Group Annual Report 2015

Hypo Group Alpe Adria

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

Hypo Group Alpe Adria AG (Group) EUR m

	2015	2014
Income statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	180.2	193.4
Net fee and commission income	52.1	58.8
Impairment of financial instruments - loans and receivables	-318.1	-130.3
Operating expenses	-237.0	-207.8
Operating result – prior to risk provisions on loans and advances	-321.0	55.1
Operating result – after risk provisions on loans and advances	-639.1	-75.3
Result after tax	-675.1	-97.4
Statement of financial position	**31.12.**	**31.12.**
Loans and advances to customers	4,156.0	5,159.8
Deposits of customers	3,915.3	3,998.7
Equity (including non-controlling interests)	752.6	1,228.9
Total assets	7,415.5	8,031.7
Risk-weighted assets (banking book)	5,315.4	n.a.
Key figures	**1.1.-31.12.**	**1.1.-31.12.**
Cost/income ratio	n.a.	79.1%
Net interest income/Ø risk-weighted assets (banking book)	3.8%	3.8%
Risk/earnings ratio	176.6%	67.4%
Risk/Ø risk-weighted assets (banking book)	6.9%	2.5%
Bank-specific figures	**31.12.**	**31.12.**
Own capital funds according to CRR	728.4	1,192
own funds requirements	425.2	474
Surplus Capital	303.1	718
Core capital (Tier 1)	728.4	1,192
Tier 1 ratio	13,7%	20,1%
Own capital funds ratio	13,7%	20,1%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent – FTE)	3,756	3,655
Employees average (FTE)	3,770	3,761
Number of locations	235	236

Group Annual Report 2015

Group Management Report

1. Overview of Hypo Group Alpe Adria

Hypo Group Alpe Adria AG ('Hypo Group Alpe Adria', 'HGAA') is a network of banks, headquartered in Austria, with its core business in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro. At reporting date 31 December 2015 HGAA was operating through six banks in five countries in the South-East European region, serving over 1.1 million clients with 3,756 employees.

2015 was a short fiscal year for HGAA as the carve-out from HETA Asset Resolution was completed on 1 April 2015 in preparation of closing the sale to Advent International which took place in July 2015.

2. General economic conditions

Economic recovery in the euro zone continued in 2015, with a gross domestic product growth of 1.6%, with household consumption being the main growth driver in most of our countries of presence. The euro trade-weighted depreciation has bolstered competitiveness, especially during the first half of 2015, which implies that net exports also underpinned the recovery. However, while most countries benefit from plunging oil prices this year as well, the latter is also viewed as a sign of slowing global demand, especially in emerging markets like China, which can have negative spillovers on the real economy and financial markets as well.

Slovenian GDP rose 2.9% in 2015. Notwithstanding some slowdown in the second half of the year amid weaker demand from emerging markets, exports proved resilient due to both price and non-price competitiveness. Meanwhile, consumer spending is underpinned by a stronger labor market, consumer confidence, low oil prices and easier credit conditions. Downside risks include a short-lived recession amid a larger-than-expected impact of the past slowdown in emerging market economies and tighter financial conditions in the event of renewed fiscal concerns across the EMU periphery.

Emerging from a multi-year recession, Croatian GDP grew by 1.6% in 2015 thanks to export of services, lower oil imports and a pick-up in private consumption. Apart from exceptionally strong tourism activity, households' spending was also supported by a number of one-offs; oil price slump, personal income tax cuts, the strongest real wage growth in eight years, temporary social benefits hikes and lower in terest rates. Investments were supported by more favorable financial conditions and pre-election infrastructure works.

Serbian recovery came sooner than expected thanks to strong export performance and investment activity, while private consumption, although recovering, still remains the main drag on headline GDP. The overall growth in 2015 of 0.8% was a small but important step forward after the severe impact of floods in the year before which led to a decline of the economy of 1.8%.

In **Bosnia and Herzegovina**, GDP growth amounted to 2.4% in 2015 with investments as the strongest growth driver. GDP growth was also supported by higher domestic consumption and exports as the latter enjoyed strong tailwinds amid easier access to the EU markets after the Stabilization and Association Agreement came into force last summer. Downside risks mainly stem from the domestic political landscape. While the general lack of investment alternatives and favorable financial conditions allowed Bosnia and Herzegovina to secure funding at lower yields, securing the IMF arrangement is crucial, as the Ministry of Finance will not be able to increase T-bill stock indefinitely as banks run into the sovereign exposure limits. All levels of the Government have recently signed the Reform Agenda as a prerequisite for the IMF stand-by agreement, and according to the last information, IMF talks are focused on a new EUR 1 billion deal.

Montenegro showed a GDP growth of 3.4% in 2015 owing to a solid first half performance, strong third quarter 2015 tourism results and decent industrial production as well as construction activity

3. Significant events in the financial year 2015

3.1. Privatization and new ownership structure

The year 2015 marked an important milestone for Hypo Group Alpe Adria: the finalization of the privatization of the Group by the Republic of Austria via its trustee FIMBAG (Finanzmarktaktiengesellschaft des Bundes) and following the official approval by the European Commission, the European Central Bank (ECB) and the Austrian Financial Market Authority (FMA). After the successful Closing on 17 July 2015, AI Lake (Luxembourg) S.á.r.l., a holding company owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD), became the new owner of Hypo Group Alpe Adria.

Founded in 1984, Advent International is one of the largest and most experienced global private equity investors. With offices on four continents, across North America, Europe, Latin America and Asia, the company has invested in more than 300 buyout transactions in 42 countries and actively managed EUR 27 billion in assets. The firm focuses on investments across five core sectors, including business and financial services; healthcare; industrial; retail, consumer and leisure; and technology, media and telecom.

EBRD is a multilateral bank committed to the development of market-oriented economies and the promotion of private and entrepreneurial initiative in more than 30 countries. The Bank is owned by 65 countries, the EU and the European Investment Bank. Since its foundation in 1991, EBRD has invested more than EUR 100 billion in support of prosperous economies based on a flourishing private sector, a sound banking sector, modern infrastructure and efficient use of energy. As an investor the EBRD promotes innovation, growth and transparency.

Both Advent International and EBRD have a strong track record of committing capital in the financial services sector as well as regionally in Central and South-Eastern Europe. Both owners have ambitious plans with a goal of establishing HGAA among the top players in the region.

3.2. New management team

With the privatization completed Ulrich Kissing was appointed Chief Executive Officer of HGAA on 17 July 2015, replacing Alexander Picker, who resigned on 30 June 2015, while Markus Krause was appointed as Chief Risk Officer on 17 August 2015, replacing Stefan Selden, who resigned from his position on 16 August 2015. As Rainer Sichert resigned from his position as Chief Operations and Market Officer as of 25 September 2015, two new members joined the Management Board team as of 1 November 2015, Martin Thomas (Chief Operations Officer) and Csongor Németh (Chief Corporate & SME Banking Officer) fostering the market functions, together with Razvan Munteanu (Chief Retail Banking Officer) who took up this position as of 1 January 2016. The management team is completed with the appointment of Christian Kubitschek as Chief Financial Officer while Johannes Proksch, former Chief Financial Officer, assuming the responsibilities as Chief Transformation Officer in mid April 2016.

Walter Knirsch (Chairman of the Supervisory Board), Dietmar Spranz (Vice-Chairman) and Thomas Capka (Member) handed over their functions within the Supervisory Board of HGAA, to Marko Voljč (Chairman of the Supervisory Board), Hans Lotter and Henning Giesecke (Vice-Chairmen of the Supervisory Board) and Dragica Pilipović-Chaffey, who were appointed by decision of the General Assembly as of 17 July 2015, thus joining Martin Handrich, who was appointed as of 29 January 2015.

After supporting the team within the first restructuring process, Marko Voljč, resigned as Chairman of the Supervisory Board on 30 November, with Hermann-Josef Lamberti, being appointed to the Supervisory Board and by its members appointed Chairman of the Supervisory Board on 16 December 2015.

On 22 September, the Worker's Council of HGAA appointed Horst Floriantschitz, Christian Lobner and Saša Nedić as their representatives to the Supervisory Board of HGAA.

3.3. New Business Strategy

In the second half 2015, the new management defined the business strategy based on the new owners' guidance to re-establish the Group in the market, following years of restrained business activity imposed by the European Commission in the context of a state-aid proceeding on the previous owner. The strategy focuses predominantly on private individuals and SME clients to support them in achieving their financial goals. The established footprint in the corporate and public sector, on the other hand, will be maintained while focusing on the real economy.

As a precondition to the implementation of the strategy a restructuring program together with a rebranding project has been initiated in 2015.

3.4. Restructuring & Reorganization

The new management initiated a rigorous assessment of the entire organization. Further to this, a comprehensive restructuring program was started in order to bring efficiency levels to competitive standards. The program has already launched specific initiatives including the rightsizing of the branch network and the headquarters at both holding and local levels. These initiatives, that shall be largely completed by the second quarter of 2016, will result in the closure of 27 branches and sales points as well as headcount reductions of around 700 FTEs (mainly back-office and corporate center), with associated cost savings of above EUR 20 million (2016 and 2017). Apart from that, an optimization of the administrative cost base with a defined savings potential of above EUR 10 million (2016 and 2017) has been introduced, to be accompanied and followed by a continuous optimization process.

As for the organizational structure, special emphasis is placed on the shift of central group functions to the region: the overall goals of these 'Competence Centers' include the improvement of quality (proximity to clients, bundling of internal strengths and capabilities, etc.) and increase of efficiency (economies of scale, etc.). Additionally, the Competence Centers shall also act as platform for talents and spring board for further professional development.

Both the restructuring and reorganization will lay the foundation for a positive and prosperous development of HGAA. Therefore, the fast execution of restructuring initiatives is enforced with highest attention to shift the company's focus onto sustainable business growth. First successful initiatives such as the optimization of core processes, CRM tools, and sales incentive schemes have already been started alongside the digitalization of the bank, with more initiatives to follow in 2016.

3.5. Swiss Franc conversion laws

In 2015, the governments of Croatia and Montenegro reacted against the appreciation of the Swiss Franc and approved politically motivated loan conversion laws forcing banks to convert Swiss Franc loans, which were granted in the past, at historical rates into Euro.

Hypo Alpe-Adria-Bank d.d. Zagreb already offered its clients a possibility to convert these loans in 2009 and 2010 as a response to the first signs of Swiss Franc appreciation. Nevertheless the Croatian government reacted with amendments to the Consumers Financing Act, fixing in a first step the interest rate of 3.23% as of 1 January 2014 and in a second step the HRK/CHF FX rate at 6.39 for the period of one year as of 15 January 2015. In August 2015 the Croatian authority announced even more severe changes of the Consumers Financing Act forcing banks to convert Swiss Franc loans to Euro loans with an FX rate effective on the day the loan was granted. Despite the strong arguments made by Croatian banks and their international parent companies on the negative implications of the law (anti-constitutional expropriation, not reflecting social circumstances of borrowers, etc.) and despite suggestions of possible, more favourable alternative solutions, the Croatian Government enacted the said measure effective 30 September 2015. According to the Croatian National Bank (CNB), the impact of the legislation would result in HRK 8 billion of immediate expenses (equivalent to expected three years profit before taxes of eight major banks) with fiscal effects concentrated in the two to three years after the introduction of the regulatory measures. As a consequence Hypo Alpe-Adria-Bank d.d. Zagreb recorded a loss of EUR 247.5 million in September 2015 fully reflecting the Swiss Franc conversion law and submitted an appeal to the constitutional court on 14 October 2015.

In Montenegro the Law on Loan Conversion from Swiss Francs to Euro was officially announced on 14 August 2015. The new set of rules required the bank to convert Swiss Franc loans to Euro loans retroactively using the FX rate effective on the day the loan was granted and to recalculate interest on the loans by applying a fixed interest of 8.2%. Hypo Alpe-Adria-Bank AD Podgorica recorded a loss of EUR 11.0 million in September 2015 fully reflecting the Swiss Franc conversion law and submitted an appeal to the constitutional court on 27 August 2015.

3.6. Indemnity settlement with HETA and final NPL carve-out completed in 2016

In connection with specific agreements made during the privatization process between the current and the previous owner, Hypo Group Alpe Adria received on the 10 March 2016 a capital increase in amount of EUR 265 million and a Tier 2 supplementary capital instrument in amount of EUR 60 million in the form of a debt settlement to compensate for losses resulting from Swiss Franc conversions and from credit deterioration of a specific part of the retail portfolio. In addition, in the first quarter in 2016, a process aimed to transfers back to the previous owner non-performing assets in amount of EUR 223.3 million has been concluded, resulting in a further improvement of the asset quality of the Bank (pro forma NPL ratio 11.0%, pro forma coverage ratio 67.2%) and a significant improvement in the capital ratios of the Group.

By taking into account the said capital increase and RWA reduction connected with the transfer of the retail portfolio, Hypo Group Alpe Adria can base its future business activities on a solid capitalisation, showing as of December 2015 a pro-forma common equity tier 1 (CET1) ratio of 21.0% and a pro-forma total capital ratio (TCR) of 22.2%.

4. Economic development of the Group

4.1. Overview

In the 2015 financial year, Hypo Group Alpe Adria AG focused on further portfolio adjustments as well as the establishment of a functional and efficient management holding company while laying the ground for a sustainable recovery to a top player in the region.

In summary the Group recorded an operational loss of EUR -71.1 million not reflecting one-off effects in the amount of EUR -604.1 million. The Group's result for 2015 after tax therefore amounts to EUR -675.2 million (2014: -97.4 million). The operational loss is mainly due to a further contracting loan portfolio, decreasing margins and a not sustainable cost base - all three topics have been addressed immediately following the change of ownership in the second half of 2015 aiming to reach break-even in 2017.

In summary, the one-off effects on the Group’s result for the year are presented as follows:

- losses in the amount of EUR 235.6 million resulting from legislation requiring the conversion of customer loans (Swiss Francs to euro) in Croatia and Montenegro
- Increased need for provisions due to harmonization risk policies across the Group and connected with

the review of the recoverability of the retail portfolio in the amount of EUR 269.4 million
- Provisions for legal risks related to consumer protection claims and other pending legal issues out of lending business in the amount of EUR 20.8 million
- Restructuring costs for efficiency measures introduced in the network and at the holding company in the amount of EUR 34.5 million

Due to the fact that operational activity of the Holding only commenced at the beginning of September 2014 (upon receipt of the Austrian banking license), the reported figures can only be compared to a limited extent to the previous year.

4.2. Development of the result

The Group's net **interest income** declined to EUR 180.2 million (EUR 193.4 million), mainly due to the persistently low interest rate environment, which was not fully offset by loan growth. In particular early repayments and portfolio migrations determined an extraordinary outflow in the interest-bearing lending business, which the Group was not able to entirely compensate despite a positive development in new business.

In the deposits business, a significant reduction in interest rates (-22 bps) was achieved at only a slightly lower deposit volume. Overall, part of the decrease in interest income was compensated for, and first signs of success were already detected in the efforts to ensure the efficient refinancing capabilities of Hypo Group Alpe Adria local banks.

Net fee and commission income decreased slightly to EUR +52.1 million (EUR +58.8 million). This is particularly due to low revenue in the payment transactions and credit card business as a consequence of the result of less sales activities as the Group was in the middle of transformation and closing procedures.

The result from **trading** which had contributed EUR 10.3 million to the result for the previous year fell by EUR 25.8 million to EUR -15.5 million in the 2015 financial year. This negative development mainly results from losses in Croatia in the course of Swiss Franc devaluation.

The **gains or losses on financial assets and liabilities, not measured at fair value through profit or loss** reported a loss in amount of EUR 6.7 million (EUR +6.1 million), as changes in estimates regarding the repayment maturity of financial liabilities carried at amortized cost determined a premature recognition in the income statement of the difference between the nominal amount and the carrying amount. In the comparative period, the positive contribution in amount of EUR 6.1 million was attributable to one-off effects connected with the sale of available for sale financial assets.

The **other operating result** declined from EUR -5.8 million in the previous year to EUR -293.9 million, being significantly influenced by the legislation requiring the conversion of customer loans (Swiss Francs to Euro) in Croatia and Montenegro. In September 2015 the Croatian Parliament adopted changes in the legislation that allows debtors of Swiss Franc loans to convert their loans into Euro loans at an exchange rate, which corresponds to the exchange rate at the time of origination of the loans. The purpose of these legislative changes is, that the debtors of Swiss Franc loans are placed by their banks in the same position that they would have been in, had their loans, from inception, been denominated in Euro. The amendments came into force as of 30 September 2015. Due to the amendments, a provision was built to cover the related expected losses amounting to EUR 211.4 million in Croatia. In order to give a full picture about the impacts in Croatia from Swiss Franc in 2015 it should be also remarked that, in addition to the provisions for the loan conversion, EUR -13.2 million have been recognized in trading result as consequence of the first measures introduced by the Croatian government on the 15 January 2015 (fixing of the HRK/CHF FX rate at 6.39 for the period of one year) and that EUR -22.9 million have been recognized as internal costs for restructuring the intragroup funding, bringing the total losses for the Croatian subsidiary to EUR 247.5 million.

A similar legislation has been previously approved in August 2015 in Montenegro, which determined the need to recognize a provision in amount to EUR 11.0 million.

In addition this position also included expenses of EUR 9.8 million resulting from provisions for litigations with customer protection associations and of EUR 11.0 million for pending legal issues out of lending business which normally occur in banking business. Further, the position other operating result was negatively affected by the measurement criteria connected with the classification of a leasing portfolio as Held for Sale.

Expenses as compared to the previous year increased from EUR -207.8 million to EUR -237.3 million. The increase is mainly due to personnel expenses (increase from EUR -13.6 million as compared to the previous year) and other administrative expenses (increase from EUR -18.6 million as compared to the previous year). The higher cost base in personnel expenses, however, primarily results from the transfer of personnel from HETA to HGAA Holding in April 2015 who previously performed their tasks via service level agreements and additional one-off effects in the amount of EUR -20 million taken into account in the course of restructuring the network banks.

Depreciation and amortization of property, plant and equipment as well as intangible assets amounted to EUR 27.2 million in the previous year. In the 2015 financial year, this item decreased by EUR -2.8 million to EUR 24.4 million. The decline was mainly due to the disposal in October 2014 of the company HYPO ALPE ADRIA NEKRETNINE d.o.o., owner of the headquarter building of the Croatian Bank subsidiary.

In total, **operating income** amounted to EUR -83.8 million (2014: EUR +262.9 million), while operating expenses were EUR 237.2 million (2014: EUR 207.8 million). This determined an operating result of EUR -321.0 million (2014: EUR +55.1 million).

New **risk provisions** to be recognized amounted to EUR 318.1 million in 2015, corresponding to an increase by EUR 187.8 million as compared to the previous year (EUR 130.3 million). Aside from the still challenging general economic environment in Hypo Group Alpe Adria AG's core markets, the increased amount primarily results from additional coverage requirements in relation to the retail portfolio, as recovery backtesting indicated the need to additional provisioning levels necessary to achieve the provision coverage ratio derived from historic experience.

Taking into account planned portfolio transfers of non-performing loans which triggered the classification as Held for Sale as well as proactive watch loan management, the NPL ratio was reduced from 12.2% to 11.25% in 2015.

Impairment losses of non-financial assets include write-downs on property, plant and equipment as well as intangible assets which were performed in the banking network in the 2015 financial year.

After impairments are taken into account, the 2015 result for the year before tax amounts to EUR -655.9 million (2014: EUR -92.3 million).

Taxes on income in the 2015 financial year were negative at EUR -19.2 million (2014: EUR -5.1 million), resulting from writing off deferred tax assets.

The **net income** after tax is therefore EUR -675.2 million (2014: EUR -97.4 million).

4.3. Development of the statement of financial position

The **total assets** of Hypo Group Alpe Adria decreased by EUR -616.1 million (-8%) from EUR 8,031.7 million to EUR 7,415.5 million in the 2015 financial year, driven mainly by limited new customer lending volume and a significant increase of risk provisions on the non-performing loan portfolio.

Total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel 3 phased-in) decreased to EUR 5,315.4 million (EUR 5,927.8 million).

The **cash and cash equivalents** amounting to EUR 1,319.0 million (EUR 1,382.9 million) assure a strong liquidity position.

Trading and investment securities held in the categories **financial assets held for trading** and **financial assets available for sale** increased at EUR 1,272.1 million (EUR 1.091.3 million), indicating as well the good liquidity position of the Group.

Overall **net receivables** (gross receivables less credit risk provisions) decreased from EUR 5,236.4 million (2014) to EUR 4,262.8 million, a decrease by EUR -973.7 million. Loans and receivables to credit institutions (net) increased to EUR 106.8 million (EUR 76.7 million). Loans and receivables to customers (net) decreased to EUR 4,156.0 million (EUR 5,159.8 million). The reduction in net receivables to customers was particularly influenced by limited new-business activities due to restrictive credit risk policies and still ongoing recession in major core markets. In addition the decrease in net receivables was also driven by the reclassification of a portfolio of non-performing assets and of leasing receivables in amount of EUR 289.3 million into the position non-current assets and disposal groups classified as Held for Sale.

Tangible assets decreased by EUR 37.7 million from EUR 144.9 million in the 2014 financial year to EUR 107.2 million. This decline is mainly due to the reclassification of EUR 25.3 million Investment Properties into the position non-current assets and disposal groups classified as Held for Sale.

Intangible assets stood at EUR 12.4 million slightly below compared to the previous year (EUR 19.4 million).

Tax assets decreased to EUR 3.1 million, mainly due to the non recognition of deferred tax assets on taxable losses (EUR 26.1 million).

Other assets decreased to EUR 16.5 million (EUR 45.9 million). This decline is mainly due to write-downs on repossessed assets in the subsidiaries in Croatia, Bosnia and Herzegovina and Montenegro and the reclassification of EUR 25.2 million of repossessed assets into the position non-current assets and disposal groups classified as Held for Sale.

The position **non-current assets and disposal groups classified as Held for Sale** includes a portfolio of non-performing customer receivables and non operative real estate assets in amount of EUR 220.1 million which has been transferred during the first quarter in 2016. In addition this position includes a portfolio of leasing receivables in amount of EUR 120.3 million which is being actively marketed.

