Addiko Bank

Group Annual Report 2016

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

Addiko Group EUR m

	2016	2015
Income statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	158.8	180.2
Net fee and commission income	50.0	52.1
Inpairment or reversal of impairment on loans and receivables	4.4	-318.1
Operating expenses	-212.4	-237.2
Operating result - prior to risk provisions on loans and receivables	-25.4	-337.9
Operating result - after risk provisions on loans and receivables	-21.0	-655.9
Result after tax	-23.9	-675.2
Statement of financial position	**31.12.**	**31.12.**
Loans and receivables to customers	3,730.5	4,156.0
Customer deposits	4,435.6	3,915.3
Equity (including non-controlling interests)	994.7	752,6
Total assets	7,216.1	7,415.5
Risk weighted assets (banking book)	4,704.9	5,315.4
Key figures	**1.1.-31.12.**	**1.1.-31.12.**
Cost/Income-ratio	113.6%	n.a.
Net interest income/Ø Risk weighted assets (banking book)	3.8%	3,8%
Capital Ratios (before profit utilization proposal)	**31.12.**	**31.12.**
Own capital funds according to CRR	1.031,4	728.4
Own funds requirement	376.4	425.2
Surplus capital	655,0	303.1
Core Capital (Tier 1)	971,4	728.4
Tier 1 ratio	20,7%	13.7%
Own capital funds ratio	21,9%	13.7%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	3,152	3,756
Number of locations	202	235

Letter from the CEO

Dear Shareholders,

Addiko Bank is well on track becoming the leading retail and SME bank in Southeastern Europe. We have put in place a strong foundation to build a profitable and growing business and thus to fulfill the goal of becoming the bank of choice for our clients across the markets that we serve.
One of our most important projects in 2016 was the rebranding of our bank. The launch of Addiko Bank has symbolized our fresh start. Addiko Bank represents what is at the core of our offering – providing straightforward banking for our clients and a clear focus on essentials, efficiency and simplicity. The rebranding was successfully executed across all countries and has created plenty of excitement among both employees and clients.
We are the only bank that is entirely focused on Southeastern Europe. No other bank knows the region as well as we do, and that is our key competitive advantage. Addiko Bank has a clear focus on its core business - serving retail and SME clients as well as regional corporates. Addiko Bank helps to finance the "real economy", and refrains from large, structured transactions and real estate development.
Prudent risk management that balances risk and return has ensured that risk costs and end-to-end processes have been significantly improved over the course of 2016.

Innovation and improved technology are at the core of Addiko Bank's strategy. Digitalization of the retail and corporate client experience is one of our main goals. That's why we will continue to enhance our digital and mobile offerings. One of the most visible milestones on Addiko Bank's journey toward digitizing the banking experience was the opening of our "express branch" in Ljubljana in November of 2016.

For Addiko Bank, 2015 was the year of the restructuring, while 2016 was the year of returning to the market. We are back in business and have built a strong basis for profitable growth. We have seen strong growth in key strategic business segments: Retail has concentrated its operations on consumer lending, with 94% of new disbursements to private individuals in this area of the market. With new offerings such as consolidation loans and with time-to-market and time-to-cash having been significantly improved, consumer loans disbursements are up 257% from 2015 levels. In the Corporate and SME segment, we disbursed EUR 688 million (up 56% to 2015) and achieved a well- diversified and granular portfolio staying true to our strategy of refraining from large tickets and large public finance deals.
On the deposit side we lowered rates to or even below market levels while simultaneously growing client deposits across all SEE countries by EUR 344 million, demonstrating significantly increased trust within our growing base of clients actively banking with us. We also entered the German online deposit market and raised an additional EUR 177 million in preparation of an early repayment of the outstanding funding from our previous owner HETA.

We also demonstrated our credibility on the cost side. In 2016 Addiko Bank was strongly focused on cost discipline, delivering a net cost reductions of almost EUR 25 million (down 10.4% from 2015 levels) despite increased spend and investments in rebranding and digital.
A clean balance sheet, good funding base and strong capital base puts Addiko Bank in a strong position to continue growing its business. We increased our TCR to a market-leading 21.9%, well above our peers, and reduced our NPL ratio to 9.2% (minus 5%) with a solid NPL coverage ratio of 67.2%.

In 2016 Addiko Bank started fulfilling its vision of „Six Countries – One Bank". The objective of implementing this new operating model is to improve existing quality levels, realize synergies and efficiencies across the Group and to create transparency in the way we work together as a team. This will help us achieve the overarching goal of moving Addiko Bank to break-even in 2017 and into profitability, and support our objective of servicing our clients in the most efficient and straightforward way. This also allows us to foster a corporate culture marked by a shared vision, strategy and values.

Having laid a strong foundation in 2016, in 2017 all countries will have positive results with the Group reaching break even. We will stay focused on our strategy with accelerated disbursements in the retail and corporate/SME segment and we will demonstrate that straightforward banking is valued by an increasing client base. At the same time we will continue to reduce our cost base even further, benefiting from our new operating model and improved processes throughout the bank.

2017 will be the year in which the Addiko Bank's full turnaround will be felt across the countries in which we operate, and when we will prove to our clients that we are focusing on the essentials, delivering efficiently and communicating in simple terms. We will demonstrate the success of straightforward banking.

Truly Yours,

Ulrich Kissing

Chief Executive Officer

Addiko Bank AG

Management Board

Johannes Proksch, Chief Transformation Officer - **Csongor Bulcsu Nemeth**, Chief Corporate & SME Banking Officer - **Christian Kubitschek**, Chief Financial Officer - **Markus Krause**, Chief Risk Officer - **Ulrich Kissing**, Chief Executive Officer - **Martin Stefan Thomas**, Chief Operating Officer **- Razvan Munteanu**, Chief Retail Banking Officer

Group Annual Report 2016

Group Management Report

1. Overview of Addiko Bank

Addiko Bank (hereinafter referred to also as Addiko Group) is an international financial group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, providing daily banking services for over 1.1 million clients.

Being clearly focused on markets and clients in the SEE region, Addiko Bank puts the customers from this region at the core of its strategy: promoting products and services relevant in the SEE economic environment, faster processes and decisions, and simply understandable communication.

The holding company AI Lake (Luxembourg) S.à r.l. is the direct parent company of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor and the European Bank for Reconstruction and Development (EBRD). Addiko Bank has operated under this name since July 11, 2016 following the successful rebranding of the Group.

2. General economic conditions 2016

Economic recovery in the euro zone continued in 2016, with the gross domestic product (GDP) growth of 1.7% supporting external demand. The latter — alongside gains in competitiveness and private investments in tradable sectors — is driving SEE exports' strength. Household consumption was the main growth driver in most Addiko Group countries which can be attributed to strong tourism activity, stronger labor markets, rising disposable income, low inflation and re-leveraging. Stronger-than-expected GDP growth of 2.8% on average in the SEE region and cost containment enabled fiscal consolidation and stabilization of public debt, reducing fiscal risks across SEE.

The **Slovenian** GDP increased by 2.7% in 2016. Notwithstanding the threats to the EU outlook due to Brexit and slowing demand from emerging markets, exports proved resilient due to gains in both price and non-price competitiveness. Meanwhile, consumer spending is underpinned by a stronger labor market, higher wages, low inflation and citizens' re-leveraging. Investments remained the important driver of growth given rising capacity utilization, stronger corporate cash flows, improved funding conditions and stronger EU funding in 2017.

The **Croatian** GDP likely grew by 3.0% in 2016, with a good tourist season, stronger private consumption and private investments among the key drivers behind the economic growth. Notwithstanding the activities in the tourist sector, and also higher merchandise import cover, net trade likely contributed negatively to GDP growth against the backdrop of stronger import-intensive domestic demand. The public capex slump has been compensated with private capex, on the back of more entrenched business optimism, stronger firm profits as well as banking industry lending. The economic activity also had a positive impact on the labor market.

Serbian recovery picked up significantly in 2016, reporting a 2.7% GDP growth as a result of base effects, private and public consumption, private investments and stronger exports. Following three years of decline, private consumption was driven by higher real wages, employment growth and improved expectations. Despite the expected slowdown of the main trading partners, exports benefit from the ongoing state-subsidized investments in tradable sectors, which are increasingly important as they compensate for lower car exports lacking new models as well as soaring public capex.

In **Bosnia and Herzegovina**, GDP growth likely slowed to about 2.4% in 2016 as political tension and delays in the IMF disbursements had a negative impact on sentiment, investments as well as foreign direct investments. Private consumption is nevertheless supported by stronger employment and remittances, as well as persistent deflationary pressures increasing purchasing power.

Montenegro likely saw a slowdown in GDP growth to 2.6% in 2016 owing to a sharp slowdown in public capex and volatile manufacturing exports despite a good tourist season. Negative net trade contribution is further driven by strong import needs related to construction works and infrastructure development, including hotel, roads and power utilities.

3. Significant events in the 2016 financial year

3.1. The new Addiko Bank brand

Following the 2015 privatization, with the new ownership structure in place and in line with the new business strategy, Addiko Group decided to start future business operations under the new Addiko Bank brand and new visual identity.

Rebranding was one of the key strategic projects for the Group in 2016. It was a clear and strong signal that the Group has changed and will continue to change into the right direction: the Group not only changed its name and logo but made a comprehensive change for the better by implementing higher business standards and introducing more efficient banking operations.

The rebranding was conducted in two phases, with the new brand launched on July 11 in Austria, Croatia, Slovenia, Serbia, and Montenegro, while the process was concluded with the rebranding of both subsidiary banks in Bosnia and Herzegovina on October 31.

The goal of the rebranding was to create a credible, relevant and distinctive new brand that encompasses the Group's corporate and business values. The Addiko Bank brand at the same time symbolizes the Group's efforts in building a new, modern bank, with the aim of providing straightforward banking to its customers. Focusing on essentials, delivering on efficiency and communicating simplicity are the foundations on which the Group's operations are now based.

3.2. Changes to the Management and Supervisory Board

The appointment of Razvan Munteanu as Chief Retail Banking Officer on January 1, 2016 and Christian Kubitschek as Chief Financial Officer (CFO) on April 16, 2016 completes the transformation of the Group Executive Board team initiated in 2015. Johannes Proksch, who served as Group CFO for the past several years, assumed the responsibility of Chief Transformation Officer (CTO) as of the same date.

Saša Nedić, Workers' Council representative within the Supervisory Board since autumn 2015, resigned on May 9, 2016.

3.3. Relocation to rightsized headquarters

In April 2016 Addiko Bank AG moved the Group headquarter and registration from Klagenfurt to Vienna into a headquarter reflecting its new strategy, focus on essentials, efficient and simple communication. The headquarter in Vienna uses significantly less than half of the space that was occupied before, fosters collaboration across functions by combining a modern open space concept with state of the art technology to allow communication across the various locations. Headquarters and major operational sites in the other countries followed suite and will be continued in 2017 when total space consumption will be reduced from over 44000 sqm to less than 25000 sqm in a highly functional environment.

3.4. Reorganization & Restructuring

2016 was the year of a major restructuring and rightsizing, which was succesfully concluded with a net cost saving of EUR 24 million. This prepared the basis for Addiko Group to become a strong and profitable core bank operation. An integral part of the Group's transformation process was a systematic review of the entire organization at all levels, with the goal of establishing a lean, efficient, more agile and integrated organization. Several initiatives have been started at Group and local subsidiary bank level in order to introduce a new business model which focuses on corporate strategic goals based on revenue growth, efficient end-to-end processes and prudent standardized risk management, all of which together embody Addiko Group's 'One Bank Approach'.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) ensuring better Group steering, realizing synergies and efficiencies and creating transparency across the Group. Additionally, the focus on branch profitability led to a rightsized network of now 202 branches. 2016 was also the year of successfully launching a new branch format, the Addiko Express branch in the BTC shopping center in Ljubljana, Slovenia.

Another important component of the transformation is the rightbalancing between using outsourced services and do-it-yourself. In 2016 a major deal was concluded with a global provider for IT infrastructure services, which will significantly improve the operational stability while at the same time realize significant synergies and cost savings.

The new TOM will ensure significant improvements in the core processes and all around efficient and faster operations. This required the alignment of the entire organization leading to the establishment of designated shared services, central steering and local execution functions, with several Group functions moving to subsidiary banks to utilize synergies, enable greater cohesion, and ultimately ensure a higher level of service quality within the entire Addiko Bank organization, and to the Group's clients.

3.5. Launch of Digital Strategy

Addiko Group established its group Digital Competence Center (DCC) in Belgrade, Serbia. The DCC is build on a very modern IT architecture leveraging a commone middleware, the Addiko Integration Layer (AIL), build on an open API architecture and faciliting easy integration of third party provided solutions. The common mobile and e-banking solution, which also leverages features provided by some Fintech companies, was already successfully launched in four of the five countries for retail customer, received a prize in Serbia shortly after the launch as the best mobile banking solution and will be rolled out in all markets and subsequently for SME and corporate customers.

3.6. Swiss Franc loan conversion

The year 2016 again saw the implementation of several measures concerning past lending indexed in Swiss Franc which impacted local economies, customers and Addiko Group subsidiary bank operations. The Group took appropriate measures to protect its interests and those of its shareholders with regards to the retroactive laws implemented in Croatia and Montenegro in 2015. Therefore, the Swiss Franc loan conversion in 2016 concerned primarily Bosnia and Herzegovina with the Group providing a responsible, voluntary offer that eased the financial burden of all its private individual clients with outstanding Swiss Franc loans. The attractiveness of the bank's offer is reflected by more than three quarter of the clients in Bosnia and Herzegovina having accepted it.

3.7. Focus on retail and SME business

A new customer segmentation was succesfully completed in 2016 and allows the business to focus on its core client portfolio of retail, SME and local corporate customers. The growth in this portfolio is already significant and the pruning of the portfolio, especially in the public sector, is almost completed.

3.8. Sale and wind-down of leasing business

In line with the strategy to focus the business, the leasing activities in Slovenia could be sussessfully sold. Further, the sale of the remaining small portfolio of leasing activites in Croatia and the wind-down of the leasing company in Bosnia and Herzegovina is almost completed.

3.9. Data Integrity Program

In the fiscal year 2016 a task force was initiated with the aim to incease the data quality as well as to implement a uniform reporting structure within the whole Group.

Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in the whole Group. Ultimately this will lead to faster, more efficient and more consistent steering both at holding and individual subsidiary level.

4. Economic development of the Group

4.1. Overview

In the 2016 financial year, Addiko Group managed a difficult start with operational implementation of the Swiss Franc conversion law in Croatia and Montenegro and the voluntary conversion in Bosnia and Herzegovina. In addition a process aimed to transfer back to the previous owner non-performing assets in amount of EUR 220.1 million was concluded, resulting in a significant improvement of the asset quality of the Group.

The Group has further developed a new Target Operating Model in order to streamline processes and to improve overall efficiency. Supported by the execution of the restructuring program and effective cost management, the operational cost base has been reduced significantly.

With the successful launch of the new brand, Addiko Bank is recognized as a reliable, credible and competitive player in its region. Following its strategy, the Group has changed its business mix towards consumer lending as well as focus on small and medium-sized corporate clients.

A strengthening of the funding base with a focus on gathering of primary funds has been achieved resulting in a loan-to-deposit ratio of on average 84.1%. The liquidity buffer in the Holding further increased as a consequence, supported by increased deposits in the network entities and by entering the German deposit market allowing to build further excess liquidity aimed to prematurely repay all outstanding loans to the previous owner.

The non-performing loan ratio has fallen below 10% driven by a final portfolio transfer to the previous owner as part of a settlement in March but also due to improved collection, workout processes as well as a focused prudent risk taking and state-of-the-art risk management.

In summary the Group recorded an operational loss of EUR -37.5 million (2015: EUR -71.1 million) not reflecting one-off effects in the amount of EUR 13.6 million (2015: EUR -604.1 million). The Group's result for 2016 after tax therefore amounts to EUR -23.9 million (EUR -675.2 million). The operational loss 2016 is a consequence of a further reduction in the loan portfolio and the persistently low yield environment, partially mitigated by cost reduction initiatives started in 2015 and improved new business margins. This lead to a break-even of two large subsidiaries, Slovenia and Croatia. Towards the end of the year 2016 the contraction of the loan book stopped. Supported by the optimized cost base and ongoing repricing initiatives, Addiko is laying the ground for reaching break-even in 2017 as a Group.

4.2. Development of the result

The Group's **net interest income** declined to EUR 158.8 million (EUR 180.2 million), mainly due to the further reduction of the loan book influenced by the transfer of non-performing assets to the previous owner performed in the first quarter in 2016 and the strategic reduction in Public business accompanied by negative impacts from the low interest rate environment. The development was partially compensated by lowering the funding costs especially through the reduction of deposit interest rates and the successful turnaround in Retail with a dynamic growth in consumer lending at higher margins. The positive impact from these two measures was already visible in the last quarter 2016 and will be visible in its entirety in the financial year 2017.

In addition to the above, the net interest income was influenced by the issuance of subordinated capital at the end of the first quarter of 2016, which generated interest expenses of EUR -6.9 million.

Net fee and commission income decreased slightly to EUR +50.0 million (EUR +52.1 million), mainly due to currently lower income from card business and payment transactions as well as a consequence of the reduced loan book. Initiatives to increase net commission income have already been launched — this will be the key for improving operational performance in 2017.

The **result from trading** increased from EUR -15.5 million in the previous year (mainly losses from Swiss Franc devaluation) to EUR +11.0 million. In 2016, the development is mainly driven by F/X business with clients and a positive impact from closing cross currency swaps in connection with Swiss Franc refinancing lines as part of a process concluded in the first quarter of 2016 aimed to transfer back non-performing assets to the previous owner.

The **result on financial assets and liabilities, not measured at fair value through P&L** amounted to EUR +9.3 million compared to EUR -7.4 million in the previous year's period. The positive result for the current year is mainly due to the sale of shares in equity instruments in June in Croatia (EUR +8.5million). The negative result from the previous year was mainly driven by changes in estimates regarding the repayment maturity of financial liabilities carried at amortized costs, which determined a premature recognition in the income statement of the difference between the nominal amount and the carrying amount.

The **other operating result** (EUR -42.1 million) is also negative compared to EUR -310.1 million in 2015. The result in 2015 was significantly influenced by the Swiss Francs legislation in Croatia and Montenegro. The other operating result in 2016 is mainly driven by provisions for litigations and for pending legal issues with regard to the lending business in the amount of EUR -30.0 million. This position also includes expenses for banking taxes (EUR -3.6 million) and impairment of tangible assets in Croatia (EUR -3.3 million) in connection with the process of outsourcing the local data processing center. Further, expenses in amount of EUR -4,8 million in connection with the implementation of the Target Operating Model (TOM) throughout the Group and the impairment on the headquarter in Mostar (EUR -3.4 million) — due to the relocation to Sarajevo — also influence this position negatively. The result is partially compensated by the positive effect from the successful disposal of the leasing business in Slovenia.

Operating expenses compared to the previous year declined from EUR -237.2 million to EUR -212.4 million. The reduction of EUR 24.8 million is mainly due to other administrative expenses (EUR 17.3 million). The lower administrative expenses are based on cost reduction initiatives in all countries aimed to ensure a better Group steering, realizing synergies and efficiencies and creating transparency across the Group. A further continuation of this trend is planned in 2017. The positive trend in connection with costs savings is even more evident by taking into account the fact that significant additional costs for strategic projects have been recognized in 2016. A key focus is set on preparing the implementation of the Target Operating Model (TOM) with the goal of establishing a lean, efficient, more agile and integrated organization, after the successful execution of most of the initial restructuring plan in the first six months of 2016.

Depreciation and amortization of fixed assets decreased to EUR -19.5 million from EUR -24.4 million in the previous year. The decline is mainly due to the disposal of investment properties in relation to the process executed in the first quarter of 2016 aimed to transfer back to the previous owner non-performing and non-core assets.

In total, **operating income** amounted to EUR 187.0 million (2015: EUR -100.6 million) while operating expenses were EUR -212.4 million (2015: EUR -237.2 million). This determined an operating result in the amount of EUR -25.4 million compared to the previous year in the amount of EUR -337.9 million. The operating result excluding one-offs highlights the turnaround achieved in 2016 of EUR 33.2 million coming from a loss of EUR -28.2 million in 2015 to a profit of EUR 4.9 million in 2016.

The positive development regarding **risk provisions** in the amount of EUR +4.4 million (2015: EUR -318.1 million) is mainly driven by the positive restructuring of individual customers, in particular in the corporate segment. In addition improvements in relation to the watch loan process allowed taking mitigation actions proactively and thus reducing migration of customers into non-performing portfolio. Especially within the Retail Business Segment the increased focus on early and late collection processes were also leading to a significant improvement and consequently less risk provisions were needed.

Taxes on income amounted to EUR -2.9 million (2015: EUR -19.2 million). The negative effect in 2015 was mainly related to the write-off of deferred tax assets on taxable losses carried forward.

The **net income** after tax is therefore EUR -23.9 million compared to the previous-year result of EUR -675.2 million.

4.3. Development of the statement of financial position

The **total assets** of Addiko Group decreased by EUR -199.4 million (2.7%) from EUR 7,415.5 million to EUR 7,216.1 million. This reduction is mainly driven by the sale of a portfolio of non-performing customer receivables and non-operative real estate assets in an amount of EUR 220.1 million during the first quarter of 2016. In addition, the Group successfully disposed its leasing portfolio in Slovenia in an amount of EUR 81.2 million at the end of 2016. The disposal was driven by the new Group strategy to focus entirely on the core banking business.

Total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel 3 phased-in) decreased to EUR 4,704.9 million (EUR 5,315.4 million).

Cash and cash equivalents increased to EUR 1,878.2 million (EUR 1,319.0 million) and also the trading and investment securities held in the categories **financial assets held for trading** and **financial assets available for sale** increased to EUR 1,326.7 million (EUR 1,272.1 million), indicating a good liquidity position of the Group. The development of these two positions is due to preparations for premature repayment of refinancing lines to the former owner, which was executed on February 6, 2017.

Overall **net receivables** (gross receivables less credit risk provisions) decreased from EUR 4,262.8 million (2015) to EUR 3,779.9 million. Loans and receivables to credit institutions (net) decreased to EUR 49.4 million (EUR 106.8 million). Loans and receivables to customers (net) decreased to EUR 3,730.5 million (EUR 4,156.0 million). The reduction in net receivables to customers was mainly influenced by the Swiss Franc conversion law in Croatia (EUR ~150 million), a reduction of Public Finance, early repayments and the reclassification of the leasing portfolio in Croatia in the amount of EUR 29.0 million to the position non-current assets and disposal groups classified as held for sale. The development was partially compensated by the growth in the Retail segment, especially in the countries Slovenia, Serbia and Montenegro.

Tangible assets decreased by EUR 36.8 million from EUR 107.2 million in 2015 to EUR 70.4 million. This decline is mainly due to the decision to exit from the leasing business in Croatia, which triggered the termination performing new business and the reclassification of operating lease assets in the amount of EUR 8.4 million to the position non-current assets and disposal groups classified as held for sale.

Intangible assets increased to EUR 17.3 million compared to the previous year (EUR 12.4 million) due to the introduction of new e-banking applications and the investments in connection with the process of outsourcing the local data processing center.

Tax assets slightly decreased to EUR 2.6 million (EUR 3.1 million), whereby no deferred tax assets are recognized on existing taxable losses.

Other assets stood at EUR 18.9 million and thus slightly above the previous-year amount (EUR 16.5 million).

The position **non-current assets and disposals classified as held for sale** decreased from EUR 340.4 million to EUR 39.3 million during the fiscal year 2016. During the first quarter of 2016 the Group was able to successfully conclude the restructuring activities initiated in 2015 with the transfer of a portfolio of non-performing customer receivables and non-operative real estate assets in the amount of EUR 220.1 million. In addition, also the sale of the portfolio of lease receivables reclassified to this position in 2015 was concluded in December 2016. In 2016, an additional portfolio of finance and operating lease assets in the amount of EUR 37.4 million, which is being actively marketed, has been reclassified to this position.

