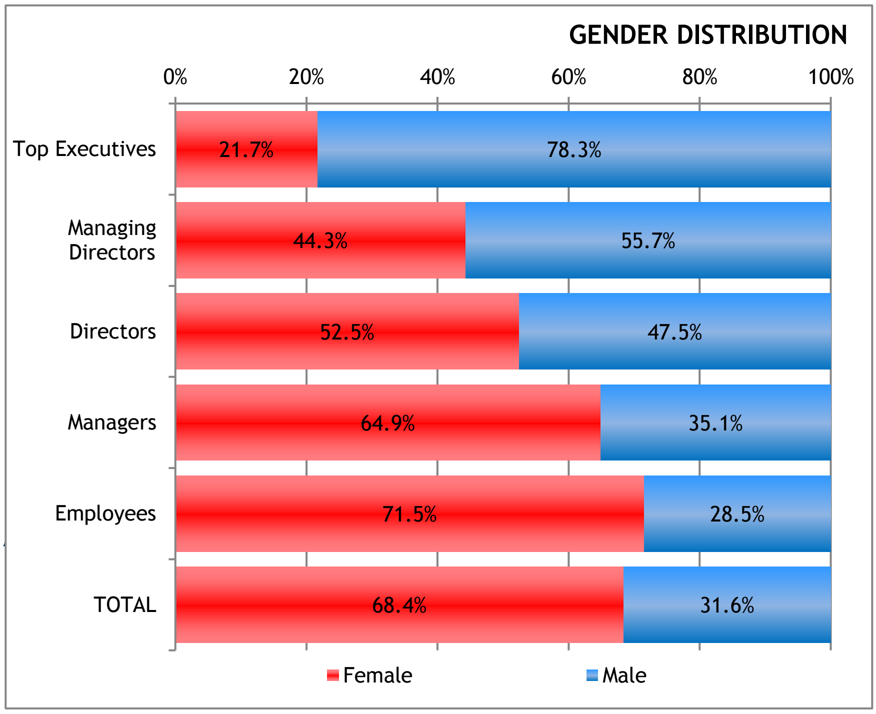
Addiko Group has started by:

- Encouraging top employees to network with industry peers in order to represent the bank in professional circles in their countries. Addiko Bank employees have done an excellent job, receiving numerous industry awards and elevating professional standards;
- Holding development and assessment centers and 360 feedback to help employees to progress;
- Moving forward People Forums and talent management processes will help to define clear development plans and career options for employees in Addiko Group.

Addiko Group gender distribution by managerial level

31.12.2016	Female	Male
Top Executives	19.2%	80.8%
Managing Directors	48.6%	51.4%
Directors	54.5%	45.5%
Managers	68.7%	31.3%
Employees	71.4%	28.6%
TOTAL	**69.0%**	**31.0%**

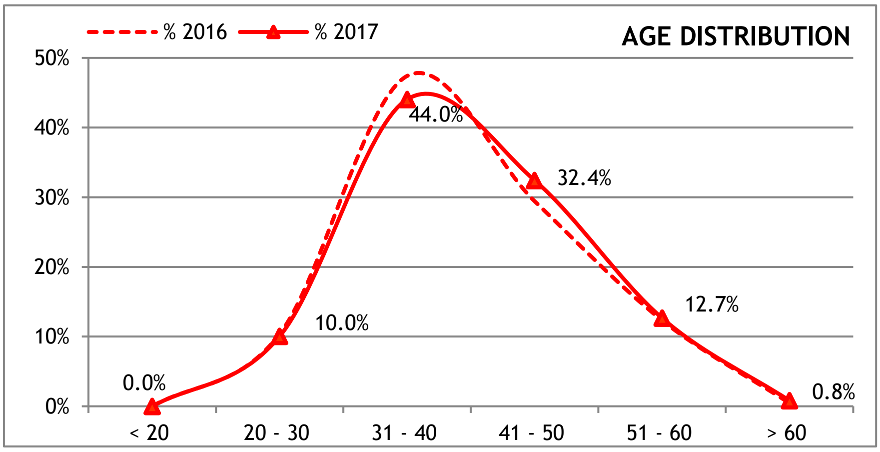
31.12.2017	Female	Male
Top Executives	21.7%	78.3%
Managing Directors	44.3%	55.7%
Directors	52.5%	47.5%
Managers	64.9%	35.1%
Employees	71.5%	28.5%
TOTAL	**68.4%**	**31.6%**