On the liabilities' side, **financial liabilities held for trading** changed by EUR +20.9 million in the reporting period as compared to the previous year, primarily as result of an increase in derivatives.

In connection with specific agreements made during the privatization process with the previous owner, the repayment conditions of financial liabilities with a volume of EUR 100.0 million has been significantly modified, with the consequence that these liabilities have been classified under the position **financial liabilities measured at fair value**.

The **deposits** declined by EUR 395.2 million to EUR 4,295.6 million in the 2015 financial year. This development is mainly driven by the reduction of deposits from banks, while the deposits from customers stood stable at EUR 3,915.3 million (EUR 3,998.7 million).

There were significant changes in **provisions** in the 2015 financial year. Provisions rose from EUR 41.9 million by EUR 242.0 million to EUR 283.9 million. This development is significantly influenced by the conversion of customer loans (Swiss Francs to Euro) in Croatia and Montenegro.

The reduction in **equity** of EUR -476.3 million to EUR 752.6 million was primarily due to the loss of EUR -675.2 million in the 2015 financial year and compensated by EUR 189.4 million increase in equity from the current shareholder as well by EUR 9.5 million from the increase in the Available For Sale reserves and in the FX-reserves.

As of 2014, Hypo Group Alpe Adria has calculated consolidated **regulatory capita**l according to Basel 3. The calculation follows the requirements as defined by the capital requirements regulation (CRR). As of 31 December 2015 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 13.7% (20.1%), well above the legal minimum requirement (8%). The pro-forma CET1 ratio, by taking into consideration the Swiss Franc conversion loss compensation and specific retail risk losses compensation received via debt settlement (capital increase) in the first quarter and the transfer of non-performing loans performed until the end of March 2016, amounts to 21.0%. The pro-forma Total Capital Ratio by taking into consideration the above elements amounts to 22.2%.

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

After the successful privatization in the second half of 2015, HGAA could shift its focus to restructuring its organization and to restart its market activities. The year 2015 saw the implementation of several strategic decisions concerning stability, active performance management, raising the efficiency of the operating platform and enabling future development of HGAA. The primary focus was set on developing Retail and SME business segments, while maintaining the corporate portfolio by remaining a strong partner for our corporate clients. Accordingly, a higher credit quality of the new business was achieved by setting up better risk control and management systems. At the same time, margins were held or even improved. Emphasis was also placed on maintaining and growing a stable deposit base along with the decrease of interest expense, as well as on increasing the profitability of the branch offices and the business network optimization, which will support the business plans in future years. Total cost in the banking units was further reduced through professional cost management.

HGAA laid the foundations for a new more focused strategy and sustainable future of the Group and subsidiary banks. By further consolidating its regional corporate strategy, leveraging its integrated business model, implementing latest regulatory initiatives as well as improving its operational, sales and CRM activities, HGAA has made progress in all areas that encompass the Group's business strategy. In 2016, the Group's focus will be on generating long-term sustainable business while at the same time aiming achieving operational excellence in a number of areas.

The new ownership structure enables HGAA to be 'back on the market' and focus on client business, with HGAA's aim to improve its market position, especially in Retail and SME segments. This requires HGAA to improve its processes in order to become leaner and faster. The three main areas are: products and organization, proximity to clients, efficiency improvement and cost control. Accordingly, HGAA's priority was and continues to be: improvement of the front-to-back office ratio, reduction of reporting complexity, introduction of quality cost-efficiency, balancing between the cost-control with necessary investments that will foster business growth, and development of new and convenient digital services that correspond with client's everyday needs.

5.2. Human resources management

Ongoing organizational changes, after the successful privatization, continue to have impacts on the employees of the Hypo Group Alpe Adria.

The number of active employees increased slightly from 3,655 FTEs (full-time equivalents) on 31 December 2014 to 3,756 FTEs on 31 December 2015 mainly owing to the transfer of personnel from HETA to HGAA Holding in April 2015 who previously performed their tasks via service level agreements. A specific head-count reduction was announced in December 2015 focusing on the Holding and regional corporate centers in the context of the restructuring program and will be fully implemented in 2016.

The Human Resources department focused on the following areas in the 2015 financial year:

- Sale finalization of the South-East European network
- Reorganization and optimization of the overall organizational structure
- Evaluation of the possibility to establish competence centers

Both local Human Resources departments and HGAA Human Resources acted as an adviser during the whole strategic realignment. The idea of getting closer to the customers, markets and key stakeholders along with the need to significantly reduce labor costs gave direction to all Human Resources measures. In regard to the change process, Human Resources were in particular responsible for providing support for both managers and employees in ensuring changes to the organization are implemented successfully.

In the future, Human Resources will focus on supporting the business in the capability uplift in all the countries, set up of competence centers and right-sizing of the operations. With the focus on raising the Group's business capabilities, supporting the corporate transformation, the new brand and building a high performing organization Human Resources will actively participate in the reorganization process, focus on establishment of the new cultural change in sense of commitment, teamwork, cooperation, leadership and talent development, recruitment, resetting the performance management system, and branding the Group as an attractive and desirable employer, which all are the basis or long term corporate success.

In 2015, Learning & Development paid special attention on using budgetary and time resources as precisely as possible. In respect of future competence centers, parts of Learning & Development were already coordinated between the Holding and local subsidiaries to profit from already existing know-how.

Going forward, Learning & Development will continue to concentrate on generating synergies by cross-functional and cross country initiatives within all areas of the company.

Following the change of ownership, new employee incentive and variable compensation schemes are being developed and will be implemented in 2016.

6. Internal control system for accounting procedures

Hypo Group Alpe Adria 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 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 basic components of the internal control system in Hypo Group Alpe Adria are:

- Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corporate divisions.
- Systemic, automatic control systems and measures in the formal procedure and structure e.g. programmed controls during data processing.
- Principles of functional separation and the four-eye principle.
- Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system.

Internal Control is integrated in the accounting process and is not just conducted on a level above individual work-flows. Rather, each (sub-) process has specific targets designed to deal with various risks. The risks were evaluated and a structured risk catalogue was prepared and recorded in a central system. The ICS has been designed in such a way that existing controlling activities or controlling activities to be newly implemented within the scope of a structured process have been geared towards the most significant risks in order to help combat these risks and support the achievement of goals.

The Management Board of Hypo Group Alpe Adria AG is responsible for implementing and monitoring the ICS in terms of the accounting procedures applied to the consolidated financial statements and for the appropriate and timely execution of accounting-related processes and systems. 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 behaviour of the employees. The Executive Board and management team actively and consciously embrace their role of leading by example.

6.1. ICS-related activities in the 2015 financial year

2015 was characterized by the post-sale realignment of the bank. Existing business processes were evaluated and adjusted to the new organizational structure where necessary. Any inconsistencies were reported and appropriate measures developed.

Looking at the future development of the ICS particular relevance will be given to a close monitoring with regard to the outsourcing of certain activities to subsidiaries.

7. Other disclosure

In accordance with Section 267 UGB, information 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 according to IFRS standards.

8. Research and development

Hypo Group Alpe Adria does not conduct any R&D activities of its own.

9. Outlook

The year 2015 was a challenging year for the banking industry and a transitional year for Hypo Group Alpe Adria in which it, with the concluded privatization, made the first steps to future sustainable development.

Subsequent to the year end Hypo Group Alpe Adria received on the 17 March 2016 from the Austria Financial Market Authority a Joint Decision on the adequacy of own funds and the required level of own funds held by the Group. Based on such decision HGAA is required to hold a minimum capital adequacy ratio of 14.5%, a Tier-1 ratio of 10.9% and a minimum CET 1 capital adequacy ratio of 8.1% at consolidated level. For 2016, the Austrian Financial Market Authority imposed a systemic risk buffer of 0.625% to the ECB's SREP ratio (Supervisory Review and Evaluation Process) which will be increased on a yearly basis until it reaches 2% by 1 January 2019. These capital requirements have been fulfilled, following the Swiss Franc conversion loss compensation and specific retail risk losses compensation via debt settlement from HETA, in March 2016 resulting as of 31 December 2015 in a pro-forma CET 1 ratio of 21.0% and a Total Capital Ratio of 22.2%.

Rebranding is one of the crucial project for 2016 and as such one of the utmost importance for the whole HGAA, with the goal being to create a credible, reliable and distinctive new brand that will encompass the Group's corporate and business values, and provide a fresh and an unburdened start.

Effective cost management and the implementation of the approved restructuring programme will lead to a significantly lower operational cost base. Going forward the run-rate will be totally managend and continuously improved.

Set-up a digital competence center for the group in Serbia is one of the key initiatives around the center of competence concept in the group.

The operating environment will likely remain demanding in 2016 and there is still a great deal of work to be done. Still, HGAA today is a more stable, stronger, better balanced institution best suited to become a key and competitive player in the region. Therefore in 2016 HGAA will continue to focus on strengthening its market presence, improving key financial and business indicators, growing the client base, enhancing cross-selling and generating long-term sustainable business and profitability, while at the same time achieving operating excellence.

Klagenfurt am Wörthersee, 17 May 2016
Hypo Group Alpe Adria

EXECUTIVE BOARD

Dkfm. Ulrich Kissing
(Chairman)

Mag. Johannes Proksch

Dr. Christian Kubitschek

Dipl. Math. Markus Krause

Csongor Bulscu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

Consolidated Financial Statements

As at 31 December 2015

Consolidated Financial Statements

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2015	1.1. - 31.12.2014
Net interest income	(25)	180.2	193.4
Net fee and commission income	(26)	52.1	58.8
Trading income	(27)	–15.5	10.3
Result from hedge accounting	(28)	0.1	0.1
Gains or losses on financial assets and liabilites, not measured at fair value through profit or loss	(29)	–6.7	6.1
Other operating result	(30)	–293.9	–5.8
Operating income		**–83.8**	**262.9**
Personnel expenses	(31)	–102.5	–88.9
Other administrative expenses	(32)	–110.4	–91.8
Depreciation and amortisation	(33)	–24.4	–27.2
Operating expenses		**–237.2**	**–207.8**
Operating result		**–321.0**	**55.1**
Impairment or reversal of impairment of financial assets	(34)	–318.8	–133.5
thereof avaiable-for-sale financial assets		–0.7	–3.2
thereof loans and receivables		–318.1	–130.3
Impairment or reversal of impairment on non-financial assets	(35)	–16.2	–13.9
Result before tax		**–655.9**	**–92.3**
Taxes on income	(36)	–19.2	–5.1
Result after tax		**–675.2**	**–97.4**
thereof attributable to equity holders of parent		–675.2	–97.4

Other comprehensive income

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Profit or loss after tax for the year	**–675.2**	**–97.4**
Other comprehensive income	**9.5**	**–17.6**
Items that will not be reclassified to profit or loss	**–0.1**	**–0.1**
Actuarial gains or losses on defined benefit plans	–0.1	–0.1
Items that may be reclassified to profit or loss	**9.6**	**–17.5**
Foreign currency translation	1.6	–15.3
Gains/losses of the current period	1.6	–15.2
Reclassification amounts	0.0	–0.1
Available-for-sale financial assets	10.2	–2.5
Gains/losses of the current period	10.1	–1.9
Reclassification amounts	0.1	–0.6
Income tax relating to items that may be reclassified to profit or (-) loss	–2.2	0.3
Gains/losses of the current period	–2.2	0.2
Reclassification amounts	0.0	0.0
Total comprehensive income for the year	**–665.7**	**–115.0**
thereof attributable to equity holders of parent	–665.7	–115.0
thereof attributable to non-controlling interests	0.0	0.0

II. Consolidated statement of financial position

EUR m

	Note	31.12.2015	31.12.2014
Assets			
Cash, cash balances at central banks and other demand deposits	(37)	1,319.0	1,382.9
Financial assets held for trading	(38)	10.8	9.0
Available-for-sale financial assets	(39)	1,261.3	1,082.3
Loans and receivables	(40)	4,262.8	5,236.4
Loans and advances to credit institutions		106.8	76.7
Loans and advances to customers		4,156.0	5,159.8
Held-to-maturity investments	(41)	81.9	84.6
Derivatives – Hedge accounting		0.1	0.0
Tangible assets	(42)	107.2	144.9
Intangible assets	(43)	12.4	19.4
Tax assets	(36)	3.1	26.1
Current tax assets		3.1	6.8
Deferred tax assets		0.0	19.3
Other assets	(45)	16.5	45.9
Non-current assets and disposal groups classified as held for sale	(46)	340.4	0.0
Total assets		**7,415.5**	**8,031.7**
Equity and liabilities			
Financial liabilities held for trading	(47)	28.6	7.8
Financial liabilities designated at fair value through profit or loss		25.0	0.0
Financial liabilities measured at amortised cost	(48)	6,232.5	6,677.8
Deposits of credit institutions		379.2	691.1
Deposits of customers		3,915.3	3,998.7
Debt securities issued		28.1	4.6
Other financial liabilities		1,909.8	1,983.4
Derivatives – Hedge accounting	(91)	18.4	39.5
Provisions	(49)	319.2	41.9
Tax liabilities	(36)	1.1	0.2
Current tax liabilities		0.0	0.2
Deferred tax liabilities		1.1	0.0
Other liabilities	(50)	31.9	35.6
Liabilities included in disposal groups classified as held for sale	(46)	6.1	0.0
Equity	(51)	752.6	1,228.9
thereof attributable to equity holders of parent		752.6	1,228.9
thereof attributable to non-controlling interests		0.0	0.0
Total equity and liabilities		**7,415.5**	**8,031.7**

III. Group statement of changes in equity

EUR m

	Subscribed	Addition-al paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2015	**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**

EUR m

	Subscribed	Addition al paid-in capital	Available-for-sale-reserves	Foreign currency reserve	Cumulative results and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 1.1.2014	**5.0**	**1,096.7**	**2.5**	**-8.4**	**229.2**	**1,325.0**	**0.0**	**1,325.0**
Profit or loss after tax for the year	0.0	0.0	0.0	0.0	-97.4	-97.4	0.0	-97.4
Other comprehensive income	0.0	0.0	-2.2	-15.3	-0.1	-17.6	0.0	-17.6
Total comprehensive income	0.0	0.0	-2.2	-15.3	-97.5	-115.0	0.0	-115.0
Capital increases	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1
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	-493.6	0.0	0.0	512.4	18.8	0.0	18.8
Equity as at 31.12.2014*	**5.0**	**603.2**	**0.2**	**-23.7**	**644.1**	**1,228.9**	**0.0**	**1,228.9**

*Figures adjusted

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

	2015	2014
Profit or loss after tax for the year	**–675.2**	**–97.4**
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Result from the sale of subsidiaries	0.0	0.5
Depreciation and amortisation and appreciation of intangible assets, tangible fixed assets and financial investments	42.2	43.2
therof financial instruments	0.7	3.2
thereof intangible and tangible assets	41.5	40.0
Change in credit risk provisions	304.0	134.3
Change in provision	279.7	5.9
Gains (losses) from disposals of intangible assets, tangible fixed assets and financial investments	6.5	–6.1
Financial instruments	6.7	–6.1
Intangible and tangible assets	–0.2	0.0
Subtotal	**–42.6**	**80.4**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	380.4	319.4
Financial instruments	–157.8	–77.9
Trading assets	–1.8	11.4
Other assets	27.2	2.0
Financial liabilities measured at amortised cost	–254.6	–69.7
Trading liabilities	20.9	–0.3
Provisions	–1.4	–2.8
Other liabilities from operating activities	–21.0	–14.1
Cash flows from operating activities	**–50.8**	**248.4**
Proceeds from the sale of:	14.9	26.0
Financial instruments and participations	2.6	17.7
Tangible assets, investment properties, operate lease assets and intangible assets	12.3	8.4
Payments for purchases of:	–55.0	–44.0
Financial investments and participations	–20.6	–0.8
Tangible assets, investment properties, operate lease assets and intangible assets	–34.4	–35.2
Other changes	25.6	0.0
Cash flows from investing activities	**–14.5**	**–10.0**
Capital contributions / disbursements	0.0	0.1
Other equity changes	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 interest	0.0	0.0
Cash flows from financing activities	**0.0**	**0.1**

	2015	2014
Cash flows for taxes, dividends and interests	**161.3**	**170.5**
Payments for taxes on income	−1.0	−1.7
Payments for interests	−75.1	−136.0
Dividends received	0.0	0.5
Interests received	237.4	307.7

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

Cash and cash equivalents at end of previous period (1.1.)	**1,382.9**	**1,158.6**
Cash flows from operating activities	−50.8	248.4
Cash flows from investing activities	−14.5	−10.0
Cash flows from financing activities	0.0	0.1
Effect of exchange rate changes	1.4	−14.1
Cash and cash equivalents at end of period (31.12.)	**1,319.0**	**1,383.0**

Reclassifications regarding non-current assets and liabilties classified as held for sale are considered in the respective positions.

V. Notes to the consolidated financial statements

Company

Hypo Group Alpe Adria AG is an international holding company that serves as the management holding company of the Hypo Group Alpe Adria network, which has been held by a consortium consisting of the US fund Advent International Corporation and the European Bank for Reconstruction and Development (EBRD) since 17 July 2015. Hypo Group Alpe Adria AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 350921k. The registered offices and Group headquarters are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

The Hypo Group Alpe Adria network includes banks in five South Eastern European countries (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro) and leasing companies in Croatia, Slovenia and Bosnia and Herzegovina. Operating in the Retail, Small and Medium-sized Enterprises (SME), Corporate and Public segments, the network offers finance leases in addition to classic banking products such as financing, payment transactions, the documentary business, investment products and the savings and deposit business.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Hypo Group Alpe Adria AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Hypo Group Alpe Adria AG website at www.hypo-alpe-adria.com (-> Investor Relations -> Financial Reports).

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 realisable within twelve or more than twelve months after the reporting date are described in note (78) Maturities pursuant to IAS 1.

The consolidated financial statements of the Hypo Group Alpe Adria 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 annual financial statements as at 31 December. Uniform accounting and measurement principles according to IFRS 10 are applied in the Hypo Group Alpe Adria network. 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 17 May 2016 the Executive Board of Hypo Group Alpe Adria approved the consolidated financial statements as at 31 December 2015 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at 31 December 2015.

(2) New standards and amendments adopted by the Group

The following new or amended standards and interpretations pursuant to IFRS/IAS issued by the IASB and adopted by the EU have been adopted by Hypo Group Alpe Adria for the first time in 2015:

Standard	Description		Effective for financial year
IAS 19	Employee Benefits	Employee contributions	2015
Collection of standards	IFRS December 2013 (Improvements 2010-2012)	Annual improvements IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16/IAS 38, IAS 24	2015
Collection of standards	IFRS December 2013 (Improvements 2011-2013)	Annual improvements IFRS 1, IFRS 3, IFRS 13, IAS 40	2015
IFRIC 21	Levies		2015

The amendments to IAS 19 “Employee Benefits” clarify the requirements related to contributions from employees or third parties linked to the period of service. In addition, it permits a practical expedient if the amount of contributions is independent of the number of years of service.

The **collection of improvements to standards (IFRS December 2013 – Improvements 2010-2012)** issued by the IASB clarifies details in the following existing standards: IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”, IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures” and IAS 38 “Intangible Assets”.

Furthermore, the IASB issued a second **collection of improvements to standards (IFRS December 2013 – Improvements 2011-2013)**, clarifying aspects of the following standards: IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 3 “Business Combinations”, IFRS 13 “Fair Value Measurement” and IAS 40 “Investment Property”.

IFRIC 21 “Levies” deals with accounting for levies imposed by a public authority. It has been clarified that levies imposed by public authorities can only be recognised when the activity triggering the payment of the levy in accordance with the relevant legislation occurs.

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 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 initiative	2016
IAS 27	Separate Financial Statements	Equity method as accounting option	2016

The amendment to **IFRS 11** clarifies the accounting for acquisitions of interests in a joint operation when 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 in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Effective for financial years beginning on or after 1 January 2016.

The amendments to **IAS 16** and **IAS 41** relate to “Bearer Plants”, bringing it into the scope of IAS 16. This means they can be accounted for in the same way as property, plant and equipment. Amendments effective for financial years beginning on or after 1 January 2016.

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

The **collection of improvements to standards (IFRS September 2014 – Improvements 2010-2014)** issued by the IASB is effective for financial years beginning on or after 1 July 2016. It contains 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 a 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 understanding 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 it will be subsequently reclassified to profit or loss. Amendments effective for financial years beginning on or after 1 January 2016.

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.

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

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 9	Financial Instruments	Accounting for financial instruments	2018
IFRS 14	Regulatory Deferral Accounts	First-time adopters of IFRS	2016
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	Sale or contribution of assets	2016
IFRS 10, IFRS 12 and IAS 28	Consolidated Financial Statement, Disclosure of Interests in Other Entities and Investments in Associates and Joint Ventures	Applying consolidation exceptions	2016
IFRS 15	Revenue from Contracts with Customers	Recognising revenue	2017
IFRS 16	Leases	Recognition, presentation and disclosure of leases	2019

On 24 July 2014 the IASB issued the amended standard **IFRS 9** "Financial Instruments" which mainly changes the classification and measurement of financial instruments but also includes regulations related to impairment and hedge accounting.

Instead of the previously four measurement categories of IAS 39 (see Note 10 "Financial instruments: recognition and measurement (IAS 39)"), there will only be the following three measurement categories according to IFRS 9: "at amortised cost", "at fair value through other comprehensive income" and "at fair value through profit or loss".

Financial instruments are classified based on the entity's business model for the management of the financial assets and the characteristics of the contractual cash flows of the financial asset to be measured. Measurement "at amortised cost" is only permissible 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 only objective is to generate 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. Financial assets that cannot be assigned to this category must be measured "at fair value through profit or loss" according to IFRS 9. The impairment model is being changed to a model that requires the entity to already record a risk provision equal to the expected credit default within the next twelve months when financial assets are first recognised. The lifetime expected loss has to be recognised if the credit risk increases significantly. IFRS 9 also contains new rules for hedge accounting with the objective of harmonising 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. IFRS 9 is effective for financial years beginning on or after 1 January 2018. Since no sections of IFRS 9 have been adopted by the European Union to date, the Group is not early-adopting any of these sections. However, the adoption of IFRS 9 is expected to have a material impact on the classification and measurement of financial instruments as well as on reporting. It will, however, only be possible to reliably estimate the impact after an analysis has been conducted, nevertheless, an increase in profit and loss-volatility, an increase in risk provisions as well as a decrease in equtiy may be expected with the application of IFRS 9.