On the liabilities' side, **financial liabilities held for trading** decreases by EUR 19.5 million from EUR 28.6 million to EUR 9.1 million in the reporting period, primarily as result of a decline in the market value of derivatives.

The position **financial liabilities measured at fair value** includes financial liabilities against the previous owner which were classified in this category in 2015 in connection with specific agreements made during the privatization process.

Deposits increased by EUR 457.1 million to EUR 4,751.6 million in the 2016 financial year (2015: EUR 4,294.5 million). This development is mainly driven by increased deposits from customers of EUR 4,435.6 million (2015: EUR 3,915.3 million) while deposits from banks have been reduced. The development of this position is reflecting the bank's ambition to become self-funded in the near future.

Provisions decreased from EUR 319.2 million in the previous year to EUR 107.8 million in 2016. In 2015, the provisions were strongly influenced by the conversion of customer loans (Swiss Francs to Euro) in Croatia and Montenegro, which were utilized in 2016.

The positive development in **equity** of EUR 242.1 million to EUR 994.7 million (2015: EUR 752.6 million) was primarily due to the shareholder contribution in the amount of EUR 265.0 million which took place in the first quarter of 2016 in connection with specific agreements made during the privatization process between the current and the previous owner.

As of 2014, Addiko Group has calculated its consolidated **regulatory capital** according to Basel 3. The calculation follows the requirements as defined by the Capital Requirements Regulation (CRR). As of December 31, 2016 the total capital ratio (Basel 3) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 21.9% (13.7%), well above the legal minimum requirement (8%).

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

With the 2015 privatization and 2016 rebranding concluded, and following the implementation of several strategic decisions concerning stability, active performance management and efficiency, Addiko Group is in a good position to leave its mark on the SEE markets.

A clean portfolio, a good funding base and a strong capital base puts Addiko Group in a favorable position to grow its business. The year 2015 was the year of the restructuring in which first steps towards a future sustainable and positive development were made. The year 2016 was the year of returning to the market, with a clear focus on strategic business segments, on raising the efficiency of operations and reaffirming the Group as a strong and stable institution in all its markets. The year 2017 will be the year in which the turnaround will be visible throughout the Group.

With a clear business strategy, a simpler portfolio of essential products, improved loan book quality reflected in an NPL ratio of 9.2% and a coverage ratio of 67.2% (excl. collateral) as well as a total capital ratio of 21.9%, the Group has sound foundations for business development. It is also in a very good position to turn the renewed business growth into profitability.

Leveraging and aligning the business models was also one of the priorities in 2016. A new organization and segmentation was implemented both in the Retail and Corporate Business segments to allow a targeted coverage and dedicated products in line with the market trends and potentials. This will enable efficient operations and ensure that straightforward banking is delivered to the clients.

In 2016, the Retail Banking focus was on consumer lending and providing key banking products, offering faster and more convenient services for products relevant to the customers. Stronger sales management practices and standardized simpler products led to significantly higher volumes and more attractive margins. Through optimization of key processes, Addiko Group dedicated more time and resources to clients at the same time, demonstrating the substantial change initiated by the rebranding process.

New customer segmentation has been introduced to serve the customers better through adapted products and services reflecting their specific needs. Clients with a yearly turnover of up to EUR 0.5 million are managed under the Micro segment and are served by the Retail branch network. Clients with a higher turnover continue to be served by the Group's Corporate division, meaning that each Corporate customer is served by a dedicated relationship manager which results in better understanding of their needs and faster processes, and higher quality services to this customers segment. Corporate clients throughout Addiko Group have during 2016 been organized into four sub-segments; Small Business, Medium-Sized Business, Large Corporate and Public. Small and Medium-Sized Businesses together forming the new SME that represents the primary focus for the upcoming years with leaner credit processes and improved digital service offerings.

Addiko Group intends to continue investing in its operations, as well as developing core but modern products and services which directly serve everyday client needs. The main emphasis will be put on fostering synergies and coordination between the Group's banks, on making strides forward in terms of customer experience, digitization, increasing the functionality, and optimizing processes which are the key to modern banking.

The focus in 2017 will be on serving the real economy, growing the client base, increasing volumes, especially in Retail and SME, enhancing cross-selling, achieving operating excellence on all levels and generating long-term sustainable and profitable business, while at the same time diversifying the Group's funding sources and becoming completely self-funded.

5.2. Human Resources management

The Human Resources strategy underpins the cultural transformation and the Addiko Group strategy throughout building strong organizational foundations within the new Target Operating Model with central steering functions and Group shared services spread across the whole organization. At the same time by defining clear roles, accountabilities and simplified processes and utilizing and leveraging the shared capabilities the Group is building a platform for growing and developing the best talent in the business, and attracting, developing and retaining specialists and high performers to support future growth. Identifying, measuring, rewarding and recognizing high performance and talented employees, supported by an appropriate performance management framework is seen as essential in the Group's plans of becoming an employer of choice that will attract best talents in all markets and build an attractive place to work where the employees will develop their careers. All this will be supported with Human Resources developing tools focused on behaviors and values the Group wants to achieve throughout the organization.

In 2016, the primary focus of Human Resources initiatives was on raising the Group's business capabilities and by supporting the cultural transformation focusing on delivering straightforward banking towards our Retail and Corporate/SME clients. Simultaneously the new Addiko employer brand and recruitment program aimed at building a high performing organization through assessment and development activities was initiated. As well, comprehensive performance management system embedded into target based incentive and variable compensation schemes was launched.

Mainly as a result of the rightsizing program which was announced in December 2015, the number of active employees decreased from 3,756 FTEs in 2015 to 3,152 FTEs in 2016.

In the next period further consolidation of resources within the Group will be in focus, with implementation of the new Target Operating Model, which will enable Addiko Group to operate as 'One Bank across Six countries'.

6. Internal Control System for accounting procedures

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

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

The particular objectives with regard to Group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. In addition, it should ensure that no errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements, as such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

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

7. Other disclosures

Information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date as well as the risk report and information on the use of financial instruments are presented in the notes to the consolidated financial statements, since it is obligatory to provide this information in the notes pursuant to IFRS.

8. Research & Development

Addiko Bank AG does not conduct any R&D activities of its own.

9. Outlook

The year 2016 was a successful year of transformation besides mastering challenges related to the operational implementation of the Swiss Franc conversion laws in Croatia and Montenegro as well as Addiko Bank's voluntary offer in BiH.

Accompanied by a further economic recovery in the SEE region and as a consequence of continued restructuring efforts since its privatization in 2015, Addiko Group, on its path to profitability, aims to break even in 2017 based on all subsidiaries' positive contribution overcompensating the Holding's cost base.

This will be supported by the continued implementation of the new strategy and restructuring initiatives, particularly in the following areas:

- Further growth in consumer lending, building on the healthy development in 2016
- Tapping additional market potential via tailored offering for the Micro segment
- Further Corporate/ SME growth, building on strengthened relationships and revamped offering
- Additional cost reductions derived from outsourcing, nearshoring of IT and efficiency measures enabled via the “Six countries – One bank” approach
- Building on an enhanced distribution approach and digital competencies

Addiko Bank will return to an overall loan book growth in 2017 after the planned NPL reduction (via carve-outs to the previous owner) over the last years. We are convinced that Addiko Group will be able to tackle the challenges of our core markets and the banking industry backed by our core strengths i.e. our clear positioning and promise to our customers of offering straightforward banking, backed by prudent risk taking and a strong capital and funding position.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Dkfm. Ulrich Kissing
(Chairman)

Mag. Johannes Proksch

Dr. Christian Kubitschek

Dipl. Math. Markus Krause

Csongor Bulcsu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

Consolidated Financial Statements

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2016	1.1. - 31.12.2015
Net interest income	(26)	158.8	180.2
Net fee and commission income	(27)	50.0	52.1
Trading income	(28)	11.0	-15.5
Result from hedge accounting	(29)	0.1	0.1
Result on financial assets and liabilites not measured at FV through P&L	(30)	9.3	-7.4
Other operating result	(31)	-42.1	-310.1
Operating income		**187.0**	**-100.6**
Personnel expenses	(32)	-99.8	-102.5
Other administrative expenses	(33)	-93.1	-110.4
Depreciation	(34)	-19.5	-24.4
Operating expenses		**-212.4**	**-237.2**
Operating result		**-25.4**	**-337.9**
Impairment/ reversal of impairment on loans and receivables	(35)	4.4	-318.1
Result before tax		**-21.0**	**-655.9**
Taxes on income	(36)	-2.9	-19.2
Result after tax		**-23.9**	**-675.2**
thereof attributable to equity holders of parent		-23.9	-675.2
thereof attributable to non-controlling interests		0.0	0.0

Other comprehensive income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Profit or loss after tax for the year	**-23.9**	**-675.2**
Other comprehensive income	**0.4**	**9.5**
Items that will not be reclassified to profit or loss	**0.0**	**-0.1**
Actuarial gains or losses on defined benefit plans	0.0	-0.1
Items that may be reclassified to profit or loss	**0.4**	**9.6**
Foreign currency translation	1.0	1.6
Gains/losses of the current period	1.0	1.6
Reclassification amounts	0.0	0.0
Available-for-sale financial assets	-2.4	10.2
Gains/losses of the current period	9.1	10.1
Reclassification amounts	-11.5	0.1
Income tax relating to items that may be reclassified to profit or (-) loss	1.8	-2.2
Gains/losses of the current period	-0.3	-2.2
Reclassification amounts	2.0	0.0
Total comprehensive income for the year	**-23.6**	**-665.7**
thereof attributable to equity holders of parent	-23.6	-665.7
thereof attributable to non-controlling interests	0.0	0.0

II. Consolidated statement of financial position

EUR m

	Note	31.12.2016	31.12.2015
Assets			
Cash, cash balances at central banks and other demand deposits	(37)	1,878.2	1,319.0
Financial assets held for trading	(38)	17.4	10.8
Available-for-sale financial assets	(39)	1,309.3	1,261.3
Loans and receivables	(40)	3,779.9	4,262.8
Loans and advances to credit institutions		49.4	106.8
Loans and advances to customers		3,730.5	4,156.0
Held-to-maturity investments	(41)	82.6	81.9
Derivatives – Hedge accounting		0.1	0.1
Tangible assets	(42/44)	70.4	107.2
Intangible assets	(42/44))	17.3	12.4
Tax assets	(36)	2.6	3.1
Current tax assets		2.6	3.1
Deferred tax assets		0.0	0.0
Other assets	(45)	18.9	16.5
Non-current assets and disposal groups classified as held for sale	(46)	39.3	340.4
Total assets		**7,216.1**	**7,415.5**
Equity and liabilities			
Financial liabilities held for trading	(47)	9.1	28.6
Financial liabilities designated at fair value through profit or loss		25.0	25.0
Financial liabilities measured at amortized cost	(48)	6,040.4	6,232.5
Deposits of credit institutions		316.0	379.2
Deposits of customers		4,435.6	3,915.3
Debt securities issued		6.5	28.1
Other financial liabilities		1,282.2	1,909.8
Derivatives – Hedge accounting		6.9	18.4
Provisions	(46)	107.8	319.2
Tax liabilities	(36)	1.4	1.1
Current tax liabilities		1.0	0.0
Deferred tax liabilities		0.5	1.1
Other liabilities	(50)	28.1	31.9
Liabilities included in disposal groups classified as held for sale	(46)	2.7	6.1
Equity	(51)	994.7	752.6
thereof attributable to equity holders of parent		994.7	752.6
thereof attributable to non-controlling interests		0.0	0.0
Total equity and liabilities		**7,216.1**	**7,415.5**

III. Group statement of changes in equity

EUR m

	Sub-scribed	Additio-nal paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumula-tive results and other reserves	Equity holders of parent	Non-con-trolling interests	Total
Equity as at 1.1.2016	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-23.9	-23.9	0.0	-23.9
Other comprehensive income	0.0	0.0	-0.6	1.0	0.0	0.4	0.0	0.4
Total comprehensive income	0.0	0.0	-0.6	1.0	-24.0	-23.6	0.0	-23.6
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	-456,4	0.0	0.0	772.1	265.8	0.0	265.8
Equity as at 31.12.2016	**5.0**	**336,2**	**7.6**	**-21.1**	**667.0**	**994.7**	**0.0**	**994.7**

EUR m

	Sub-scribed	Additio-nal paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumula-tive results and other reserves	Equity holders of parent	Non-control-ling interests	Total
Equity as at 1.1.2015	**5.0**	**603.2**	**0.2**	**-23.7**	**644.1**	**1,228.9**	**0.0**	**1,228.9**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-675.2	-675.2	0.0	-675.2
Other comprehensive income	0.0	0.0	8.0	1.6	-0.1	9.5	0.0	9.5
Total comprehensive income	0.0	0.0	8.0	1.6	-675.3	-665.7	0.0	-665.7
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	189.4	0.0	0.0	0.0	189.4	0.0	189.4
Equity as at 31.12.2015	**5.0**	**792.6**	**8.2**	**-22.1**	**-31.2**	**752.6**	**0.0**	**752.6**

For further information about equity, please refer to note (51) Equity.

IV. Group statement of cash flows

For further information about the statement of cash flows, please refer to note (52) Statement of cash flows.

EUR m

	2016	2015
Profit or loss after tax for the year	**-23.9**	**-675.2**
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Result from the sale of subsidiaries	0.0	0.0
Depreciation and amortization of intangible assets, tangible assets and financial investments	28.2	42.2
thereof financial instruments	-0.3	0.7
thereof intangible and tangible assets	28.5	41.5
Change in risk provisions	-29.6	304.0
Change in provision	4.4	279.9
Gains (losses) from disposals of intangible assets, tangible assets and financial investments	-9.3	6.5
Financial investments	-9.0	6.7
Intangible and tangible assets	-0.3	-0.2
Subtotal	**-30.2**	**-42.6**
Changes in assets and liabilities arising from operating activities after corrections for non-cash items:		
Loans and advances to credit institutions and customers	692,9	380.4
Financial investments	-43,8	-157.8
Trading assets	-6.6	-1.8
Other assets	21.5	27.2
Financial liabilities measured at amortized cost	73.7	-254.6
Trading liabilities	-19.5	20.9
Provisions	-216.7	-1.4
Other liabilities from operating activities	-16.9	-21.0
Cash flows from operating activities	**454.1**	**-50,8**
Proceeds from the sale of:	95.1	14.9
Financial investments and participations	84.5	2.6
Tangible assets, investment properties, operating lease assets and intangible assets	10.6	12.3
Payments for purchases of:	-20.9	-55.0
Financial investments and participations	-0.7	-20.6
Tangible assets, investment properties, operating lease assets and intangible assets	-20.2	-34.4
Other changes	30.4	25.6
Cash flows from investing activities	**104.6**	**-14.5**
Capital contributions / disbursements	0.0	0.0
Other changes in equity	0.0	0.0
Dividends paid	0.0	0.0
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non-controlling interests	0.0	0.0
Cash flows from financing activities	**0.0**	**0.0**

	2016	2015
Cash flows for taxes, dividends and interests	**155.9**	**161.3**
Payments for taxes on income	0.0	-1.0
Payments for interests	-51.5	-75.1
Payments for dividends	0.0	0.0
Dividends received	0.1	0.0
Interests received	207.4	237.4

Payments for interest paid as well as interest received is classified as operating activities. Dividends received are classified as investing activities.

Cash and cash equivalents at end of previous period (1.1.)	**1,319.0**	**1,382.9**
Cash flows from operating activities	454,1	-50,8
Cash flows from investing activities	104,6	-14,5
Cash flows from financing activities	0.0	0.0
Effect of exchange rate changes	0,5	1.4
Cash and cash equivalents at end of period (31.12.)	**1,878.3**	**1,319.0**

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The capital injection in the amount of EUR 265.0 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG on 10 March 2016 is the result of a debt waiver of AI Lake (Luxembourg) S.à r.l. against the previous mother company, and is therefore not treated as a capital contribution.

In the position "Proceeds from the sale of financial investements and participations" the effect of the successful sale of the leasing business in Slovenia is presented.

V. Notes to the consolidated financial statements

Company

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

Addiko Bank consists of six banks in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, focusing its business primarily on retail as well as small and medium-sized companies while also maintaining a strong foothold in local corporations.

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

Group accounting policies

(1) Accounting principles

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

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (76) Maturities pursuant to IAS 1.

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

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

On February 22, 2017, the Executive Board of Addiko Bank AG approved the consolidated financial statements as at December 31, 2016 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at December 31, 2016.

(2) New standards and amendments adopted by the Group

The following new and/or amended standards and interpretations pursuant to IFRS/IAS issued by the IASB and adopted by the EU have been adopted – if applicable - by the Addiko Group for the first time in 2016:

Standard	Description		Effective for financial year
IFRS 11	Joint Arrangements	Acquisitions of interests in joint operations	2016
IAS 16 and IAS 41	Property, Plant and Equipment and Agriculture	Agriculture	2016
IAS 16 and IAS 38	Property, Plant and Equipment and Intangible Assets	Methods of depreciation and amortisation	2016
Collection of standards	IFRS September 2014 (Improvements 2012-2014)	Annual improvements IFRS 5, IFRS 7, IAS 19, IAS 34	2016
IAS 1	Presentation of Financial Statements	Disclosure initative	2016
IAS 27	Separate Financial Statements	Equity method as accounting option	2016
IFRS 10, IFRS 12 und IAS 28	Consolidated Financial Statement, Disclosure of Interests in Other Entities and Investements in Associates and Joint Ventures	Applying consolidation exceptions	2016

The amendment to **IFRS 11** clarifies the accounting for acquisitions of interests in a joint operation if the operation constitutes a business. The acquirers of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, are required to apply all of the principles on business combinations accounting laid down in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

The amendments to **IAS 16 and IAS 41** relate to "Bearer Plants", bringing them into the scope of IAS 16. This means they can be accounted for in the same way as property, plant and equipment.

The amended IAS **16 and IAS 38** clarify acceptable amortization and depreciation methods. Guidelines are provided regarding methods that can be used for the depreciation of property, plant and equipment and the amortization of intangible assets. They also specifically deal with revenue-based amortization and depreciation methods.

The collection **of improvements to standards (IFRS September 2014 — Improvements 2012-2014)** includes amendments to the following standards: IFRS 5 "Assets Held for Sale" includes additional guidance for cases in which an entity resolves to distribute an asset to shareholders as a dividend in kind, IFRS 7 "Financial Instruments: Disclosures" clarifies if and when a servicing contract concluded on a portfolio of disposed financial assets represents a continuing involvement, IAS 19 "Employee Benefits" is supplemented by a clarification on required currency consistency with the plan commitment as regards the discount rate, IAS 34 "Interim Financial Reporting" includes the stipulation that, in addition to the disclosure of material events and transactions, supplementary selected disclosures need to be included in the notes to the interim financial statements.

The amendments to **IAS 1** are intended to put a greater emphasis on the concept of materiality. The objective is to filter out information that is not material in IFRS financial statements and promote the disclosure of relevant information. It is clarified that materiality applies to all parts of IFRS financial statements, particularly to the notes. Information which is not material need not be presented, even if a certain disclosure is specifically required by a standard. Furthermore, material information should not be obscured by aggregating immaterial information. Moreover, it is permissible to include additional subtotals in the statement of financial position and the statement of comprehensive income if this is relevant to the understanding of the assets and liabilities, the financial situation and the results of operations. According to a further clarification, an entity should state its share in other comprehensive income of associates or joint ventures which are accounted for using the equity method in a separate item based on whether the share will be subsequently reclassified to profit or loss.

The amendments to **IAS 27** reinstate the application of the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor.

The amendments to **IFRS 10, IAS 28 and IAS 28** clarify the recognition of gains and losses on transactions with associates or joint ventures. For transactions with an associate or joint venture, the extent to which gains and losses are recognized depends on whether the assets that are sold or contributed constitute a business.

Adopting the new standards did not result in any material changes to the consolidated financial statements.

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

Standard	Description		Effective for financial year
IFRS 9	Financial instruments	Accounting for financial instruments	2018
IFRS 15	Revenue from Contracts with Costumers	Recognising revenue	2018

On July 24, 2014, the IASB published the final standard IFRS 9 Financial Instruments, replacing IAS 39. The new standard was adopted by the European Union in November 2016 and includes amended requirements for classification and measurement of financial assets as well as a new impairment model which now takes into account expected losses in the calculation of risk provisions. Furthermore, the final IFRS 9 standard also includes the new rules on hedge accounting already published in November 2013. The standard is effective for financial years beginning on or after January 1, 2018. Early adoption is permitted.

With regard to classification of financial assets, the provisions of IFRS 9 foresee the following two criteria:

- the business model used to manage financial assets,
- the cash flow characteristics on which a financial instrument is based.

Measurement “at amortized cost” is only permissible if the only cash flows in connection with the financial instrument show the characteristics of interest and principal payments and if, moreover, the financial instrument is held in a business model with the sole objective to collect contractual cash flows. Measurement “at fair value through other comprehensive income” is only applied if the financial instrument is associated exclusively with cash flows that are payments of principal and interest in nature, and if furthermore the financial instrument is held within a business model whose objective is to generate income either by contractual cash flows or by selling financial instruments. According to IFRS 9, financial assets that cannot be assigned to this category must be measured “at fair value through profit or loss”. Equity instruments not held for trading can be measured “at fair value through other comprehensive income”. The decision is to be taken upon initial recognition and cannot be undone. The classification and measurement of financial liabilities under IFRS 9 does not deviate from the provisions of IAS 39 and thus remains unchanged. Changes to the fair value of liabilities resulting from changes in own credit risk are recognized in other comprehensive income.

The impairment model is being changed to a model that requires the entity to already record a risk provision equal to the credit defaults expected within the next twelve months when financial assets are first recognized. If the credit risk increases significantly, a loss allowance for lifetime expected loss is to be recognized. Additionally, IFRS 9 includes new guidance on the recognition of losses resulting from amendments to the contractual conditions of financial assets.

IFRS 9 also contains new rules for hedge accounting with the objective of harmonizing accounting with risk management. Some of the restrictions in the current rules have generally been removed here, so that a larger selection of hedging instruments and hedged underlying transactions becomes available for hedge accounting.

During the financial year 2016, efforts to further develop the preparation of a core concept as well as the corresponding implementation were intensified. Among others, this includes the Group-wide launch of the first financial impact analyses (with regard to classification, measurement and impairment) which is continued in 2017. From a current point of view, the initial expectation that the new standard would significantly impact the recognition and measurement of financial instruments can be confirmed.

Based on the first Group-wide analyses with regard to the classification of financial instruments and measurement under the provisions of IFRS 9, the Addiko Group expects the following:

- Loans and advances to credit institutions and customers which are classified as such under IAS 39 are mainly measured “at amortized cost” pursuant to IFRS 9, and
- Assets held for sale are primarily recognized “at amortized cost” or “under equity in other comprehensive income”.

From a current point of view, a reliable estimate cannot be made with regard to the quantitative impact on the presentation of the Addiko Group’s financial position, financial performance and cash flows as well as its regulatory capital, as the Group-wide analyses have not been completed.

As regards the structure of the consolidated financial statements, the Addiko Group expects that the application of the new standard will require significant adjustment measures. Such adjustments are based on the new reporting and disclosure requirements under IFRS 7 resulting from the new IFRS 9 standard. Furthermore, significant adjustments with regard to regulatory requirements (particularly FINREP) are expected, as they are being considered by the national regulatory authority in connection with the first-time adoption of IFRS 9, aiming to achieve better supervision of the national banking industry.