Addiko Group age distribution

31.12.2016	FTE Active	%
< 20	0	0.0%
20 - 30	324	10.4%
31 - 40	1,481	47.4%
41 - 50	920	29.4%
51 - 60	385	12.3%
> 60	14	0.4%
TOTAL	**3,123**	**100.0%**

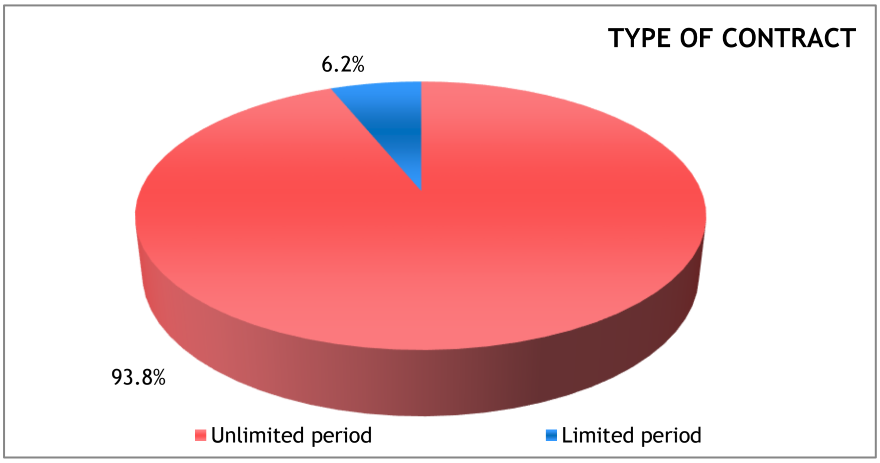
31.12.2017	FTE Active	%
< 20	0	0.0%
20 - 30	297	10.0%
31 - 40	1,301	44.0%
41 - 50	958	32.4%
51 - 60	374	12.7%
> 60	24	0.8%
TOTAL	**2,953**	**100.0%**



Addiko Group type of contract

31.12.2016	FTE Active	%
Unlimited	2,926	93.7%
Limited	197	6.3%
TOTAL	**3,123**	**100.0%**

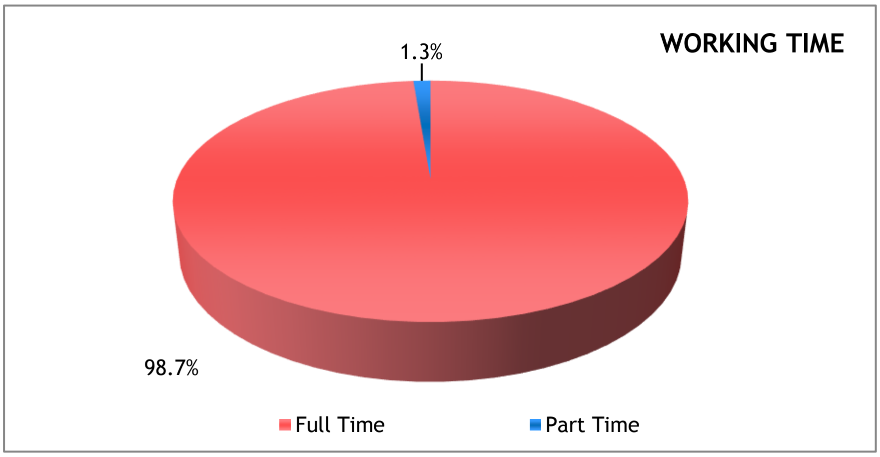
31.12.2017	FTE Active	%
Unlimited	2,771	93.8%
Limited	182	6.2%
TOTAL	**2,953**	**100.0%**