The amended **IFRS 14** permits first-time adopters of IFRS who have recognised 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.

The amendments to **IFRS 10** 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 recognised depends on whether the assets that are sold or contributed constitute a business.

The new **IFRS 15** "Revenue from Contracts with Customers" specifies when and at which amount an IFRS reporter has to recognise revenue.

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. IFRS 16 will be effective from 1 January 2019, superseding the previous standard IAS 17 "Leases".

Except for the application of IFRS 9, 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. Material uncertainty exists in particular regarding estimates related to the calculation of credit risk provisions, the calculation of fair value, the recognition of deferred taxes on tax loss carry-forwards, defined benefit insurance plans and leases.

Uncertainties related to the estimates and assumptions may lead to results that will make it necessary to adjust the carrying amounts of the affected assets or liabilities in future periods.

The Hypo Group Alpe Adria network regularly assesses the recoverability of its problematic loans and leasing receivables, and recognises corresponding risk provisions in case of impairment. Estimations as to the amount, duration and probable occurrence of expected return 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 estimation of these assumptions may result in a significantly different measurement of credit risk provisions.

2015 was once again characterised by a challenging market situation, leading to additional risk provisions being taken into account. It also transpired that the utilisation of collateral in 2015 did not occur to the extent expected in 2014. The objective of ideal collateral utilisation pursued in 2014 was therefore replaced in 2015 by the strategic goal of as-soon-as-possible utilisation. Furthermore, an increase in market value reductions (haircuts) deducted from real estate resulted in an increase in risk provisions for real estate pledged as collateral for receivables. The increase of the haircuts to the market value is primarily due to the decline in land financing in many regions, which was caused by the illiquidity of the markets.

Considering the current weakness of the economy, the possibility cannot be ruled out that further risk provisions will be required for the existing loan portfolio in 2016 and subsequent years.

Further information regarding the credit risk provisioning methodology is presented under loans and receivables in Note 8 "Financial instruments: recognition and measurement (IAS 39)" as well as in the Risk Report under note (60) Development of provisions.

For financial instruments recognised 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, Hypo Group Alpe Adria uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see Note (8) Financial instruments: recognition and measurement (IAS 39).

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

The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (22) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (49) Provisions.

From the perspective of Hypo Group Alpe Adria 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 in the course of conclusion of lease contracts.

(4) Scope of consolidation

These consolidated financial statements comprise one Austrian company (2014: one) – including Hypo Group Alpe Adria AG – and eleven (2014: eleven) foreign entities. Further information is shown under note 103 "Scope of consolidation".

	31.12.2015		31.12.2014	
	Fully consolidated	Equity method	Fully consolidated	Equity method
Start of period (1.1.)	**12**	**0**	**12**	**0**
Newly included in period under review	0	0	1	0
Excluded in period under review	0	0	-1	0
End of period (31.12.)	**12**	**0**	**12**	**0**
thereof Austrian companies	1	0	1	0
thereof foreign companies	11	0	11	0

(5) Consolidation methods

Hypo Grop Alpe Adria AG published on 31 December 2014 consolidated financial statements for the first time, making it a first-time adapter within the meaning of IFRS 1. The group was created through the contribution of bank participations in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro by the former parent company, Hypo Alpe-Adria Bank International AG, as contribution in kind to Hypo Group Alpe Adria AG (formerly Hypo SEE Holding AG) on 28 June 2013. The companies included in the consolidated financial statements were under joint control even before these first IFRS consolidated financial statements were prepared. This means IFRS 3 "Business Combinations" was not applied. Hypo Group Alpe Adria AG chose the pooling of interest method in accordance with IAS 8.10 for reporting the business combinations in the consolidated financial statements. According to this method, all assets and liabilities originally underlying the preparation of consolidated financial statements by Heta Asset Resolution AG (former Hypo Alpe Adria Bank International AG) were included in the first consolidated financial statements of Hypo Group Alpe Adria. This means there was no uncovering of hidden reserves or hidden burdens. No goodwill was recognised either. Any differences resulting from the consolidation of investments in subsidiaries were reported under equity in other reserves.

While the actual contribution of the bank participations took place in June 2013, the transition date for the first-time application of IFRS according to IFRS 1 was established as 1 January 2013 in order to enable economically comparable reporting with the prior-year period.

For all following company acquisitions 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 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 recognised directly 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 consolidated 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 100 % entity, the potentially 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 recognised in non-controlling interests even if this results in a negative balance.

(6) Foreign currency translation

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

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

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

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

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

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

Foreign currency translation Rates in units per EUR	Closing date 31.12.2015	Average 2015	Closing date 31.12.2014	Average 2014
Bosnian mark (BAM)	1,95580	1,95580	1,95580	1,95580
Croatian cuna (HRK)	7,63800	7,62110	7,65800	7,63420
Serbian dinar (RSD)	121,62610	120,77860	120,95830	117,15660

(7) Income/expenses

In accordance with IAS 18, income is recognised 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 recognised at the time that a legal right to payment arises. For all financial instruments measured at amortised 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 required rate that exactly discounts 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. Fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

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

In accordance with IAS 39, all financial assets and liabilities must be recognised in the statement of financial position. Financial instruments are recognised at fair value at the time of acquisition (usually equal to cost). Financial assets or liabilities that are not measured at fair value through profit or loss include transaction costs directly attributable to the acquisition of an asset or the issue of a liability. The addition and disposal of derivatives and financial instruments that mature within a term customary in the market (regular way contracts) are recognised by Hypo Group Alpe Adria 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 transfer criteria of IAS 39 are met. Financial liabilities are derecognised 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 estimations 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 immediately 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 position 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 quoted on an active market.

Realised gains and losses, results from foreign currency measurement as well as unrealised 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, how-

ever, 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, an accounting mismatch 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.

Realised gains and losses as well as unrealised 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 and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. Measurement is at amortised cost, with premiums and discounts being allocated over the term through profit or loss using the effective interest method. Permanent impairment is included in the statement of financial position by reducing the carrying amount and through profit or loss under impairment or reversal of impairment of financial assets.

Since new designations for this position are handled restrictively, the portfolio of Hypo Group Alpe Adria is small.

Loans and receivables

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

This item mainly includes granted loans, leasing 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. Interest income is included in net interest income as well.

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

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

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

Since the amount of the specific provision for impairment losses is based on the calculation of the present value of the future cash flows, the subsequent interest income on an impaired receivable has to be determined by compounding. The subsequent measurement of the present value at the following reporting date is thus to be recognised as interest income (unwinding). If a loan restructuring or forbearance agreement is concluded, the recoverability of the loan commitment is assessed. A specific provision for impairment losses must be recognised if the present value of the agreed cash flows differs from the original carrying amount of the receivable. Portfolio provisions for impairment losses are recorded for incurred but not yet reported impairment of 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.

In addition to the exposure and internal collateral values (ICV), determining the portfolio provisions for impairment losses also takes the following parameters into account:

- The time between the occurrence and identification of the loss event (loss identification periods)
- The realised historical default rates
- The realised historical cure rates
- The loss given default

Hypo Group Alpe Adria 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.

The realised historical default rates are determined by long-term averaging of realised 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 same averaging logic is also applied to the realised historical cure rates. Here a cure event is counted if good conduct is maintained for at least three months within a year after a default event is detected. More conservative good conduct periods (up to one year) may also be applied here depending on local conditions.

The loss given default rates are estimated per customer segment and range between 45% for national, state and municipal governments and 90% for retail customers. To maintain consistency, these factors are also applied to determine impairment in the Collective Impaired model of Hypo Group Alpe Adria.

The realised historical default rates and cure rates are recalculated/validated twice a year. Should there be a need for changes, the parameters in the model are adjusted.

Receivables for which specific provisions for impairment losses (SRPii and SRPci) have been recognised are not included in the calculation of portfolio provisions for impairment losses.

Amounts identified as irrecoverable after the collateral has been utilised are charged against an existing specific provision for impairment losses or directly derecognised. Provisions for impairment losses are only used and amounts only derecognised directly if there are no further legal claims against the customer at the time the need for impairment has been established. Recoveries of receivables previously written off are recognised in profit or loss. The recognition and reversal of impairments and provisions for risks arising from the lending business are reported in the statement of profit or loss under impairment or reversal of impairment of financial assets – loans and receivables.

Apart from loans, Hypo Group Alpe Adria also measures and tests financial instruments for impairment. The following uniform indicators – either individually or collectively – are used within the Group as an objective indication that a financial instrument requires impairment:

- For loans and receivables in the LAR category this is from the point in time at which the customer exhibits considerable financial difficulties or at any rate if the customer is more than 90 days behind repayment schedule.
- The same indicators apply to investments in debt instruments (AFS) as for loans and receivables carried at cost. In this case, however, there is an additional objective indication of the existence of impairment: if there is a material reduction in fair value, falling below cost. For the purposes of Hypo Group Alpe Adria, the fair value is materially reduced if it falls more than 10% below original cost.

Available-for-sale financial assets

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

Hypo Group Alpe Adria 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).

Long-term investments as well as shares in non-consolidated subsidiaries are also classified as available-for-sale financial assets. Equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairments.

The measurement result for this category – after taking deferred taxes into account – is included in other comprehensive income (OCI). In case of a significant or permanent impairment, impairment is recognised through profit or loss and reported under impairment or reversal of impairment of financial assets. Reversals of impairment in debt instruments are also included in this item through profit or loss, but for equity instruments reversals are not reported in the statement of profit or loss but included in other comprehensive income (OCI). Gains and losses on disposal are included in 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 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, falling below cost, is an indicator of the existence of 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 for more than nine months is deemed a significant reduction. If these limits are reached, the amount of the difference is recognised as an expense in the statement of profit or loss.

Financial liabilities held for trading

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

Financial liabilities measured at amortised cost

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

Embedded derivatives

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

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

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

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

(9) Financial instruments: net gains and losses

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

(10) Classes of financial instruments according to IFRS 7

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments. For details see note 8 “Measurement categories in accordance with IAS 39”.

(11) Hedge accounting

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

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

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

(12) Leasing

For the classification and recognition of leasing transactions 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 Hypo Group Alpe Adria 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 leasing payments received are split into an interest portion with impact on profit or loss, as well as debt repayments without impact on profit or loss.

Under operating lease agreements, 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 lease agreements 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 property, plant and equipment. Ongoing lease payments are reported under the other operating result, scheduled depreciation and amortisation under depreciation and amortisation, gains and losses on disposal are offset and reported under gains/losses on the disposal of non-financial assets. Potential impairment losses are reported under impairment or reversal of impairment of non-financial assets.

Real estate leased under an operating lease is reported in the statement of financial position under investment properties.

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

(13) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IAS 39, the seller continues to recognise 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 recognises a receivable.

(14) Fiduciary transactions

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

(15) Financial guarantees

Financial guarantees are contracts that oblige the Company to make compensation payments to the guarantee holder for incurred losses. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value less transaction costs directly related to the guarantee issued. 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 recognised is made during subsequent measurements.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due as well as the miminum reserve. These amounts are stated at nominal value.

Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

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

Land and buildings used by Hypo Group Alpe Adria 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 80 “Operating leases”). Real estate acquired to generate returns is reported under investment properties.

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

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

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

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

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Company is reported separately under depreciation and amortisation in the statement of profit or loss. 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 on every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash flows that are largely independent of the cash flows 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 flows that are largely independent from the cash flows of other assets or groups of assets. Potential impairments and reversals of impairment are recorded under impairment or reversal of impairment of non-financial assets. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset's carrying amount is not permitted to exceed the amount that would have been reported after deprecation if no impairment loss had been recorded for the asset in previous years.

(18) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation. Internally generated software is recognised in accordance with IAS 38, provided that the conditions for recognition pursuant to the standard are fulfilled.

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

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

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. Potential impairments and reversals of impairment are recorded under impairment or reversal of impairment of non-financial assets. Gains and losses on disposal are reported under the other operating result.

(19) Tax assets and tax liabilities

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

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12.

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 based on business plans passed 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 or reversal of tax assets and tax liabilities is recorded either in the statement of profit or loss, or in other comprehensive income (e.g. remeasurement reserve for available-for-sale financial instruments).

(20) Other assets

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

Deferred assets are recognised 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 utilised or leased again. They are measured at amortised cost less any impairment losses identified. Results of this measurement are reported in the statement of comprehensive income under impairment or reversal of impairment of non-financial assets.

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

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

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

If equity investments previously included in the consolidated financial statements according to the equity method are classified as assets (or disposal groups) held for sale, application of the equity method is terminated at this point in time and a transition to measurement pursuant to IFRS 5 is carried out.

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 statement of profit or loss. For detailed information, please refer to note (46) Disclosures according to IFRS 5 - Non-current assets and disposal groups classified as held for sale.

(22) Provisions

22.1. Provisions for retirement benefits and similar obligations

Hypo Group Alpe Adria maintains both defined contribution and defined benefit plans.

Under defined contribution plans, a fixed contribution is paid to an external provider. These payments are recognised under personnel expenses in the statement of profit or loss. 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. Measurement of the future commitment is based on actuarial expert 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 2.215% as at 31 December 2015 (2014: 2.18%) and a salary increase of 3.0% p.a. (2014: 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.

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

22.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are created 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 through profit or loss are reported in the statement of profit or loss under impairment or reversal of impairment of financial assets – loans and receivables.

22.3. Provisions for restructuring

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

For disclosure of restructuring expenses, see note (30) Other operating result.

22.4. Other provisions

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

(23) Other liabilities

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

(24) Equity (including non-controlling interests)

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

Subscribed capital represents the amounts paid in by shareholders in accordance with the memorandum of articles of association. The cumulative gain or loss includes the cumulated profits made by the group with the exception of the share of profit to which external parties are entitled.

In addition to statutory reserves and the risk reserve, the other reserves include the fund for general banking risks.

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

Notes to the income statement

(25) Net interest income

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Interest Earnings	**284.6**	**346.5**
Financial assets held for trading	6.0	16.8
Available-for-sale financial assets	12.3	15.7
Loans and receivables	252.2	308.9
Held-to-maturity investments	4.1	4.3
Derivatives - Hedge accounting, interest rate risk	8.8	0.0
Other assets	1.3	0.9
Dividend income	**0.0**	**0.5**
Available-for-sale financial assets	0.0	0.5
Total	**284.7**	**347.0**
Interest expenses		
Financial liabilities held for trading	–3.7	–2.5
Financial liabilities measured at amortised cost	–90.7	–147.7
Derivatives - Hedge accounting, interest rate risk	–9.6	–3.3
Other liabilities	–0.5	0.0
Total	**–104.5**	**–153.5**
Net Interest Income	**180.2**	**193.4**

Interest income includes unwinding proceeds of EUR 19.1 million (2014: EUR 18.6 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. - 31.12.2015	1.1. - 31.12.2014
Derivatives - Trading	**5.9**	**16.5**
Debt securities	**16.5**	**20.1**
Central banks	0.0	1.8
General governments	15.5	16.6
Credit institutions	0.4	0.6
Other financial institutions	0.1	0.9
Non-financial corporations	0.4	0.1
Loans and advances	**252.2**	**308.9**
Central banks	1.1	1.6
General governments	24.3	27.9
Credit institutions	2.2	1.8
Other financial institutionss	1.5	13.5
Non-financial corporations	99.2	124.0
Households	123.9	140.0
Other assets	**1.3**	**1.0**
Derivatives - Hedge accounting, interest rate risk	**8.8**	**0.0**
Dividend income	**0.0**	**0.5**
Total	**284.7**	**347.0**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014*
Derivatives - Trading	**–3.8**	**–2.5**
Deposits	**–90.4**	**–147.7**
Central banks	–0.1	–0.3
General governments	–1.8	–4.5
Credit institutions	–5.6	–48.7
Other financial corporations	–19.0	–13.7
Non-financial corporations	–9.3	–12.1
Households	–54.5	–68.6
Debt securities issued	**–0.2**	**0.0**
Debt securities issued	–0.2	0.0
Other financial liabilities	**0.0**	**0.0**
Derivatives - Hedge accounting, interest rate risk	**–9.6**	**–3.3**
Other liabilities	**–0.5**	**0.0**
Total	**–104.5**	**–153.5**

*Previous-year figures (2014) adjusted: Deposits of credit institutions in the amount of EUR 9.6 million presented as Other financial liabilities. In 2013 Deposits of credit institutions in the amount of EUR 6.6 million presented as Other financial liabilities.

(26) Net fee and commission income

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014*
Securities	0.7	0.9
Clearing and settlement	–0.3	–0.6
Asset management	0.1	0.0
Custody	2.9	2.5
Payment services	42.9	43.4
Lending business	10.3	11.8
Loan commitments granted and received	5.7	6.7
Financial guarantees granted and received	4.6	5.1
Other	–4.4	0.8
Total	**52.1**	**58.8**

*Previous-year figures (2014) adjusted: Loan commitments granted and recieved in the amount of EUR 2.5 million presented as Other

(27) Result from trading

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Exchange differences	–1.7	–0.3
Gains or losses on financial assets and liabilities held for trading	–13.8	10.6
Total	**–15.5**	**10.3**

27.1. Gains/losses on financial assets/liabilities held for trading, net – by instrument

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Derivatives	–13.8	10.1
Debt securities	0.0	0.5
Total	**–13.8**	**10.6**

27.2. Gains/losses on financial assets/liabilities held for trading, net – by risk

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Interest rate instruments and related derivatives	1.0	0.9
Foreign exchange trading and derivatives related to foreign exchange and gold	–14.8	9.2
Other	0.0	0.5
Total	**–13.8**	**10.6**

(28) 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. - 31.12.2015	1.1. - 31.12.2014
Fair value changes of the hedging instrument	–1.3	0.5
Fair value changes from underlying transaction hedged	1.3	–0.4
Total	**0.1**	**0.1**

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

29.1. Gains or losses – by category

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Available-for-sale financial assets	0.5	6.9
Loans and receivables	–0.1	–0.5
Held-to-maturity investments	–0.2	–0.3
Financial liabilities measured at amortised cost	–6.8	0.0
Total	**–6.7**	**6.1**

29.2. Gains or losses – by instrument

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Equity instruments	0.3	5.8
Debt securities	0.0	0.3
Loans and advances	–0.1	–0.3
Other financial liabilities	–6.8	0.3
Total	**–6.7**	**6.1**

(30) Other operating result

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Other operating income	15.7	17.6
Other operating expenses	–309.6	–23.4
Total	**–293.9**	**–5.8**
Result from investment properties	0.3	1.9
Result from operate lease assets	8.0	8.0
Restructuring expenses and income	–18.5	–0.8
Result from reversals and recognition of provisions	–49.6	–5.0
Result from derecognition of non-financial assets	0.2	0.0
Other	–234.4	–9.9
Total	**–293.9**	**–5.8**

Restructuring expenses and income include also impairment in amount of EUR 1.1 million for those tangible assets which are connected with the restructuring measures. Please refer to note (87) Restructuring expenses for futher information on restructuring expneses and income.

Further, the position Result from reversals and recognition of provisions contains the allocation of provisions for potential legal risks in connection with the Consumer Protection Act in amount of EUR 9.8 million, as well as provisions for potential legal risks in connection with existing customer claims in amount of EUR 11.0 million.

In addition this position contains provisions in amount of EUR 11.7 million for the expected losses 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 balance sheet date. Furthermore, a provision for onerous contracts in amount of EUR 12.6 million is recognised under this position.

The position Other includes mainly expenses for risks in connection with the CHF-conversion in Croatia and Montenegro. In September 2015 the Croatian parliament passed the law amendments, which enable the borrowers of Swiss Franc-loans a conversion of the loans in Euro to an exchange rate, which corresponds to the exchange rate at the effective date of the loan assignment. Thereby the borrowers of Swiss Franc-loans should have equal terms as those for Euro loans.

The law amendments came into force on 30 September 2015. For the expected losses due to the law amendments a provison in amount of EUR 211.4 mio was recognised.

Similar law amendments have been passed in Montenegro in August 2015 for which a provision in amount of EUR 11.0 million was recognised.

(31) Personnel expenses

EUR m

	1.1. - 31.12.2015	**1.1. - 31.12.2014**
Wages and salaries	–68.2	–59.3
Social security contribution	–26.3	–25.9
Voluntary social expenses	–1.5	–0.6
Other taxes expenses depending on amount of wages/salaries	–3.2	–2.5
Expenses for retirement benefits	–0.2	–0.2
Expenses for severance payments	–2.2	–0.2
Other personnel expenses	–1.7	–1.4
Income from release of other employee provisions	0.7	1.1
Total	**–102.5**	**–88.9**

(32) Other administrative expenses

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Premises expenses (rent and other building expenses)	–26.2	–21.5
IT expense (other)	–28.6	–21.6
Office costs	–2.3	–1.8
Advertising costs	–6.0	–5.9
Communication expenses (phone, fax, internet etc.)	–7.0	–6.7
Legal and advisory costs	–19.6	–7.5
Other administrative expenses	–20.7	–26.8
Total	**–110.4**	**–91.8**

(33) Depreciation and amortisation

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Tangible assets	–18.0	–18.7
Investment properties	–0.5	–1.8
Other intangible assets	–5.9	–6.6
Total	**–24.4**	**–27.2**

(34) Impairment or reversal of impairment of financial assets

The impairment of financial assets is composed as follows:

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Available-for-sale financial assets	**–0.7**	**–3.2**
Expenses from impairment	–0.7	–3.2
Loans and receivables	**–318.1**	**–130.3**
Additions	–396.4	–227.8
Reversal	73.3	93.5
Proceeds from loans and receivables previously impaired	8.1	5.7
Directly recognised impairment losses	–3.2	–1.7
Total	**–318.8**	**–133.5**

Impairment of loans and receivables includes the 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.