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

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

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

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

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

Standard	Description		Effective for financial year
IFRS 16	Leases	Recognition, presentation and disclosure of leases	2019
IFRS 14	Regulatory Deferral Accounts	First-time adopters of IFRS	2019
IAS 12	Amended Standard Income Taxes	Income Taxes – Recognition of deffered tax assets of unrealised losses	2017
IAS 7	Amended Standard – Statement of Cash flows	Changes on IAS 7 Cash flow statement	2017
IFRS 15	Amended Standard - Revenue from Contracts with Customers	Clarifications of IFRS 15 Revenue from Contracts with Customers “	2018
IFRS 2	Amended Standard Share based Payment	Clarification of classification and measurement of share-based payment transactions	2018

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

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

As the Addiko Group primarily acts as lessor, IFRS 16 will not have a material impact on accounting. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Group's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognized. For contracts under which the Addiko Group acts as lessee a right-of-use asset and at the same time a lease liability will be recognized in the statement of financial position. From a current point of view, however, a reliable estimate as to the quantitative impact on the financial position, financial performance and cash flows as well as on the regulatory capital of the Addiko Group as lessor cannot yet be made, as the analyses are still being carried out.

IFRS 16 will be effective from January 1, 2019, superseding the previous standard IAS 17 "Leases". Early adoption is permitted. However, the standard has not yet been adopted by the EU.

The amended **IFRS 14** permits first-time adopters of IFRS who have recognized regulatory deferral accounts under their previous accounting system to continue doing so after the transition to IFRS. This standard is an interim solution until the IASB concludes its longer-term fundamental project on rate-regulated activities.

In January 2016, the IASB published final amendments to **IAS 12** "Income Taxes — Recognition of Deferred Tax Assets for Unrealized Losses". It is the IASB's response to a diversity in accounting practices in the recognition of deferred tax assets from assets measured at fair value. The IASB has concluded that this is mainly attributable to uncertainties as regards the application of some of the principles in IAS 12. The now published clarifying amendments are summarized as follows:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes generally give rise to deductible temporary differences regardless of whether the holder expects to hold the debt instrument to maturity and thus recover its full carrying amount or if he intends to sell the debt instrument in the meantime.
- The carrying amount of an asset does not limit the estimate of probable future taxable profits.
- Estimates for future taxable profits are to exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset not just for itself but also in combination with other deferred tax assets of the same (permissible) type.

Subject to adoption by the EU, the changes are effective for reporting periods beginning on or after January 1, 2017; early adoption is permitted. As transitional relief, a first-time adopter may recognize the change in the opening equity of the earliest comparative period as a lump sum in retained earnings without allocating the change between retained earnings and other components of equity.

On January 29, 2016, the IASB published amendments to **IAS 7** "Statement of Cash Flows". The amendments include clarifications with regard to the so-called Disclosure Initiative of the IASB and are intended to improve information provided to users of financial statements in connection with an entity's financing activities in the statement of cash flows. The amendments are effective for reporting periods beginning on or after January 1, 2017. Subject to EU adoption — which is still pending — early adoption is permitted. Since the amendments were published less than a year before the effective date, entities are not required to state comparable figures upon first-time adoption.

In April 2016, the IASB published final clarifications to IFRS 15 “Revenue from Contracts with Customers”. The amendments are effective for reporting periods beginning on or after January 1, 2018 (same effective date as for IFRS 15). The amendments resulting from the clarification of IFRS 15 address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide transitional relief for modified contracts and completed contracts.

In June 2016, the IASB published final amendments to **IFRS 2** “Share-based Payment” that clarify the classification and measurement of share-based payment transactions. The clarifications relate to the following topics:

- Accounting for cash-settled share-based payment transactions that include a performance condition
- Classification of share-based payment transactions with net settlement features, and
- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendments are effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. While the IASB provides relief provisions for first-time adopters, a retrospective application pursuant to the general rules of IAS 8 is also allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

In September 2016, the IASB published amendments to IFRS 4 “Insurance Contracts” under the title “Applying IFRS 9 ’Financial Instruments’ with IFRS 4 ’Insurance Contracts’”. The amendments are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts standard (IFRS 17).

The IASB initially intended to synchronize the effective date of IFRS 9 and IFRS 17 and align both standard texts. Had this been successful, there would have been no need for the now presented amendment to IFRS 4, which was originally intended to be an interim standard. However, since such an alignment was not successful, users suggested to delay the effective date of IFRS 9 for insurance activities and to align the effective date of IFRS 9 for such activities with the effective date of the new insurance contracts standard.

Except for the application of IFRS 16, no material changes to the consolidated financial statements are expected..

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

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

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

For further information on credit risk provisioning methodology, reference is made to loans and receivables in note (9) Financial instruments: recognition and measurement (IAS 39) as well as to the Risk Report under note (59) Development of provisions.

Fair value of financial instruments
For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see note (9) Financial instruments: recognition and measurement (IAS 39).

Deferred tax assets
Deferred tax assets on losses carried forward are only recognized when future tax profits that allow utilization appear likely. These estimates are based on the respective business plans which are generally prepared for a period of five years.

Defined benefit plans
The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (23.1) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (49) Provisions.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (49).

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

(4) Scope of consolidation

These consolidated financial statements comprise 1 fully consolidated Austrian entity (2015: 1) – including Addiko Bank AG – and 9 (2015: 11) fully consolidated foreign entities. Further information is shown under note (98) Scope of consolidation:

	31.12.2016 Fully consolidated	31.12.2015 Fully consolidated
Start of period (1.1.)	12	12
Newly included in period under review	0	0
Excluded in period under review	-2	0
End of period (31.12.)	10	12
therof Austian companies	1	1
therof foreign companies	9	11

At the beginning of the financial year 2016, the following entities were no longer included in the scope of consolidation:

Subsidiary	Registered offices	Capital share in %	consolidation Method	Reason
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	99,99%	Fully consolidated	Insignificant
Hypo-Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100,0%	Fully consolidated	Insignificant

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

(5) Consolidation methods

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

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

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

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

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

(6) Foreign currency translation

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

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

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

Exchange differences attributable to non-controlling interests are shown under non-controlling interests.

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

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

Foreign currency translation Rates in untis per EUR	Closing date 31.12.2016	Average 2016	Closing date 31.12.2015	Average 2015
Bosnian mark (BAM)	1.95580	1.95580	1.95580	1.95580
Croation Kuna (HRK)	7.55970	7.54410	7.63800	7.62110
Serbian dinar (RSD)	123.47230	123.07080	121.62610	120.77860

(7) Adjustment of previous-year figures

As at December 31, 2016, reclassifications were made in the income statement in order to achieve a more meaningful presentation of the individual items in the income statement. Previous-year figures were adjusted accordingly.

As at December 31, 2016, operating income includes the new item “gains or losses on financial assets and liabilities, not measured at fair value through profit or loss”, which summarizes the original item “gains or losses on financial assets and liabilities, not measured at fair value through profit or loss” as well as the items “impairment or reversal of impairment on available-for-sale financial assets” and “impairment or reversal of impairment on held-to-maturity investments”. These items are thus no longer stated separately in the income statement.

As a result of the reclassification of “impairment or reversal of impairment on available-for-sale financial assets” and “impairment or reversal of impairment on held-to-maturity investments” from the item “impairment or reversal of impairment on financial assets”, this item now exclusively includes impairment or reversal of impairment on loans and receivables as well as of commitments and guarantees issued and was renamed “impairment or reversal of impairment on loans and receivables”.

A further reclassification concerns the item "impairment or reversal of impairment on non-financial assets". This item is now presented under the other operating result instead of being shown as a separate item in the income statement.

None of the above-stated adjustments, however, have an impact on the Group's result, the consolidated statement of financial position, the Group statement of changes in equity or the Group statement of cash flows. The respective disclosures in the notes have also been adjusted in line with the adjustments in the income statement.

EUR m

	1.1. - 31.12.2015	Re-classified	Adjusted 1.1. - 31.12.2015
Net Interest Income	180.2		180.2
Net fee and commission income	52.1		52.1
Result from trading	-15.5		-15.5
Result from hedge accounting	0.1		0.1
Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss	-6.7		-6.7
Impairment or reversal of impairment on available-for-sale financial assets		-0.7	-0.7
Result on financial assets and liabilities not measured at FV through P&L			-7.4
Other operating income	15.5		15.5
Other operating expenses	-260.1		-260.1
Other provisions	-49.6		-49.6
Impairment or reversal of impairment on non- financial assets		-16.2	-16.2
Gains or losses on derecognition of non financial assets, net	0.2		0.2
Other operating result	-293.9		-310.1
Operating income	**-83.8**		**-100.6**
Personnel expenses	-102.5		-102.5
Other administrative expenses	-110.4		-110.4
Depreciation and amortization	-24.4		-24.4
Operating expenses	**-237.2**		**-237.2**
Operating result	**-321.0**		**-337.9**
Impairment or reversal of impairment on financial assets	-318.8		-318.1
Impairment or reversal of impairment on available-for-sale financial assets	-0.7	0.7	0.0
Loans and receivables	-318.1		-318.1
Impairment or reversal of impairment of non-financial assets	-16.2	16.2	0.0
Result before tax	**-655.9**		**-655.9**
Taxes on income	-19.2		-19.2
Result after tax	**-675.2**		**-675.2**
thereof attributable to equity holders of parent	-675.2		-675.2
thereof attributable to non-controlling interests	0.0		0.0

(8) Income/expenses

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit and loss

a. Financial assets held for trading

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

This item also includes positive fair values of derivatives not classified as hedging instruments. Therefore, both banking book derivatives and derivatives held for trading are reported under assets held for trading. On the other hand, derivatives that meet the requirements of IAS 39 for hedge accounting are reported under “Derivatives – hedge accounting”.

Financial assets held for trading are measured at fair value, which corresponds to the market price for listed products. Measurement techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not traded on an active market.

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

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

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

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

Designation based on the first two characteristics results in an overall improvement in the presentation of the net assets and results of operations.

This designation option cannot, however, be used for equity instruments that have no quoted market price and whose fair value cannot be determined reliably.

Designating financial instruments in this category makes it possible to represent economic hedging relationships without meeting the strict requirements for hedge accounting.

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

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

Held-to-maturity investments

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

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

Loans and receivables

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

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

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

Specific provisions for impairment losses are created as soon as there are objective indications that a loan may not be recoverable, with the amount of the provision reflecting the amount of the expected loss. Provisions for 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

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

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

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

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

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

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

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognized are not included in the calculation of portfolio provisions for impairment losses. Receivables for which no specific provisions for impairment losses were determined are remeasured using the portfolio risk provisions approach based on the 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 “gains or losses from financial assets and liabilities, not measured at fair value through profit or loss”. Reversals of impairment of debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the income statement but included in other comprehensive income (OCI). Gains and losses on disposal are also included in the item “gains or losses on financial assets and liabilities, not measured at fair value through profit or loss”. Foreign currency translation results are included in exchange differences of the result from trading for debt instruments, and in other comprehensive income (OCI) for equity instruments.

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

For investments in equity instruments which are carried at fair value, a significant reduction in the fair value below cost indicates impairment. A decrease in the fair value by more than 20% below original cost or a permanent reduction in the market value below historical cost over a period of more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognized as an expense in the income statement.

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

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

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

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

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

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

(10) Financial instruments: net gains and losses

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

(11) Classes of financial instruments according to IFRS 7

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

(12) Hedge accounting

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

Crucial prerequisites for the use of hedge accounting are the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedg-ing period, derivatives must be monitored continuously to ensure that they are effectively compensating for chang-es in the value of the underlying transaction (retrospective effectiveness). The ratio of changes in the value of the underlying and hedging transactions is required to be in the range of 80% to 125%. Once the hedging relationship is no longer effective or once the underlying transaction or hedging transaction no longer exists, it is discontinued.

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

(13) Leases

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

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

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

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

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

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

(14) Repurchase agreements

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

(15) Fiduciary transactions

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

(16) Financial guarantees

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

(17) Cash and Cash equivalents

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

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

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well (see note (13) Leases). Real estate acquired to generate returns is reported under investment properties.

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

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

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

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

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

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

(19) Intangible assets

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

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

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

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

(20) Tax assets and tax liabilities

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

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

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

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

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

(21) Other assets

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

Deferred assets are recognized at their nominal value.

This item also includes lease assets that have not been leased yet as well as objects no longer leased that will be utilized or leased again. They are measured at amortized cost less any impairment losses identified. Results of this measurement are reported in the statement of comprehensive income under the item “other operating result”.

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

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.

Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (46) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale.

(23) Provisions

23.1. Provisions for retirement benefits and similar obligations

The Addiko Group maintains both defined contribution and defined benefit plans.

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

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

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 1.5% as at December 31, 2016 (2015: 2.215%) and a salary increase of 3.0% p.a. (2015: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2008 P generation mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. As at December 31, 2016 the Serbian and Slovenian subsidiaries present the highest amount in provision. Serbia is calculation with an actuarial interest rate of 7.0% while Slovenia is using 1.5%. The fluctuation discounts amounts 0,0% in Serbia and Slovenia.

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

23.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending drawdowns on framework agreements or as a provision against liability assumed for customer transactions. Provisions are made both for individual cases and at portfolio level.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “impairment or reversal of impairment on loans and receivables”.

23.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the Company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.

For disclosure of restructuring expenses, see note (31) Other operating result.

23.4. Other provisions

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

(24) Other liabilities

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

(25) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.
Subscribed capital represents the amounts paid in by shareholders in accordance with the articles of association. The cumulative gain or loss includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reservers include the statutory reserves and the risk reserve.
The available-for-sale reserve includes the measurement results – after taking deferred taxes into account – for the financial assets classified as available for sale.

Notes to the income statement

(26) Net interest income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Interest income	**238.1**	**284.6**
Financial assets held for trading	5.0	6.0
Available-for-sale financial assets	14.4	12.3
Loans and receivables	211.0	252.2
Held-to-maturity investments	4.0	4.1
Derivatives - Hedge accounting, interest rate risk	2.7	8.8
Other assets	1.0	1.3
Dividend income	**0.1**	**0.0**
Total	**238.2**	**284.7**
Interest expenses		
Financial liabilities held for trading	-5.2	-3.7
Financial liabilities measured at amortized cost	-69.9	-90.7
Derivatives - Hedge accounting, interest rate risk	-1.7	-9.6
Other liabilities	-2.6	-0.5
Total	**-79.4**	**-104.5**
Net interest income	**158.8**	**180.2**

Interest income includes unwinding proceeds of EUR 10.5 million (2015: EUR 19.1 million) and commissions similar to interest.

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

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Derivatives - Trading	**4.7**	**5.9**
Debt securities	**18.8**	**16.5**
Central banks	0.0	0.0
General governments	15.8	15.5
Credit institutions	1.9	0.4
Other financial corporations	0.3	0.1
Non-financial corporations	0.8	0.4
Loans and advances	**211.0**	**252.2**
Central banks	0.7	1.1
General governments	17.9	24.3
Credit institutions	0.5	2.2
Other financial corporations	1.4	1.5
Non-financial corporations	69.9	99.2
Households	120.6	123.9
Other assets	**1.0**	**1.3**
Derivatives - Hedge accounting, interest rate risk	**2.7**	**8.8**
Dividend income	**0.1**	**0.0**
Total	**238.2**	**284.7**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Derivatives - Trading	**-5.2**	**-3.8**
Deposits	**-54.2**	**-80.0**
Central banks	-0.3	-0.1
General governments	-1.1	-1.8
Credit institutions	-3.6	-5.6
Other financial corporations	-2.4	-8.6
Non-financial corporations	-6.1	-9.3
Households	-40.8	-54.5
Debt securities issued	**0.0**	**-0.2**
Debt securities issued	0.0	-0.2
Other financial liabilities	**-15.7**	**-10.4**
Derivatives - Hedge accounting, interest rate risk	**-1.7**	**-9.6**
Other liabilities	**-2.6**	**-0.5**
Total	**-79.4**	**-104.5**

* Previous-year figures adjusted: In 2015, interest expenses from other financial liabilities in the amount of EUR 10.4 million were reported as interest expenses from deposits of other financial corporations.

(27) Net fee and commission income

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Securities	0.3	0.7
Clearing and settlement	-0.3	-0.3
Asset management	0.1	0.1
Custody	3.0	2.9
Payment services	41.1	42.9
Lending business	9.4	10.3
Loan commitments granted and received	5.4	5.7
Financial guarantees granted and received	4.0	4.6
Other	-3.6	-4.4
Total	**50.0**	**52.1**

(28) Result from trading

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Exchange differences	1.5	-1.7
Gains or losses on financial assets and liabilities held for trading	9.4	-13.8
Total	**11.0**	**-15.5**

28.1. Gains or losses on financial assets and liabilities held for trading, net - by instrument

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Derivatives	9.2	-13.8
Debt securities	0.3	0.0
Total	**9.4**	**-13.8**

28.2. Gains or losses on financial assets and liabilities held for trading, net – by risk

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Interest rate instruments and related derivatives	-4.4	1.0
Foreign exchange trading and derivatives related to foreign exchange	13.6	-14.8
Other	0.3	0.0
Total	**9.4**	**-13.8**

(29) Result from hedge accounting

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

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Fair value changes of the hedging instrument [including discontinuation]	-1.9	-1.3
Fair value changes from underlying transaction hedged	2.1	1.3
Total	**0.1**	**0.1**

(30) Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	9.0	-6.7
Impairment or reversal of impairment on available for sale financial assets	0.3	-0.7
Total	**9.3**	**-7.4**

30.1. Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss

30.1.1. GAINS OR LOSSES – BY CATEGORY

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Available-for-sale financial assets	8.8	0.5
Loans and receivables	0.3	-0.1
Held-to-maturity investments	-0.1	-0.2
Financial liabilities measured at amortized cost	0.0	-6.8
Total	**9.0**	**-6.7**

30.1.2. GAINS OR LOSSES – BY INSTRUMENT

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Equity instruments	8.5	0.3
Debt securities	0.3	0.0
Loans and advances	0.3	-0.1
Other financial liabilities	0.0	-6.8
Total	**9.0**	**-6.7**

30.2. Impairment or reversal of impairment on available-for-sale financial assets

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Impairment	-0.3	-0.7
Reversal of impairment	0.6	0.0
Total	**0.3**	**-0.7**

(31) Other operating result

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Other operating income	29.6	15.7
Other operating expenses	-71.7	-325.8
Total	**-42.1**	**-310.1**
Result from investment properties	0.2	0.3
Result from operating lease assets	6.3	8.0
Restructuring expenses and income	-5.5	-18.5
Result from recognition and releases of other provisions	-26.5	-37.9
Result from derecognition of non-financial assets	0.3	0.2
Impairment or reversal of impairment on non-financial assets	-8.9	-16.2
Income from assest and disposal groups classified as held for sale	3.7	-11.7
Resolution fund and deposit protection	-10.6	-8.8
Bank levies and other taxes	-5.7	-0.1
Other	4.8	-225.5
Total	**-42.1**	**-310.1**

* Previous-year figures adjusted: In 2015, a result in the amount of EUR 11.7 million from assets and disposal groups classified as held for sale was reported under the item “result from recognition and releases of other provisions”. Furthermore, expenses related to the resolution fund and deposit protection in the amount of EUR 8.8 million were reported under the item “other”.

In the course of the ongoing restructuring programs already initiated in the previous year, the Addiko Group set up further provisions for restructuring measures in the financial year 2016. These provisions mainly comprise staff costs related to redundancy payments. Restructuring expenses/income include impairment in the amount of EUR 100 thousand on property, plant and equipment related to the restructuring measures (2015: EUR 1.1 million).
The item “result from recognition and releases of other provisions” contains the allocation of provisions for potential legal risks in connection with consumer protection acts in the amount of EUR 3.1 million (2015: EUR 9.8 million), as well as provisions for potential legal risks in connection with existing customer claims in the amount of EUR 19.5 million (2015: EUR 11.0 million).

The impairment on non-financial assets breaks down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Tangible assets	-8.8	-4.9
Investment properties	0.0	-3.8
Other intangible assets	-0.2	-7.4
Other assets	0.0	-0.1
Total	**-8.9**	**-16.2**

In the financial year 2016, mainly property, plant and equipment is affected by impairment losses. The main reasons for the recognition of impairment are the relocation of the Bosnia and Herzegovina headquarters from Mostar to Sarajevo as well as the outsourcing of IT services in Croatia.

The result from assets and disposal groups classified as held for sale amounts to EUR 3.7 million at the reporting date (2015: EUR 11.7 million). The item contains the expected losses in the amount of EUR 5.3 million from the disposal of a leasing portfolio which meets the criteria of non-current assets and disposal groups classified as held for sale at the reporting date. This is offset by a positive effect in the amount of EUR 9.2 million from the reversal of a provision which had been set up in the previous year for the expected losses from the disposal of the portfolio of the Slovenian leasing unit.

The item "bank levies and other taxes" includes a special payment for the stability fee in connection with the Austrian banking tax in the amount of EUR 3.6 million.

In the previous year, the item "other" mainly included expenses for risks in connection with the CHF conversion in Croatia and Montenegro in the amount of EUR 222.4 million.

(32) Personnel expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Wages and salaries	-62.6	-68.2
Social security	-23.5	-26.3
Voluntary social expenses	-0.5	-1.5
Other tax expenses depending on amount of wages/salaries	-3.6	-3.2
Expenses for retirement benefits	-0.2	-0.2
Expenses for severance payments	-0.9	-2.2
Variable payments	-10.1	0.0
Other personnel expenses	-1.4	-1.7
Release of other employee provisions	3.0	0.7
Total	**-99.8**	**-102.5**

(33) Other administrative expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Premises expenses (rent and other building expenses)	-21.0	-26.2
IT expense (other)	-28.7	-28.6
Office costs	-1.5	-2.3
Advertising costs	-4.9	-6.0
Communication expenses (phone, fax, internet etc.)	-6.2	-7.0
Legal and advisory costs	-14.6	-19.6
Other administrative expenses	-16.3	-20.7
Total	**-93.1**	**-110.4**

(34) Depreciation

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Tangible assets	-14.7	-18.0
Investment properties	-0.1	-0.5
Other intangible assets	-4.7	-5.9
Total	**-19.5**	**-24.4**

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

Impairment on loans and receivables breaks down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Additions	-99.0	-396.4
Reversal	125.8	73.3
Proceeds from loans and receivables previously written-off	4.3	8.1
Directly written-off	-26.7	-3.2
Total	**4.4**	**-318.1**

Impairment on loans and receivables includes credit risk provisions for transactions both included and not included in the statement of financial position. For detailed information on risk provisioning, see note (40) Loans and receivables.

(36) Taxes on income

36.1. Income tax expenses

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Current tax	-1.7	-1.1
Deferred tax	-1.3	-18.2
Total	**-2.9**	**-19.2**

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

EUR m

	31.12.2016	31.12.2015
Result before tax	**-21.0**	**-655.9**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	5.2	164.0
Tax effects		
from divergent foreign tax rates	-4.9	-39.2
from previous year	0.0	0.0
from foreign income and other tax-exempt income	1.5	0.0
from investment related tax relief and other reductions in tax burden	15.5	2.3
from non-tax deductible expenses	-8,9	-9.3
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-12,3	-137.2
from the change of deferred taxes on loss carry-forwards and temporary differences	1.4	0.1
from non-recognition of deferred taxes due to permanent differences	0.0	0.0
from other tax effects	-0.5	0.0
Actual income tax expenses (effective tax rate: -13.8% (2015: -2.9%)	**-2.9**	**-19.2**

36.2. Deferred tax assets/liabilities

In the financial year 2016, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

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

EUR m

	Deferred Tax (netted)	Income State-ment	2016 Other compre-hensive income (OCI)	Deferred Tax (netted)	Income Statem-ent	2015 Other compre-hensive income (OCI)
Provisions for loans and advances	0.0	-0.3	0.0	0.2	0.3	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.0	0.0	0.0	0.0	-1.4	0.0
Revaluations of AFS investments to fair value	-0.6	0.0	0.3	-0.8	0.0	-0.6
Impairment on AFS debt instruments	0.0	0.0	1.6	-1.5	-1.4	-1.5
Hedge accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	-3.3	0.0	0.1	0.1	0.0
Post-employment benefits (pensions and other retirements) and payments because of termination(e.g. Compensation)	0.0	0.0	0.0	0.0	-0.1	0.0
Post-employment benefits (pensions and other retirements)	0.0	0.0	0.0	0.0	-0.1	0.0
Deferred revenue fee income	0.0	-0.7	0.0	0.0	1.8	0.0
Other	0.0	-0.7	-0.1	1.0	-0.6	0.0
Tax losses carried forward	0.0	3.7	0.0	0.0	-16.7	0.0
Total deferred tax	**-0.6**	**-1.3**	**1.8**	**-1.1**	**-18.2**	**-2.2**

The total year-on-year change in deferred taxes in the consolidated financial statements is EUR 0.6 million. Of this, EUR -1.3 million is reflected in the current income statement as deferred tax expense, and an amount of EUR 1.8 million has a positive effect on other comprehensive income in equity. The remainder of EUR 0.1 million is due to foreign-currency exchange differences.