Addiko Group working time

31.12.2016	HC Active	%
Full time	3,067	97.5%
Part time	78	2.5%
TOTAL	**3,145**	**100.0%**

31.12.2017	HC Active	%
Full time	2,935	98.7%
Part time	38	1.3%
TOTAL	**2,973**	**100.0%**



4. Business ethics

Addiko Group is committed to conducting its business in compliance with the highest ethical standards. Addiko Group's Code of Business Conduct and Ethics is a binding regulatory framework and is applicable to all employees. It is designed to promote honest, ethical and lawful conduct while its standards govern employee interactions with customers, competitors, business partners, governmental authorities, shareholders as well as with each other.

Addiko Group demands from its employees to comply with legal, regulatory and internal requirements as well as with all internal acts, conducts and ethical principles as defined by the Code of Business Conduct and Ethics.

Compliance is part of our corporate culture and not only the responsibility of the Compliance department. Functional managers have organizational and supervisory duties to ensure that no infringement of the applicable rules and laws governing the financial industry occurs that could have been prevented by adequate measures and supervision.

4.1. Human rights

Addiko Group's "Values and Behaviors" are built on trust, respect and integrity. Addiko Group is an equal opportunity employer that bases its recruitment, employment, development and promotion decisions solely on a person's ability and potential in relation to the needs of the job. Addiko Group is committed to a workplace that is free from sexual, racial or other unlawful harassment, and from threats or acts of violence or physical intimidation. Abuse, harassment and other offensive conduct is unacceptable whether verbal, physical or visual.

The Recruitment & Selection Policy mandates that the selection process should be transparent and promote equal opportunities and equal treatment of all candidates included in the process. Diversity is important, as is creating an environment that allows the recruitment of candidates with different backgrounds, experiences and perspectives in order to achieve the best results without limitations. Addiko Group abides with local legal legislation and is an equal opportunities employer. It is committed to building a diverse and inclusive work force regardless of race, nationality, religion, national origin, ethnicity, sex, gender, age, citizenship, color, marital status or pregnancy.

4.2. Anti-corruption and bribery matters, prevention of money laundering

Addiko Group has a zero tolerance policy towards any form of corruption or bribery. To ensure compliance with respective laws and regulations, Group standards and policies are implemented. Clear rules are applicable regarding the acceptance of gifts and gratuities, contracting third parties (anti-corruption clause), the approval of donations or sponsorships as well as mandating lobbyists.

The bank strictly prohibits giving or promising, directly or indirectly, anything of value to any employee or government officials (including state-owned companies), political party, candidate for office, or to any person performing public duties or state functions in order to obtain or retain business or to secure an improper advantage with respect to any aspect of the Group's business, including negotiations and tenders.

In line with international standards and Addiko Group's strategy, it is illegal for the bank, its subsidiaries and people working for or on behalf of the bank to offer, pay, give, promise or authorize the payment of any money or of anything of value, directly or indirectly, to any foreign government official or employee, foreign political party or candidate for foreign political office for the purpose of obtaining or retaining business or to secure an improper advantage (direct and indirect), and in keeping with laws in other countries.

Addiko Group requires that all Third Party contracts include a provision that complies with applicable anti-corruption laws. Contracts for the purchase of services and products include an anti-bribery and anti-corruption clause as well as a clause for the prevention of money laundering.

In 2017 Addiko Group did not discover or record any incident of corruption.

Addiko Group considers lobbying to be legitimate within the process of democratic decision making. Lobbying activities must be conducted in a fair and professional manner based on the highest ethical and moral standards.

Addiko Group is committed to avoiding violations or any negative developments within the Group and has therefore established a whistleblowing procedure - as an early warning system - that enables employees to raise concerns about unacceptable behavior through various channels such as ordinary mail, e-mail or telephone. Cases are always investigated thoroughly and managed with due care.