(35) Impairment or reversal of impairment of non-financial assets

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

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Tangible assets	–4.9	–7.8
Investment properties	–3.8	–0.7
Other intangible assets	–7.4	–4.4
Other assets	–0.1	–0.9
Total	**–16.2**	**–13.9**

The main classes of assets affected by impairment losses were property, plant and equipment, investment properties as well as other intangible assets. Due to the disposal of the Hypo Group Alpe Adria network at a purchase price below the net carrying amounts of the Group, an impairment test relating to all assets subject to impairment according to IAS 36 was conducted at 2015 year-end. The main events that led to the recognition of impairment losses can be summarized as:

- the intention to sell fixed assets and accordingly their re-measurement based on the fair value less expected selling costs,
- not fully occupied buildings that triggered a lower recoverable amount
- concessions and other intangibles for which measurable economic benefits are no longer expected in the future

(36) Taxes on income

36.1. Income tax expenses

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Current tax	–1.1	–2.2
thereof previous period	0.0	–1.3
Deferred tax	–18.2	–2.8
Total	**–19.2**	**–5.1**

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

EUR m

	31.12.2015	31.12.2014
Result before tax from continued operation	–655.9	–92.3
Result before tax	**–655.9**	**–92.3**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	164.0	23.1
Tax effects		
from divergent foreign tax rates	–39.2	–8.9
from previous year	0.0	–0.6
from foreign income and other tax-exempt income	0.0	0.2
from investment related tax relief and other reducing the tax burden	2.3	8.6
from non-tax deductibel expenses	–9.3	–12.4
from non-recognition of deffered tax assets on loss carry-forwards and temporary differences	–137.2	–13.0
from the change of deferred taxes on loss carry-forwards and temporary differences	0.1	–0.2
from non-recognition of deferred taxes because temporary differences	0.0	–0.2
from other tax effects	0.0	–1.7
Actual income tax expenses (effective tax rate: 0.0% (2014: –5.5%)	**–19.2**	**–5.1**

36.2. Deferred tax assets/liabilities

In 2015, 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, for the following positions:

EUR m

	2015 Deferred Tax (netted)	2015 Income Statement	2015 Other compreh-ensive income (OCI)	2014 Deferred Tax (netted)	2014 Income Statement	2014 Other compreh-ensive income (OCI)
Provisions for loans and advances	0.2	0.3	0.0	–5.2	0.2	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.0	–1.4	0.0	1.4	–0.1	0.0
Revaluations of AFS investments to fair value	–0.8	0.0	–0.6	–0.2	–1.3	0.3
Impairment on AFS debt instruments	–1.5	–1.4	–1.5	1.4	–2.4	0.0
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.1	0.1	0.0	0.6	0.6	0.0
Post-employment benefits (pensions and other retirements) and payments because of termination(e.g. Compensation)	0.0	–0.1	0.0	0.2	0.0	0.0
Post-employment benefits (pensions and other retirements)	0.0	–0.1	0.0	0.1	0.0	0.0
Deferred revenue fee income	0.0	1.8	0.0	0.2	–3.2	0.0
Other	1.0	–0.6	0.0	4.2	3.6	0.0
Tax losses carried forward	0.0	–16.7	0.0	16.7	–0.3	0.0
Total deferred Tax	**–1.1**	**–18.2**	**–2.2**	**19.3**	**–2.9**	**0.3**

The total year-on-year change in deferred taxes in the consolidated financial statements is EUR -20.3 million. Of this, EUR -18.2 million is reflected in the current income statement as deferred tax expense and an amount of EUR -2.2 million has a negative effect on the 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

	2015	2014
Balance at start of period (1.1.)	**19.3**	**21.7**
Tax income/expense recognised in profit or loss	–18.2	–2.8
Tax income/expense recognised in OCI	–2.2	0.3
Fx-difference	0.0	0.1
Deferred taxes acquired in change of scope and other changes	0.0	0.0
Balance at end of period (31.12.)	**–1.1**	**19.3**

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

EUR m

	2015	2014
Deferred tax assets	0.0	19.3
Deferred tax liabilities	1.1	0.0
Deferred tax	**–1.1**	**19.3**

Because tax loss carry-forwards cannot be utilised by the respective group companies, deferred tax assets in the amount of EUR 141.6 million (2014: EUR 45.0 million) on unused tax losses of EUR 783.9 million (2014: EUR 266.9 million) and deferred tax assets in the amount of EUR 6.1 million (2014: EUR 0.3 million) on deductible temporary differences of EUR 43.0 million (2014: EUR 1.1 million) were not recognised. Of the unused tax losses in the amount of EUR 783.9 million (2014: EUR 266.9 million), EUR 244.8 million (2014: EUR 183.8 million) can be carried forward without restrictions, EUR 156.6 million (2014: EUR 3.7 million) can be carried forward for a maximum of four years subject to restrictions and EUR 382.5 million (2014: EUR 79.4 million) can be carried forward for a maximum of five years subject to restrictions.

Due to the fact that the subsidiaries recorded a series of losses in the recent past, the criterions for recognising deferred tax assets are more stringent according to IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available. Considering the uncertainty regarding the development of the macro-economic environment in which HGAA is operating, deferred tax assets arising from tax loss carried forward as well as deferred taxes arising from deductibe emporary differences have not been recognized in 2015 (2014: EUR 16.7 million).

Notes to the consolidated statement of financial position

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

EUR m

	31.12.2015	31.12.2014
Cash	120.9	121.0
Cash balances at central banks	925.3	1,139.3
Other demand deposits	272.8	122.7
Total	**1,319.0**	**1,382.9**

Cash balances at central banks and other demand deposits only 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 due daily was EUR 563.0 million (2014: EUR 490.8 million).

(38) Financial assets held for trading

EUR m

	31.12.2015	31.12.2014
Derivatives	9.7	4.8
Debt securities	1.1	4.2
General governments	1.1	4.2
Total	**10.8**	**9.0**

(39) Available-for-sale financial assets

EUR m

	31.12.2015	31.12.2014*
Equity instruments	**22.2**	**1.6**
Debt securities	**1,239.2**	**1,079.2**
Central banks	0.0	246.9
General governments	851.8	589.7
Credit institutions	318.1	237.0
Other financial corporations	8.5	5.6
Non-financial corporations	60.7	0.0
Loans and advances	**0.0**	**1.6**
Other financial corporations	0.0	0.1
Non-financial corporations	0.0	1.5
Total	**1,261.3**	**1,082.3**

*Previous-year figures (2014) adjusted: Debt securities against Central banks in the amount of EUR 246.9 million presented as debt securities against Central banks.

(40) Loans and receivables

EUR m

	31.12.2015	31.12.2014
Loans and advances	4,262.8	5,236.4
Total	**4,262.8**	**5,236.4**

40.1. Loans to and receivables from credit institutions

EUR m

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

EUR m

31.12.2014	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	76.8	0.0	–0.1	76.7
Total	**76.8**	**0.0**	**–0.1**	**76.7**

40.2. Loans to and receivables from customers

EUR m

31.12.2015	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**4,779.0**	**–599.0**	**–24.0**	**4,156.0**
General governments	525.4	–1.1	–1.0	523.4
Other financial institutions	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**

EUR m

31.12.2014	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**5,658.0**	**–474.2**	**–24.1**	**5,159.8**
General governments	586.7	–1.4	–1.2	584.1
Other financial institutions	123.6	–0.3	–3.5	119.8
Non-financial corporations	2,190.4	–229.5	–10.2	1,950.7
Households	2,757.3	–243.0	–9.2	2,505.1
Total	**5,658.0**	**–474.2**	**–24.1**	**5,159.8**

40.3. Impairment on loans and recievables

Impairment and provisions for impairment related to loans and receivables broke down as follows as at 31 December 2015:

EUR m

	As at 1.1.2015	Foreign-exchange-differences	Alloca-tions	Releases	Utilisa-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2015
Specific risk provisions	–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	**–13.7**	**0.0**	**–12.5**	**5.7**	**0.0**	**0.0**	**0.0**	**0.4**	**–20.2**
Individual 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 position Other risk provisions for the customer portfolio which is transferred to the former owner HETA Asset Resolution and its subsidiaries in the first quarter of 2016 are presented. This transfer is based on specific agreements made during the privatization process between the current and the previous owner. Further, this postion also includes the risk provisions of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. which is classified as non-current assets and disposal groups classified as held for sale.

EUR m

	As at 1.1.2014	Foreign-exchange-differences	Alloca-tions	Releases	Utilisa-tion	Changes to the consoli-dated Group	Un-winding	Other	As at 31.12.2014
Specific risk provisions	–470.0	2.6	–210.4	68.6	115.1	0.1	18.6	1.1	–474.2
Portfolio risk provisions	–30.1	–0.3	–13.0	18.4	1.5	–0.7	0.0	0.0	–24.2
Subtotal risk provisions on loans and receivables	**–500.1**	**2.3**	**–223.3**	**87.0**	**116.6**	**–0.5**	**18.6**	**1.1**	**–498.4**
Provisions for risks arising from the lending business	**–15.8**	**0.0**	**–4.5**	**6.5**	**0.0**	**0.0**	**0.0**	**0.0**	**–13.7**
Individual provisions	–5.4	0.0	–1.7	2.8	0.1	0.0	0.0	0.0	–4.2
Portfolio provisions	–10.4	0.0	–2.8	3.7	0.0	0.0	0.0	0.0	–9.5
Total	**–515.9**	**2.4**	**–227.8**	**93.5**	**116.6**	**–0.6**	**18.6**	**1.2**	**–512.1**

(41) Held-to-maturity investments

EUR m

	31.12.2015	31.12.2014
Debt securities	**81.9**	**84.6**
General governments	78.1	77.4
Credit institutions	0.0	0.0
Other financial corporations	0.0	3.3
Non-financial corporations	3.9	3.9
Total	**81.9**	**84.6**

(42) Tangible assets

EUR m

	31.12.2015	31.12.2014
Land, buildings and plants	104.9	121.7
Investment properties	2.3	23.2
Total	**107.2**	**144.9**

(43) Intangible assets

EUR m

	31.12.2015	31.12.2014
Purchased software	12.2	19.2
Other intangible assets	0.2	0.2
Total	**12.4**	**19.4**

(44) Development of tangible and intangible assets

44.1. Development of acquisition costs and carrying amounts

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED 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**

In the position other changes the assets which are transferred to HETA Asset Resolution in the first quarter of 2016 are presented. This transfer is based on specific agreements made during the privatization process between the current and the previous owner and thus these assets are classifies as non-current assets and disposal groups classified as held for sale as at 31 December 2015. Further, this postion also includes assets of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. which is classified as non-current assets and disposal groups classified as held for sale. Intangible assets encompass purchased software and other purchased intangible assets.

EUR m

31.12.2014	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 1.1.2014	142.5	109.9	38.9	92.9	76.6	**460.8**
Foreign exchange- differences	–0.4	–1.4	–0.2	–0.1	–0.8	**–3.0**
Additions	14.2	4.9	12.1	5.3	6.6	**43.2**
Disposals	–1.0	–11.0	–9.5	–0.1	–10.5	**–32.1**
Other changes	–44.6	1.5	0.2	–68.9	–0.2	**–112.0**
Acquisition cost 31.12.2014	110.7	103.8	41.6	29.2	71.8	**357.0**
Cumulative depreciation 31.12.2014	–42.3	–77.0	–15.1	–5.9	–52.3	**–192.7**
Carrying amount 31.12.2014	68.4	26.8	26.5	23.2	19.4	**164.3**
Carrying amount 31.12.2013	90.6	33.2	26.1	76.2	25.7	**251.9**

The other changes include the disposal of assets from the sale of HYPO ALPE-ADRIA-NEKRETNINE d.o.o. (Croatia) in October 2014.

44.2. Development of depreciation and amortisation

EUR m

31.12.2015	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED 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**
Reversal of impairment	0.2	0.0	0.1	0.1	0.0	**0.3**
Cumulative depreciation 31.12.2015	–48.9	–75.4	–12.9	–5.5	–59.2	**–202.0**

EUR m

31.12.2014	Land and buildings	Equipment - internally used	Equipment - operating lease	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 1.1.2014	–51.9	–76.7	–12.8	–16.7	–50.9	**–209.0**
Foreign exchange- differences	0.1	1.1	0.1	0.0	0.4	**1.8**
Disposals	1.5	8.9	4.3	0.0	9.1	**23.7**
Scheduled depreciation	–2.8	–9.2	–6.6	–1.8	–6.6	**–27.1**
Impairment	–7.3	–0.5	–0.1	–1.7	–4.4	**–14.0**
Other changes	18.1	–0.6	–0.1	13.4	0.2	**30.9**
Reversal of impairment	0.0	0.0	0.1	1.0	0.0	**1.1**
Cumulative depreciation 31.12.2014	–42.3	–77.0	–15.1	–5.9	–52.3	**–192.7**

(45) Other assets

EUR m

	31.12.2015	31.12.2014
Prepayments and accrued income	4.6	9.2
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4.5	28.5
Remaining assets	7.3	8.3
Total	**16.5**	**45.9**

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

As at 31 December 2015, the item "non-current assets and disposal groups classified as held for sale" includes assets in the amount of EUR 220.1 million that will be transferred to the former owner HETA Asset Resolution AG and its subsidiaries in the first quarter of 2016 pursuant to specific agreements made during the privatization process between the current and the previous owner.

Further, this position also includes the carrying amounts of assets and liabilities in the amount of EUR 120.3 million of Hypo Alpe Adria Leasing, druzba za financiranje d.o.o. as it is most likely that this company will be sold within the next 12 months.

According to the IFRS 5 reporting rules balance sheet items (assets and liabilities) of previous periods are not reclassified

EUR m

Non-current assets and disposal groups classified as held for sale	31.12.2015	31.12.2014
Loans and receivables	289.3	0.0
Tangible assets	0.4	0.0
Investment properties	25.3	0.0
Intangible assets	0.1	0.0
Tax assets	0.2	0.0
Other assets	25.2	0.0
Total	**340.4**	**0.0**

In the position Other assets only inventories (repossessed asstes, emegency acquired assets, etc.) are presented.

EUR m

Liabilities included in disposal groups classified as held for sale	31.12.2015	31.12.2014
Financial liabilities measured at amortised cost	1.3	0.0
Provisions	1.2	0.0
Other liabilities	3.7	0.0
Total	**6.1**	**0.0**

(47) Financial liabilities held for trading

EUR m

	31.12.2015	31.12.2014
Derivatives	28.6	7.8
Total	**28.6**	**7.8**

(48) Financial liabilities measured at amortised cost

EUR m

	31.12.2015	31.12.2014*
Deposits	4,294.6	4,689.8
Deposits of credit institutions	379.2	691.1
Deposits of customers	3,915.3	3,998.7
Debt securities issued	28.1	4.6
Other financial liabilities	1,909.8	1,983.4
Total	**6,232.5**	**6,677.8**

* Previous-year figures (2014) adjusted: In 2014 Deposits of credit institutions in the amount of EUR 136.3 million classified as Other financial liabilities.

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

48.1. Deposits of credit institutions

EUR m

	31.12.2015	31.12.2014*
Current accounts / overnight deposits	12.6	7.9
Deposits with agreed terms	339.3	451.1
Deposits redeemable at notice	0.5	0.0
Repurchase agreements	26.9	232.1
Total	**379.2**	**691.1**

* Previous-year figures (2014) adjusted: In 2014 Deposits with agreed terms in the amount of EUR 136.3 million classified as Other financial liabilites as well as Deposits with agreed terms in the amount of 131.1 million classified as Deposits redeemable at notice.

48.2. Deposits of customers

EUR m

	31.12.2015	31.12.2014
Current accounts / overnight deposits	**1,273.9**	**1,102.8**
General governments	27.9	32.4
Other financial corporations	51.5	56.9
Non-financial corporations	458.5	422.7
Households	736.1	590.9
Deposits with agreed terms	**2,577.4**	**2,870.3**
General governments	132.6	246.6
Other financial corporations	211.9	225.0
Non-financial corporations	425.8	417.8
Households	1,807.2	1,980.9
Deposits redeemable at notice	**64.0**	**25.5**
General governments	20.4	12.4
Other financial corporations	6.4	0.4
Non-financial corporations	37.1	12.7
Households	0.1	0.0
Total	**3,915.3**	**3,998.7**

48.3. Debt securities issued

EUR m

	31.12.2015	31.12.2014
Other debt securities issued	**28.1**	**4.6**
Certificates of deposit	28.1	4.6
Total	**28.1**	**4.6**

(49) Provisions

49.1. Detailed breakdown of provisions

EUR m

	31.12.2015	31.12.2014
Pensions and other post employment defined benefit obligations	2.4	1.7
Other long term employee benefits	0.4	0.2
Restructuring measures	18.5	1.6
Pending legal disputes and tax litigation	41.6	23.8
Commitments and guarantees granted	20.2	13.8
Other provisions	236.1	0.9
Total	**319.2**	**41.9**

Details regarding restructuring measures are presented in note (22.3) Provisions for restructuring. Outflows of economic benefits resulting from restructuring measures are to be expected for the first half-year 2016.

The position Pending legal disputes and tax litigation includes provisions for potential legal risks in connection with existing customer claims in one of the countries in which Hypo Group Alpe Adria is operating. Further, under this position outstanding obligations such as pending legal disputes in connection with the loan business are disclosed. No further disclosues according to IA 37.92 are made in order to protect Hypo Group Alpe Adria's position in connection with these legal disputes.

The position Other provisions includes mainly provisions for risks in connection with the CHF-conversion (Swiss Franc in Euro) in Croatia and Montenegro. As it is expected that the conversion of these customer loans take place in 2016, these provisions can be classified as short-term. Further information regarding the provisions for risks in connection with the CHF-conversion is presented in note (95) Important proceedings. In addition, this position contains provisions for expected losses 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 balance sheet date as well as a provision for onerous contracts.

The development of provisions for risks arising from the lending business (commitments and guarantees issued) is disclosed under note (40).

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 resources embodying economic benefits at at balance sheet date including also the consideration of risks and uncertainties which are expected with the fullfilment of the obligation.

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 summarised.

EUR m

	2015	2014
Present value of the defined benefit obligations as of 1.1	**1.7**	**1.9**
+ Current service cost	0.1	0.1
+ Contributions paid to the plan	0.4	0.0
+/- Actuarial gains/losses	0.1	–0.2
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	–0.1
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	–0.1
+/- Actuarial gains/losses arising from changes from experience assumptions	0.1	0.0
- Payments from the plan	–0.1	–0.1
+ Past service cost	–0.1	0.1
Increase or (-) decrease through business combinations and disposals	0.6	0.0
+/- Other changes	–0.2	–0.2
Present value of the defined benefit obligations as of 31.12	**2.4**	**1.7**

Due to the low amount of personnel provisions for Hypo Group Alpe Adria as at 31 December 2015, further disclosures according to IAS 19 are omitted.

49.3. Provisions – Development of other provisions

Other provisions developed as follows in the respective reporting periods:

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**

EUR m

	Carrying amount 1.1.2014	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2014
Pensions and other defined benefit obligations towards employees	1.9	0.0	0.2	–0.1	–0.5	0.2	1.7
Other long term employee benefits	0.1	0.0	0.0	0.0	0.0	0.0	0.2
Restructuring measures	1.4	0.0	0.8	–0.6	0.0	0.0	1.6
Pending legal disputes and tax litigation	19.5	–0.1	5.6	–0.8	–1.2	0.7	23.8
Other provisions	0.1	0.0	1.0	0.0	–0.2	0.0	0.9
Total	**23.0**	**–0.1**	**7.7**	**–1.5**	**–1.8**	**0.9**	**28.2**

(50) Other liabilities

EUR m

	31.12.2015	31.12.2014
Deferred income	2.1	3.0
Accruals and other liabilities	29.8	32.6
Total	**31.9**	**35.6**

(51) Equity

EUR m

	31.12.2015	31.12.2014*
thereof attributable to equity holders of parent	**752.6**	**1,228.9**
Subscribed	5.0	5.0
Capital reserves	792.6	603.2
Available-for-sale-reserves	8.2	0.2
Foreign currency reserve	–22.1	–23.7
Cumulative results and other reserves	–31.2	644.1
Non-controlling interests	**0.0**	**0.0**
Total	**752.6**	**1,228.9**

* Previous year figures (2014) adjusted

Subscribed capital is based on the separate annual financial statements prepared by Hypo Group Alpe Adria AG under UGB/BWG as at 31 December 2015. Of this amount, EUR 5.0 million (2014: EUR 5.0 million) corresponds to the share capital of Hypo Group Alpe Adria AG which is divided into 1,000 (2014: 1,000) no-par bearer shares. The proportionate amount of the share capital per share amounts EUR 5.0 thousand (2014: 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 as of 28 June 2013, as well as of an increase in amount of EUR 189.0 million by the parent company AI Lake (Luxembour) S.a.r.l, arising from a debt waiver against Heta Asset Resolution AG for the compensation of risk provisions in the course of the selling process of Hypo Group Alpe Adria and was granted to AI Lake (Luxembourg) S.a.r.l..

The non controlling interests are of minor importance of the equity.

In the available-for-sale reserves are negative available-for-sale-reservers in amount of EUR 2.0 million included. The other reserves contain also the liability reserve, which credit institutions are required to form according to § 57 Abs. 5 BWG (Austrian Banking Act).

In the legal reserve, which is part of the other reserves, a certain %-amount of the annual profit has to be formed, depending on the local law.

In connection with the special agreements, which have been conducted during the privatisation process between the current owner and the purchaser, Hypo Group Alpe Adria AG received on 10 March 2016 a capital increase in amount of EUR 265.0 million as well as supplementary capital in amount of EUR 60 million in the form of a waiver, in order to compensate losses which are related on the one hand to the conversion of the Swiss Franc and on the other hand on the deterioration of specific loans of the retail portfolio.

(52) Statement of cash flows

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

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

The cash flow from investing activities includes cash inflows and outflows arising from securities and equity investments, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries and payments 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) Preamble

Important aspects of risk organisation and control at Hypo Group Alpe Adria were developed at Hypo-Alpe-Adria-Bank International AG and Heta Asset Resolution (Heta) prior to the establishment of Hypo Group Alpe Adria and have been transferred to Hypo Group Alpe Adria within the scope of the separation project, which also relates to 2015. For this reason and in order to provide a better understanding, this risk report partly refers to periods before the establishment of Hypo Group Alpe Adria as well as to Heta Asset Resolution AG.