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

EUR m

	2016	2015
Balance at start of period (1.1.)	**-1.1**	**19.3**
Tax income/expense recognized in profit or loss	-1.3	-18.2
Tax income/expense recognized in OCI	1.8	-2.2
FX-difference	0.1	0.0
Deferred taxes acquired in change of scope and other changes	0.0	0.0
Balance at end of period (31.12.)	**-0.5**	**-1.1**

Deferred taxes are reported as follows in the statement of financial positions:

EUR m

	2016	2015
Deferred tax assets	0.0	0.0
Deferred tax liabilities	-0.5	-1.1
Deferred tax	**-0.5**	**-1.1**

As tax loss carry-forwards cannot be utilized by the respective Group companies, deferred tax assets in the amount of EUR 157.5 million (previous-year amount adjusted to EUR 157.7 million) on unused tax losses of EUR 944.7 million (previous-year amount adjusted to EUR 935.8 million) and deferred tax assets in the amount of EUR 2.9 million (2015: EUR 6.1 million) on deductible temporary differences of EUR 21.1 million (2015: EUR 43.0 million) were not recognized. Of the unused tax losses in the amount of EUR 944.7 million (previous-year amount adjusted to EUR 935.8 million), EUR 258.0 million (previous-year amount adjusted to EUR 235,3 million) can be carried forward without restrictions, EUR 664.0 million (previous-year amount adjusted to EUR 325.41 million) can be carried forward for a maximum of 4 years subject to restrictions, and EUR 22.7 million previous-year amount adjusted to EUR 375.1 million) can be carried forward for a maximum of 5 years subject to restrictions.

Due to the fact that the subsidiaries recorded a series of losses in the recent past, the criteria for recognizing deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax is only allowed if there is convincing substantive evidence that sufficient taxable profits will be available. Considering the uncertainty regarding the development of the macro-economic environment in which the Addiko Group is operating, deferred tax assets arising from tax losses carried forward as well as deferred tax assets arising from temporary differences have not been recognized in 2016 (2015: EUR 0.0 million).

Notes to the consolidated statement of financial position

(37) Cash, cash balances at central banks and other demand deposits

EUR m

	31.12.2016	31.12.2015
Cash	93.4	120.9
Cash balances at central banks	1,699.5	925.3
Other demand deposits	85.4	272.8
Total	**1,878.2**	**1,319.0**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 296.2 million (previous-year amount adjusted to EUR 347.7 million).

(38) Financial assets held for trading

EUR m

	31.12.2016	31.12.2015
Derivatives	3.7	9.7
Debt securities	13.7	1.1
General governments	13.7	1.1
Total	**17.4**	**10.8**

(39) Available-for-sale financial assets

EUR m

	31.12.2016	31.12.2015
Equity instruments	**17.7**	**22.2**
Debt securities	**1,291.6**	**1,239.2**
General governments	789.5	851.8
Credit institutions	400.9	318.1
Other financial corporations	18.6	8.5
Non-financial corporations	82.6	60.7
Total	**1,309.3**	**1,261.3**

(40) Loans and receivables

EUR m

	31.12.2016	31.12.2015
Loans and advances	3,779.9	4,262.8
Total	**3,779.9**	**4,262.8**

40.1. Loans to and receivables from credit institutions

EUR m

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

EUR m

31.12.2015	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	106.9	0.0	0.0	106.8
Total	**106.9**	**0.0**	**0.0**	**106.8**

40.2. Loans to and receivables from customers

EUR m

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

EUR m

31.12.2015	Gross carrying amount	Specific risk provision	Portfolio risk provision	Carrying amount (net)
Loans and advances	**4,779.0**	**-599.0**	**-24.0**	**4,156.0**
General governments	525.4	-1.1	-1.0	523.3
Other financial corporations	75.5	-16.0	-0.5	59.0
Non-financial corporations	1,606.0	-184.2	-11.9	1,409.9
Households	2,572.0	-397.7	-10.7	2,163.7
Total	**4,779.0**	**-599.0**	**-24.0**	**4,156.0**

40.3. Impairment on loans and receivables

Credit risk provisions and provisions for credit risk provisions break down as follows as at December 31, 2016:

EUR m

	As at 1.1.2016	Foreign-ex-change-differ-ences	Alloca-tions	Re-leases	Utiliza-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2016
Specific risk provisios	-599.0	-2.4	-74.7	103.3	58.4	-1.2	10.5	1.8	-503.4
Portfolio risk provisions	-24.0	-0.2	-18.7	9.3	1.3	0.0	0.0	0.4	-31.9
Subtotal risk provisions on loans and receivables	**-623.0**	**-2.6**	**-93.4**	**112.5**	**59.7**	**-1.2**	**10.5**	**2.2**	**-535.3**
Provisions for risks arising from the lending business	**-20.2**	**-0.1**	**-5.6**	**13.3**	**0.0**	**0.0**	**0.0**	**0.0**	**-12.6**
Specific provisions	-11.0	-0.1	-2.2	4.8	0.0	0.0	0.0	0.0	-8.4
Portfolio provisions	-9.2	0.0	-3.4	8.4	0.0	0.0	0.0	0.0	-4.2
Total	**-643.2**	**-2.7**	**-99.0**	**125.8**	**59.7**	**-1.2**	**10.5**	**2.2**	**-547.9**

EUR m

	As at 1.1.2015	Foreign-ex-change-differ-ences	Alloca-tions	Re-leases	Utiliza-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2015
Specific risk provisios	-474.2	-13.1	-373.8	56.7	37.0	0.0	19.1	149.3	-599.0
Portfolio risk provisions	-24.2	-0.5	-10.0	10.8	0.0	0.0	0.0	-0.1	-24.0
Subtotal risk provisions on loans and receivables	**-498.4**	**-13.6**	**-383.8**	**67.6**	**37.0**	**0.0**	**19.1**	**149.2**	**-623.0**
Provisions for risks arising from the lending business	**-13.8**	**-0,0**	**-12.5**	**5.7**	**0.0**	**0.0**	**0.0**	**0.4**	**-20.2**
Specific provisions	-4.2	-0.0	-8.1	2.2	0.0	0.0	0.0	-1.0	-11.0
Portfolio provisions	-9.5	0.0	-4.5	3.5	0.0	0.0	0.0	1.4	-9.2
Total	**-512.1**	**13.6**	**-396.4**	**73.3**	**37.0**	**0.0**	**19.1**	**149.6**	**-643.2**

In the previous year, the item "other" mainly included the risk provisions for the customer portfolio which was transferred to the previous owner HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement during the privatization process of Hypo Group Alpe Adria in the financial year 2015. Further, this item also includes the risk provisions of the leasing company Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. which are classified as IFRS 5.

(41) Held-to-maturity investments

EUR m

	31.12.2016	31.12.2015
Debt securities	**82.6**	**81.9**
General governments	78.8	78.1
Non-financial corporations	3.9	3.9
Total	**82.6**	**81.9**

(42) Tangible assets

EUR m

	31.12.2016	31.12.2015
Property, plants and equipment	67.9	104.9
Investment properties	2.5	2.3
Total	**70.4**	**107.2**

The decrease in property, plant and equipment mainly results from the reclassification in the amount of EUR 13.5 million of investment properties to the item "non-current assets and disposal groups classified as held for sale".

(43) Intangible assets

EUR m

	31.12.2016	31.12.2015
Purchased software	17.1	12.2
Other intangible assets	0.2	0.2
Total	**17.3**	**12.4**

(44) Development of tangible and intangible assets

44.1. Development of cost and carrying amounts

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Acquisition cost 1.1.2016	109.6	97.0	35.5	7.9	71.6	**321.6**
Foreign exchange differences	0.5	0.2	0.4	0.0	0.2	**1.3**
Additions	1.4	5.3	2.4	0.0	11.1	**20.2**
Disposals	-2.2	-6.1	-13.9	-3.1	-1.7	**-27.0**
Other changes	-0.7	-9.2	-24.4	0.5	1.4	**-32.4**
Acquisition cost 31.12.2016	108.6	87.2	0.0	5.3	82.6	**283.7**
Cumulative depreciation 31.12.2016	-53.5	-74.4	0.0	-2.8	-65.3	**-196.0**
Carrying amount 31.12.2016	55.1	12.8	0.0	2.6	17.3	**87.8**
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	**119.6**

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Acquisition cost 1.1.2015	110.7	103.8	41.6	29.2	71.8	**357.0**
Foreign exchange differences	0.1	0.0	0.1	0.0	0.0	**0.3**
Additions	1.4	5.4	12.5	8.4	6.8	**34.4**
Disposals	-2.1	-10.9	-18.6	-0.4	-6.7	**-38.7**
Other changes	-0.6	-1.4	-0.1	-29.3	-0.2	**-31.4**
Acquisition cost 31.12.2015	109.6	97.0	35.5	7.9	71.6	**321.6**
Cumulative depreciation 31.12.2015	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**
Carrying amount 31.12.2015	60.7	21.5	22.6	2.4	12.4	**119.6**
Carrying amount 31.12.2014	68.4	26.8	26.5	23.2	19.4	**164.3**

The item “other changes” includes the assets which were transferred to the previous owner HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement during the privatization process of Hypo Group Alpe Adria in the financial year 2015. The assets in question are thus classified as non-current assets and disposal groups classified as held for sale as at December 31, 2015. Further, this item also includes assets of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. Ljubljana, which are classified as IFRS 5.

44.2. Development of depreciation and amortization

EUR m

31.12.2016	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Cumulative depreciation 1.1.2016	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**
Foreign exchange differences	-0.3	-0.1	-0.1	0.0	-0.2	**-0.7**
Disposals	2.0	5.1	6.4	3.1	0.0	**16.6**
Scheduled depreciation	-2.3	-7.4	-5.0	-0.1	-4.7	**-19.5**
Impairment	-4.5	-4.4	-0.2	0.0	-0.2	**-9.2**
Other changes	0.3	7.9	11.7	-0.3	-1.1	**18.6**
Write-ups	0.1	0.0	0.0	0.1	0.0	**0.3**
Cumulative depreciation/amortization 31.12.2016	-53.5	-74.4	0.0	-2.8	-65.3	**-196.0**

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL NON-CURRENT ASSETS
Cumulative depreciation 1.1.2015	-42.3	-77.0	-15.1	-5.9	-52.3	**-192.7**
Foreign exchange differences	-0.1	0.0	0.0	0.0	0.0	**-0.1**
Disposals	2.0	9.4	8.8	0.2	6.3	**26.7**
Scheduled depreciation	-2.9	-8.5	-6.6	-0.5	-5.9	**-24.4**
Impairment	-5.9	-0.3	0.0	-3.9	-7.4	**-17.4**
Other changes	0.1	1.0	0.1	4.5	0.0	**5.7**
Write-ups	0.2	0.0	0.1	0.1	0.0	**0.3**
Cumulative depreciation/amortization 31.12.2015	-48.9	-75.4	-12.9	-5.5	-59.2	**-202.0**

(45) Other assets

EUR m

	31.12.2016	31.12.2015
Prepayments and accrued income	3.1	4.6
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4.3	4.5
Other remaining assets	11.5	7.3
Total	**18.9**	**16.5**

The item “other remaining assets” includes cost in the amount of EUR 1.5 million recognized as deferral in connection with the capital increase executed at the beginning of fiscal year 2017.

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

As at December 31, 2016, the item “non-current assets and disposal groups classified as held for sale” amounts to EUR 39.3 million. Since a disposal of the Croatian entities HYPO-ALPE-ADRIA Leasing d.o.o. and ADDIKO INVEST d.d. in the next 12 months is highly likely, all assets and liabilities as at December 31, 2016 are included in this item. Pursuant to the presentation requirements under IFRS 5, the comparable period items of the statement of financial position are not reclassified.

In the previous year, this item included an asset portfolio in the amount of EUR 220.1 million which was transferred to HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016. This transfer is based on specific agreements included in the Share Purchase and Transfer Agreement concluded between the new owners of the Addiko Group and HETA Asset Resolution AG during the privatization process. Furthermore, a bundle of assets of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. Ljubljana in the amount of EUR 120.3 million was sold in December 2016.

EUR m

Non-current assets and disposal groups classified as held for sale	31.12.2016	31.12.2015
Loans and receivables	29.0	289.3
Property plant and equipment	8.4	0.4
Investment properties	0.1	25.3
Intangible assets	0.0	0.1
Tax assets	0.0	0.2
Other assets	1.8	25.2
Total	**39.3**	**340.4**

The item “other assets” includes only inventories (lease assets, repossessed assets, emergency acquired assets, etc.).

EUR m

Liabilities included in disposal groups classified as held for sale	31.12.2016	31.12.2015
Financial liabilities measured at amortized cost	1.3	1.3
Provisions	0.3	1.2
Other liabilities	1.1	3.7
Total	**2.7**	**6.1**

(47) Financial liabilities held for trading

EUR m

	31.12.2016	31.12.2015
Derivatives	9.1	28.6
Total	**9.1**	**28.6**

(48) Financial liabilities measured at amortized cost

EUR m

	31.12.2016	31.12.2015
Deposits	4,751.6	4,294.6
Deposits of credit institutions	316.0	379.2
Deposits of customers	4,435.6	3,915.3
Debt securities issued	6.5	28.1
Other financial liabilities	1,282.2	1,909.8
Total	**6,040.4**	**6,232.5**

Other financial liabilities mainly consist of financing for Heta Asset Resolution AG.

48.1. Deposits of credit institutions

EUR m

	31.12.2016	31.12.2015
Current accounts / overnight deposits	5.8	12.6
Deposits with agreed terms	310.2	339.3
Deposits redeemable at notice	0.0	0.5
Repurchase agreements	0.0	26.9
Total	**316.0**	**379.2**

48.2. Deposits of customers

EUR m

	31.12.2016	31.12.2015
Current accounts / overnight deposits	**1,761.0**	**1,273.9**
General governments	30.9	27.9
Other financial corporations	134.9	51.5
Non-financial corporations	672.7	458.5
Households	922.6	736.1
Deposits with agreed terms	**2,634.1**	**2,577.4**
General governments	118.0	132.6
Other financial corporations	155.2	211.9
Non-financial corporations	507.9	425.8
Households	1,853.1	1,807.2
Deposits redeemable at notice	**40.5**	**64.0**
General governments	12.6	20.4
Other financial corporations	5.7	6.4
Non-financial corporations	22.1	37.1
Households	0.1	0.1
Total	**4,435.6**	**3,915.3**

48.3. Debt securities issued

EUR m

	31.12.2016	31.12.2015
Debt securities issued	**6.5**	**28.1**
Certificates of deposit	6.5	28.1
Total	**6.5**	**28.1**

(49) Provisions

49.1. Detailed breakdown of provisions

EUR m

	31.12.2016	31.12.2015
Pensions and other post employment defined benefit obligations	2.1	2.4
Other long term employee benefits	0.4	0.4
Restructuring measures	7.2	18.5
Pending legal disputes and tax litigation	60.9	41.6
Commitments and guarantees granted	12.6	20.2
Other provisions	24.6	236.1
Total	**107.8**	**319.2**

Details regarding restructuring measures are presented in note (23.3) Provisions for restructuring. Outflows of economically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2017.

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

No further disclosures according to IA 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

Other provisions mainly include provisions for onerous contracts in the amount of EUR 9.6 million (2015: EUR 12.7 million) as well as for pending legal disputes in the amount of EUR 3.1 million. More detailed explanations on the legal disputes that are the subject of these provisions are presented in note (73) Risks in the portfolio relating to historical interest rate directives, and in note (74) Legal risks. In the previous year, these items included provisions in connection with the legally required conversion of customer loans (Swiss francs into euros) in Croatia and Montenegro.

The development of provisions for risks arising from the lending business (commitments and guarantees issued) is disclosed under note (40) Loans and receivables.
The calculated amount for provisions for restructuring measures, pending legal disputes and tax litigation as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

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

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

EUR m

	2016	2015
Present value of the defined benefit obligations as of 1.1.	**2.4**	**1.7**
+ Current service cost	0.2	0.1
+ Contributions paid to the plan	0.0	0.4
+/- Actuarial gains/losses	-0.1	0.1
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.1	0.0
+/- Actuarial gains/losses arising from changes from assumptions based on experience	-0.1	0.1
- Payments from the plan	-0.4	-0.1
+ Past service cost	0.0	-0.1
+/- Business combinations and disposals	0.0	0.6
+/- Other changes	-0.1	-0.2
Present value of the defined benefit obligations as of 31.12.	**2.1**	**2.4**

Due to the low amount of personnel provisions for the Addiko Group as at December 31, 2016, further disclosures according to IAS 19 are omitted.

49.3. Provisions – development of other provisions

Other provisions excluding provisions for risks arising from the lending business developed as follows in the respective reporting periods:

EUR m

	Carrying amount 1.1.2016	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2016
Pensions and other defined benefit obligations towards employees	2.4	0.0	0.3	-0.5	-0.2	0.0	2.1
Other long term employee benefits	0.4	0.0	0.1	-0.1	0.0	0.0	0.4
Restructuring measures	18.5	0.0	2.6	-12.6	-0.1	-1.1	7.2
Pending legal disputes and tax litigation	41.6	0.0	29.0	-4.2	-5.5	0.0	60.9
Other provisions	236.1	2.1	10.5	-199.4	-24.5	-0.2	24.6
Total	**299.0**	**2.1**	**42.5**	**-216.8**	**-30.3**	**-1.3**	**95.3**

EUR m

	Carrying amount 1.1.2015	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2015
Pensions and other defined benefit obligations towards employees	1.7	0.0	0.6	-0.2	-0.2	0.6	2.4
Other long term employee benefits	0.2	0.0	0.1	0.0	0.0	0.2	0.4
Restructuring measures	1.6	0.0	17.4	-0.7	0.0	0.2	18.5
Pending legal disputes and tax litigation	23.8	0.0	27.7	-6.9	-2.3	-0.7	41.6
Other provisions	0.9	-0.5	236.6	-0.7	-0.2	0.0	236.1
Total	**28.2**	**-0.5**	**282.3**	**-8.6**	**-2.6**	**0.3**	**299.0**

(50) Other liabilities

EUR m

	31.12.2016	31.12.2015
Deferred income	1.7	2.1
Accruals and other liabilities	26.4	29.8
Total	**28.1**	**31.9**

(51) Equity

EUR m

	31.12.2016	31.12.2015
Thereof attributable to equity holders of parent	**994.7**	**752.6**
Subscribed	5.0	5.0
Capital reserves	336,2	792.6
Available-for-sale-reserves	7.6	8.2
Foreign currency reserve	-21.1	-22.1
Cumulative results and other reserves	667,0	-31.2
Non-controlling interests	**0.0**	**0.0**
Total	**994.7**	**752.6**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at December 31, 2016. Of this amount, EUR 5.0 million (2015: EUR 5.0 million) corresponds to the fully paid in share capital of Addiko bank AG, which is divided into 1,000 (2015: 1,000) no-par bearer shares. The proportionate amount of the share capital per share amounts EUR 5.0 thousand (2015: EUR 5.0 thousand). The capital reserve mainly consists of the contribution of the bank participations in Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro by the former parent company Hypo Alpe-Adria International AG as at June 28, 2013, as well as of an increase in the amount of EUR 189.0 million by the parent company AI Lake (Luxembourg) S.à.r.l., arising from a claim against Heta Asset Resolution AG (formerly Hypo Alpe Adria-Bank International AG) for the compensation of impairment in the course of the sale of the former Hypo Group Alpe Adria AG which was granted to AI Lake (Luxembourg) S.à.r.l. Furthermore, it includes a capital contribution by the parent company in the amount of EUR 265 million which also results from a claim to compensate for warranty claims of AI Lake (Luxembourg) S.à.r.l. against the former parent company and was contributed by AI Lake (Luxembourg) S.à.r.l. on March 10, 2016 to Addiko Bank AG. In the fiscal year 2016 EUR 722.1 million were rebooked from the capital reserve to the the position “Cumulative results and other reserves”.

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

The available-for-sale reserves include negative available-for-sale-reserves in amount of EUR 3.0 million. Other reserves contain also a liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 430.0 million in the financial year 2016. In the next General Assembly a proposal will be made to allocate this profit as follows: (i) an amount of EUR 130.0 million will be used as supplementary capital by the sole shareholder to fulfill the Tier 2 loan agreement dated February 22, 2016 concluded between the sole shareholder and the Company, and (ii) an amount of EUR 300.0 million will be distributed by the Company.

(52) Statement of cash flows

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

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

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

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

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

Risk Report

(53) Risk control and monitoring

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

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

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

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

2016 saw a change in direction regarding risk management, which is critical to enable to Group's business to grow sustainably within the risk appetite that the Group is willing to take. The Addiko Group's risk strategy reflects key risk management approaches included in the business strategy. This is reflected in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities. The applicable criteria are:

1. Immersive risk culture: Risk is more prevalent across the business and risk culture; risk awareness will be enhanced and embedded across the business.
2. Defined roles and responsibilities: Roles and responsibilities and a suitable governance structure are clearly defined and documented.
3. Streamlined and efficient processes: Duplicate activities will be removed and process effectiveness will be enhanced through automation.
4. Improved understanding of customers: Backed up by data, knowledge of our customers' behavioral scores is expanded and used to improve risk control.
5. Supporting business growth: Leverage business expertise to allow our bank to expand our business operations and enter new markets.
6. Analytical excellence: The Risk department supports the business units as a center of analytical excellence.

These objectives are related to all individual components of the Risk Management Framework and affect the business strategy, the risk appetite statement, the governance of processes, policies and capabilities (data, skills, resources).

The aforementioned objectives are incorporated in the following major goals for the risk strategy:

- The risk strategy sets up limits for risk appetite in the way that business continuity is always guaranteed.
- The primary goal of the risk strategy is preservation of internal capital and liquidity position, with the ability to bear risks required both in normal and stress scenarios.
- The secondary goal of risk strategy is to define an adequate and acceptable structure of risk aligned with the Addiko Group's business strategy. Finally, it is necessary to define the risk profile as well as certain criteria and rules for risk-taking and risk measuring to maintain the defined risk profile.
- Efficient steering (including data quality) and the implementation of a forward looking approach respecting early warning indicators aimed to align the internal capital and liquidity position in the long term.
- Provide an organizational framework for routine management and decision-making processes that ensures prudent and continuous limit-compliant steering of all risks inherent to the Addiko Group business model.
- Establish a risk policies and documents framework stating compliance requirements.
-

These risk strategy goals enable the Addiko Group to:

- Prevent losing the current customer base as well as prevent losing existing customer business
- Focus on the desired customer range
- Support new business lending with an understanding of the risks associated and how to mitigate them
- Align the products the Group offers
- Understand the customer lifecycle and the long-term cycle of profitability
- Ensure consistency of the overall risk profile, and capital and liquidity position
- Aim to/realize the highest possible return on risk taken
- In 2016, risk appetite was also redefined within the Risk Appetite Framework. This Risk Appetite Framework contains the risk dimensions to be managed, including a statement and the defined measures and performance indicators.