Addiko Group considers business partners to be an extension of itself. It is therefore very important that partners have a common understanding of the principles of respect for the law, sense of justice and social responsibility with respect to their activities related to the natural environment, their employees, co-workers and subcontractors. Addiko Group is committed to working with partners who avoid discrimination or mobbing, and does not accept the work of children. To insure this kind of partnership, Addiko Group has started to include in its procurement process a criterion of social responsibilities and ethics when working with its partners.

5. Environmental matters

In our contemporary world, affected by centuries of unconscious actions and disregard for nature, protection of the environment is everyone's responsibility. Although the direct impact of banks on the environment may be regarded as rather limited, particularly when compared to the impact of other industries, Addiko Group recognizes its responsibility to environmental conservation and is therefore consciously focused on environmental matters and committed to reducing its own consumption of natural resources, with a particular focus on its electricity and heating impact, as well as the impact of fuel and paper consumption.

Addiko Group and all of its subsidiaries are fully compliant with local laws and regulations with regard to environmental issues i.e. waste management, recycling, and the disposal of dangerous materials. Moreover, in addition to compliance with obligatory environmental regulations, Addiko Group is fully committed to the implementation of additional measures that aim to ensure environmental protection.

For example, in 2017 Addiko Group undertook a group-wide space optimization project which, besides ensuring significant OPEX reduction, resulted in the decrease of electricity and heating consumption.

Additionally, and although fluorescent lightning has been used as energy saving solution in the past few years, the introduction of LED lightning as standard for the entire Addiko Group will further contribute to increased levels of energy efficiency at the branches and therefore to the reduced consumption of electricity more broadly.

Moreover, in 2017 Addiko Group implemented the Cisco video-conference system in order to facilitate the connection of employees throughout the Addiko Group network via video calls. The promotion of video-conferencing as an alternative to meetings in person has, as result, reduced the number of business trips and thus the usage of transportation vehicles, ultimately ensuring a reduction of the carbon footprint of Addiko Group.

As part of Addiko Group's goal to reduce its environmental footprint in 2018, Addiko Group is also focusing on a variety of Group wide schemes, aiming to raise the awareness of its employees with regard to environmental protection. This includes encouraging a more efficient usage of company vehicles and the additional reduction of paper consumption via the promotion of electronic documents wherever possible (i.e. documents for internal usage, etc.).

Report of the Supervisory Board

Dear Shareholders,

The year 2017 marked an important milestone in the transformation of Addiko Group. It was characterized by positive results in all SEE banking subsidiaries with an overall positive financial performance of the Group.

After the restructuring and rebranding initiatives undertaken in previous years, in 2017 Addiko Group made its presence felt, being back in business with a strong focus on growth through consumer lending and SME finance. Addiko Group has recorded growth in deposits across all markets showing a significant increase in customers' trust. Online deposits in Germany and Austria also increased.

Overall, Addiko Group's objective is delivering straightforward banking to all customer interfaces. A cultural transformation across the Group was focused on providing straightforward banking to customers. This was supported by improving operating excellence and the implementation of a new operating model. Straightforward banking was strengthened with significant investments in its digital platform to continuously improve customer experience.

One of Addiko Group's strategic goals is a best-in-class risk-return profile. An intelligent risk management with a strong risk culture, that balances risk and return, ensures that Addiko Group's risks continue to be actively managed and well controlled. Throughout the year Addiko Group continued to show cost discipline and delivered further cost reduction, while maintaining a strong market presence and a business drive.

Addiko Group is successfully developing into a key SEE Retail and SME bank with strong customer focus, while at the same time is well on track in delivering profitable growth and long-term sustainable business results.

Activities of the Supervisory Board
During the year under report, the Supervisory Board performed all of the duties incumbent upon it in a highly conscientious manner and in accordance with the law, the Company's statutes and its own terms of reference.

It assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the quarterly meetings of the Supervisory Board and its' Committees, the Management Board reported in depth on Addiko's financial situation and business performance. The Management Board discussed strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, it undertook the measures necessary to assure that the governance of Addiko Group's affairs was lawful, compliant and appropriate. In this context, it undertook the measures necessary to assure that the governance of the Addiko Group's affairs was lawful, compliant and appropriate.
The Supervisory Board had formed the following six standing Committees,

- the Audit and Compliance Committee (which held five meetings in 2017),
- the Credit Committee (which held eight meetings in 2017),
- the Risk Committee (which held six meetings in 2017),
- the Nomination Committee (which held two meetings in 2017),
- the Remuneration Committee (which held three meetings in 2017) and
- the Committee for Management Board Matters (which held three meetings in 2017).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committees of Addiko's Supervisory Board were in regular contact with the Management Board.
The Supervisory Board, within quarterly meetings, was regularly informed on topics that included business performance in the previous quarter, financial performance, risk development and significant issues, as well as major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of monthly business reports. In addition, the Supervisory Board has also received regular reports of key executives, especially the Compliance and Internal Audit Officer.

Personnel matters
The Management Board of Addiko Bank AG remained unchanged during the financial year 2017 and consists of seven members.

During the year under report, Mr. Martin Handrich resigned as member of the Supervisory Board on February 6, 2017. Since then, the Supervisory Board has consisted of six members, thereof two who were delegated by the Workers Council. Furthermore, there was a change in the Members of the State Commission. Mr. Andreas Pink resigned as Vice-State Commissioner as of August 1, 2017 and Ms. Vanessa Koch was appointed as his successor.

Separate and Consolidated Financial Statements 2017
Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, registration number 36059d, audited the Separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of Addiko Group dated December 31, 2017 issuing unqualified audit opinions. Pursuant to statutory provisions, the Management Report and the Consolidated Management Report have been audited as to whether they are consistent with the Consolidated Financial Statements and prepared in accordance with the applicable legal requirements. The Consolidated Non-Financial Report was read and considered not to be materially inconsistent with the Consolidated Financial Statements nor to be materially misstated.

The Separate Financial Statements of Addiko Bank AG are prepared in accordance with the regulations of the Austrian Banking Act (BWG) and – where applicable – with the provisions of the Austrian Commercial Code (UGB). The Consolidated Financial Statements of Addiko Group are prepared in accordance with IFRS as adopted by the EU and in compliance with the requirements under Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG). The Annual Report, the Group Annual Report, the Consolidated Non-Financial Report and the Management Board's proposal for the allocation of the annual profit 2017 – all prepared by the Management Board – were thoroughly discussed with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on March 7, 2018. At the meeting, the aforementioned Committee inter alia resolved to propose approving the Separate Financial Statements of Addiko Bank AG by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on March 8, 2018. At this meeting, the financial statements were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Report on Addiko Bank AG, as well as that of Addiko Group and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 170.0 million in the financial year 2017. In the next General Assembly, a proposal will be made to distribute an amount of EUR 170.0 million by the Company.

The result of the audit is that the Supervisory Board has no objections to the Financial Statements and the audit performed by the auditor.

The Supervisory Board, therefore, concurred with the results of the audit on March 8, 2018 and approved the Separate Financial Statements of Addiko Bank AG. The Separate Financial Statements have, therefore, been adopted.
The Supervisory Board would like to express thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in 2017 and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti
Chariman of the Supervisory Board

Vienna, March 8, 2018

Glossar

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
CSF	means "central steering functions" and designates services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
GDP	Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted).
GSS	means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
IMF	The International Monetary Fund is an international organization that aims to promote global economic growth and financial stability, to encourage international trade, and to reduce poverty.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
NPL Ratio	Non Performing Loans / Total exposure (Grossexposure) The NPL Ratio is a ratio to demonstrate the proportion of non performing loans in relation to the Gross exposure.
NPL LLP Coverage Ratio	Risk Provisions / Non Performing loans the total Risk Provisions (SRPs) relative to the NPL exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Risk-weighted assets	on-blance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to Large Corporate sub-segment.

Total capital ratio	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consists of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplemantary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 means instruments or subordinated loans with an original maturity of at least five years and do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity
TOM	Target operating model, model that consolidated and streamlines processes across the Addiko Group and brings steering and decision making closer to the business
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet.

Imprint

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