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.

(54) Risk control and monitoring

Hypo Group Alpe Adria steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this 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 to the overall steering process at Hypo Group Alpe Adria:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are 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, analysing, measuring, combining, controlling and monitoring the different risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(55) Risk Strategy

Hypo Group Alpe Adria's risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. 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 banking business, as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

2015 was a turning point for Hypo Group Alpe Adria and a change in direction regarding risk management practices is now critical to enable the business to grow sustainably within the risk appetite that the Group is willing to take. The role of the risk function in supporting the business strategy has become more relevant. Hypo Group Alpe Adria is setting the foundations to move from re-active risk management practices supported by tactical ad-hoc solutions to dynamic risk management practices supported by a strategic operating model.

Hypo Group Alpe Adria's risk strategy is a combination of key risk management approaches from the core business strategy combined with the new post-sale strategy. This is reflected in the risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory expectations for adequate capitalisation of risk taking activities. The objectives 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. Increased customer know-how: Backed up by data, knowledge of our customers' behavioural 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 serve new markets
6. Analytical excellence: The Risk department supports the business units as a centre 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 with processes and 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 Hypo Group Alpe Adria's business strategy. Finally, it is necessary to define risk profile as well as certain criteria and rules for risk-taking and risk measuring to keep the defined risk profile
- Efficient steering (including data quality) and the implementation of a forward looking approach respecting defined early warning indicators aimed to align internal capital and liquidity position in the long term
- Provide an organisational framework for routine management and decision making processes that ensures prudent and continuous limit-compliant steering of all risks inherent to the Hypo Group Alpe Adria business model
- Establish compliant risk policies and documents framework

These risk strategy goals enable Hypo Group Alpe Adria to:

- Prevent losing our current customer base as well as prevent losses on existing customer business
- Focus on our desired customer range
- Support new business lending with an understanding of the risks associated and how to mitigate them
- Align the products we offer
- Understand our customer lifecycle and the long-term cycle of profitability
- Ensure consistency of the overall risk profile, and capital and liquidity position
- Aim to/enable the highest possible return on risk taken

The Risk Function is currently engaged in an enhancement program that has several key objectives in 2016:

- Reporting streamlining – definition of most crucial reporting KPIs, report process automatism in order to increase time and quality of analytics, alignment between risk and finance, and increase in forward looking analytics
- Data streamlining – enhancement of data dictionary and data process mapping, optimisation of region to Group data delivery model, and targeted resolution of outstanding data quality areas. A vision has been set and a detailed program will be initiated in 2016.
- Process streamlining – "cockpit" style processes linked to policies, control framework, and operational efficiency / effectiveness KPIs used to prepare recommendations for process changes and target state analyses which are in turn translated into specific six sigma / lean optimisation programs.
- Policy optimisation – process streamlining including reports and data will be supported by a complete review of policies with the target to reduce areas of overlap and unnecessary complexity, increase efficiency of role and responsibility information transmission to increase compliance effectiveness including training

(56) Risk organization and Internal Audit

56.1. Risk divisions and functions

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 Hypo Group Alpe Adria Executive Board. The CRO acts independently of market and trading units, with focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of 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.

Internal restructuring of the entire risk division was already carried out at Heta Asset Resolution AG starting in 2014 within the scope of a comprehensive Heta-Hypo Group Alpe Adria separation project, creating the foundation for the risk division transfer to Hypo Group Alpe Adria AG. Heta Asset Resolution AG carried out the majority of activities for Hypo Group Alpe Adria before the actual transfer of employees to Hypo Group Alpe Adria AG through service level agreements (in some cases also after the transfer). The transfer of employees was concluded in April 2015.

The Risk Office, which is embedded in the Group Risk Governance Rules of Hypo Group Alpe Adria, has been expanded in the course of the establishment of the holding company. It consists of the following pillars:

- Risk Control
- Credit Operations
- Retail Risk Management

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

The Risk Control pillar includes the following main functions:

- Identifying risks
- Providing risk methods and models
- Determining risk policy guidelines and limits
- Performing risk analyses, mitigation and monitoring and risk reporting

In accordance with ICAAP Guidelines, the Risk Control division is internally structured according to material risk types, encompassing:

- Credit Risk Control,
- Market & Liquidity Risk Control
- Operational Risk Control & ICS and
- ICAAP & Portfolio Risk Control

The “Credit Operations” pillar merges the previous “Group Credit Management”, “Group Credit Processing” and “Group Credit Rehabilitation” and consolidates all material, operative, non-consumer risk functions:

- Senior credit management
  Corporate, public finance, financial institutions/sovereign/subsidiaries underwriting for clients beyond local credit competency as well as quality control for financial analysis/accounting assessment in accordance with IFRS policies, early warning system, policy responsibility
- Senior credit rehabilitation
  Underwriting of non-performing clients beyond local credit competency, Group-wide non-performing loan (NPL) steering and budgeting, methodological responsibility for the calculation of specific provisions for impairment losses and associated policies, etc.
- Credit processing
  Control of credit and collateral administration, credit processes, core banking system maintenance for groups of affiliated clients and
- Project management and steering
  Reporting and portfolio steering agendas, various policies

The following steering functions are integrated into the “Retail Risk Management” pillar:

- Portfolio management for all private clients and SME portfolios in accordance with the internal segment definition (trend analysis, development and implementation of lending and restructuring guidelines, product parameters, lending and monitoring processes as well as the definition of KPIs for collection processes)
- Analytics and reporting (providing support to Retail Risk Management by means of data extraction and extensive data analysis, data quality assurance and the development of databases)
- Retail risk collections and restructuring (definition and development of KPIs, restructuring policies, segmenting strategies to optimise and control collections and restructuring processes)
- Retail risk review (ongoing revision of lending or restructuring processes with the aim of further optimisation)
- Collection process (end-to-end collection of debt for all due dates in the retail business, including the direct collection of debt, the resulting legal collection or the sale of the assets)

Until April 2015 a Risk Quality Assurance Team also existed ensuring the qualitative and practical implementation of Group specifications/policies at a local level. Furthermore, the team regularly reported the results directly to the Chief Risk Officer. These functions have since been transferred to the aforementioned departments.

Within the Executive Board, the Chief Financial Officer (CFO) is responsible for monitoring adherence to regulatory own capital funds requirements. Hypo Group Alpe Adria has separated the CRO and CFO functions.

The Audit division is a permanent function that audits the business activities of Hypo Group Alpe Adria. In terms of organisation, it reports to the Chairman of the Executive Board and also reports directly and in detail to the Supervisory Board. Auditing activities are based on a risk-oriented approach, and generally cover all activities and processes of Hypo Group Alpe Adria. The "Internal Audit" division carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

(57) Internal risk management guidelines

Hypo Group Alpe Adria states its Group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods 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 at all times. In accordance with the new business and risk strategy, various policies are currently being revised.

Hypo Group Alpe Adria 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.

Hypo Group Alpe Adria therefore has fully comprehensive and up-to-date internal risk management guidelines in place.

(58) Projects

58.1. Project "Adria Closing"

After Heta Asset Resolution AG and the bidder consortium consisting of "AI Lake" and the European Bank for Reconstruction and Development (EBRD) signed the Share Purchase and Transfer Agreement ("SPA") on 22 December 2014, the sellers and Hypo Group Alpe Adria set up the project "Adria Closing", aiming to implement the closing terms and conditions agreed upon in the SPA to achieve a successful closing of the sale at 30 June 2015.

Project management was jointly performed by Heta Asset Resolution AG and Hypo Group Alpe Adria based on 13 project modules which were divided according to different subject matters (legal issues, financial statements, treasury, purchaser brush, release for sale by the European Commission, etc.) and weekly progress reports were provided to the project leaders. After timely implementation of the sale terms and conditions, the closing of the sale was initiated by a pre-closing on 30 June 2015 and completed by the closing on 17 July 2015.

58.2. Project "Adria Post Closing"

Subject of the project "Adria Post Closing" is the implementation of the rights and obligations agreed upon in the SPA between Heta Asset Resolution AG and AI Lake, 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

- Purchaser brush transaction by 31 March 2016
- 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)

The project's aim was to implement the above stated topics as well as to hand over the issues to line management of the responsible divisions in good order by the end of March 2016.

58.3. Revaluation of collateral in the retail portfolio

Due to the significant NPL portion in the retail portfolio in all Hypo Group Alpe Adria countries, an evaluation was carried out in order to assess potential changes to the current valuation parameters. Specifically, the evaluation focused on the following aspects:

- On-site examination and revaluation of a sample of approximately 1,000 residential real estate properties in all markets
- Analysis of previous offers for sale and success rates in selling real estate in recent years
- Obtaining of feedback from external real estate agents (if possible) in connection with expert opinions on possible deficits in creating ready-for-purchase markets at certain locations

As a result, a two-part concept for residential real estate based on location and type of property (flat or house) was formulated, which includes adjusted fair value measurements as well as an improvement in existing validation and measurement methods, taking into account the liquidity of collateral in the market.

58.4. Risk Enhancement Program

In the period between September and December 2015, the first phase of the "Risk Enhancement Program" was carried out. The program's purpose is to adjust Hypo Group Alpe Adria's risk organisation and control to the new post-sale business strategy. It includes following three pillars:

- "Strategy"
- "Assessment" and
- "Operations"

The "Strategy" pillar focused on developing a post-sale risk strategy. Furthermore, the number and quality of risk guidelines was analysed and suggestions to reduce, simplify and improve them were developed and will be implemented in the course of the first half of 2016. The basic principles to define an RAF ("Risk Appetite Framework") as well as risk governance and culture were also part of this project.

The "Assessment" pillar focused on the further development of risk reporting as well as the underlying data lineage concepts. Process and system evaluations for the early warning system, forbearance and loss data collection fields were carried out.

The "Operations" pillar focused on roles and responsibilities in Retail Risk Management, Corporate Operations and Group Risk Control. The committee structure and the establishment of standardised credit applications were also part of this project.

In the first half of 2016, the second phase of the program will be launched.

58.5. 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, Hypo Group Alpe Adria has prepared and timely (deadline: 30 September 2015) submitted the Recovery Plan to the regulatory authorities.

The preparation of the Hypo Group Alpe Adria Recovery Plan was performed as a separate project in the period of April to September 2015.

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 to be updated on a yearly basis.

58.6. Asset liability management (ALM) – enhancement project

Within the context of the ALM enhancement project to measure interest rate and liquidity risks, the Group continued the implementation of an advanced ALM system and the requisite infrastructure in 2015. This system enables integrated risk measurement which – together with market and liquidity risk factors enables, among other things, the integration of credit risk parameters in ALM.

In 2015, the focus was on completing the data fields supplied as well as ensuring data quality as a basis for the interest and liquidity risk analyses performed by using the ALM system. The ALM system's functionality was also successfully applied in the course of fair value calculations for the respective IFRS financial statements.

58.7. Forbearance

The Implementing Technical Standards with regard to forbearance measures are continuously being developed by the European Banking Authority (EBA). Hypo Group Alpe Adria therefore started a forbearance project in the second half of 2015, aiming to fully comply with the currently specified requirements.

In cooperation with local subsidiary banks, a new forbearance policy which fundamentally enhances the current forbearance process could be implemented in January 2016. Basis for this new process is the implementation of a forbearance algorithm in the core bank system which is automatically started when predefined forbearance triggers occur. Furthermore, the policy includes the implementation of the probation period required by EBA, reporting on account level as well as the consideration of the days in delay. The recognition of forbearance cases is moreover not directly connected to the rating any more.

The project's second phase includes the implementation of the forbearance measures stated in the policy. In the first quarter of 2016 implementation could already be concluded in the banks of Slovenia and Croatia. Implementation in the remaining countries is expected to be concluded until the third quarter of 2016.

Forbearance exposure at Hypo Group Alpe Adria is presented in Note "Breakdown of financial assets by degree of impairment".

(59) Brush activities

The Share Purchase and Transfer Agreement (SPA) concluded between Heta Asset Resolution AG and Advent enabled Hypo Group Alpe Adria to carry out an additional brush to reduce existing and future risks resulting from its portfolio until March 2016. The most important criteria for the selection of the brush portfolio were:

- Exposure had already been recorded in the accounts at 31 December 2014.
- Eligible asset classes are financial assets (e.g. loans, leasing facilities and exposures not included in the statement of financial position) and non-operative assets.
- Receivables considered for the brush were already labeled as non-performing loans (NPL) at 31 December 2014 or were classified as non-performing due to various impairment triggers during the year in the course of impairment tests.
- Material impairment triggers leading to an inclusion in the brush portfolio were: significant number of days overdue, restructuring already failed in the past, forbearance issues, risk of client inability to comply with the repayment schedule, negative cost-benefit indicators, incorrectly structured financing that would cause a further, risk-driven need for restructuring, etc.

The brush transaction was realized in the first quarter of 2016, with EUR 223.3 million as of 31 December 2015 being transferred in the course of a true sale. The risk associated with the remaining portfolio items considered for the brush is covered via P/L settlement by Heta Asset Resolution AG.

The transfer of the selected brush items to Heta Asset Resolution AG results in their de-recognition in the statement of financial position of Hypo Group Alpe Adria, 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 (see performance indicators in Note "Development of the coverage ratio").

(60) Development of provisions

60.1. Method of calculating 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 utilisation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or utilisation), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In order to reflect realistic assumptions in the calculation of specific provisions for impairment losses, only expected cash flows within a period of five years are taken into account. Taking cash flows for a period greater than five years into consideration is only permitted in justifiably exceptional cases.

In terms of the calculation of recovery cash flows from real estate, Hypo Group Alpe Adria 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, utilisation period and legal situation in relation to the real estate.

For individual, non-significant exposures (that is below certain thresholds), the specific risk provision collective impaired method (SRP CI) is used instead of an individual analysis. Internally accepted collaterals (ICV, see Note "Measurement of real estate collateral and other collaterals" for further details on calculation) and high loss ratios for non-secured portfolios are applied to measure the collective specific provisions for impairment losses. In addition, the duration of the default status is used as a primary criterion. This principle is based on the fact that longer default duration of a client results in a lower expected recovery rate. The collective specific provisions for impairment losses increase in line with days overdue – after a certain period of default (three to four years depending on the subsidiary), the entire exposure must be fully written off.

Receivables not subject to the calculation of (collective) specific provisions for impairment losses are included in the calculation of portfolio impairment. Incurred but not detected losses are used to calculate the portfolio impairment ("Incurred but not Detected Loss Model"). Please refer to Note "Financial instruments: recognition and measurement (IAS 39)" for further details on calculation.

60.2. Development of provisions for impairment losses at Hypo Group Alpe Adria

In 2015, Hypo Group Alpe Adria AG continued to combat a worsening macroeconomic environment together with its network banks in Croatia, Slovenia, Serbia, Montenegro as well as Bosnia and Herzegovina. This was taken into account by the recognition of approximately EUR 318.1 million (excl. the portfolio classified as held for sale according to IFRS 5) of additional risk provisions on loans and receivables.

Deterioration of the economic situation

The primary reason for the additional impairment was the migration of watch list customers (rating category 4) to the restructuring area caused by the ongoing economic downturn, which made it necessary to record the corresponding provisions for impairment losses.

In the watch loan process, the economic situation is subject to constant analysis in order to take mitigation action proactively and at an early stage to minimise risks and, as a result, avoid impairment. Due to the persistently weak economic climate in core Hypo Group Alpe Adria markets, default triggers resulting in the need for impairment were promptly identified in some cases. Consequently, affected clients were migrated to the NPL area in 2015.

Furthermore, an increasing number of factors arose in the course of ongoing monitoring of restructuring cases that required a revision of the underlying client strategy (e.g. switch from restructuring to workout strategy). In addition, a further decrease in the market value of collaterals also influenced the need for impairment.

Backtest of the Retail Loan Loss Provision Level

According to IAS 39 AG 89 adequacy of provisions was reviewed through back testing. In this vein, comprehensive historical data was collected and extensive statistical analyses were performed. Based on the information about the cumulative recovery rates that could be obtained through this procedure, the necessity of a revaluation of the loan loss provision level could be detected. The resulting additional impairment needs were booked according to IFRS standards.

60.3. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the entire risk provisions to non-performing loans) increased from 44.2% to 61.7% in the 2015 financial year.

EUR m

			31.12.2015			31.12.2014
Segment	NPL Exposure	Provisions	Coverage Ratio	NPL Exposure	Provisions	Coverage Ratio
Corporate	632	304	48.1%	523	189	36.2%
Retail	576	446	77.5%	550	285	51.7%
Public Finance	22	9	40.3%	11	5	46.2%
Total	**1,229**	**759**	**61.7%**	**1,083**	**478**	**44.2%**

The changes that have led to the increase in coverage ratio are stated in detail in the Note Development of the provisions for impairment losses at Hypo Group Alpe Adria.

For transparency reasons performance information regarding Non Performing Loans excluding the Brush portfolio that is classified as held for sale according to IFRS 5 is shown in the following table as at 31 December 2015:

EUR m

			31.12.2015
Segment	NPL Exposure	Provisions	Coverage Ratio
Corporate	316	160	50.7%
Retail	576	446	77.5%
Public Finance	18	5	28.3%
Total	**910**	**611**	**67.2%**

(61) Measurement of real estate collateral and other collateral

The "Collateral Management Policy" and the "Collateral & Collateral Monitoring Manual" stipulate the management of all collateral at Hypo Group Alpe Adria. 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 securitisation 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. All commercial real estate (alternatively: "all real estate") with a market value greater than EUR 1.0 million is assessed individually, for which a Group-wide collateral work flow has been implemented.

All measurements are requested on the part of the front office three months before re-measurements are due. The market value of all real estate with a market value less than EUR 1.0 million is determined with 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 & Collateral Monitoring Manual")

In addition, the following deductions must be taken into account:

- Collateral through entry into the land register (CRE/RRE) – potential senior liens
- Financial collaterals – deductions in the case of different currencies
- Guarantees – deductions depending on segment and rating of guarantor

With regard to receivables secured through real estate, a haircut is deducted from the determined market value (amount of the haircut on the market value varies depending on real estate segment).

This deduction (= recoverability) includes a general approach that takes, among others, the following aspects into consideration:

- Utilisation costs over an assumed utilisation period
- Discounting factor for period of utilisation
- Market value deduction due to prompt sale

However, the maximum amount presented as the ICV is the exposure collateral. Please refer to the Note "Method of calculating impairment" for further details on considering collateral values in the calculation of impairment.

The internal collateral values are shown in the following table for 31. December 2015 as well as 31. December 2014:

EUR m

Collateral Distribution	31.12.2015	31.12.2014
Exposure	8,587	8,849
Internal Collateral Value (ICV)	3,214	3,538
therof CRE	1,070	1,231
therof RRE	1,492	1,617
thereof financial collateral	37	46
thereof garantees	399	381
thereof other	217	263
ICV coverage rate	**37.4%**	**40.0%**

(62) Measurements to improve risk management

62.1. Basel III – Liquidity risk and liquidity risk management

In addition to the existing reporting of the LCR and NSFR based on ITS (Implementation Technical Standards), also the quarterly reporting of asset encumbrance beginning as at 31 December 2014 was implemented in 2015 as a result of the ongoing regulatory requirements pursuant to the Capital Requirements Regulation (CRR).

Furthermore, the monthly preparation of reports of LCR was initiated beginning as at 31 October 2015 pursuant to the LCR (new) Delegated Act. The implementation of "Additional Liquidity Monitoring Metrics" based on the Group Data Ware House (GDWH) was also initiated so as to ensure a timely delivery as at 31 January 2016.

62.2. Development of rating procedures

Hypo Group Alpe Adria AG currently employs the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estates, municipalities, countries, insurance firms, banks and scorecards for private customers.

The procedures are improved and validated as stipulated by the standards issued by the regulatory authorities. In the first half of 2015, the existing corporate rating procedure was further developed and improved. The calibration was adjusted to historical default rates. Moreover, the models were refined based on asset clusters and the discriminatory power was increased.

62.3. Adjustment of the internal days overdue counter

A Group-wide initiative to revise the internal counter of days overdue showed that the current technical implementation of the internal counter at some subsidiaries does not entirely match the understanding of the European Banking Authority (EBA) and the Group. Effects resulting from the adjustment to the Group definition were already taken into account at client level in 2015. The technical implementation of a uniform internal day overdue counter will be completed in 2016.

62.4. Further development of retail risk management

In order to support the retail strategy, the Retail Risk Management division was significantly revised in 2015: 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, client segmentation in the collection process as well as making decisions on credits as well as credit checks and quality assurance. Furthermore, Retail Risk Management is also responsible for defining and developing the retail credit policies. The cornerstones of the framework plan for Retail Risk Management have already been successfully implemented:

- Retail Risk Underwriting Policy
- Retail Risk Restructuring Policy
- Integrating collections into the Retail Risk division in the fourth quarter of 2015
- Setting up a project to introduce system-supported automated credit decision processes
- Analysing and managing portfolios based on retail-specific key risk indicators

62.5. European market infrastructure regulation (EMIR)

During the ongoing implementation of the requirements of the European Market Infrastructure Regulation, level II validations were effected at Hypo Group Alpe Adria in 2015 and implemented in the portfolio management system (PMS) used for the EMIR reporting.

For Hypo Alpe Adria subsidiary banks in Slovenia and Croatia, EMIR reporting is carried out by means of "delegated reporting" on the part of Hypo Group Alpe Adria AG.

62.6. Overnight index swap discounting, tenor curves and credit/debit value adjusted

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 adjusted (CVA & DVA) using the American Monte Carlo method

In 2015, improvements in the measurement of derivative items with differing currencies of collateral and currencies of cash flows were implemented. Tenor base spreads as well as cross-currency base spreads are now both taken into account to discount such cash flows.

(63) Risk reporting

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

In 2015, the monthly risk report was adjusted to the new situation, the requirements of the new decision-making bodies as well as the new strategy. The regular credit risk reports are prepared on a monthly basis. The monthly credit risk report comprises the following major components: (1) credit portfolio overview and (2) migration analysis. In the first half of 2015, the new business analysis was adjusted pursuant to the requirements stipulated in the Share Purchase and Transfer Agreement concluded with Heta Asset Resolution AG, and the new business reports were made available to Heta Asset Resolution AG on a monthly basis.