The Risk function launched an optimization program in 2016, aiming to achieve the below stated improvements:

- Optimization of policy
  - Review of policies was carried out
  - The number of policies was significantly reduced to eliminate overlaps and unnecessary complexity
  - Increase in efficiency of roles and responsibilities was achieved
- Streamlining reporting:
  - KPIs relevant for steering were defined
  - Reporting process automatism was advanced to be able to spend more time on quality assurance
  - Alignment between risk and finance was intensified
- Data streamlining
  - An improvement in the definition of data dictionary and data process mapping was achieved
  - Delivery of subsidiary data to the parent was optimized
  - Targeted resolution of outstanding data quality areas was prepared and largely implemented
- Process streamlining
  - "Cockpit" style processes were prepared
  - Controls for cockpit style processes were defined
  - Effectiveness KPIs were used to prepare recommendations for process changes and target/actual analyses

(55) Risk organization

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

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

In 2016, the entire risk division was restructured.

The Addiko Group's Risk Office consisted of the following pillars:

- Risk Control
- Credit Operations
- Retail Risk Management

In the course of restructuring, the following functions were introduced:

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

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

Distressed Asset Management provides pre-workout, restructuring, collection and workout to all non-Retail customer segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions.

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

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

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

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

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

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

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

(56) Internal risk management guidelines

The Addiko Group states its Group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardized manner. These guidelines are promptly adjusted to reflect organizational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing regulations are assessed at least once a year to determine whether an update is required. This ensures that the actual and documented processes match. In accordance with the new business and risk strategy, various policies have been revised in 2016.

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

(57) Projects

57.1. Project "Adria Post Closing"

Subject of the project "Adria Post Closing" was the implementation of the rights and obligations agreed upon in the SPA (Share Purchase Agreement) between Heta Asset Resolution AG and "Al Lake", and was focusing on the following subject matters:

Legal issues
- Control of pending legal disputes according to the regulations set out in the SPA
- Enforcement of claims with regard to warranties and indemnities

Risk issues
- Special retail high-risk portfolio indemnity (selection of loan to value (LTV) greater than 80% of the portfolios and enforcement of associated indemnities)

Financial implications
- Heta funding management (monitoring of refinancing guidelines and the associated provision of collateral)
- Financial impact (analysis of financial implications and reflection on such implications in budget and business plan)

57.2. Risk Enhancement Program

The second phase of the "Risk Enhancement Program" started in 2016 and is still ongoing. While the first phase (completed in 2015) was designed to adjust the risk management of the Addiko Group to the new post-sale business strategy, the second phase aims at consolidating and improving the risk management environment of the Addiko Group through activities in three pillars:
- Strategic and Regulatory Requirements
- Process Enhancement
- Risk Target Operating Model

Under "Strategic and Regulatory Requirements", a new risk strategy, Risk Appetite Framework, Forbearance identification at single account level and a reporting framework were developed. Furthermore, a detailed analysis of risk policies was initiated and is ongoing, evaluating existing documents, simplifying and aligning them to the new mission and vision of the Addiko Group.

The "Process Enhancement" pillar covers continuous improvements of the corporate credit process, monitoring, early warning system and Distressed Asset Management process improvements, as well as a review and update of credit risk models, market and liquidity risk models and the stress testing framework and activities.

The new "Risk Target Operative Model" management pillar, with the goal of optimizing the risk organization at the holding and individual entities' level through the setup of the corresponding Group Functions and Shared Service Centers was structured, approved by the Management Board and set up in the third quarter of 2016.

Additionally to the presented pillars, two task force initiatives were started and monitored under the Risk Enhancement Program but steered under the overall Data Integrity Project:

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

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

Following the Austrian Federal Law on Recovery and Resolution of Banks ("Bundesgesetz über die Sanierung und Abwicklung von Banken", BaSAG) as well as the Austrian Bank Recovery Plan Regulation ("Bankensanierungsplanverordnung", BaSaPV") issued by the Financial Market Authority (FMA) in February 2015, the Addiko Group has prepared and timely submitted (deadline: September 30, 2016) the Group Recovery Plan to the regulatory authorities.

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

57.4. Forbearance

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

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

Contrary to the previous presentation of forbearance in the Addiko Group, the exposure is calculated at account level starting in 2016. Furthermore, identifying forbearance cases is no longer directly tied to the rating — which only serves as an indication for assessment — but every case is additionally assessed on an individual basis. In the course of implementation of the new forbearance process, the Addiko Group also aligned its default definition with the “forbearance non-performing” definition, which constitutes a more conservative approach. The Forbearance Project was monitored and managed from Group side which ensured that the handling of the forbearance algorithm is uniform for all entities.

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

57.5. Market & Liquidity Task Force

The Market & Liquidity Risk Task Force is a part of the Data Integrity Program initiated mid-2016 in the Addiko Group. The project aims to systematically close open audit findings in the area of market and liquidity risk and improve the market and liquidity risk management systems. The project team not only consists of Addiko holding employees — the core team also includes specialists from the entire Addiko Group.

In addition to improving data quality, the Market & Liquidity Risk Task Force’s project also aims to automate and standardize liquidity and interest rate risk reporting and notifications. In the second half of 2016, the project team mainly focused on data cleaning and data integration. The next project phases include automation and simplification of reports relevant for steering. The update process of relevant processes goes hand in hand with strategy, manual and work instruction updates. Key benefits will be uniform reporting both at holding and individual subsidiary level as well as optimizing and simplifying reporting structures, consequently resulting in avoiding operational risks in market and liquidity risk. Ultimately this will lead to faster, more efficient and more consistent steering of market and liquidity risks both at holding and individual subsidiary level.

57.6. Credit Risk Task Force

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

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

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

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

57.7. NPL sale

By the end of 2015, the bank began to press ahead with the systematic sale of non-performing loans and successfully implemented this strategic project for the first time in 2016. In the fourth quarter of 2016, non-performing customer loan portfolios not secured by collateral were sold. The stated sale of receivables includes both the sale of existing loan portfolios and loans becoming non-performing in the future (forward flow agreement) overdue by more than 180 days. The sale of receivables significantly contributes to the further reduction of the NPL portfolio.

57.8. End-to-end credit approval process

In order to optimize the overall credit approval process for COR/SME and Public Finance observed end to end, an adequate project supported by PwC was performed in 2016.

The duration of the project was 3 months, and it was split into the following four phases:

- Phase 1 – Goal and strategy
- Phase 2 – As is analysis
- Phase 3 – To be design
- Phase 4 – Implementation and start up

The following was defined within the project:

- Roles, responsibilities and initiatives at holding and local level
- Actions/tasks including quick wins
- Future detailed implementation roadmap, together with responsibilities and timelines
- Adequate monitoring tools and reporting process

Besides the above mentioned definitions of actions, responsibilities and timelines, additional main results of the project were the following:

- Two basic process types:
  - standardized - small tickets & small enterprises; lean and standardized documentation, templates, conditions and tools
  - tailor-made - Corporates & big tickets; differentiation made between simple and complex cases
- Process blueprints for the main process steps of both mentioned types of processes developed (standards, tools, key outputs)
- Design principles for the seven main pillars of process design defined – for each pillar key questions & recommendations, improvements guidance, examples of tools to be used given

Due to the fact that market conditions and environment are changing and getting more challenging, it is necessary to enable continuous optimization of the credit process since that is the only way to keep the efficiency and competitiveness on an adequate level.

Driven by exactly that aim, adequate persons responsible at holding level were identified for driving and managing and continuously optimizing the above mentioned COR/SME/PF credit process.

57.9. IFRS 9 project

IFRS 9, the new standard on the recognition of financial instruments, was published in its final version on July 24, 2014 and was taken over from EU and replaces the previously applicable IAS 39 from its effective date January 1, 2018:

- Amended model for classification and measurement of financial assets which relies more strongly on principles and is based on the business model and its cash flow characteristics
- New impairment model which not only records losses incurred (as it did previously) but also future expected losses (requiring an early setup of risk provisions)
- Amended provisions and a design more reliant on principles for hedge accounting

In order the implement the IFRS 9 project in the Addiko Group, three project streams (Classification & Measurement, Impairment and IT) were determined to deal with, develop and implement the individual topics.

(58) Brush activities

The Share Purchase Agreement (SPA) concluded between Heta Asset Resolution AG and Advent enabled the Addiko Group (formerly Hypo Group Alpe Adria) to carry out an additional brush to reduce existing and future risks resulting from its portfolio until March 2016.

The transaction was executed in the first quarter of 2016 either a) in the course of a true sale, i.e. a transfer to Heta Asset Resolution AG, or b) via P/L settlement, i.e. the risk in connection with the remaining portfolio positions intended for the brush was covered by Heta Asset Resolution AG via P/L settlement. All effects on profit or loss were already taken into account in the statement of financial position 2015.

The transfer of the selected brush items to Heta Asset Resolution AG results in their derecognition in the statement of financial position of the Addiko Group, thus leading to an improvement in financial performance indicators – especially the non-performing loan portion and the loan/deposit ratio – of the units affected as well as in regulatory capital ratios.

(59) Development of risk provisions

59.1. Method of calculating risk provisions

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

For individual, non-significant exposures (that are below certain thresholds), the Specific Risk Provision Collective Impaired method (SRP CI) is used instead of an individual analysis. Thresholds, parameters and assumptions used for SRP CI calculation can be found in the document "Portfolio Provisioning Technical Specification v1.0". Receivables not subject to the calculation of (collective) specific provisions for impairment losses are included in the calculation of portfolio impairment. Incurred but not reported losses are used to calculate the portfolio impairment („Incurred but not Reported Loss Model"). Please refer to note "Recognition and measurement (IAS 39)" for further details on calculation.

59.2. Development of risk provisions

Despite the ongoing tensed macro-economic environment in the core markets, the Addiko Group and its network banks successfully released risk provisions in 2016.

This positive development is mainly due to effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate segment. At the same time, due to improved processes with regard to early warning systems (continuously analyzing the economic situation), migrations into the non-performing portfolio and the corresponding risk provisions were prevented.

The direct write-off of CHF loans in Croatia and Montenegro that became necessary in the first half of the year resulted in further risk provision releases primarily in the Retail segment (one-off effect). This effect is resulting out of lower gross receivables in combination with stable collaterals (evaluated in EUR). Further positive effects were achieved by process improvements.

As regards early collections, a daily monitoring supported by clear performance goals was introduced. Together with the also introduced Incentive Program, this lead to a considerable improvement in the early collections result and a significant reduction of the NPL portfolio.

As regards late collections, positive effects were achieved through selling receivables in the area of problematic Retail loans not secured by collateral at a high existing provision ratio.

As regards to the majority of the collateralized NPL receivables (especially within the Retail segment), the Addiko Group together with its customers either agreed on voluntary collateral sales or concluded settlement agreements.

These measures also significantly contributed to reducing the NPL portfolio in 2016, releasing risk provisions at the same time.

59.3. Changes in the calculation of portfolio risk provisions

In the course of 2016, the Addiko Group implemented a uniform Group-wide method of calculating portfolio risk provisions for all subsidiaries, aiming to simplify and standardize the process cycle. Further main goals were to increase transparency, to additionally include and take into account country-specific exceptions initiated and required by local regulatory authorities but differing from IAS/IFRS principles, as well as determining a standardized parametrization with regard to risk models both at Group and subsidiary level.

Using this new method, the Addiko Group created a sound strategic basis for the future IFRS 9 standard which will come into effect by January 1, 2018, with regard to:

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

For detailed information on calculating portfolio risk provisions in accordance with the new method, see note "Financial instruments: recognition and measurement (IAS 39)".

59.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the entire risk provisions to non-performing loans) increased from 61.7% to 67.5% in the financial year 2016.

The following table shows the NPL and coverage ratio according to the new internal segmentation implemented in 2016:

EUR m

31.12.2016

Segment	Exposure	NPL	Provisions	NPL Ratio	Coverage Ratio
Public Finance	1,453	6	3	0.4%	48.0%
Financial Institutions	2,285	8	2	0.4%	28.4%
Large Corporate	894	142	66	15.9%	46.6%
Medium and Small Corporate	1,131	125	58	11.1%	46.4%
Retail	2,547	480	384	18.8%	80.1%
Total	**8,309**	**761**	**514**	**9.2%**	**67.5%**

The following table shows provisions and coverage ratio according to the internal segmentation valid at December 31, 2015.

EUR m

31.12.2015

Segment	NPL	Provisions	Coverage Ratio
Corporate	632	304	48.1%
Retail	576	446	77.5%
Public Finance	22	9	40.3%
Total	**1.229**	**759**	**61.7%**

The increase in the coverage ratio primarily results from the brush transaction performed in March of this year which lead to a reduction in non-performing loans particularly in the Corporate portfolio.

(60) Measurement of real estate collateral and other collateral

Management of all collateral in the Addiko Group is determined in the “Collateral Management & Monitoring Policy” and the related “Collateral Management & Monitoring Manual”. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitization values may only be deviated from if the stated values are stricter than the original ones.

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

All measurements are requested on the part of the front office three months at the lastest before remeasurements are due. The market value of all real estate with a market value less than EUR 1.0 million is determined using the TnT tool, a statistically validated electronic measurement tool (market value adjustment method), with the initial measurement always constituting an individual measurement (based on the evaluation by a qualified appraiser).

ICV = market value * recovery rate in % (acc. to “Collateral Management & Monitoring Manual”)

The internal collateral values (ICV) are shown in the following table for December 31, 2016 as well as December 31, 2015:

EUR m

Collateral Distribution	31.12.2016	31.12.2015
Exposure	8,309	8,587
Internal Collateral Value (ICV)	2,348	3,214
thereof CRE	837	1,070
thereof RRE	1,001	1,492
thereof financial collateral	33	37
thereof guarantees	347	399
thereof other	130	217
ICV coverage rate	**28.3%**	**37.4%**

The decrease in value of commercial real estate results primarily from a decrease in exposure (non-core assets in 2016) but not from a decrease in collateral coverage at the overall portfolio level. The mentioned decrease in exposure (non-core assets) is primarily related to a certain non-performing loan portfolio sale to HETA and a decrease in lease exposure (due to a sale or wind-down strategy, depending on the institute).

Decrease of RRE Collateral is due to two factors:
The decrease of Portfolio through 2016 mortgage lending was not a key focus and across the Group there was a continual reduction in the portfolio with a corresponding reduction in RRE Collateral .

Revision of adjustments, based on location of collateral adjustments were made in the expected liquidation value and corresponding ICV. While primarily made in 2015 these had a further impact in 2016.

(61) Measures to improve risk management

61.1. Basel III – Liquidity risk and liquidity risk management

With regard to ongoing regulatory requirements under the Capital Requirements Regulation (CRR), Additional Liquidity Monitoring Metrics (ALMM) was implemented in 2016 in addition to the existing reporting of the LCR (both pursuant to CRR and the Delegated Regulation), NSFR and asset encumbrance based on the ITS (Implementing Technical Standards).

61.2. Development of rating procedures

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

61.3. Validation of rating procedures and processes

The procedures are validated as stipulated by the standards issued by the regulatory authorities.

In the second half of 2016, an internal “Model Monitoring Reporting System” was implemented. It is used to monitor rating processes, default processes and performance of the respective rating procedures at subsidiary level on a monthly basis. Performance of rating procedures focuses on:

- Accuracy of forecasts
- Calibration
- Stability

Based on the Model Monitoring Reporting System, Credit Risk Model Validation Reports were prepared for all subsidiary banks as well as for the holding company at the beginning of December 2016.

61.4. Further development of retail risk management

Group Retail Risk Management was established, which constitutes the back office function to Retail Sales and Marketing and reports directly to the Group Chief Risk Officer.

Group Retail Risk Management’s responsibilities include retail portfolio management, data analysis and reporting, managing the collection process, making decisions on credits as well as credit checks and quality assurance. Furthermore, Retail Risk Management is also responsible for defining and developing Retail Credit Policies.

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

- Retail Credit Policy
- Retail Collections Policy
- Retail Risk Restructuring Policy
- Remarketing Policy
- Retail Fraud Policy
- Integrating collections into the Retail Risk division in the fourth quarter of 2015
- Analyzing and managing portfolios based on retail-specific key risk indicators

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

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

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

(62) Risk reporting

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

In 2016, the monthly Group risk report was adjusted to the new situation, the requirements of the new decision-making bodies as well as the new strategy.

In the course of the Credit Risk Reporting Task Force (for more information, see note "Credit Risk Task Force), taking into account all risk units at Group as well as at local level, the monthly risk report is currently being completely revised in terms of contents and structure in accordance with the requirements. First and foremost, the goal is to be able to better and faster identify risks and to adjust the contents of the report to the Addiko Group's new strategies. For reasons of improving transparency, the project (which will be completed in 2017) additionally aims to create a central preparation process for the monthly report at Group level in the credit steering function "Credit Risk Portfolio Management".

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

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

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

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

(63) Capital management

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

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

Supplementary capital (Tier 2)

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

- Paid-in capital
- Reserves
- Deductions

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

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

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

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

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

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

The minimum capital ratios defined by regulatory authorities,

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

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

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

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

In the Federation of Bosnia and Herzegovina, the Group is subject to significant restrictions imposed by the local regulatory authority. Advance approval must be obtained from the regulatory authority before deposits are transferred back to the parent company. Profits (dividends) can only be distributed if the respective local subsidiary bank holds an overall equity ratio of 14.5% at the time of distribution. In any case, under regulatory provisions the local subsidiary banks are required to report a Tier 1/RWA ratio of at least 11.5% and an overall equity/RWA ratio of at least 12% at 2016 year-end.

Similar rules apply to Serbia. The subsidiary bank located in Serbia is required to report an equity ratio of at least 14.5% to enable a distribution of dividends. The standardized regulatory minimum for the overall equity ratio stands at 12%.

63.1. ICAAP – Internal Capital Adequacy Assessment Process

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

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

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

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

(64) Credit risk (counterparty default risk)

64.1. Definition

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

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

64.2. General requirements

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

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

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

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

64.3. Risk measurement

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

64.4. Risk limitation

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

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

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

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

64.5. Portfolio overview - credit risk

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

Breakdown of net exposure within the Group in accordance with IFRS 7.36 (values excluding IFRS 5 portfolio):

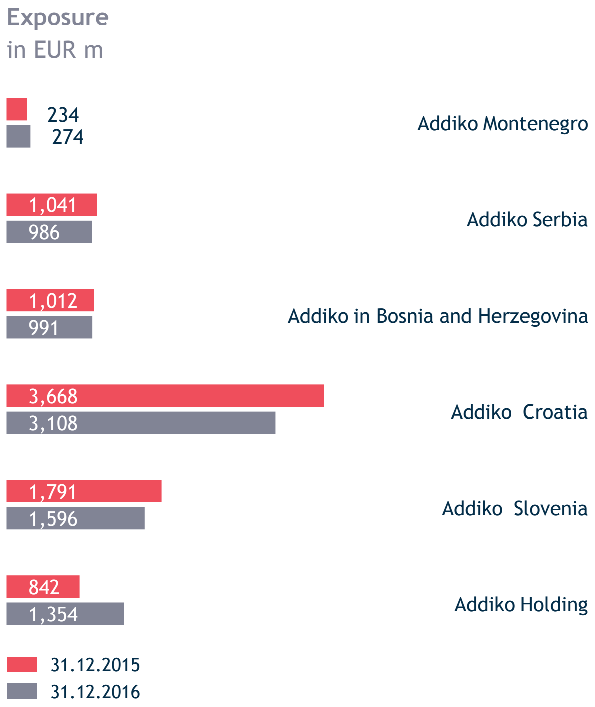
EUR m

	31.12.2016	31.12.2015
Cash balances at central banks and other demand deposits	1,785	1,198
Financial assets held for trading	17	11
Available-for-sale financial assets	1,309	1,261
Loans and advances to customers	3,780	4,263
Held-to-maturity investments	83	82
Other commitments	754	678
Total	**7,728**	**7,493**

Allocation of exposure within the Group

In the reporting year, the exposure within the Group declined by EUR 277.9 million or 3.2%. The decline mainly results from the brush transactions performed primarily in the Corporate segment in Croatia (see note "Brush activities").

The Addiko Group has total free credit lines and financial guarantees in the loan and credit area of approximately EUR 764.8 million (2015: EUR 702.9 million). Within the Group, exposure breaks down as follows:

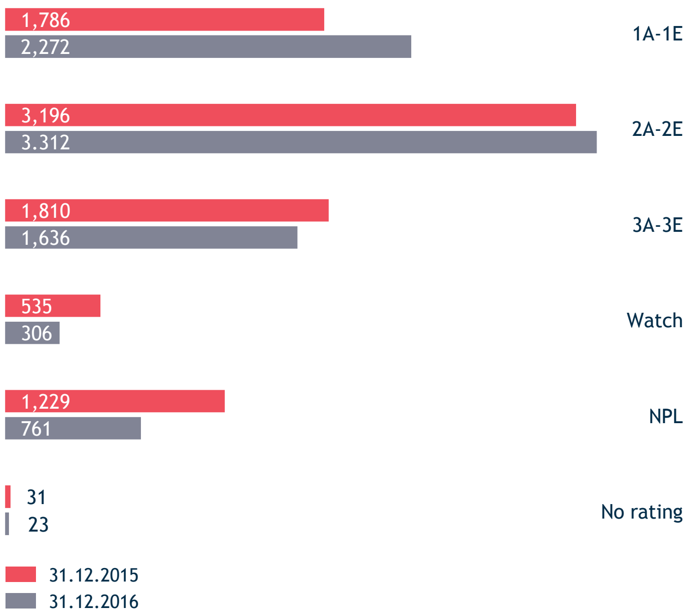


Exposure by rating class within the Group

Roughly 27.3% (2015: 20.8%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions and public institutions.

Non-performing loans showed a sharp decline in the reporting period mainly resulting from the brush carried out.

Exposure by Ratingclass
in EUR m



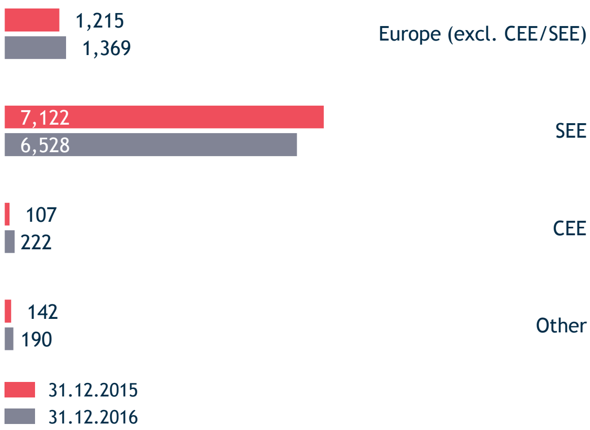
In 2016, the definition of default was adjusted in the course of rolling out the new Forbearance Policy in the Addiko Group. A non-performing loan (default) exists if at least one of the following criteria applies:

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

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

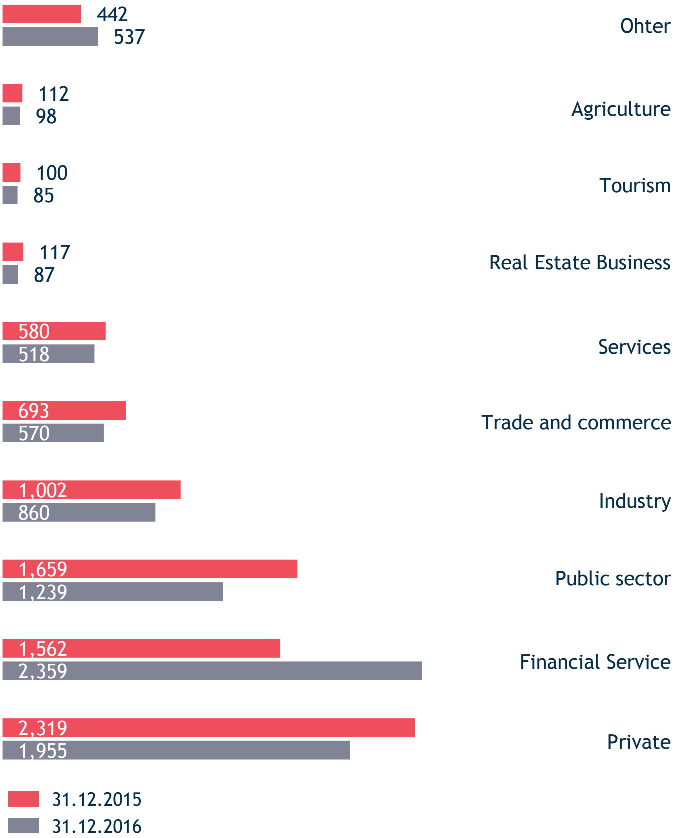
Exposure by region within the Group
The Addiko Group's country portfolio focuses on South Eastern Europe. The following chart shows the breakdown of exposure by region within the Group (at customer level):

Exposure by region
in EUR m



Exposure by business sector within the Group
A uniform classification code (NACE Code 2.0) is used throughout the Addiko Group for the economic steering and strategic focus of business sector exposure. This code is mapped into ten business sectors for reporting purposes. The lower-risk business sector groups - financial institutions and the public sector - account for a share of 43.3% (2015: 37.5%). The well-diversified private customers sector accounts for a share of 23.5% (2015: 27.0%).