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 semi-annually and to the CRO in monthly meetings.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the Group, which include standardised 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 reports issued at Group level are also available at local level and are distributed regularly to the Group entities.

(64) 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) does not exist at holding and Group level.

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

- Paid-in capital
- Reserves
- Deductions

Basel requirements were 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 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 III 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 level
- Standardised Approach (STA / activities divided into eight defined business divisions) for the operational risk at Group level (from the reporting date 31 March 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,

- standardised 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 capital ratios as defined 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 Group as well as AI Lake Group level for the planning period. In 2015 all minimal capital ratio requirements were fulfilled.

Compliance with the resolved risk position limits for individual Group companies and business divisions is monitored on an ongoing basis. Reports on current capacity utilisation are submitted to the Executive Board on a monthly basis. The Executive Board is currently informed monthly about the actual ratios and material effects on these ratios and makes decisions on appropriate measures if actual figures deviate from targets.

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.

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 regulatory authorities 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 I/RWA ratio of at least 10.5% (2016: 11.5%) and an overall equity/RWA ratio of at least 12% at 2015 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 standardised regulatory minimum for the overall equity ratio stands at 12%.

64.1. ICAAP – Internal Capital Adequacy Assessment Process

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

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. The value at risk (VaR) method is applied for calculating risk capital requirements for credit and market risk, the main risk categories. The Hypo Group Alpe Adria network is steered in accordance with the gone concern approach at a confidence level of 99.9%. In addition, the going concern approach (confidence level of 95%) was implemented for the Hypo Group Alpe Adria network.

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. According to the risk strategy, 80% of the available risk coverage capital may be used for covering risks, whereas the remaining 20% are used as a stress buffer.

In addition, quarterly 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 Group Risk Control and presented in the Group Risk Executive Committee (GREC), the Risk Committee as well as in the risk report, which is submitted to the Executive Board and the Supervisory Board. In this regard, the GREC serves as an operational basis for controlling economic risks. This Committee also discusses and approves the risk standards (methods, processes, systems, organisation and stress test assumptions) for the Group.

(65) Credit risk (counterparty default risk)

65.1. Definition

In terms of scale, credit risks constitute the most significant risks for the Hypo Group Alpe Adria network. These mainly arise 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 utilised 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 fulfilment risks from trading transactions.

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

65.2. General requirements

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

In line with a Group-wide instruction on authority levels as defined by the 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 Hypo Group Alpe Adria network 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.

65.3. Risk Measurement

The Hypo Group Alpe Adria network uses its own rating procedure to analyse and assess each individual borrower's credit ratings. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

65.4. Risk limitation

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

In the banking division, limits are set and monitored independently by Risk Control. 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 authorisation 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 in the Hypo Group Alpe Adria network is the acceptance and crediting of usual 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 for 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.

65.5. Portfolio overview – credit risk

In economic risk control, market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. The presentation in the Note "Credit risk (counterparty default risk)" is based on exposure without deduction of impairment.

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

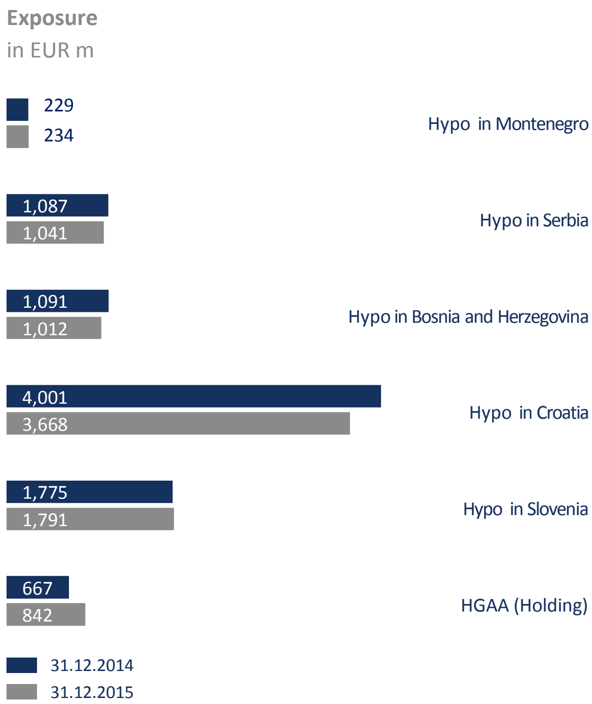
EUR m

	31.12.2015	31.12.2014
Cash balances at central banks and other demand deposits	1,198	1,262
Financial assets held for trading	11	9
Available-for-sale financial assets	1,261	1,082
Loans and advances to customers	4,263	5,236
Held-to-maturity investments	82	85
Other commitments	678	663
Total	**7,493**	**8,337**

Verteilung des Exposures im Konzern

In the year under review exposure within the Group declined by EUR 262.6 million or 3.0%. The decline results from limited new business as well as the portfolio reduction in the corporate banking area, mainly in Croatia.

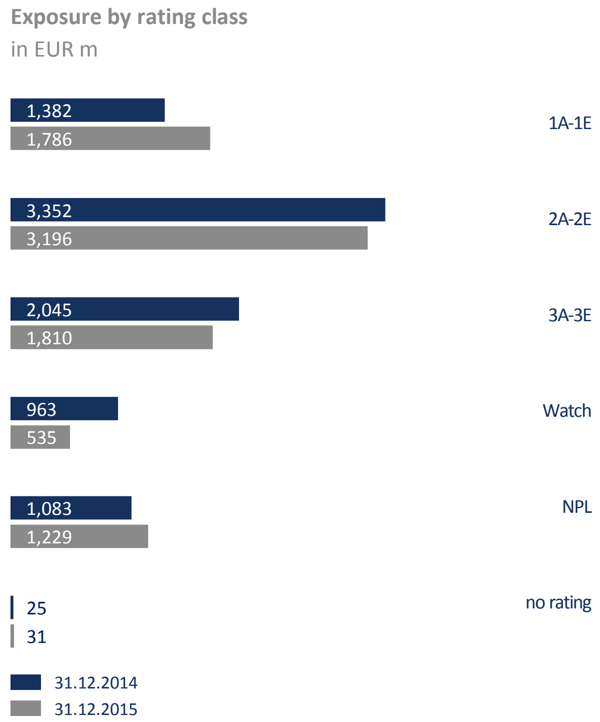
Hypo Group Alpe Adria has total free credit lines and financial guarantees in the loan and credit area of approximately EUR 702.9 million (2014: EUR 675.0 million). Within the Group, exposure breaks down as follows:



Exposure by rating class withing the Group

Roughly 20.8% (2014: 15.6%) of the exposure is categorised as rating classes 1A to 1E. This exposure relates mainly to receivables from financial institutions and public institutions.

Non-performing loans increased in the reporting period as clients were migrated to the NPL area in the course of continuous monitoring.



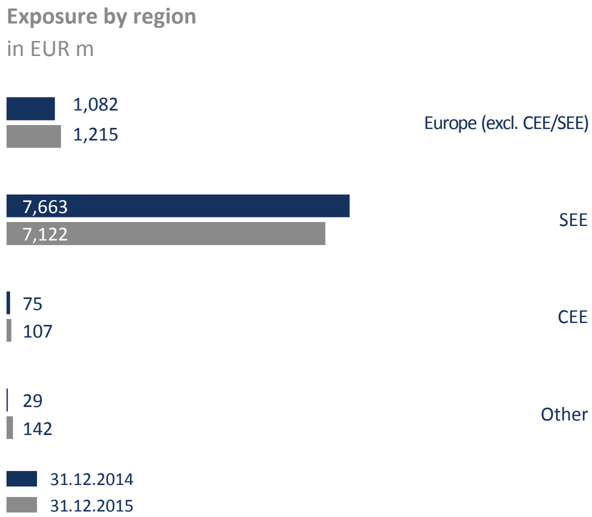
A non-performing loan (default) exists if one or both of the following criteria apply:

- A material liability of the debtor to a Group institute is overdue by more than 90 days
- The institute considers it to be unlikely that the debtor will pay its liabilities to the institute in full

Hypo Group Alpe Adria uses the following criteria to record a client default: significant default on payment, significant doubts concerning a client's credit rating, risk-driven restructuring or debt restructuring, specific provisions for impairment losses (IFRS), depreciation and amortisation, risk-driven disposal of assets as well as bankruptcy/insolvency. A client can only recover in full from this status if none of the aforementioned default criteria (according to the definition) apply any longer and the period of good conduct has been complied with.

Exposure by region within Group

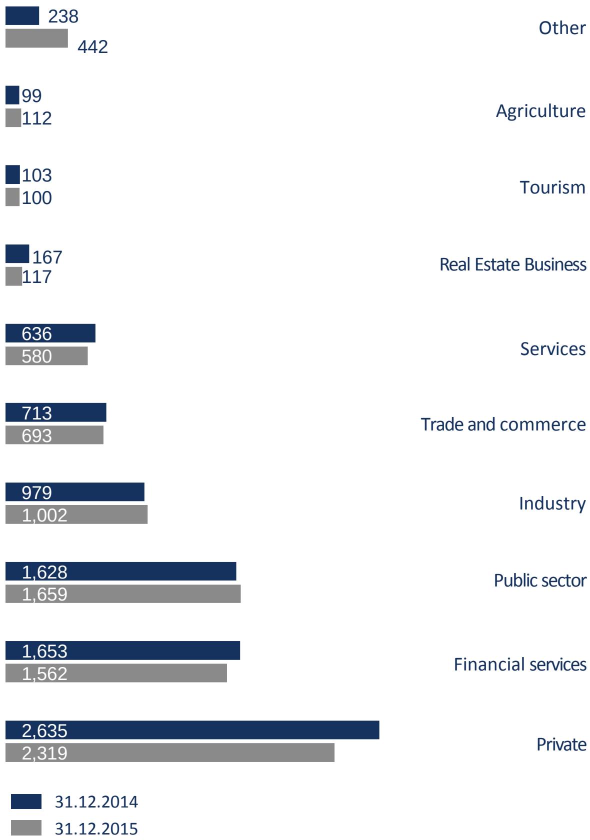
The Hypo Group Alpe Adria country portfolio focuses on Europe (excl. Central and Eastern Europe and South Eastern Europe) and the SEE region. The following chart shows the breakdown of exposure by region within the Group (at client level):



Exposure by business sector within the Group

A uniform classification code (NACE Code 2.0) is used at Hypo Group Alpe Adria for the economic steering and strategic focus of business sector exposure. This code is mapped into ten business sectors for reporting purposes. The lower-risk business sector groups – financial institutions and the public sector – account for a share of 37.5% (2014: 37.1%). The well-diversified private clients sector accounts for a share of 27.0% (2014: 29.8%).

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 the SEE region. These are primarily minimum reserves that Hypo Group Alpe Adria is required to maintain at local national banks due to local regulations. The following table shows exposure by business sector and region as at 31 December 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 following table shows exposure by business sector and region as at 31 December 2014:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2	2,631	1	1	2,635
Financial services	492	1,153	0	8	1,653
Public sector	575	963	74	15	1,628
Industry	0	979	0	0	979
Trade and commerce	0	713	0	0	713
Services	7	626	0	3	636
Real estate business	0	167	0	0	167
Tourism	0	103	0	0	103
Agriculture	0	99	0	0	99
Other	6	231	0	1	238
Total	**1,082**	**7,663**	**75**	**29**	**8,849**

The figures are broken down according to the country of the client's registered office. Corporate and retail business is mainly focussed on Hypo Group Alpe Adria'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 39.0% (2014: 40.0%) 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 largest share of the EUR 1.4 billion (year-end 2014: EUR 2.0 billion) of exposure in the range >EUR 100 million is 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 affiliated clients.

		31.12.2015		31.12.2014
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	488	332,519	549	360,208
10-50,000	847	36,997	931	41,015
50-100,000	713	10,178	742	10,591
100-250,000	746	5,179	750	5,208
250-500,000	283	827	276	807
500-1,000,000	276	397	287	406
1,000-10,000,000	1,662	582	1,744	603
10,000-50,000,000	1,211	57	994	50
50,000-100,000,000	935	14	558	8
> 100,000,000	1,427	6	2,017	9
Total	**8,587**	**386,756**	**8,849**	**418,905**

65.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	31.12.2015 Exposure	31.12.2014 Exposure
1A-1E	1,784	1,380
2A-2E	3,167	3,326
3A-3E	1,766	1,970
Watch	464	772
NPL	28	31
No rating	24	21
Total	**7,232**	**7,501**

At Hypo Group Alpe Adria, there are, in principle, NPLs with no days overdue and no specific risk provisions (collective impaired) for impairment losses as a result of the three or six-month period of good conduct.

Overdue but not impaired financial assets:

EUR m

	31.12.2015 Exposure	31.12.2014 Exposure
Loans and advances to customers		
– overdue to 30 days	106	163
– overdue 31 to 60 days	38	108
– overdue 61 to 90 days	8	35
– overdue 91 to 180 days	1	20
– overdue 181 to 365 days	1	13
– overdue over 1 year	2	28
Total	**156**	**366**

The primary reason for the exposures over 90 days with no specific risk provision for impairment losses 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	31.12.2015	31.12.2014
Exposure	1,198	982
Provisions	759	478

The factors that are considered when detecting impairment are stipulated in the Group Credit Risk Provisioning Policy. Folowing events indicate objective evidence that a financial instrument may be impaired:

- Major financial difficulties of the debtor
- Payments overdue for more than 90 days
- Loan restructuring (major change of terms, lowering of interest rate, partial grace period) relating to the financial difficulties of the customer
- Stand-still agreements
- Coverage impairment, e.g. caused by a lower value of collateral in case of insufficient other existing cash flow sources (especially with regard to project financing)
- Occurred guarantee protest or high probability of guarantee protest occurrence in the near future
- Lack of co-operation from the client in case of evidenced repayment problems
- Lack of regular monthly income (particularly important for private individual segments)
- Collection through enforcement of collateral is the only realistic choice for repayment
- Transfer of a group of affiliated clients into the rehabilitation department
- Changes in underlying cash flow assumptions in the course of rehabilitation loan application
- Material changes regarding impairment loans

All receivables with a potential event of default or signs of impairment as stated above (positive impairment test) 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 process.

65.6.1. FORBEARANCE

The European Banking Authority (EBA) defines forbearance measures as a bank’s concessions towards a debtor facing financial difficulties.

In the year 2013 Hypo Group Alpe Adria developed internal accounting guidelines based on the publication “Treatment of Forbearance Practices in IFRS Finanical Statements of Financial Institutions” issued by the European Markets Securities and Markets Authority, stating the implementation of the ESMA requirements within the Group. In 2016 the internal accounting guidelines are replaced by the new Forbearance policy.

In this context, an exact assessment of the debtor’s financial situation forms the basis for a correct analysis of a modification of the existing contractual terms and conditions. In Hypo Group Alpe Adria, all customers with a rating worse than 4A, as well as customers that are classified as “Watchlist” customers in the early warning system are considered to be in financial difficulties. Based on the financial difficulties of the debtor, the following concessions granted by the bank to a debtor constitute forbearance measures:

- Modifications of the previous contractual terms and conditions due to the client’s financial difficulties, to allow for the debtor’s sufficient debt service ability. This includes, for example, more favourable contractual terms and conditions than stipulated in the previous contract or other debtors with a similar risk profile, prolongations, temporary payment holidays, partial debt write-off, decrease of interest margin, etc.
- Total or partial refinancing of the contract granted due to the financial difficulties of the client. Refinancing is the usage of new contracts in order to ensure a complete or partial payment of other contracts whose terms and conditions the debtor cannot fulfil.

Reporting related to forbearance exposure currently is done on client level, which is in accordance with the principle that objective evidence of impairment shall be identified at the level of borrower.

As a forbearance measure is an objective evidence of impairment, once such a measure has been identified, in accordance with paragraph 59(c) of IAS 39, evaluation is performed if the loss event has an impact on the estimated future cash flows. In accordance with paragraph 63 of IAS 39 the loss is then calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If 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.

The following chart provides an overview of the forbearance status at Hypo Group Alpe Adria in the financial year 2015:

EUR m

	OPENING balance 1.1.2015	Change	CLOSING balance 31.12.2015
General governments and government related entities	9.9	6.6	16.5
Credit institutions	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.4
Non-financial corporations	533.0	-234.4	298.7
Households	230.5	-7.4	223.1
TOTAL FORBORNE ASSETS	773.8	-235.2	538.6
Off-balance exposure	16.5	-10.2	6.4

Forbearance exposure was as follows in 2015:

EUR m

	Financial assets neither past due nor impaired	Financial assets past due but not impaired (> 0 days)	Financial assets impaired
General governments and government related entities	14.1	0.1	2.3
Credit institutions	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.0
Non-financial corporations	91.4	8.8	198.5
Households	84.4	16.4	122.4
TOTAL FORBORNE ASSETS	**190.2**	**25.2**	**323.2**

The following table shows the distribution of the forbearance exposure in 2014:

EUR m

	Financial assets neither past due nor impaired	Finacial assets past due but not impaired (> 0 days)	Financial assets impaired
General governments and government related entities	6.0	3.9	0.0
Credit institutions	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.0
Non-financial corporations	180.9	86.8	265.4
Households	100.0	30.6	99.9
TOTAL FORBORNE ASSETS	**287.3**	**121.3**	**365.3**

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

In the financial year 2015, Hypo Group Alpe Adria reported carrying amounts of inventories (including rescue acquisitions) of roughly EUR 26.5 million (2014: EUR 30.1 million), of which EUR 22.1 million are classified as held for sale according to IFRS 5. Inventories (incl. rescue acquisitions) mainly consist of inventories that belong to Hypo Group Alpe Adria due to non-fulfilment of a contract by a customer. This includes especially assets from leasing business (e.g. vehicles) and rescue acquisitions from the banking business (especially real estate and apartments). Hypo Group Alpe Adria does not have inventories according to IAS 2.

(66) Country risk

66.1. 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 risks may arise from a possible deterioration of national economic conditions, a political or social upheaval, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions, or coups d'état in the respective country.

66.2. General requirements

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

66.3. 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 Austrian CRR is used in order to quantify country risk. The country risk determined by this method is backed by economic capital.

66.4. 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.

66.5. Risk control and monitoring

Group Risk Control 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 utilisation reporting. Ad-hoc reports (e.g. GIIPS) are prepared upon request.

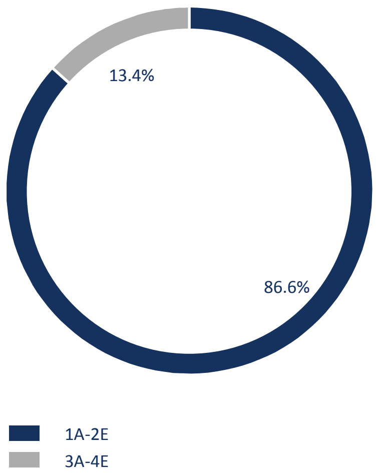
66.6. Portfolio overview – country risk

Exposure by country rating:

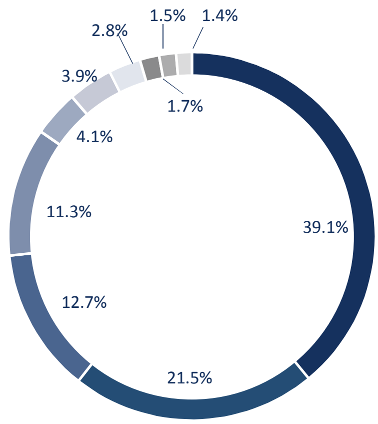
The share of exposure in countries with ratings better than 3A amounts to 86.6% (year-end 2014: 85.5%).

Consequently, around EUR 1.1 billion of exposure was in countries with a rating between 3A and 4E at the end of 2015 (2014: EUR 1.3 billion). The following graph shows the exposure by country rating and the top 10 countries by exposure (country share of top 10 total exposure) at year end 2015 as well as their share on top 10 exposures in the year 2014.

Exposure country rating breakdown
in percent



Top 10 countries by exposure in 2015
in percent



	2015	2014	
	39.1%	41.5%	Croatia
	21.5%	20.1%	Slovenia
	12.7%	12.2%	Serbia
	11.3%	12.2%	Bosnia and Herzegovina
	4.1%	3.1%	Germany
	3.9%	4.5%	Austria
	2.8%	2.6%	Montenegro
	1.7%	0.0%	USA
	1.5%	2.3%	France
	1.4%	0.0%	Great Britain

Top 10 countries by exposure:
The top 10 countries' share in overall volume stands at 94.9% (2014 :97.7%). As was the case in 2014, Croatia and Slovenia account for the largest share. Hypo Group Alpe Adria's strategy is to focus on the core markets in the SEE network.

(67) Participation Risk

67.1. 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).

67.2. General requirements
The handling of participation risks is governed by the "Group Participation Risk Measurement Policy". The policy governs in particular 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 Hypo Group Alpe Adria 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.

Hypo Group Alpe Adria 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.

67.3. Risk measurement
Hypo Group Alpe Adria uses the PD/LGD approach pursuant to Article 155 (3) CRR for measuring participation risk for the ICAAP.

67.4. Risk control and monitoring

Hypo Group Alpe Adria has, in the Group Risk Control division, 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 Hypo Group Alpe Adria. Representation on shareholder and supervisory committees allows Hypo Group Alpe Adria to exert influence over business and risk policies.

When it acts as a provider of equity capital or a lender of capital, Hypo Group Alpe Adria evaluates the additional risks, especially those arising from its status as a lender of capital.

(68) 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 also include 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, Hypo Group Alpe Adria analyses, 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.

Counterparty default, industry sector and collateral concentrations are measured and managed 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.

(69) Market price risk

69.1. Definition

Market risks consist of potential losses arising from a change in market prices. Hypo Group Alpe Adria classifies market price risks according to the risk factors in interest rate, credit spread, currency and share price risks. Hypo Group Alpe Adria places a special emphasis on identifying, measuring, analysing and managing market risk; Market & Liquidity Risk Control in Group Risk Control is responsible for all market risks at Group level.

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 management of assets and liabilities.

In addition to market risks, market liquidity risks may also be incurred 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.

69.2. 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.