Exposure by business sector
in EUR m



Exposure by business sector and region

When classifying them by business sectors and regions, the majority of financial services providers clearly come from Europe (excluding CEE/SEE). The following table shows the exposure by business sector and region as at December 31, 2016:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	5	1,950	1	0	1,955
Financial services	1,254	954	0	151	2,359
Public sector	82	936	221	0	1,239
Industry	17	820	0	23	860
Trade and commerce	0	570	0	0	570
Services	11	505	0	3	518
Real estate business	0	87	0	0	87
Tourism	0	85	0	0	85
Agriculture	0	98	0	0	98
Other	1	524	0	12	537
Total	**1,369**	**6,528**	**222**	**190**	**8,309**

The following table shows the exposure by business sector and region as at December 31, 2015:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	4	2,314	1	1	2,319
Financial services	663	865	0	34	1,562
Public sector	500	987	106	67	1,659
Industry	36	930	0	36	1,002
Trade and commerce	0	693	0	0	693
Services	6	571	0	3	580
Real estate business	0	117	0	0	117
Tourism	0	100	0	0	100
Agriculture	0	112	0	0	112
Other	6	433	0	3	442
Total	**1,215**	**7,122**	**107**	**142**	**8,587**

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

Presentation of exposure by size classes

Around 36.1% (2015: 39.0%) of the exposure is found in the size range <= EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 2.6 billion (2015 year-end: EUR 1.4 billion) of exposure in the range > EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

	31.12.2016		31.12.2015	
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	486	316,610	488	332,519
10.000-50.000	947	42,427	847	36,997
50.000-100.000	580	8,375	713	10,178
100.000-250.000	522	3,637	746	5,179
250.000-500.000	227	660	283	827
500.000-1.000.000	234	336	276	397
1.000.000-10.000.000	1,439	485	1,662	582
10.000.000-50.000.000	1,169	57	1,211	57
50.000.000-100.000.000	71	1	935	14
> 100,000,000	2,632	8	1,427	6
Total	**8,309**	**372,596**	**8,587**	**386,756**

64.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

		31.12.2016		31.12.2015
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	2,271	109	1,784	119
2A-2E	3,242	989	3,167	1,182
3A-3E	1,588	631	1,766	804
Watch	277	143	464	273
NPL	9	5	28	21
No rating	21	4	24	12
Total	**7,407**	**1,880**	**7,232**	**2,410**

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

Overdue but not impaired financial assets:

EUR m

		31.12.2016		31.12.2015
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers				
- overdue to 30 days	128	37	106	58
- overdue 31 to 60 days	19	9	38	27
- overdue 61 to 90 days	4	3	8	5
- overdue 91 to 180 days	1	0	1	1
- overdue 181 to 365 days	0	0	1	1
- overdue over 1 year	0	0	2	2
Total	**152**	**49**	**156**	**95**

The primary reason for not taking into account specific risk provisions for the exposures over 90 days is that, after performing an impairment test, there is a need for a specific risk provision for impairment losses of EUR 0 through primary and secondary cash flows.

Impaired financial assets:

EUR m

Loans and advances to customers	31.12.2016	31.12.2015
Exposure	750	1,198
Provisions	514	759
Collateral	420	709

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

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of SRP. Consequently, an impairment calculation according to note "Method of calculating provisions" is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.
The over-collateralization (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the applied provisioning methodology (SRPci), in which no collateral values are recognized.

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

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

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

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

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

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2016. The off balance positions only include loan commitments.

EUR m

	OPENING balance 1.1.2016	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2016
Central banks	0	0	0	0	0	0	0
General governments and government related entities	16	0	-6	0	0	-1	10
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	11	0	0	0	0	11
Non-financial corporations	299	37	-129	-1	0	-31	175
Households	223	41	-195	0	2	-1	70
Loans and advances	**539**	**89**	**-331**	**-1**	**2**	**-32**	**265**
Loan commitments given	6	1	-5	0	0	-1	1

Forbearance exposure was as follows in 2016:

EUR m

	Closing Balance 31.12.2016	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognized in respect of forborne assets (+)
General governments and government related entities	10	7	0	2	0
Credit institutions	0	0	0	0	0
Other financial corporations	11	0	0	11	0
Non-financial corporations	175	29	1	146	8
Households	70	27	1	41	3
Loans and advances	**265**	**63**	**2**	**200**	**11**

Forbearance exposure was as follows in 2015:

EUR m

	Closing Balance 31.12.2015	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	16	14	0	2
Credit institutions	0	0	0	0
Other financial corporations	0	0	0	0
Non-financial corporations	299	91	9	198
Households	223	84	16	122
Loans and advances	**539**	**190**	**25**	**323**

The distribution of internal collateral values (ICV) in connection with forborne receivables in 2016 is as follows:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarante es	thereof other
Public Finance	3	2	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	55	52	0	0	0	3
Medium and Small Corporate	62	52	3	0	2	5
Retail	52	12	38	0	1	0
Total	**172**	**117**	**42**	**1**	**3**	**9**

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

In the financial year 2016, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 6.4 million (2015: EUR 26.5 million), of which EUR 2.0 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfillment of a credit contract by a customer. This includes especially assets from the leasing business (e.g. vehicles) and rescue acquisitions from the banking business (especially real estate). The Addiko Group does not have inventories according to IAS 2.

(65) Country risk

65.1. Definition

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

65.2. General requirements

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

65.3. Risk measurement

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

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

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

65.4. Risk limitation

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

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

65.5. Risk control and monitoring

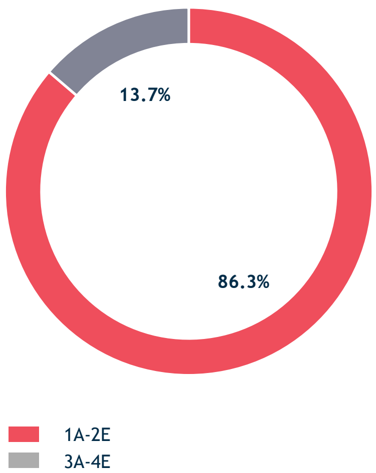
Integrated Risk Management centrally monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Executive Board as part of regular country limit utilization reporting. Ad-hoc reports are additionally prepared upon request.

65.6. Portfolio overview – country risk

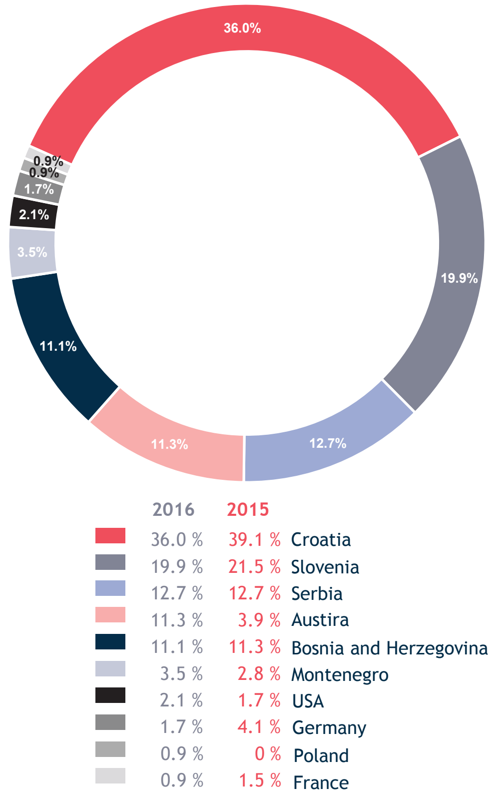
Exposure by country rating:
The share of exposure in countries with ratings better than 3A amounts to 86.3% (year-end 2015: 86.6%).

Consequently, around EUR 1.1 billion of exposure was in countries with a rating between 3A and 4E at the end of 2016 (2015: EUR 1.1 billion). The following graph shows the exposure by country rating and the top 10 countries by exposure (country share in top 10 total exposure) for 2016 as well as their share in top 10 exposures in 2015.

Exposure country rating breakdown
in percent



Top 10 countries by exposure in 2016
in percent



Top 10 countries by exposure:
The figures are broken down according to the country of the customer's registered office. The top 10 countries' share in the overall volume stands at 94.6% (2015: 94.9%). As was the case in 2015, Croatia and Slovenia account for the largest share. The Addiko Group's clear strategy is to focus on the core markets in the SEE network. In the reporting period, the Austrian portfolio increased significantly, mainly due to a rise in exposures of banks and the public sector, from 3.9% of the top 10 portfolio in 2015 to 11.3% at the end of 2016.

(66) Participation risk

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

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

66.3. Risk measurement

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

66.4. Risk control and monitoring

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

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

(67) Concentration risk

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

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

- Counterparty default concentrations (see the paragraph on presentation of exposure by size classes in note "Portfolio overview - credit risk"),
- Industry sector concentration risks (see the paragraph on exposure by business sector and region in note "Portfolio overview - credit risk"),
- Geographical concentrations (see the paragraph on portfolio overview – country risk in note "Country risk"),
- Collateral concentrations,
- Concentration risks from large indirect loans,
- Concentration risks from investments in assets, financing and maturities, and Concentrations from correlating risk factors,
- Counterparty default, industry sector and collateral concentrations are measured, managed and secured by capital within the context of the regular ICAAP calculations. Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor which, based on the type of concentration, is dependent on the amount of credit volume.

(68) Market price risk

68.1. Definition

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

68.2. General requirements

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

68.3. Risk measurement

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

The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

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

The interest rate risk in the banking book is determined as a present value risk, as are all market risks of the Addiko Group. The interest rate risk in the banking book is predominantly integrated into ongoing risk monitoring according to the value at risk in market risk controlling.

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

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept.

Alongside the value at risk calculation, classic interest rate gap analysis is also used to measure interest rate risk in the banking book. Present value changes from the 200 base points interest shock scenario, which is still a regulatory requirement, always remain under the threshold of 20% of own capital funds at the Addiko Group. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

68.4. Risk limitation

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

68.5. Risk control and monitoring

In market risk reporting, the value at risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are updated on a daily basis. Should limits be exceeded, escalation processes are defined up to the level of the Executive Board.

The Group Executive Board also receives a separate monthly report on the current market risk situation of the Addiko Group. The control of interest risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest risk statistics. The Group Asset Liability Committee – which consists of the Group’s Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyze and decide on measures related to controlling the structure of the statement of financial position as well as liquidity. In addition to Group-level controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

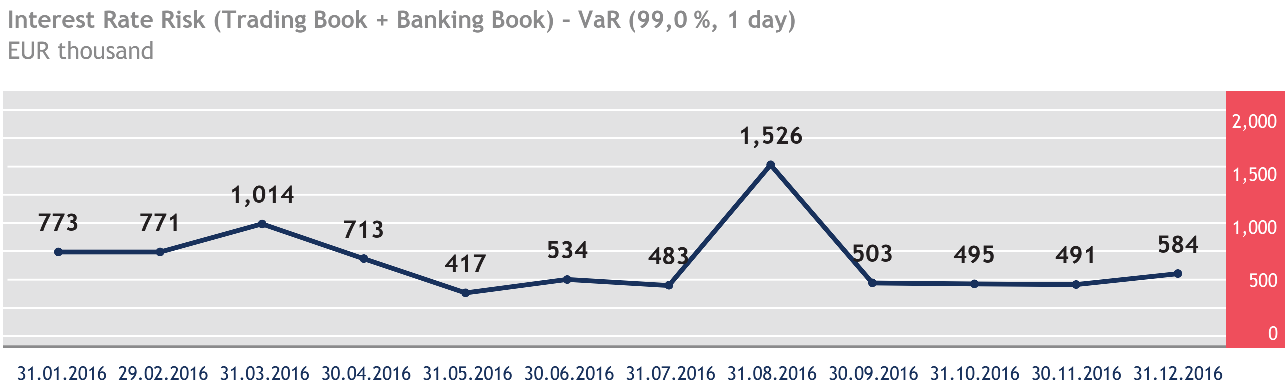
68.6. Overview – market risk

68.6.1. INTEREST RATE RISK

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group in 2016 (comparable VaR figure as at December 31, 2015: EUR 1.57 million).

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

Development in interest risk for the Addiko Group in 2016:



The trading items of the Addiko Group were relatively stable in 2016. Changes in interest risk mainly resulted from adjustments to rolling interest positions and shortening of the terms of fixed-rate transactions.

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

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.8% on average in 2016 as compared to 5.6% on average in 2015).

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges (fair value hedges), thereby mitigating interest risk.

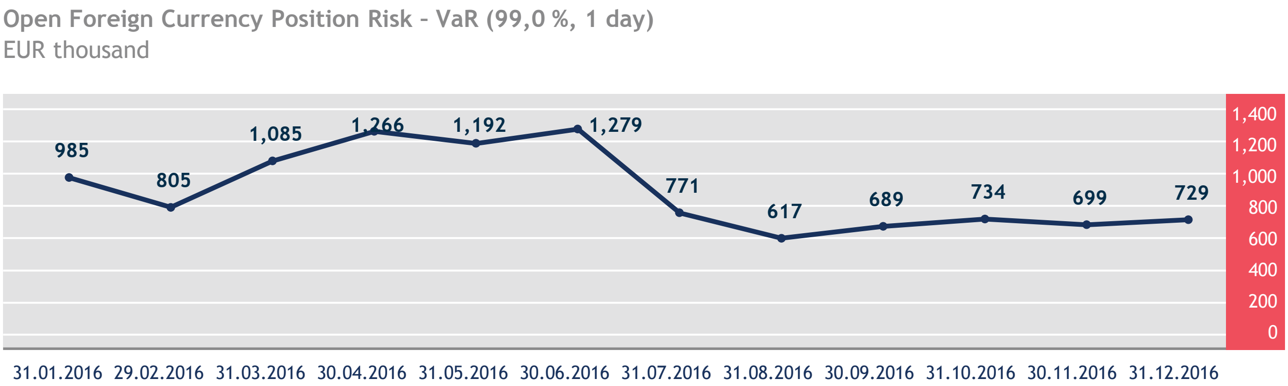
Regulatory requirements state that the proportion of interest risk – in the form of the standardized 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20.0%. An internal limit of a maximum of 15.0% has been set;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

The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at December 31, 2016 amounts to EUR 153 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2015 was EUR 217 thousand.

68.6.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for foreign currency risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of the Addiko Group. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at December 31, 2016 is roughly EUR 0.80 billion (volume per December 31, 2015 of approx. EUR 0.51 billion), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign currency risk was approximately EUR 0.73 million per day as at December 31, 2016 (value at risk as at December 31, 2015: EUR 0.94 million), at a confidence interval of 99.0%. The limit of EUR 2.00 million was adhered to as at December 31, 2016.

Development in foreign currency risk for the Addiko Group in 2016:



Aside from foreign currency risk from operating activities, the Addiko Group is also exposed to an additional foreign currency risk from the consolidation of the Addiko AGs strategic investment in Addiko a.d. Beograd (volume of approx. EUR 0.17 billion) and Addiko d.d. Zagreb (volume of approx. EUR 0.36 billion) as recorded in the statement of financial position. As at December 31, 2016, the value at risk (99.0%, one day) of this foreign currency risk was approx. EUR 0.73 million (value at risk as at December 31, 2015: EUR 0.99 million). The strategic currency risk thus represents the majority of the risk in open currency items at the Addiko Group.

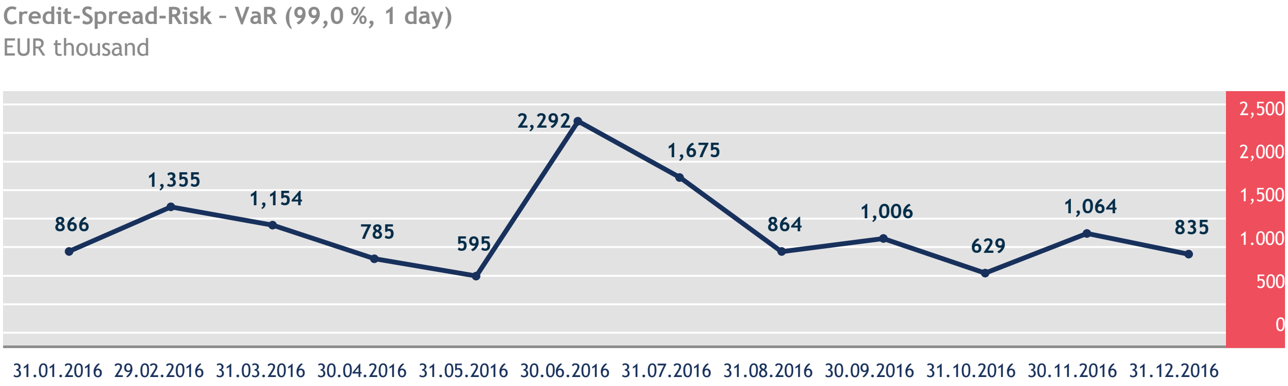
68.6.3. EQUITY PRICE RISK

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Addiko Group makes a distinction between equity price risks which arise from utilizing collateral related to credit risk transactions where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments). The value at risk for the equity price risk (customer default) at the Addiko Group amounted to EUR 4,704 as at December 31, 2016 (value at risk as at December 31, 2015: EUR 5,059) with a one-day holding period and a confidence level of 99.0% and EUR 2,280 (value at risk as at December 31, 2015: EUR 3,763) for the equity price risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at December 31, 2016.

68.6.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.84 million at year-end 2016 with a one-day value at risk and a confidence level of 99.0% (value at risk as at December 31, 2015: EUR 0.37 million). The limit of EUR 2.50 million was adhered to as at December 31, 2016. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items.

Development in credit spread risk at the Addiko Group in 2016:



68.6.5. IMPACT OF "BREXIT" ON MARKET RISK

In a referendum on June 23, 2016, a majority of the United Kingdom electorate voted in favor of the UK leaving the European Union ("Brexit"). At the Addiko Group, fluctuations in volatility primarily in the CDS area caused by Brexit mainly had an impact on the credit spread risk and on economic profit and loss. However, the effects on market risk caused by Brexit and the corresponding sudden rise in credit spread VaR as well as economic losses were back to their original level (both from a risk and from a profit and loss perspective) only a few days after the referendum, owing to a further restriction of the credit spread relevant to the Addiko Group.

(69) Liquidity risk

69.1. Definition

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

69.2. General requirements

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

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

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

69.3. Risk measurement

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

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

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

In addition to the normal scenario, the risk measurement spectrum is supplemented by other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation crises), market crises (restrictive funding options on the capital market, increased cash outflow as well as transfer limits) as well as combined scenarios.
On the basis of the liquidity overviews, key indicators are determined for the different scenarios which allow a compact assessment of the liquidity situation. In addition, an internal liquidity coverage ratio limit restricts the short-term liquidity risk.
For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal net stable funding ratio limit restricts the structural liquidity risk.

69.4. Risk control

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

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

EUR thousand

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

In 2015, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR thousand

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	579,021
Securities eligible for Repo	503,263
Credit Claims eligible for Central Bank or Repo	7,779
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	161,640
Counterbalancing Measures	**Addiko Group countable**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,251,703**

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for the Group through the Group holding.
A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. For the purposes of short-term controlling, forecast data is elicited directly at the sales units based on customer transactions, while planned budget data are used for medium-term controlling.
Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and, as described above, to stress situations, depending on the market situation.
Besides structural controlling, care is also taken to ensure that general regulatory requirements in the various Group countries are adhered to. From 2015 onwards, in Austria this also includes LCR compliance. Moreover, since the end of September 2016, the Addiko Group has reported on and complied with the LCR pursuant to the Delegated Regulation.

69.5. Risk monitoring

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

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

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

69.6. Overview – liquidity situation

Overall, the liquidity situation of the Addiko Group in 2016 was characterized by a liquidity surplus. All liabilities were met without the need to draw on liquidity reserves. Capital market activities were therefore not necessary.

At a Group-wide growth to approx. EUR 4.4 billion, the Addiko Group recorded a continuously positive development in primary funds. Since October 2016, direct deposits are gathered with the Austrian banking license via a German broker using an online platform. On the basis of anticipated inflows and outflows, a comfortable liquidity position is also expected for 2017.

For the purposes of further diversification and thus a reduction of existing concentrations of funding, the direct deposit gathering in Germany was introduced as a complementary measure to the expansion of the deposit business in the SEE units.

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

- Current accounts, call money and cash collaterals are due on the next working day,

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

EUR m

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

As at December 31, 2016, assets relevant to liquidity at the Addiko Group came to EUR 7.1 billion. The main item of EUR 3.8 billion is attributable to loans and advances, which therefore represent 53.2% of assets. About EUR 3.4 billion (47.4%) of these are due in one year or less (2016). The negative liquidity gap in the first year is casued by the static view in which all positions mature with their contractual maturity. New business as well as rollover of running-off business are not included in this view. Such the closing of the gap of the liquidity transformation with planned business is not shown here.

Liabilities totaled EUR 6.1 billion – 70.5% of which are due in one year or less.

EUR m

At 31 December 2015	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,216	69	34	1,319
Financial assets held for trading	10	1	0	11
Available-for-sale financial assets	696	523	43	1,262
Loans and advances	1,317	1,494	1.452	4,263
Held-to-maturity investments	3	59	20	82
Subtotal	***3,242***	***2,146***	***1,549***	***6,937***
Financial liabilities				
Financial liabilities held for trading	18	2	8	28
Financial liabilities measured at amortized costs	4,370	1,750	113	6,233
Derivatives - Hedge accounting	0	11	7	18
Subtotal	***4,388***	***1,763***	***128***	***6,279***
Total	**-1,146**	**383**	**1,421**	**658**

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

- Banking book (hedge accounting): Hedge transactions with regard to asset items of the statement of financial position (e.g. fixed rate bonds)

- Market risk steering B2B: Back-to-back transactions by the Addiko Holding on the basis of the hedge requirement of the individual subsidiaries
- Market risk steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

EUR m

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

* relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at December 31, 2016, the simulated total of cash flows from derivatives relevant to liquidity was EUR -11 million.

EUR m

At 31 December 2015	1 Y -2016	2 Y -2017	3 Y -2018	4 Y -2019	5 Y -2020	> 5 Y (> 2020)	Total
Netto-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-7	-5	-5	-3	0	0	-20
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	-8	1	1	0	0	0	-6
Total	**-15**	**-5**	**-3**	**-3**	**0**	**0**	**-26**

* relevant to liquidity

As at December 31, 2015, the simulated total of cash flows from derivatives relevant to liquidity was EUR -26 million.

(70) Operational risk

The Addiko Group defines operational risk (OpRisk) as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks, but not reputational risks and strategic risks. The aim of operational risk management at the Addiko Group is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses).

The Addiko Group's Internal Control System (ICS) is closely linked to OpRisk management and aims to ensure the protection of owner and investor assets as well as the reinforcement of trust in the accuracy of reporting. In order to achieve these goals, uniform high standards in reporting - with regard to national and international standards - are required to be applied and controlled. The Internal Control System defines the basis for complying with the implemented standards and for measuring their sustainability.

Subsidiaries included in the scope of consolidation are required to implement operational risk within the context of the respective local conditions based on standardized methods defined by the Group. The OpRisk responsibility of sub-organizations of the subsidiaries is in the responsibility of the subsidiary concerned.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results. Operational risks are identified and evaluated so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined. The following methods are used to support the strategy:

- Loss database for the systematic recording of operational risks throughout the entire organization
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board. The current threshold for the reporting of losses within the Addiko Group has been set at EUR 5,000.

OpRisk 2016 milestones and results
Several restructuring measures were implemented in the Addiko Group in 2016. In the course of this transformation process, the decision was taken to strengthen the OpRisk area and to introduce a cross-national Central Steering Function, ensuring that OpRisk at holding level as well as at all relevant subsidiaries is subject to structured risk management despite the restructuring measures. Special emphasis was placed on the holding in the fourth quarter, increasingly performing pro-active risk management. In particularly, risk-relevant processes were actively assessed with regard to their risk in cooperation with process management.

The focus was and will remain on the following matters:
- Raising awareness and training
- Active control and risk management
- Data analysis and data quality improvement measures
- Reporting and management reporting
- Tool improvement measures

(71) Object risk

At the Addiko Group, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by the Addiko Group. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Capital requirements are calculated according to the methodology of the Standardized Approach. To this end, the market value is multiplied by a risk weighting of 100% and then by a weighting factor.

(72) Other risks

The following risk types are backed up with capital under “Other risks”:
- Strategic risk and business risk
- Capital risk
- Legal risk
- Residual risk arising from loan-reducing methods
- Risk arising from excessive debt
- Securitization risk
- Macro-economic risks
- Risks arising from money laundering and financing of terrorism
- Systemic risks
- Model risks
- Risks arising from new business or new markets

For the “Other risks” an economic capital is considered in the risk bearing capacity calculation.

(73) Risks in the portfolio relating to historical interest rate directives

Extensive Group-wide surveys on interest rate directives in loan agreements have been conducted at Group level already since the first half of 2013. In order to effectively monitor the associated legal risks and as a consequence of the abandonment of the cap on the minimum CHF rate in January 2015, a regular reporting on legal and regulatory measures, pending legal proceedings as well as developments in connection with foreign currency loans, particularly in CHF, was implemented at the South Eastern European subsidiaries. The reporting's purpose is to determine, monitor and accordingly cover by legal provisions the legal risk resulting from these developments and from the pending legal disputes.

a) Monitoring and provisioning of legal risks
Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group-wide monitoring of such legal disputes has been intensified as a consequence of the increasing number of regulations on handling foreign currency loans in the South Eastern European countries (e.g. "forced conversion"). Regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary. Ultimately, the reports consolidated on the basis of the information gathered serve as the foundation for strategic business decisions taken by the Executive Board and Supervisory Board. Starting in 2017, a Litigation and Claims Manager will take over the Group-wide monitoring of legal disputes.

b) Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions

Particularly in the past ten years, numerous private customers in South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous three years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organizations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Serbia, Croatia, Slovenia, Bosnia and Herzegovina, and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

The subsidiary bank in Slovenia, Addiko Bank d.d. Ljubljana, has been party to nine legal disputes in connection with CHF loans since 2015. Addiko Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, as first-instance courts in similar proceedings against other Slovenian banks have passed verdicts in favor of the banks. While the regulatory authority (Slovenian central bank) and the Slovenian ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against the Addiko subsidiary bank; neither are there plans for any corresponding legal amendments.

In Serbia, the class action filed by the bank customer "Efektiva" against Addiko Bank a.d. and two other banks was already rejected in favor of the defendants at first instance in 2014. No ruling has been issued yet on the appeal against the verdict lodged by the interest group. However, it is expected that the appeal will be rejected in favor of Addiko Bank a.d., as the constitutional court declared those provisions of the civil procedural law permitting a class action filed by an association as unconstitutional. Currently, there are indications that the courts — due to the significant increase in value of the CHF — may change their judgments in CHF loan proceedings, rule in favor of the complaining customer and permit a termination of CHF loan agreements. The first final verdict in this respect was passed by a second-instance court in Novi Sad in September 2016. The court rejected the appeal lodged by Erste Bank Beograd and confirmed the first-instance verdict according to which the CHF loan agreement may be terminated due to changed circumstances. The Serbian subsidiary bank also faces a similar court verdict at the second-instance court in Beograd, where the first-instance verdict originally decided in favor of the subsidiary bank was set aside. Furthermore, the first-instance court was ordered by the second-instance court to determine whether a considerable increase in the CHF exchange rate occurred during the term of the loan. An indication as to the outcome of the CHF loan proceedings in Serbia will be offered by a supreme court statement on these new lower-instance judgments. The supreme court statement is expected for March 2017.

As for the two subsidiary banks in Serbia and Slovenia, while there have not been any legislative initiatives yet, there have been regulatory initiatives. In Serbia, the National Bank of Serbia issued binding recommendations to all banks back in May 2013 stating that customers who took out CHF loans must be granted certain relief (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. Furthermore, the National Bank of Serbia's "Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans", which came into force in March 2015, provides for four contract amendment models (e.g. conversion into EUR based on certain criteria) which the bank must offer to customers who have taken out residential construction loans in foreign currencies and intend to convert their repayment instalments. Addiko Bank a.d. in Serbia has already fulfilled the implementation obligations resulting from the regulatory measures. However, it should be noted that only a small number of all borrowers accepted the offer. Legislative regulations are not expected in Serbia due to little media and political interest.

The same applies to Slovenia, where so far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. In any case, the resulting potential effects are investigated independently at bank level and are compensated for in compliance with the measures taken at Group level.

In Bosnia and Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia and Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented the CHF Loan Settlement Project BiH. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards conversion of CHF into the national currency BAM. More than 79% of customers requested a conversion. For more than 65% of eligible customers, the conversion was already performed (information as at November 30, 2016). The number of claims in this respect has therefore decreased considerably.

In Bosnia and Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighboring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In December 2015, the national parliament adopted a proposal for a law on the forced conversion of CHF loans into the national currency in its first reading. However, the bill did not pass the second reading, as the national parliament is not legally authorized to adopt a law like that at a whole-state level. In the Republik Srpska (one of the two Bosnian legal entities), the bill for a law regarding the retrospective conversion of CHF loans (similar to the bill at national level) was put on the agenda of the Srpska parliament as an urgent item. However, the bill was not passed there. The second legal entity, the Federation of Bosnia and Herzegovina, accepted the law regarding the conversion (similar to the bill at national level) in its proposed form. However, it is still unclear whether the law will ultimately be passed, as the government of the Bosnia and Herzegovina entity has made negative comments on the bill. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia and Herzegovina entity.

In Croatia, the supreme court ruled in favor of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favor of the plaintiff, the bank consumer association "Potrošač", in respect of the unlawfulness of the unilateral interest rate adjustment clause. Eight Croatian banks are affected by this ruling, including Addiko Bank d.d. in Zagreb, which has lodged an extraordinary appeal against it. At third instance, the second-instance verdict was confirmed in all respects, with the addition that the borrowers included in the class action cannot exert any direct claims from the verdict but have to file individual complaints. Currently, 548 proceedings against the Croatian subsidiary bank at first or second instance are pending. At first instance, civil courts have passed opposing verdicts in cases where plaintiffs concluded supplementary agreements on loan conversion pursuant to the consumer loan law: On the one hand, decisions were taken in favor of the bank, as from the point of view of the court, consumers having given their consent to convert the loan in line with the consumer loan law are no longer entitled to seek legal remedy. On the other hand, decisions were taken in favor of the plaintiff, as according to the court, the consumer loan law deals with currency issues and not with unilateral interest rate adjustments, therefore the latter would have to be decided by a court on a case-by-case basis. Furthermore, the bank filed an objection with the constitutional court against the third-instance verdict in 2015, in which verdict the unlawfulness of the unilateral interest rate adjustment clause had been confirmed. When the constitutional court will pass a verdict cannot be predicted from a current point of view.

The amendment to the consumer protection law passed in Croatia, according to which the exchange rate between HRK and CHF was fixed at 6.39 for a period of one year, ended on January 27, 2016. Addiko Bank d.d. in Croatia extended the period of the fixed exchange rate until April 1, 2016 on a voluntary basis. Furthermore, the Croatian subsidiary has concluded supplementary agreements on loan conversion under consumer loan law with a majority of its CHF borrowers in 2016 (the respective legal amendment became effective at September 30, 2016). Also in the case of the Croatian Addiko Bank d.d., an objection was filed with the constitutional court, claiming the above-stated law to be unconstitutional. The proceedings are still pending as no verdict has been issued yet. While the success assessment clearly points towards a positive outcome of the proceedings also in this case, a decision ordering the repeal of the unconstitutional law would only take legal effect in the future and would not compensate for any of the considerable losses from the conversion.

No significant developments are to be reported with regard to Addiko Bank AG in Montenegro. As in the previous year, a total of six legal proceedings on the subject of foreign currency loans are pending, two of which class actions. As the success assessment clearly points towards the bank prevailing in this legal dispute, the bank is optimistic about the further course of the proceedings.

National legislators and the respective national regulators have also increasingly taken action regarding the issue of foreign currency loans. This tendency has been considerably reinforced as a consequence of the abandonment of the exchange rate cap in January 2015. Starting in Montenegro, the national legislator has passed regulations on handling foreign currency loans which are meant to protect the borrower from the consequences of the abandonment of the exchange rate cap. At bank level, legislative intervention has a negative effect on the operative banking business and results in considerable losses.

On September 23, 2016, the law amending the CHF loan conversion law came into effect. Under this law, ongoing and already repaid loans are to be converted, not making a difference as to whether loans were repaid as scheduled or paid back due to distrainment orders. If, due to the conversion (as prescribed by law), it turns out that the customer has paid too much, the bank is required to reimburse the customer. Additionally, the bank may not charge a contractual penalty for the conversion. Furthermore, the bank is required to offer recalculation to those customers who have not accepted a conversion so far.

In accordance with the law amending the CHF loan agreement conversion law into EUR, the subsidiary bank in Montenegro has converted the respective loans and performed recalculations. The bank therefore acted in full compliance with legal provisions.

The following table shows the CHF exposure (in EUR million) per institute country of the Addiko Group as at December 31, 2016.

EUR m

	31.12.2016		31.12.2015	
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Holding	1,354	2	842	14
Addiko Slovenia	1,596	118	1,791	140
Addiko Croatia	3,108	99	3,668	699
Addiko in Bosnia and Herzegovina	991	74	1,012	170
Addiko Serbia	986	157	1,041	193
Addiko in Montenegro	274	9	234	19
Total	**8,309**	**460**	**8,587**	**1,236**

Mainly as a result of the conversion of CHF loans performed in the first half-year and primarily in Croatia and Montenegro, the Addiko Group was able to significantly reduce its foreign exchange risk due to the CHF portfolio reduction from EUR 1,236 million at the end of 2015 to EUR 460 million at the end of 2016.

(74) Legal risks

Ten major passive legal proceedings (all with amounts in dispute of over EUR 15 million) are currently pending across the entire Addiko network. The majority of pending proceedings relate to the Croatian subsidiary. It is estimated that the subsidiary banks are very likely to prevail in those proceedings. Furthermore, mainly claims for damages are only pending in Bosnia and Herzegovina.

Moreover, there are pending proceedings relating to FX transactions, margin increases and interest rate clauses at the subsidiary banks which are described in more detail under note “Risks in the portfolio relating to historical interest rate directives”.

Addiko Bank AG itself has been involved in legal proceedings (amount in dispute: EUR 223 million) as Second Defendant, with HETA Asset Resolution AG being First Defendant. The claim for damages was filed with the commercial court in Zagreb by a Croatian real estate project development company and was served on Addiko Bank AG on October 20, 2015. Subject of the claim is the sale of several subsidiaries of Hypo Alpe Adria Consultants Holding AG (hereinafter “Consultants” Group) to Plaintiff, which sale was carried out by Hypo Alpe-Adria-Bank International AG (“HBInt”, legal predecessor of HETA Asset Resolution AG) in 2006 and 2007. Addiko Bank AG takes the view that the claim is unfounded and that in particular Addiko Bank AG is not in a position to be made party to the proceedings, as its predecessor (Hypo Phönix Absicherungs GmbH) was only established in 2010 and had thus not even existed at the time of the Consultants sale in 2007. The timely submitted response to the claim included this argument. As the proceedings are still at a very early stage (no hearing date has been scheduled so far and there were no developments worth noting in 2016), reliable estimations as to the outcome cannot be made yet.

Supplementary information

(75) Analysis of remaining maturities

EUR m

Analysis of remaining maturity as at 31.12.2016	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Cash, cash balances at central banks and other demand deposits	1,279.8	591.3	4.2	2.6	0.4	**1,878.2**
Financial assets held for trading	0.1	1.4	1.6	13.7	0.7	**17.4**
Available-for-sale financial assets	112.9	55.1	172.6	820.1	148.6	**1,309.3**
Loans and receivables	390.2	118.5	526.2	1,488.5	1,256.3	**3,779.9**
Held-to-maturity investments	0.0	40.6	33.6	8.4	0.0	**82.6**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.0	0.1	**0.1**
Non-current assets and disposal groups classified as held for sale	0.0	0.5	38.8	0.0	0.0	**39.3**
Total	**1,783.0**	**807.4**	**777.1**	**2,333.3**	**1,406.1**	**7,106.8**
Financial liabilities held for trading	0.0	2.1	0.1	6.4	0.5	**9.1**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	**25.0**
Financial liabilities measured at amortized cost	1,822.8	599.3	1,864.6	1,606.2	147.4	**6,040.4**
Derivatives - Hedge accounting	0.0	0.0	0.0	2.6	4.3	**6.9**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	2.7	0.0	0.0	**2.7**
Total	**1,822.8**	**601.4**	**1,867.4**	**1,640.2**	**152.2**	**6,084.1**

EUR m

Analysis of remaining maturity as at 31.12.2015	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Cash, cash balances at central banks and other demand deposits	756.0	414.0	45.8	68.8	34.4	**1,319.0**
Financial assets held for trading	3.2	2.3	4.2	1.1	0.0	**10.8**
Available-for-sale financial assets	95.9	177.8	422.3	522.7	42.7	**1,261.3**
Loans and receivables	283.3	429.2	604.2	1,494.4	1,451.8	**4,262.8**
Held-to-maturity investments	0.0	2.6	0.0	59.1	20.2	**81.9**
Derivatives - Hedge accounting	0.0	0.0	0.0	0.1	0.0	**0.1**
Non-current assets and disposal groups classified as held for sale	3.8	219.4	117.1	0.0	0.0	**340.4**
Total	**1,142.3**	**1,245.2**	**1,193.7**	**2,146.1**	**1,549.1**	**7,276.4**
Financial liabilities held for trading	0.1	17.9	0.2	2.4	8.1	**28.6**
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	**25.0**
Financial liabilities measured at amortized cost	1,359.0	1,274.9	1,736.4	1,749.6	112.7	**6,232.5**
Derivatives - Hedge accounting	0.0	0.0	0.0	11.4	7.1	**18.4**
Liabilities included in disposal groups classified as held for sale	0.0	0.0	6.1	0.0	0.0	**6.1**
Total	**1,359.0**	**1,292.8**	**1,742.7**	**1,788.4**	**127.8**	**6,310.7**

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

(76) Maturities pursuant to IAS 1

EUR m

31.12.2016	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,875.3	3.0
Financial assets held for trading	3.1	14.4
Available-for-sale financial assets	340.6	968.7
Loans and receivables	1,035.0	2,744.8
Held-to-maturity investments	74.2	8.4
Derivatives - Hedge accounting	0.0	0.1
Tangible assets	0.0	70.4
Intangible assets	0.0	17.3
Tax assets	2.6	0.0
thereof current tax assets	2.6	0.0
thereof deferred tax assets	0.0	0.0
Other assets	18.7	0.2
Non-current assets and disposal groups classified as held for sale	39.3	0.0
Total	**3,388.7**	**3,827.4**
Financial liabilities held for trading	2.2	6.9
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortized cost	4,286.7	1,753.6
Derivatives - Hedge accounting	0.0	6.9
Provisions	45.9	61.9
Tax liabilities	0.3	1.1
thereof current tax liabilities	0.0	1.0
thereof deferred tax liabilities	0.3	0.1
Other liabilities	27.9	0.1
Liabilities included in disposal groups classified as held for sale	2.7	0.0
Total	**4,365.8**	**1,855.6**

EUR m

31.12.2015	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,215.9	103.1
Financial assets held for trading	9.7	1.1
Available-for-sale financial assets	696.0	565.4
Loans and receivables	1,316.7	2,946.1
Held-to-maturity investments	2.6	79.3
Derivatives - Hedge accounting	0.1	0.1
Tangible assets	1.0	106.2
Intangible assets	0.0	12.4
Tax assets	3.1	0.0
thereof current tax assets	3.1	0.0
thereof deferred tax assets	0.0	0.0
Other assets	16.0	0.4
Non-current assets and disposal groups classified as held for sale	340.4	0.0
Total	**3,601.3**	**3,814.2**
Financial liabilities held for trading	18.2	10.5
Financial liabilities designated at fair value through profit or loss	0.0	25.0
Financial liabilities measured at amortized cost	4,370.3	1,862.2
Derivatives - Hedge accounting	0.0	18.4
Provisions	265.3	53.9
Tax liabilities	1.0	0.1
thereof current tax liabilities	0.0	0.0
thereof deferred tax liabilities	1.0	0.1
Other liabilities	30.4	1.4
Liabilities included in disposal groups classified as held for sale	6.1	0.0
Total	**4,691.4**	**1,971.6**

(77) Finance leases

At the end of 2016, the entire leasing portfolio of the Slovenian leasing company was sold. The reported figures can therefore only be compared to the previous-year figures to a limited extent.
Receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2016	31.12.2015
Minimum lease payments (agreed instalments + guaranteed residual value)	5.2	186.9
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	**5.2**	**186.9**
up to 1 year	0.0	30.6
from 1 to 5 years	5.2	125.3
over 5 years	0.0	31.0
Unrealized financial income (interest) (-)	-0.4	-16.8
Net investment value (=)	**4.8**	**170.1**
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	**4.8**	**170.1**
up to 1 year	2.4	31.7
from 1 to 5 years	2.4	111.2
over 5 years	0.0	27.2

The accumulated provisions for impairment losses for uncollectible outstanding minimum lease payments from finance leases for 2016 amount to EUR 0.0 million (2015: EUR 2.9 million).

The total amount of contingent rental payments from finance leases recognized as revenue in the reporting period was EUR 0.0 million (2015: EUR 7.3 million).
Assets leased under finance leases (leased assets) break down as follows:

EUR m

	31.12.2016	31.12.2015
Movables - boats and motor vehicles	0.0	106.7
Real-estate leases	0.0	3.1
Other movables	4.8	60.2
Total	**4.8**	**170.1**

(78) Operating leases

Due to the classification of the Croatian leasing company – which owns the largest share of the Addiko Group's operating lease business - as IFRS 5, the reported figures can only be compared to the previous-year figures to a limited extent.

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

EUR m

	31.12.2016	31.12.2015
up to 1 year	0.2	6.7
from 1 year to 5 years	0.1	10.0
more than 5 years	0.0	0.2
Total	**0.3**	**16.9**

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

in EUR Mio.

	31.12.2016	31.12.2015
Tangible assets	0,0	13,3
Investement properties	0,3	3,7
Gesamt	**0,3**	**16,9**

(79) Assets/liabilities in foreign currencies

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

EUR m

	31.12.2016	31.12.2015*
Assets	2,240.7	2,695.1
Liabilities	2,177.3	2,905.4

Previous-year figures adjusted: In the financial year 2015, assets in the amount of EUR 3,494.8 million as well as liabilities in the amount of EUR 3,286.4 million were reported.

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

(80) Return on total assets

As at December 31, 2016, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to -0.3% (2015: -8.8%).

(81) Transfer of financial assets – repurchase agreements

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

At year-end 2015, the following repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed:

EUR m

31.12.2015	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilites	Of which: repurchase agreements
Loans and receivables	**50.6**	**50.6**	**26.9**	**26.9**
Loans and advances	50.6	50.6	26.9	26.9
Total	**50.6**	**50.6**	**26.9**	**26.9**

(82) Assets pledged as collateral

Assets in the amount of EUR 23.7 million (2015: EUR 40.2 million) were pledged as collateral for own debts to third parties. These are cash collaterals pledged as collateral in relation to derivatives. Further, securities in the amount of EUR 10.6 million (2015: EUR 15.9 million) were deposited with the Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognized in the Addiko Group's statement of financial position.

(83) Contingent liabilities and other liabilities not included in the statement of financial position

The following commitments not included in the statement of financial position existed at the reporting date:

EUR m

	31.12.2016	31.12.2015
Loan commitments given	465.7	405.1
Financial guarantees given	132.6	175.2
Other commitments given	167.9	118.7
Total	**766.3**	**699.0**

(84) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2016	31.12.2015
Financial assets held for trading		
Debt securities	13.7	1.1
thereof listed	4.3	1.1
thereof unlisted	9.5	0.0
Available-for-sale financial assets		
Equity instruments	17.7	22.2
AFS-other participations (associates 0% -20%)	4.2	8.3
thereof listed	0.1	0.3
thereof unlisted	4.1	8.0
AFS-shares and other non- fixed-interest securities	13.5	13.9
thereof listed	0.0	0.0
thereof unlisted	13.5	13.9
Debt securities	1,291.6	1,239.2
thereof listed	1,154.6	1,054.9
thereof unlisted	137.0	184.3
Held-to-maturity investments		
Debt securities	82.6	81.9
thereof listed	82.6	81.9
thereof unlisted	0.0	0.0

(85) Expenses for the auditor

The following expenses for the auditor Deloitte were incurred in the reporting period:

EUR m

	31.12.2016	31.12.2015
Audit fees for the annual financial statements	**-0.6**	**-2.1**
Expenses for the current year	-0.6	-2.1
Expenses relating to the previous year	0.0	-0.1
Fees for other services	**-2.3**	**-4.0**
Other assurance services	0.0	-0.2
Other services	-2.2	-3.8
Total services	**-2.9**	**-6.2**

The audit expenses incurred in the financial year 2016 include the net audit fee (excluding VAT) as well as the related cash expenditure. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Deloitte Audit Wirtschaftsprüfungs GmbH, the total amount also includes services rendered directly by other companies within the Deloitte network to Addiko AG or to its Group companies.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) financial statements, the Group reporting packages of the subsidiaries audited by companies within the Deloitte network, as well as the costs of the consolidated financial statements themselves.

In the previous year expenses for the the auditor included expenses for both Deloitte Audit Wirtschaftsprüfungs GmbH and KPMG Austria GmbH as well as expenses for companies within the Deloitte and KPMG network.