69.3. Risk measurement

Hypo Group Alpe Adria 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%. 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%, 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 analysed 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 at Hypo Group Alpe Adria. 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 remains a regulatory requirement, always remain under the threshold of 20% of own capital funds at Hypo Group Alpe Adria. Furthermore, an array of potential market fluctuations from interest rate risks is calculated through standard, forward, historical and extreme scenarios.

69.4. Risk limitation

A limit for market risk of the distributable risk capital has been set for Hypo Group Alpe Adria. 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 (client 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.

69.5. 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 Hypo Group Alpe Adria as well as on scenario and stress test results, with a commentary on potentially significant developments in market risk.

The control of interest risk is carried out on an institutionalised 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 analyse 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.

69.6. Overview – market risk

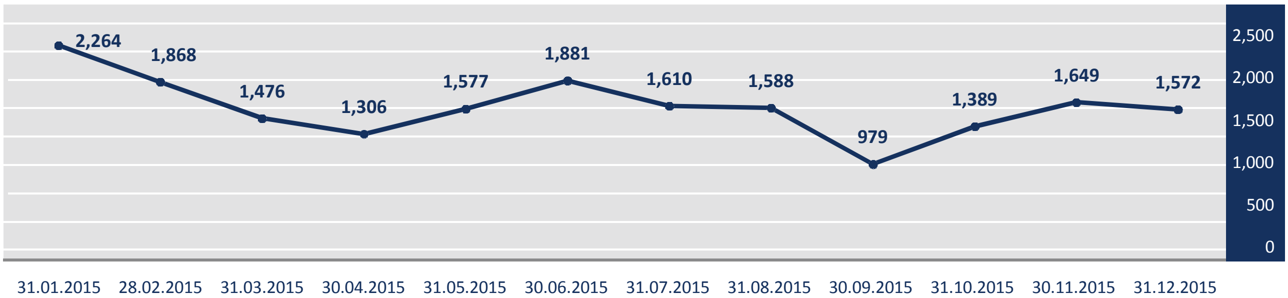
69.6.1. INTEREST RATE RISK

Die The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for Hypo Group Alpe Adria in 2015 (comparable VaR figure as at 31 December 2014: EUR 1.17 million).

The interest rate gap profile for Hypo Group Alpe Adria 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 equity investment risk.

Development in interest risk for Hypo Group Alpe Adria in 2015:

Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)
EUR thousand



The trading positions of Hypo Group Alpe Adria were relatively stable in 2015. Changes in interest risk resulted mainly 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% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.57% on average in 2015 as compared to 4.78% on average in 2014).

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 standardised 200-BP rise in directly affected interest-bearing positions (excluding non-interest-bearing positions – ex NIB) – in equity may not exceed 20%. An internal limit of a maximum of 15% has been set; however, this has only been used sparingly because of the interest rate gap profiles being well-balanced. Non-interest-bearing (NIB) positions are therefore not assumed to have an interest-bearing effect in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

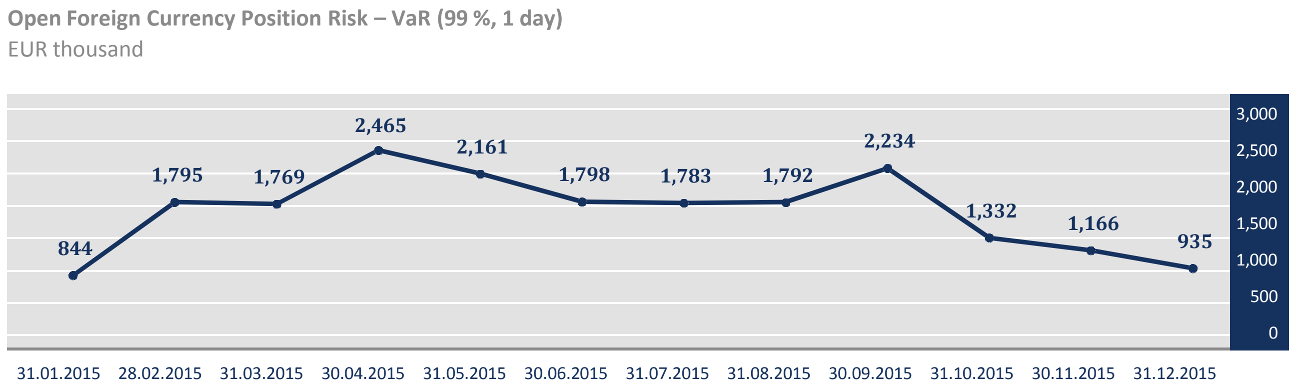
The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2015 amounts to EUR 217 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2014 was EUR -265 thousand.

69.6.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for foreign currency risks at the Group level of Hypo Group Alpe Adria 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 Hypo Group Alpe Adria. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at 31 December 2015 is roughly EUR 510.66 million (volume per 31 December 2014 of approx. EUR 0.82 billion), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign currency risk was approximately EUR 0.94 million per day as at 31 December 2015 (value at risk as at 31 December 2014: EUR 1.05 million), at a confidence interval of 99%. The limit of EUR 2.74 million was adhered to as at 31 December 2015.

The Swiss National Bank's unexpected decision to change its currency strategy resulted in a significant increase in volatility in the EUR/CHF exchange rate on 15 January 2015 and in the subsequent weeks; this volatility also manifested itself in a considerable rise in currency risk involving other currency pairs. This development is also shown in the risk figures of the open currency items in the above-stated chart.

Development in foreign currency risk for Hypo Group Alpe Adria in 2015:



Aside from foreign currency risk from operating business activities, Hypo Group Alpe Adria is also exposed to an additional foreign currency risk from the consolidation of Hypo Group Alpe Adria AG's strategic investment in Hypo Alpe-Adria-Bank a.d. Beograd (volume approx. EUR 0.2 billion – half of which is hedged) and Hypo Alpe-Adria-Bank d.d. Zagreb (volume of approx. EUR 0.4 billion) as recorded in the statement of financial position. As at 31 December 2015, the value at risk (99%, one day) of this foreign currency risk was approx. EUR 0.99 million (value at risk as at 31 December 2014: EUR 1.40 million). The strategic currency risk thus represents the majority of the risk in open currency positions at Hypo Group Alpe Adria.

69.6.3. 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. Hypo Group Alpe Adria makes a distinction between equity price risks which arise from utilising collateral related to credit risk transactions where utilisation is not currently possible for reasons of illiquidity or because of regulations or agreements (client default), and equity price risks from an investment point of view (investments). The value at risk for the equity price risk (client default) at Hypo Group Alpe Adria amounted to EUR 5,059 as at 31 December 2015 (value at risk as at 31 December 2014: EUR 336) with a one-day holding period and a confidence level of 99% and EUR 3,763 (value at risk as at 31 December 2014: EUR 1,699) 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 Hypo Group Alpe Adria – which is why Hypo Group Alpe Adria is only exposed to an extremely low level of risk from share positions as at 31 December 2015.

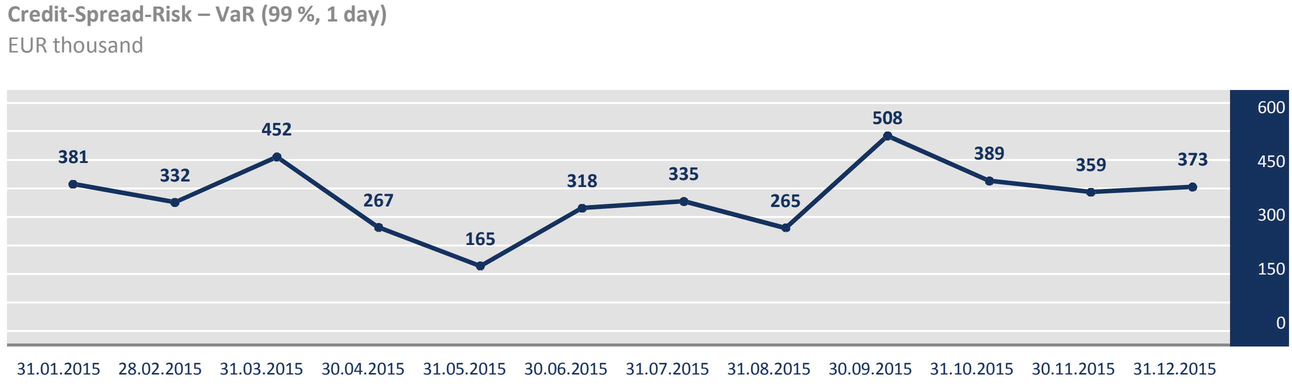
69.6.4. ALTERNATIVE INVESTMENTS RISK

The alternative investments book at Hypo Group Alpe Adria was closed as at 1 January 2016; in addition, no new risk limits were set for this risk factor in the course of the 2016 market risk limiting process – at year-end 2014, the 1-day value at risk stood at EUR 8,052 with a confidence level of 99%.

69.6.5. CREDIT SPREAD RISK

The credit spread risk within Hypo Group Alpe Adria stood at EUR 0.37 million at year-end 2015 with a 1-day value at risk and a confidence level of 99% (value at risk as at 31 December 2014: EUR 0.58 million). The limit of EUR 1.84 million was adhered to as at 31 December 2015. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at Hypo Group Alpe Adria. Consequently, there is not much room for reducing risk from these positions.

Development in credit spread risk at Hypo Group Alpe Adria in 2015:



(70) Liquidity risk

70.1. Definition

Hypo Group Alpe Adria AG 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.

70.2. General requirements

The strategic principles of handling liquidity risks at Hypo Group Alpe Adria 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 organisational framework for the management and controlling of liquidity risks.

Liquidity controlling and management at Group level are the responsibility of Group Balance Sheet Management & Treasury of Hypo Group Alpe Adria. 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 Group level, liquidity risk controlling is the responsibility of Group Risk Control within the Market & Liquidity Risk Control division of Hypo Group Alpe Adria; 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.

Hypo Group Alpe Adria 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.

70.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Group Alpe Adria is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable 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 favourable conditions. It shows options regarding the coverage of liquidity gaps and hence all liquidity risks related to payment 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 securitisation

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 LCR limit restricts the short-term liquidity risk.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared to the economic equity in the risk-bearing capacity calculation. In addition, an internal NSFR limit restricts the structural liquidity risk.

70.4. Risk control

A bundle of different liquidity reserves ensures Hypo Group Alpe Adria'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 2015, the counterbalancing capacity at Hypo Group Alpe Adria AG was structured as follows:

EUR thousand

Liquidity Buffer	HGAA 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	**HGAA 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**

In 2014, the counterbalancing capacity at Hypo Group Alpe Adria AG was structured as follows:

EUR thousand

Liquidity Buffer	HGAA group countable
Securities eligible for Central Bank	420,664
Securities eligible for Repo	397,956
Credit Claims eligible for Central Bank or Repo	43,645
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	292,317
Counterbalancing Measures	**HGAA group countable**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**1,154,582**

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 client 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. Since the end of October 2015, Hypo Group Alpe Adria has also reported in compliance with LCR pursuant to the Delegated Act.

70.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and time-to-wall key indicators 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 mobilisation 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.

70.6. Overview – liquidity situation

Overall, the liquidity situation of Hypo Group Alpe Adria in 2015 was characterised 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 by more than 2% to approx. EUR 3.9 billion, Hypo Group Alpe Adria recorded a continuously positive development in primary funds. On the basis of anticipated inflows and outflows, a comfortable liquidity position is also expected for 2016.

Below is a breakdown of maturities for the financial liabilities of Hypo Group Alpe Adria, 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 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**

As at 31 December 2015, assets relevant to liquidity at Hypo Group Alpe Adria came to EUR 6.9 billion. The main position of EUR 4.3 billion is attributable to loans and advances, which therefore represent 61% of assets. Over EUR 3.2 billion (47%) of these are due in one year or less (2016).

Liabilities totalled EUR 6.3 billion – 70% of which are due within one year.

EUR m

At 31 December 2014	1 Year	1 – 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	1,383	0	0	1,383
Financial assets held for trading	9	0	0	9
Available-for-sale financial assets	538	403	142	1,082
Loans and advances	1,607	2,046	1,583	5,236
Held-to-maturity investments	6	40	39	85
Subtotal	***3,543***	***2,489***	***1,763***	***7,795***
Financial liabilities				
Financial liabilities held for trading	1	5	2	8
Financial liabilities measured at amortized costs	4,230	2,295	160	6,685
Derivatives – Hedge accounting	0	19	21	40
Subtotal	***4,232***	***2,319***	***182***	***6,732***
Total	**-688**	**170**	**1,581**	**1,063**

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 Hypo Group Alpe Adria AG on the basis of the hedge requirement of individual subsidiaries
- Market Risk Steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies

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
Net-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 liquidty

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. As at 31 December 2015, the simulated total of cash flows from derivatives relevant to liquidity was EUR -26 million.

EUR m

At 31 December 2014	1 Y -2015	2 Y -2016	3 Y -2017	4 Y -2018	5 Y -2019	> 5 Y (> 2019)	Total
Net-Cashflow-Derivatives*							
Bank book (Hedge Accounting)	-10	-10	-6	-5	0	0	-30
Market Risk Steering B2B	0	0	0	0	0	0	0
Market Risk Steering FX	1	-3	0	0	0	0	-2
Total	**-9**	**-13**	**-6**	**-5**	**0**	**0**	**-32**

* relevant to liquidity

As at 31 December 2014, the simulated total of cash flows from derivatives relevant to liquidity was EUR -32 million.

(71) Operational risk

Hypo Group Alpe Adria 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 as well as reputational risks, but not strategic risks.

The aim of operational risk management at Hypo Group Alpe Adria is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). Consolidated subsidiaries must implement operational risk (OpRisk) on the basis of the Basel III Standardised Approach ("STA") as part of the project agreements. 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.

For this reason, all banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated Group, are taken into account in every aspect of operational risk management.

Non-consolidated subsidiaries are required to agree the scope of implementation separately with the Group.

The OpRisk responsibility of sub-organisations of the subsidiaries is in the responsibility of the subsidiary concerned.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services that all legal cases, including those which are not associated with OpRisk, are recorded by means of an operational risk management software. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

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.

The operational risk management software forms the platform for implementing the appropriate instruments at Hypo Group Alpe Adria.

The following methods are used to support the strategy:

- Loss database for the systematic recording of operational risks throughout the entire organisation
- 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 Hypo Group Alpe Adria has been set at EUR 5,000. All losses, from 1 January 2006 onwards, must be recorded.

OpRisk 2015 milestones and results

In 2015, the focus in OpRisk was a status survey regarding the individual subsidiaries after the separation from Heta Asset Resolution AG was completed. In doing so, the Group placed a special emphasis on the subject of insurances. To this end, a new work flow was set up together with Group Legal and those in charge of insurance, and rolled out at the subsidiaries.

Furthermore, the subject of Competence Centres for OpRisk management at the subsidiaries was dealt with in more detail in 2015, with the focus being placed on:

- Awareness and training
- Reporting and management reporting
- Tool development and integration of existing environments

The structure is scheduled to take effect in 2016.

(72) Object risk

At Hypo Group Alpe Adria, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by Hypo Group Alpe Adria. 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 using the Standardised Approach. To this end, the market value is multiplied by a risk weighting of 100% and then by a weighting factor of 10%.

(73) Other Risks

The following risk types are backed up with capital under “Other risks”:
- Strategic risk
- Capital risk
- Reputational risk
- Business risk

In the calculation of risk-bearing capacity, a buffer for the category “Other risks” as set out in the risk strategy is taken into account.

(74) 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 also 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 and the respective local accounting principles applicable at Hypo Group Alpe Adria subsidiaries. According to these principles, no legal provisions are to be formed if there is a high probability of winning the dispute. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective cases and/or external appraisers are responsible for assessing chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. These fundamental requirements are specified and supplemented by local policies at Hypo Group Alpe Adria subsidiaries (such as in Bosnia and Herzegovina) and/or through regulations passed by local regulators (such as in Serbia and Croatia). In some cases, a number of different risk groups is to be formed, while in others the amount of the provision is pegged to the amount in dispute, etc. 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 latest developments, specifically due to the abandonment of the cap on the minimum CHF rate in January 2015 and 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 Hypo Group Alpe Adria subsidiaries. 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 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.

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 clients in South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous two years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organisations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, 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, Bosnia and Herzegovina, and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favour. No verdicts have yet been issued in Slovenia, which has been confronted with four legal disputes on the subject of CHF loans for the first time this year. While Hypo Alpe-Adria-Bank d.d. in Ljubljana is optimistic as regards the outcome of the proceedings, the filing of further complaints, particularly also on the part of the Slovenian consumer protection organisation, cannot be ruled out. In Bosnia and Herzegovina, the lawfulness of the foreign currency clauses used by the subsidiary banks in Mostar and Banja Luka was once again confirmed by several final verdicts this year. These verdicts have now set a precedent for the further pending legal proceedings. Opposing legal practice has developed with regard to the interest rate adjustment clauses included in the loan agreements: this clause is now regularly ruled to be unlawful. Furthermore, there is a negative tendency in the Federation of Bosnia and Herzegovina towards borrowers who have not filed complaints yet or who have not been successful at first instance filing new complaints and claiming the general invalidity of the entire CHF loan agreement. Even if the arguments in favour of this claim are only of a general legal nature – generally, the subject of the complaint is the vagueness of the loan agreement – and no final verdicts have been issued yet, the further development is being closely observed and as a precautionary measure the bank has filed a request with the Supreme Court of the Republic of Bosnia and Herzegovina for clarification of the disputed issues in connection with the interest rate adjustment clause and invalidity. The chances of the Supreme Court accepting the bank's argumentation are high, at least with regard to the claimed invalidity of the loan agreements. Courts of first instance with pending proceedings would then be bound by the legal view of the Supreme Court. It is uncertain when the Supreme Court will pass a verdict. In Serbia, the class action filed by the bank client interest group "Efektiva" against Hypo Alpe-Adria-Bank a.d. and two other banks was already rejected in favour 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 favour of Hypo Alpe-Adria-Bank a.d. In Croatia, the Supreme Court ruled in favour of the defendant banks with regard to the lawfulness of the foreign currency clause in loan agreements, but in favour 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 Hypo Alpe-Adria-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; 200 of them have filed such complaints so far. Furthermore, the bank filed an objection against the third-instance verdict with the constitutional court in June 2015; there is no telling yet when the constitutional court will make its decision. No significant developments are to be reported with regard to Hypo Alpe-Adria-Bank ad in Podgorica. As in the previous year, a total of 6 legal proceedings on the subject of foreign currency loans are pending, 2 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 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.

In Montenegro, the law on the conversion of CHF loan agreements into EUR came into effect on 22 August 2015. The bank is obligated by law to retroactively convert all foreign currency loans into CHF – including those that have already been terminated; conversion is based on the exchange rate that prevailed at the date the contract was concluded. In deviation from the originally agreed-upon interest rate, the loan is to be based on a fixed interest rate of 8.2% and the loan amount to be recalculated based on this rate. Conversion is only carried out if the borrowers affected give their consent to the bank's offer. The bank does not have any options to prevent the conversion. On the contrary, the bank is obligated to bear the full amount of losses from the conversion. In the case of Hypo Alpe-Adria-Bank ad this burden weighs even more heavily as it is the only bank in Montenegro affected by this legislative measure. Nevertheless, Hypo Alpe-Adria-Bank ad fulfilled the obligations prescribed by law within the statutory implementation period, with a majority of borrowers affected having accepted the conversion offer. At the same time, the bank filed an objection with the constitutional court claiming unconstitutionality of the law in question. While the assessment of success clearly points towards a positive outcome regarding the decision expected by the end of next year, repealing the unconstitutional law would only take legal effect in the future. From a legal point of view, a compensation for the damage caused by the conversion is not possible. At any rate, the bank must bear this loss as well as the damage to its reputation that comes with media coverage. Besides Montenegro, the foreign currency issue was also taken up by the Croatian legislator in the form of two legal measures. Firstly, significant amendments to the consumer protection legislation came into effect as at 27 January 2015, fixing the exchange rate between HRK and CHF at 6.39 for one year. The regulation is designed to protect consumers whose loan agreements will be affected in the next twelve months from an increase in their monthly loan repayments arising from the liberalisation of the CHF/EUR exchange rate. Hypo Alpe-Adria-Bank d.d. has implemented the statutory regulations and decided to voluntarily extend the term of the fixed exchange rate until 1 April 2016.

Secondly, the national legislator passed another amendment to the consumer protection law, adding statutory requirements for the retroactive conversion of CHF foreign currency loans; this amendment came into effect on 30 September 2015. The regulations are similar to those in Montenegro, the significant difference being that in Croatia, the conversion affects not only the Croatian Hypo Alpe-Adria-Bank d.d. but also other Croatian banks. Also in the case of the Croatian Hypo Alpe-Adria-Bank d.d., an objection was filed with the constitutional court claiming unconstitutionality of the law in question. 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. Nevertheless, Hypo Alpe-Adria-Bank d.d. also fully implemented the law within the statutory time limits, with a majority of the clients affected having accepted the conversion offer. 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 neighbouring countries, there are currently also tendencies in Bosnia and Herzegovina to legally regulate this area. In December 2015, the Parliament of the Republic adopted a proposal for a law on the forced conversion of CHF loans into the national currency in its first reading. For the law to come into force, an adoption in a second reading as well as two further resolutions passed by the House of Representatives are required. From a current point of view it is expected that the proposal will be rejected at whole-state level on procedural grounds and the decision will be taken at entity level (the Federation of Bosnia on the one hand and the Republika Srpska on the other hand) by the respective Parliaments. A proposal to that effect was already under consideration at the Republika Srpska Parliament in March 2016, but has not been adopted yet. In order to prevent a possible statutory requirement for forced conversion as early as possible and also to solve the legal disputes in connection with CHF loans, both Bosnian subsidiary banks launched a project in coordination with the government to reach amicable agreements with CHF loan clients in March 2016. The Group is critically observing the future development and already gathering information on the potential effects of a possible conversion law. 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. Hypo Alpe-Adria-Bank a.d. 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 the regulatory authority and the national legislator have thus far predominantly represented the interests of the banks. Whether things will change as a result of the pending legal proceedings 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.