(86) Measurement categories in accordance with IAS 39

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

EUR m

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

The statement of financial position as at December 31, 2015 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2015
Cash, cash balances at central banks and other demand deposits	1,319.0						1,319.0
Financial assets held for trading		10.8					10.8
Available-for-sale financial assets				1,261.3			1,261.3
Loans and receivables	4,262.8						4,262.8
Held-to-maturity investments					81.9		81.9
Derivatives - Hedge accounting						0.1	0.1
Total financial assets	**5,581.8**	**10.8**	**0.0**	**1,261.3**	**81.9**	**0.1**	**6,936.0**
Financial liabilities held for trading		28.6					28.6
Financial liabilities designated at fair value through profit or loss			25.0				25.0
Financial liabilities measured at amortised cost	6,232.5						6,232.5
Derivatives - Hedge accounting						18.4	18.4
Total financial liabilities	**6,232.5**	**28.6**	**25.0**	**0.0**	**0.0**	**18.4**	**6,304.6**

Explanations:

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

(87) Net gains or losses on financial instruments

The net gains and losses on financial instruments by category are as follows:

EUR m

	Net interest income	Measurements 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 amortized cost	-69.9	0.0		
Financial liabilities held for trading	-5.2	0.0		
Derivatives - Hedge accounting, interest rate risk	-1.7			
Other liabilities	-2.6			
Total	**158.7**	**9.5**	**4.4**	**-0.6**

EUR m

	Net interest income	Measurements and sale	Risk provisions	1.1. - 31.12.2015 Other comprehensive income (OCI)
Loans and receivables	252.2	-0.1	-318.1	
Financial assets held for trading	6.0	0.0		
Available-for-sale financial assets	12.3	-0.2		8.0
Held-to-maturity investments	4.1	-0.2		
Derivatives - Hedge accounting, interest rate risk	8.8			
Other assets	1.3			
Financial liabilities measured at amortized cost	-90.7	-6.8		
Financial liabilities held for trading	-3.7	0.0		
Derivatives - Hedge accounting, interest rate risk	-9.6			
Other liabilities	-0.5			
Total	**180.1**	**-7.4**	**-318.1**	**8.0**

(88) Fair value disclosures

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

Quoted prices in active markets (Level I)
The fair value of financial instruments traded in active markets is best established through quoted prices where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (Level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using observable prices or parameters must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

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

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

Fixed-interest receivables and liabilities
The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under Level I. The fair value is determined on the basis of risk premium curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under Level II or Level III. They are reported under Level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under Level III.

Hedge accounting
Within the scope of hedge accounting, the Addiko Group uses only fair value hedges to hedge the market values of financial instruments. Receivables hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the receivable. The hedge serves above all to minimize the market value risk caused by interest rate changes.
No separate calculation of the fair value was carried out so as to hedge interest rate risks.

As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.
For this purpose, the Addiko Group established the expected series of payments for each financial instrument and discounted it at a rate based on market data.

88.1. Fair value of financial instruments carried at fair value

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

EUR m

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

There were no reclassifications between the individual levels in 2016.

EUR m

31.12.2015	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Financial assets held for trading	1.1	9.7	0.0	10.8
Available-for-sale financial assets	941.1	311.7	8.5	1,261.3
Derivatives - Hedge accounting	0.0	0.1	0.0	0.1
Total	**942.3**	**321.5**	**8.5**	**1,272.3**
Liabilities				
Financial liabilities held for trading	0.0	28.6	0.0	28.6
Financial liabilities designated at fair value through profit or loss	0.0	0.0	25.0	25.0
Derivatives - Hedge accounting	0.0	18.4	0.0	18.4
Total	**0.0**	**47.1**	**25.0**	**72.1**

There were no reclassifications between the individual levels in 2015.

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

EUR m

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

The column "Total gains/losses" contains both income and expenses from financial instruments which were held as at December 31, 2016, as well as from financial instruments which were no longer on the books as at December 31, 2016.

The reconciliation of the assets reported under Level III as at December 31, 2015 was as follows:

EUR m

31.12.2015	Balance at start of period (+)	Total gains/ losses	Changes in Available for sale reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	2.6	0.0	7.5	0.0	-1.5	0.0	0.0	-0.1	8.5
Total	**2.6**	**0.0**	**7.5**	**0.0**	**-1.5**	**0.0**	**0.0**	**-0.1**	**8.5**
Liabilities									
Financial liabilities designated at fair value through profit or loss	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	25.0
Total	**0.0**	**0.0**	**0.0**	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**25.0**

The column "Additions (+)" presents liabilities for which significant changes in the repayment terms occurred due to specific agreements made during the privatization process between the current and the previous owner. The nominal amount of these liabilities is EUR 100.0 million and the fair value amounts EUR 25.0 million.

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

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.
While market prices for some of the Level III items are provided externally, the market prices are either supplied with low frequency or from only one source.
The following measurement techniques are applied to items that are measured internally based on models:

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

Option measurement models
The existing portfolio of Level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

88.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

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

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

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

88.1.3. FAIR VALUE ADJUSTMENTS

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

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

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

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

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

EUR m

31.12.2016	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	3,779.9	3,710.4	-69.5	0.0	0.0	3,710.4
Held-to-maturity investments	82.6	93.8	11.2	93.8	0.0	0.0
Investment properties	2.5	2.7	0.1	0.0	0.0	2.7
Non-current assets and disposal groups classified as held for sale	39.3	39.3	0.0	0.0	0.0	39.3
Total	**3,904.3**	**3,846.2**	**-58.3**	**93.8**	**0.0**	**3,752.4**
Liabilities						
Financial liabilities measured at amortized cost	6,040.4	6.006,6	33,8	0.0	176.8	4,588.2
Total	**6,040.4**	**6.006,6**	**33,8**	**0.0**	**176.8**	**4,588.2**

EUR m

31.12.2015	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	4,262.8	4,237.7	-25.1	0.0	0.0	4,237.7
Held-to-maturity investments	81.9	81.2	-0.7	81.2	0.0	0.0
Investment properties	2.5	2.5	0.0	0.0	0.0	2.5
Non-current assets and disposal groups classified as held for sale	340.4	280.2	-61.1	0.0	0.0	280.2
Total	**4,687,6**	**4,337.3**	**-85.9**	**81.2**	**0.0**	**4,256.0**
Liabilities						
Financial liabilities measured at amortized cost	6,232.5	6,314.4	-82.0	0.0	28.3	6,286,1
Total	**6,233.7**	**6,314.4**	**-82.0**	**0.0**	**28.3**	**6,286,1**

* Previous-year figures adjusted: In 2015, an amount of EUR 18.3 million was reported as fair value.

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

(89) Offsetting

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

EUR m

	31.12.2016	31.12.2015
ASSETS	Derivative financial instruments	
a) Gross amounts of recognized financial instruments (I and II)	**1.7**	**3.5**
b) Amounts that are set off for financial instruments I	1.7	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.0**	**3.5**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	3.5
Amounts related to financial collateral (including cash collateral);	0.0	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

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

EUR m

	31.12.2016	31.12.2015
LIABILITIES	Derivative financial instruments	
a) Gross amounts of recognized financial instruments (I and II)	**15.5**	**30.8**
b) Amounts that are set off for financial instruments I	1.7	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**13.8**	**30.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	3.5
Amounts related to financial collateral (including cash collateral);	13.8	27.3
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**

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

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

(90) Derivative financial instruments

90.1. Derivatives held for trading

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

EUR m

	31.12.2016			31.12.2015		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**411.7**	**2.3**	**7.1**	**378.2**	**3.1**	**12.3**
OTC options	39.8	0.1	0.3	12.1	0.2	0.3
OTC other	371.9	2.2	6.8	366.1	2.9	12.1
b) Foreign exchange and gold						
OTC-products	**468.6**	**1.4**	**2.0**	**1,361.9**	**6.6**	**16.3**
OTC other	468.6	1.4	2.0	1,361.9	6.6	16.3

90.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2016			31.12.2015		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**54.0**	**0.1**	**6.9**	**129.8**	**0.0**	**18.4**
OTC other	54.0	0.1	6.9	129.8	0.0	18.4
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**11.7**	**0.1**	0.0
OTC other	0.0	0.0	0.0	11.7	0.1	0.0
FAIR VALUE HEDGES	**54.0**	**0.1**	**6.9**	**141.5**	**0.1**	**18.4**

The majority of derivative transactions serves the purpose of hedging fluctuations related to interest rates and foreign currency rates. Primarily, micro hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of derivatives, see note (9) Financial instruments: recognition and measurement, and note (12) Hedge accounting.

(91) Related party disclosures

The sole shareholder of the Addiko Group is the Luxembourg-based finance holding company Al Lake (Luxembourg) S.à r.l.. 96.4% of Al Lake (Luxembourg) S.à r.l. is owned by Al Lake (Luxembourg) Holding S.à r.l., and 4.6% by natural persons. Al Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (an active global private equity investor) and the European Bank for Reconstruction and Developemnt (EBRD).

Related parties as defined by the Addiko Group are subsidiaries, associates and other entities excluded from consolidation. Key management positions at the Company or the parent company are the Executive Board and the Supervisory Board of Addiko Bank AG as well as the executive boards and supervisory boards of the subsidiaries. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

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

EUR m

31.12.2016	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**5.8**	**2.1**	**0.2**
Loan and advances	0.0	0.0	0.0	2.1	0.2
Debt securities	0,0	0,0	5,8	0,0	0,0
Financial liabilities	**66.9**	**0.0**	**0.0**	**2.0**	**0.2**
Deposits	0.0	0.0	0.0	2.0	0.2
Other financial liabilities	66.9	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Notional amount of derivatives	**0.0**	**0.0**	**0,0**	**0.0**	**0.0**

EUR m

31.12.2015	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Financial assets	**0.0**	**0.0**	**0.0**	**4.9**	**0.0**
Equity instruments	0.0	0.0	0.0	0.0	0.0
Loan and advances	0.0	0.0	0.0	4.9	0.0
Financial liabilities	**0.0**	**0.0**	**0.0**	**3.0**	**0.0**
Deposits	0.0	0.0	0.0	3.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Notional amount of derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

. EUR m

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

EUR m

31.12.2015	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institutuon or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.1	0.0
Interest expenses	0.0	0.0	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**

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

EUR m

	31.12.2016	31.12.2015
Short-term benefits	9.5	6.5
Benefits after termination of employment relationship	0.0	0.0
Other long-term benefits	0.2	0.0
Payments resulting from the termination of employment relationships	0.0	0.0
Share-based payment	0.0	0.0
Gesamt	**9.7**	**6.5**

The relationships with members of the Executive Board and Supervisory Board of Addiko Bank AG are shown in detail in note (96) Relationships with members of the Company’s boards.

(92) Own capital funds as defined by the CRR

The following table presents the own funds requirements within the Group including transitional arrangements with the capital requirements as at December 31, 2016 according to the CRR at IFRS amounts and the CRR scope of consolidation (Addiko Group and Al 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 Al Lake Group.

The own capital funds of the Al Lake Group as well as the Addiko Group as defined by EU Regulation 575/2013 (CRR) are made up as follows:

EUR m

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE*	ADDIKO
Core Capital (T1 = CET1)	**749.1**	**671.4**	**795.0**	**728.4**
Paid-in capital	56.0	5.0	57.8	5.0
Reserves and non-controlling interests	657.9	713.6	3.1	1,422.8
Intangible assets	-17.3	-17.3	-12.4	-12.4
Result after tax and minorities	58.9	-23.9	752.4	-675.2
Adjustments to core capital (Prudential filters)	-6.4	-5.9	-5.9	-11.8
Tier 2 capital (T2)	**0.0**	**60.0**	**0.0**	**0.0**
Own funds (TC = T1 + T2)	**749.1**	**731.4**	**791.1**	**728.4**
Own funds requirements	**377.6**	**376.4**	**425.1**	**425.2**
Surplus - Own capital	**371.5**	**355.0**	**366.1**	**303.1**

* Previous-year figures adjusted: In 2015, an amount of EUR 748.5 million was reported in the position "Result after tax and minorities"

As a means to strengthen the capital structure, Addiko Bank AG received Tier 2 supplementary capital in the amount of EUR 60 million from the parent company Al Lake (Luxembourg) S.à r.l. on March 10, 2016.

The change in the core capital on Al Lake Group level is in particular due to a change of the ownership structure. Since December 2016 the EBRD is co-owner of the financial holding company of the Al Lake Group and is, therefore, compared to the previous structure, no longer presented as minority interests.

in %

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE	ADDIKO
Common Equity Tier 1 ratio	15.9%	14.3%	14.9%	13.7%
Own capital funds ratio	15.9%	15.6%	14.9%	13.7%

EUR m

	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	AI LAKE	ADDIKO	AI LAKE	ADDIKO
Credit risk pursuant to Standardized Approach	**4,024.8**	**3,990.4**	**4,619.5**	**4,605.3**
position-, F/X-, commodities risk	290.2	290.2	269.4	269.4
operational risk	397.3	416.8	416.3	430.6
credit valuation adjustment risk (CVA)	7.5	7.5	10.1	10.1
Total risk position value	**4,719.8**	**4,704.9**	**5,315.3**	**5,315.4**

The Company is a member of the consolidated group headed by Al Lake (Luxembourg) Holding S.à r.l., which is situated in Luxembourg. Al 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 Al Lake (Luxembourg) Holding S.à r.l. are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the provisions of section 59a BWG and are available at Addiko Bank AG headquarters in Vienna

(93) Trading book

The volume of the trading book of Addiko Bank AG breaks down as follows:

EUR m

	31.12.2016	31.12.2015*
Derivatives in trading book(nominal)	173.3	818,7
Debt securities (carrying amount)	13.7	1.1
Trading book volume	**187.0**	**819.8**

*Previous-year figures adjusted: In 2015 in the position Derivatives in trading book (nominal) an amount of EUR 1,741.1 million was presented.

(94) Employee data

	31.12.2016	31.12.2015
Employees at closing date (Full Time Equivalents – FTE)	3,152	3,756
Employees average (FTE)	3,318	3,770

(95) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent:

in TEUR

	31.12.2016		31.12.2015*	
	Severance payments	Pensions	Severance payments	Pensions
Key management personnel	84.0	5.9	32.8	5.6
Other employees	336.9	78.4	521.7	69.8
Members of Executive Board	58.3	18.9	85.6	63.3
Total	**479.2**	**103.2**	**640.1**	**138.7**

*Previous-year figures adjusted: In the previous year, expenses in the amount of EUR 134.4 million were reported under severance payments for other employees.

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 336.0 thousand (2015: EUR 321.0 thousand).

(96) Relationship with members of the Company's boards

96.1. Advances, loans and liabilities with regard to board members

As at December 31, 2016, the Addiko Bank AG boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

96.2. Breakdown of remuneration received by board members of the ultimate Group parent

Remuneration received by the members of the Executive Board and Supervisory Board of Addiko Bank AG for carrying out their functions, received from this or from another Group company, is presented as follows:

in TEUR

	31.12.2016	31.12.2015
Executive Board	**3,944.7**	**2,077.3**
thereof ongoing payments	3,944.7	2,077.3
Supervisory Board	**168.5**	**151.4**
Total	**4,113.2**	**2,228.6**

The members of the Executive Board and Supervisory Board are stated in note (97) Boards of the Company.

(97) Boards of the Company

January 1 to December 31, 2016

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Martin Handrich
Dragica Pilipović-Chaffey

Delegated by the Works Council:
Horst Floriantschitz
Christian Lobner
Saša Nedić, until May 9, 2016

Executive Board

Ulrich Kissing, Chairman of the Executive Board
Johannes Proksch, Member of the Executive Board
Markus Krause, Member of the Executive Board
Csongor Bulcsu Németh, Member of the Executive Board
Martin Stefan Thomas, Member of the Executive Board
Razvan Munteanu, Member of the Executive Board, from January 1, 2016
Christian Kubitschek, Member of the Executive Board, from April 16, 2016

(98) Scope of consolidation

The consolidated group of companies as defined under IFRS as at December 31, 2016 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered offices	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	100.0	31.12.2016	CI
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o.	Ljubljana	100.0	100.0	31.12.2016	FI
Addiko Bank d.d.	Zagreb	100.0	100.0	31.12.2016	CI
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.0	100.0	31.12.2016	FI
ADDIKO INVEST d.d.	Zagreb	100.0	100.0	31.12.2016	FI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	100.0	31.12.2016	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2016	CI
Addiko Bank d.d..	Sarajevo	100.0	100.0	31.12.2016	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8	99.8	31.12.2016	CI

(99) Events after the reporting date

At the end of January 2017, Addiko Bank AG received a decision with regard to the adequacy of its own funds as well as the proceedings with regard to the Group's liquidity (Joint Risk Assessment & Decision Process - JRAD) from the Austrian Financial Market Authority (FMA). Pursuant to this decision, own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the date the corresponding decision is issued by the FMA, Addiko Bank AG is required to maintain a Total Capital Ratio (TCR) of 12.9% (2016: 14.5%), a TIER I ratio of 9.7% (2016: 10.9%) and a CET 1 ratio of at least 7.2% (2016: 8.1%) at holding level as well as at the level of the Addiko and Al Lake scopes of consolidation. Additionally, the capital conversation buffer is to be taken into account, which increases by 0.625% each year, starting at 0.625% in 2016 and scheduled to reach 2.5% in 2019.

At the beginning of February 2017, the current refinancing lines of Addiko Bank AG were transfered to HETA Asset Resolution AG based on a settlement, resulting in a positive effect on the equity base of the Addiko Group.

The warranties and mutual contractual connections between the current and the previous owner, HETA Asset Resolution AG, which had been agreed upon the disposal of the SEE banking network in 2014, have thus largely been terminated.

On February 14, 2017, Mr. Martin Handrich stepped down as Member of the Supervisory Board.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Martin Stefan Thomas

Razvan Munteanu

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, February 22, 2017
Addiko Bank AG

EXECUTIVE BOARD

Ulrich Kissing
(Chairman)

Johannes Proksch

Christian Kubitschek

Markus Krause

Csongor Bulcsu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

Auditor's Report

Report on the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Addiko Bank AG, Wien (the Company), and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the Group statement of comprehensive income, the Group statement of changes in equity and the Group statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion
We conducted our audit in with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB] and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Management Report for the Group

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code and the Austrian Banking Act.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Vienna, February 23, 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker Wirtschaftsprüfer	Dr. Nikolaus Müller Wirtschaftsprüfer

Report of the Supervisory Board

Dear Shareholders,

The fiscal year 2016 marked an important milestone for the Group to begin a new era under the Addiko brand and by means of a successful restructuring the Group started to built the basis for profitable growth and fulfill its promise on delivering long term sustainable business.

In order to achieve operating excellence and cultural transformation, change was the dominant theme in 2016.

In line with the rebranding Addiko Group has established a clear vision of providing Straightforward Banking to the customers across the markets by focusing on essentials, delivering on efficiency and communicating simplicity.

Addiko's target remains on the key segments of Retail, SME and Corporate by focusing its activities on the key trends of digitalization and customer experience. Several key strategic projects, e.g. sales force effectiveness and end-2-end process optimization in Retail and Corporate, support the growth of Addiko's customer business.

The Group made a clean break from the past and decided to refrain from large, structured transactions and large real estate developments. In addition to focusing on its core business, Addiko is in the process of exiting non-core business like leasing and asset management.

An intelligent risk management with a strong risk culture, that balances risk and return, ensures that Addiko's risks are well under control and actively managed. For the Group this is a key to success in profitably growing its customer base and business volume, while ensuring compliance with all national and international regulatory re-quirements and professional compliance standards.

A new target operating model was prepared to achieve the overarching target of moving Addiko into profitability. With the implementation of a matrix organizational structure, a

one-bank approach was achieved, which realizes synergies and supports group wide efficiency and steering, while at the same time creating transparency.

Throughout the year Addiko Bank Group has shown cost discipline and delivered on significant cost reduction.

Local economies in 2016 are improving but are still volatile. Banks in Croatia, Bosnia and Herzegovina and Mon-tene-gro were affected state measures concerning the past lending indexed in Swiss Franc, which impacted financial results of these subsidiary banks.

Activities of the Supervisory Board

During the year under report, the Supervisory Board performed all of the duties incumbent upon it, in a highly conscientious manner and in accordance with the law, the Company's statutes and its own terms of reference.

It assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the quarterly meetings of the Supervisory Board and its' Committees, the Management Board reported in depth on Addiko's financial situation and business performance. The Management Board discussed strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, it undertook the measures necessary to assure itself that the governance of Addiko's affairs was lawful, compliant and appropriate.

The Supervisory Board had formed the following six standing Committees,

- the Audit and Compliance Committee (which held seven meetings in 2016),
- the Credit Committee (which held nine meetings in 2016),
- the Risk Committee (which held five meetings in 2016),
- the Nomination Committee (which held two meetings in 2016),
- the Remuneration Committee (which held three meetings in 2016) and
- the Committee for Management Board Matters (which held two meetings in 2016).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committee's of Addiko's Supervisory Board were in regular contact with the Management Board.

The Supervisory Board within quarterly meetings was regularly informed on topics that included business performance in the previous quarter, financial performance, risk development and significant issues, as well as major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of monthly business reports. In addition, the Supervisory Board was also received regular reports of key executives, especially the Compliance and Internal Audit Officer.

The strategic discussions conducted by the Management Board and the Supervisory Board included, the aim to establish a final settlement with the previous owner with regard to an early repayment of the provided funding. These discussions intensified during the 2016 fiscal year and within several Supervisory Board meetings, the Management Board reported on the establishment of additional funding capabilities to achieve sufficient funds for an early repayment. During various Supervisory Board meetings, detailed reports on this plan and its inherent opportunities and risks were given, as well as Addiko's liquidity situation was conscientiously assessed. These finally led to the Management Board deciding in favor of an early repayment of the funding and thereby, establish a final settlement with the previous owner. This opinion was shared by the Supervisory Board, which therefore approved to conclude a three party settlement agreement to establish a final settlement within an extraordinary meeting held on the 21st of December 2016 and which was finally executed on the 6th of February 2017.

Personnel matters

At the beginning of 2016, Mr. Razvan Munteanu joined the Management Board of Addiko Bank AG as Chief Retail Banking Officer as of 1st of January 2016, in order to foster the market development within this area.

In addition, Mr. Christian Kubitschek joined the Management team as Chief Financial Officer on 16th of April 2016, while Johannes Proksch, former Chief Financial Officer, assumed the responsibility as Chief Transformation Officer.

During the year under report, changes were also made to the composition of the Supervisory Board, as the representative of the worker's council, Mr. Sasa Nedic decided to leave the company as of 31st of May 2016 and therefore his appointment within the Supervisory Board ceased to exist and the worker's council waived its' right to appoint a further representative.

Separate and Consolidated Financial Statements 2016

Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, registration number 36059d, audited the separate financial statements of Addiko Bank AG and the consolidated financial statements of Addiko Group as of 31st December 2016, as well as the Management Report and issued unqualified audit opinions.

The separate Financial Statements of Addiko Bank AG and the consolidated financial statements of Addiko Group are prepared in accordance with the regulation of the Austrian Banking Act (BWG) and -where applicable- with the provisions of the Austrian Commercial Code (UGB) and the Management Report and the Management Board's pro-posal for the allocation of the annual profit 2016 – all prepared by the Management Board – were thoroughly dis-cussed with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on the 27th of February 2017.

At the meeting, the aforementioned Committee resolved to propose approving the two sets of financial statements by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the committee's recommendations at the meeting of the Supervisory Board on 27th of February 2017. At this meeting the financial statements were examined thoroughly in the presence of the auditor and scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Report on Addiko Bank AG, as well as that of Addiko Group were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Addiko Bank AG has, pursuant to the Austrian Commercial Code in conjunction with the Austrian Banking Act, for the financial year 2016 a profit carried forward (Bilanzgewinn) in amount of EUR 430.0 mil-lion. Accordingly, it is proposed to the upcoming Annual General Meeting to used it as follows: (i) an amount of EUR 130.0 million will be used by the shareholder to fulfill the Tier 2 Loan Agreement concluded with the Company on the 22 February 2017 in order to generate subordinated capital, and (ii) an amount of EUR 300.0 million will be dis-tributed by the Company.

The result of the audit is that the Supervisory Board has no objections to the financial statements and the audit performed by the auditor.

The Supervisory Board therefore concurred with the results of the audit on 27th of February and approved the separate and consolidated financial statements of Addiko Bank AG, as well as the those of Addiko Group. The sepa-rate financial statements have therefore been adopted.

The Supervisory Board would like to express thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in the 2016 and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti
Chairman of the Supervisory Board

Vienna, February 27, 2017

Imprint

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Forward-looking statements and forecasts are based on information and data available at the time of going to press **(February 22, 2017)**. Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a transla-tion. Only the German is the authentic language version. All uses of the third person pro-noun in the masculine form in this Group Annual Report that were used in the interests of better legibility also cover the feminine form.
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