The following table shows the CHF exposure (in EUR million) per institute country as at 31 December 2015. The biggest part of the CHF conversion in Croatia has been performed after balance sheet date.

	Exposure in EUR m	thereof CHF
HGAA (Holding)	842	14
Hypo Slovenia	1,791	140
Hypo Croatia	3,668	699
Hypo in Bosnia and Herzegovina	1,012	170
Hypo Serbia	1,041	193
Hypo Montenegro	234	19
Total	**8,587**	**1,236**

(75) Legal Risks

Please refer to Note "Proceedings relating to loans and investments" for comments from Hypo Group Alpe Adria on the ongoing proceedings related to foreign exchange transactions, increases in margins and interest rate clauses at the subsidiary banks.

(76) Tax risks relating to tax audits

No tax audit has taken place at Hypo Group Alpe Adria so far, which is why no tax risks are known. Tax audits are regularly performed in Group countries by the respective tax authorities. In the case of findings with divergent opinions, the subsidiary files an appeal and, depending on the assessment of how successful the appeal may be, also forms provisions.

Supplementary information

(77) Analysis of remaining maturities

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**	**2,146.2**	**1,549.1**	**7,276.5**
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 amortised 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**

EUR m

Analysis of remaining maturity as at 31.12.2014	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	1,088.4	294.6	0.0	0.0	0.0	**1,382.9**
Financial assets held for trading	4.2	4.1	0.7	0.0	0.0	**9.0**
Available-for-sale financial assets	34.5	101.5	401.9	402.7	141.7	**1,082.3**
Loans and receivables	351.4	475.8	780.2	2,046.1	1,582.9	**5,236.4**
Held-to-maturity investments	0.0	2.6	3.3	40.0	38.7	**84.6**
Total	**1,478.4**	**878.5**	**1,186.2**	**2,488.8**	**1,763.3**	**7,795.3**
Financial liabilities held for trading	0.0	1.1	0.2	4.7	1.7	**7.8**
Financial liabilities measured at amortised cost	1,144.4	1,329.8	1,755.8	2,288.2	159.6	**6,677.8**
Derivatives – Hedge accounting	0.0	0.0	0.2	18.7	20.6	**39.5**
Total	**1,144.4**	**1,330.9**	**1,756.2**	**2,311.6**	**181.9**	**6,725.1**

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.

(78) Maturities pursuant to IAS 1

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	2,946.2
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**	**3,814.3**
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 amortised 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**

EUR m

31.12.2014	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	1,382.9	0.0
Financial assets held for trading	9.0	0.1
Available-for-sale financial assets	537.9	544.4
Loans and receivables	1,607.4	3,629.0
Held-to-maturity investments	5.9	78.7
Tangible assets	0.3	144.6
Intangible assets	0.0	19.4
Tax assets	7.8	18.3
thereof current tax assets	6.8	0.0
thereof deferred tax assets	1.0	18.3
Other assets	38.9	7.1
Total	**3,590.2**	**4,441.5**
Financial liabilities held for trading	1.4	6.4
Financial liabilities measured at amortised cost	4,230.0	2,447.8
Derivatives – Hedge accounting	0.2	39.3
Provisions	18.5	23.4
Tax liabilities	0.2	0.0
thereof current tax liabilities	0.2	0.0
thereof deferred tax liabilities	0.0	0.0
Other liabilities	32.8	2.8
Total	**4,283.1**	**2,519.7**

(79) Finance leases

Receivables under finance lease are included in loans and receivables; they break down as follows:

EUR m

	31.12.2015	31.12.2014
Minimum lease payments (agreed instalments + guaranteed residual value)	186.9	247.3
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	**186.9**	**247.3**
up to 1 year	30.6	93.2
from 1 to 5 years	125.3	132.8
over 5 years	31.0	21.3
Unrealized financial income (interest) (-)	–16.8	–25.4
Net investment value (=)	**170.1**	**221.9**
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	**170.1**	**221.9**
up to 1 year	31.7	83.1
from 1 to 5 years	111.2	119.3
over 5 years	27.2	19.5

The accumulated provisions for impairment losses for uncollectible outstanding minimum leasing payments from finance leases for 2015 amounts to EUR 2.9 million (2014: EUR -4.0 million).

The total amount of contingent lease payments from finance leases recognised as revenue in the reporting period was EUR 7.3 million (2014: EUR 10.6 million).

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

EUR m

	31.12.2015	31.12.2014
Movables - boats and motor vehicles	106.7	157.7
Real-estate leases	3.1	3.5
Other movables	60.2	60.7
Total	**170.1**	**221.9**

(80) Operating leases

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

EUR m

	31.12.2015	31.12.2014
up to 1 year	6.7	7.2
from 1 year to 5 years	10.0	10.9
more than 5 years	0.2	0.0
Total	**16.9**	**18.1**

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

EUR m

	31.12.2015	31.12.2014
Tangible assets	13.3	17.3
Investment properties	3.7	0.8
Total	**16.9**	**18.1**

(81) Assets/liabilities in foreign currencies

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

EUR m

	31.12.2015	31.12.2014
Assets	3,494.8	3,048.5
Liabilities	3,286.4	3,141.4

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.

(82) Return on total assets

The return on total assets pursuant to Article 64 (1) No. 19 Austrian Banking Act (BWG) amounted to –8.8% as at 31 December 2015 (2014: -1.2%).

(83) Transfer of financial assets – repurchase agreements

At year-end, 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
Available-for-sale financial assets	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0	0.0
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**

EUR m

31.12.2014	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilites	Of which: repurchase agreements
Available-for-sale financial assets	**180.2**	**180.2**	**175.7**	**175.7**
Debt securities	180.2	180.2	175.7	175.7
Loans and receivables	**104.8**	**104.8**	**56.5**	**56.5**
Loans and advances	104.8	104.8	56.5	56.5
Total	**285.0**	**285.0**	**232.1**	**232.1**

(84) Assets pledged as collateral

Assets in the amount of EUR 40.2 million (2014: EUR 43.6 million) were pledged as collateral for own debts to third parties. These are mainly cash collaterals pledged as collateral in relation to derivatives. Further, securities in the amount of EUR 15.9 million (2014: EUR 0.0 million*) were deposited with the Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognised in Hypo Group Alpe Adria's statement of financial position.

EUR m

	31.12.2015	31.12.2014
Carrying amount of liabilities pledged as collateral	**56.1**	**43.6**
Financial liabilities measured at amortised cost	**56.1**	43.6

* Previous year figures adjustes: In 2014 disclosure of EUR 303.0million securties deposited with Oesterreichische Nationalbank (OeNB) for possible refinancing

(85) 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

	31.12.2015	31.12.2014
Contingent liabilities	**291.7**	**250.0**
Loan guarantees	97.2	106.2
Letters of credit	0.8	3.3
Other guarantees	193.8	140.4
Other obligations	**407.2**	**427.0**
thereof irrevocable loan commitments	405.1	374.6
Total	**699.0**	**677.0**

(86) Breakdown of securities admitted to listing on an stock exchange

EUR m

	31.12.2015	31.12.2014
Financial assets held for trading		
Debt securities	1.1	4.2
thereof listed	1.1	4.2
thereof unlisted	0.0	0.0
Available-for-sale financial assets		
Equity instruments	22.2	1.6
AFS-other participations (associated companies 0% –20%)	8.3	1.1
thereof listed	0.3	0.3
thereof unlisted	8.0	0.8
AFS-shares and other not fixed-interest securities	13.9	0.4
thereof listed	0.0	0.1
thereof unlisted	13.9	0.3
Debt securities	1,239.2	1,079.2
thereof listed	1,054.9	907.8
thereof unlisted	184.3	171.4
Loans and advances	0.0	1.6
thereof listed	0.0	0.0
thereof unlisted	0.0	1.6
Held-to-maturity investments		
Debt securities	81.9	84.6
thereof listed	81.9	84.6
thereof unlisted	0.0	0.0

(87) Restructuring expenses

The restructuring expenses break down as follows:

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Restructuring provisions	–17.4	–0.8
Income from the reversal of previously recorded restructuring provisions	0.0	0.0
Total	**–17.4**	**–0.8**

In the course of several restructuring projects in various business units, Hypo Group Alpe Adria has recorded provisions for restructuring measures as at 31 December 2015. These provisions mainly comprise staff costs related to redundancy payments and costs related to the termination of contracts, including annulment expenses for lease agreements resulting from the implementation of the respective measures.

(88) Expenses for the auditor

The following expenses for the auditors Deloitte and KPMG were incurred in the reporting period:

EUR m

	31.12.2015	31.12.2014
Audit fees for the annual financial statements	**–2.1**	**–1.1**
Expenses for the current year	–2.1	–1.0
Expenses relating to the previous year	–0.1	–0.1
Fees for other services	**–4.0**	**–0.5**
Other assurance services	–0.2	–0.3
Tax consultancy	0.0	–0.1
Other services	–3.8	–0.2
Total services	**–6.2**	**–1.6**

The audit expenses incurred in the financial year 2015 include the net audit fee (excluding VAT) as well as the related cash expenditure. In addition to the services invoiced by the appointed auditors of the consolidated financial statements, Deloitte Audit Wirtschaftsprüfungs GmbH and KPMG Austria GmbH, the total amount also includes services rendered directly by other companies within the Deloitte and KPMG networks to Hypo Group Alpe Adria AG or to its Group companies.

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

(89) Measurement categories in accordance with IAS 39

The statement of financial position as at 31 December 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**

The statement of financial position as at 31 December 2014* 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)	31.12.2014
Cash, cash balances at central banks and other demand deposits	1,382.9						1,382.9
Financial assets held for trading		9.0					9.0
Available-for-sale financial assets				1,082.3			1,082.3
Loans and receivables	5,236.4						5,236.4
Held-to-maturity investments					84.6		84.6
Total financial assets	**6,619.4**	**9.0**	**0.0**	**1,082.3**	**84.6**	**0.0**	**7,795.3**
Financial liabilities held for trading		7.8					7.8
Financial liabilities measured at amortised cost	6,677.8						6,677.8
Derivatives – Hedge accounting						39.5	39.5
Total financial liabilities	**6,677.8**	**7.8**	**0.0**	**0.0**	**0.0**	**39.5**	**6,725.1**

* Figures adapted: In the position Cash, cash balances at central banks and other demand deposits EUR 121.0 million presented as AFS.

(90) Net gains or losses on financial instruments

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

EUR m

				1.1. - 31.12.2015
	Net interest income	**Measurement and Sale**	**Risk provisions**	**Other comprehensive income (OCI)**
Loans and receivables	252.2	-0.1	-318.1	
Financial assets held for trading	6.0	0.0		
Financial assets designated at fair value through profit or loss	0.0	0.0		
Available-for-sale financial assets	12.3	-0.2	-0.7	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 amortised cost	-90.7	-6.8		
Financial liabilities designated at fair value through profit or loss	0.0	0.0		
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**	**-318.8**	**8.0**

EUR m

	Net interest income	Measurement and Sale	Risk provisions	1.1. - 31.12.2014 Other comprehensive income (OCI)
Loans and receivables	308.9	–0.5	–130.3	
Financial assets held for trading	16.8	0.5		
Financial assets designated at fair value through profit or loss	0.0	0.0		
Available-for-sale financial assets	15.7	3.7		–2.2
Held-to-maturity investments	4.3	–0.3		
Other assets	0.9			
Financial liabilities measured at amortised cost	–147.7	0.0		
Financial liabilities held for trading	–2.5	0.0		
Total	**196.3**	**3.4**	**–130.3**	**–2.2**

(91) 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 listed equity instruments, debt instruments traded on the interbank market, and listed derivatives.

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

Value determined using non-observable parameters (Level III)
This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models appropriate for the respective financial instrument. This model makes use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument.

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 they are not quoted, they are reported under Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost. Equity instruments measured at 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, Hypo Group Alpe Adria 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 minimise 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 valuation method.

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

91.1. Fair value of financial instruments carried at fair value

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

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.

EUR m

31.12.2014	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	4.2	4.8	0.0	9.0
Available-for-sale financial assets	796.8	282.8	2.6	1,082.3
Total	**801.0**	**287.7**	**2.6**	**1,091.3**
Liabilities				
Financial liabilities held for trading	0.0	7.8	0.0	7.8
Derivatives – Hedge accounting	0.0	39.5	0.0	39.5
Total	**0.0**	**47.3**	**0.0**	**47.3**

There were no reclassifications between the individual levels in 2014.

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

EUR m

31.12.2015	Balance at start of period (+)	Total gains/ losses	Changes in Availabl e For Sale reserve	Addi- tions (+)	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	0.0	0.0	0.0	0.0	0.0	25.0
Total	**0.0**	**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 31 December 2015, as well as from financial instruments which were no longer on the books as at 31 December 2015.

In column "Additions (+) liabilities are presented for which significant changes in the repayment terms occured 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 whereas the fair value amounts EUR 25.0 million.

The reconciliation of the assets reported in Level III as at 31 December 2014 was as follows:

EUR m

31.12.2014	Balance at start of period (+)	Total gains/ losses	Changes in Available For Sale reserve	Purchase s (+)	Sales (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period
Assets									
Available-for-sale financial assets	3.0	0.0	–0.7	1.6	–0.3	0.0	0.0	–0.9	2.6
Total	**3.0**	**0.0**	**–0.7**	**1.6**	**–0.3**	**0.0**	**0.0**	**–0.9**	**2.6**

91.1.1. 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.

91.1.2. 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. Risk premiums for some issuers 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 Hypo Group Alpe Adria.

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.

91.1.3. 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 the 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
Hypo Group Alpe Adria 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.

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

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

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	18.3	15.8	0.0	0.0	18.3
Non-current assets and disposal groups classified as held for sale	340.4	280.2	–60.1	0.0	0.0	280.2
Total	**4,687.6**	**4,617.5**	**–70.1**	**81.2**	**0.0**	**4,536.2**
Liabilities						
Financial liabilities measured at amortised cost	6,232.5	6,314.4	–82.0	0.0	28.3	6,286.1
Total	**6,232.5**	**6,314.4**	**–82.0**	**0.0**	**28.3**	**6,286.1**

EUR m

31.12.2014	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	5,236.4	5,170.9	–65.6	0.0	0.0	5,170.9
Held-to-maturity investments	84.6	98.0	13.5	98.0	0.0	0.0
Investment properties	23.2	23.8	0.5	0.0	0.0	23.8
Total	**5,344.2**	**5,292.6**	**–51.6**	**98.0**	**0.0**	**5,194.6**
Liabilities						
Financial liabilities measured at amortised cost	6,677.8	6,693.7	–16.0	0.0	4.7	6,689.0
Total	**6,677.8**	**6,693.7**	**–16.0**	**0.0**	**4.7**	**6,689.0**

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. There is uncertainty as to the determination of the own credit spread due to the fact that no Hypo Group Alpe Adria issues have been placed on the market. The credit spread curves for senior unsecured liabilities are determined on the basis of quoted credit default swap curves or the credit spread from senior unsecured bonds from a weighted peer group comprising banking groups operating in SEE/CEE that best match the markets and Hypo Group Alpe Adria's credit rating. Weighted credit spread curves were derived for covered liabilities using benchmark covered bonds from the peer group. The range of fair values to be determined is wide on account of the existing uncertainty.

For held to maturity investments, the fair value is determined on the basis of externally obtained prices.
The fair value of investment properties is determined by market-based estimates that are generally calculated by full-time appraisers. If market-based estimates are not available, the fair value is estimated on the basis of the income approach.

(92) Offsetting

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

EUR m

	31.12.2015	31.12.2014
ASSETS	**Derivative financial instruments**	
a) Gross amounts of recognised financial instruments (I and II)	**3.5**	**0.0**
b) Amounts that are set off for financial instruments I	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**3.5**	**0.0**
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II) according to IAS 32,42	3.5	0.0
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

	31.12.2015	31.12.2014
LIABILITIES	**Derivative financial instruments**	
a) Gross amounts of recognised financial instruments (I and II)	**30.8**	**43.7**
b) Amounts that are set off for financial instruments I	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**30.8**	**43.7**
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) according to IAS 32,42	3.5	0.0
Amounts related to financial collateral (including cash collateral);	27.3	43.4
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**	**0.3**

* 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.

(93) Derivative financial instruments

93.1. Derivatives held for trading

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

EUR m

	31.12.2015			31.12.2014		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**378.2**	**3.1**	**12.3**	**298.5**	**4.2**	**4.5**
OTC options	12.1	0.2	0.3	15.6	0.3	0.4
OTC other	366.1	2.9	12.1	282.9	3.9	4.1
b) Foreign exchange and gold						
OTC-products	**1,361.9**	**6.6**	**16.3**	**575.6**	**0.6**	**3.3**
OTC options	0.0	0.0	0.0	0.0	0.0	0.0
OTC other	1,361.9	6.6	16.3	575.6	0.6	3.3

93.2. Derivatives classified as hedges (hedge accounting)

EUR m

	31.12.2015			31.12.2014		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**129.8**	**0.0**	**18.4**	**359.0**	**0.0**	**39.5**
OTC other	129.8	0.0	18.4	359.0	0.0	39.5
FAIR VALUE HEDGES	**141.5**	**0.1**	**18.4**	**359.0**	**0.0**	**39.5**
b) Foreign exchange and gold						
OTC-products	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
OTC other	0.0	0.0	0.0	0.0	0.0	0.0

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

(94) Related party disclosures

Hypo Group Alpe Adria is 100 % held by the Financial Holding AI Lake (Luxembourg) S.a.r.l. situated in Luxembourg. 81,5 % of the AI Lake(Luxembourg) S.a.r.l shares are owned by AI Lake(Luxembourg) Holding S.a.r.l. as well as 18,5% are owned by the European Bank for Reconstruction and Development (EBRD).Business relations with related parties in the statement of financial position are as follows at the respective reporting date:

EUR m

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

EUR m

31.12.2014	Sole owner (FIMBAG)	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	HETA ASSET RESOLUTION AG, HETA subsidiaries, HETA associates and joint ventures
Financial assets	**0.0**	**0.0**	**0.0**	**2.6**	**91.8**
Loan and advances	0.0	0.0	0.0	2.6	91.8
Financial liabilities	**0.0**	**0.0**	**0.0**	**1.5**	**2,046.4**
Deposits	0.0	0.0	0.0	1.5	84.4
Other financial liabilities	0.0	0.0	0.0	0.0	1.962,0
Nominal amount of loan commitments, financial guarantees and other commitments given	**5.5**	**0.0**	**0.0**	**0.3**	**147.6**
Loan commitments, financial guarantees and other commitments received	**0.0**	**0.0**	**0.0**	**0.0**	**5.9**
Notional amount of derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**739.3**

Relations with key personnel in the Company or the parent company relate exclusively to business relations with the subsidiaries' local management teams.

EUR m

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

EUR m

31.12.2014	Sole owner (FIMBAG)	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	HETA ASSET RESOLUTION AG, HETA subsidiaries, HETA associates and joint ventures
Interest and similar income	0.0	0.0	0.0	0.1	8.9
Interest expenses	0.0	0.0	0.0	-0.1	-23.6
Fee and commission income	0.0	0.0	0.0	0.0	0.9
Fee and commission expenses	0.0	0.0	0.0	0.0	-0.6
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments in the reporting period	0.0	0.0	0.0	0.0	-2.8
Total	**0.0**	**0.0**	**0.0**	**0.0**	**-17.1**

Key personnel is defined as members of the Executive Board and Supervisory Board of Hypo Group Alpe Adria AG, as well as Executive Board members of subsidiaries and the second level of management of the parent company, Hypo Group Alpe Adria AG.

The relationships with members of the Executive Board and Supervisory Board of Hypo Group Alpe Adria AG are shown in detail in note (100) Relationships with members of the Company's boards.

(95) Important proceedings

95.1. EU proceedings

The European Commission concluded its state aid investigation into Hypo Alpe Adria in September 2013. The state aid decision imposes on the SEE network (Hypo Group Alpe Adria AG and six SEE subsidiary banks) the requirement to sign the Share Purchase and Transfer Agreement ("signing") no later than 30 June 2015 and to complete "closing" no later than 31 December 2015. Closing was successfully completed on 17 July 2015. The requirements imposed by the European Commission were thus fulfilled.

95.2. Other proceedings

95.2.1. PROCEEDINGS RELATING TO LOANS AND EQUITY INVESTMENTS

95.2.1.1. Major proceedings

Ten major passive legal proceedings (all with amounts in dispute of over EUR 15 million) are currently pending across the entire Hypo Group Alpe Adria network. Most pending proceedings relate to the Croatian subsidiary bank. It is estimated that the subsidiary banks are very likely to prevail in those proceedings.

HGAA Holding 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 Hypo Group Alpe Adria on 20 October 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. The business object of the "Consultants" Group (formerly a wholly-owned subsidiary of HBInt) was the development of construction projects for properties. Hypo Group Alpe Adria takes the view that the claim is unfounded and that in particular Hypo Group Alpe Adria 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), final estimations as to the outcome cannot be made yet.

95.2.1.2. Proceedings relating to CHF loans

Particularly in the past ten years, numerous private clients in South Eastern Europe took out foreign currency loans (especially CHF loans); no CHF loans are currently being granted. The existing loan agreements have increasingly become the subject of legal proceedings initiated by bank customers and/or by bodies representing the interests of bank customers against South Eastern European subsidiaries of Hypo Group Alpe Adria AG. This affects all six subsidiary banks. Plaintiffs' main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, that the foreign currency and interest rate clauses and/or the contractual interest rate adjustment clauses included in the loan agreements do not comply with the law, and that the interest rate adjustments performed by the banks to date have not been performed in line with legal or contractual regulations. Some cases also allege that clauses contained in the agreements regarding coupling with the CHF benchmark index rate ought to be changed, and that these should instead be coupled with the EUR benchmark interest rate. This is an attempt to re-negotiate the terms and conditions of foreign currency loans (such as by converting the loan amount and the related interest payments into the local currency as at the date on which the loan was taken out or by switching retroactively from variable to fixed interest rates). At the time of writing, a number of first-instance and second-instance verdicts, some of which already final, have been issued balanced, meaning some went against the subsidiary banks and some in their favour.

As of yet, there are only four passive legal proceedings pending in Slovenia that relate to foreign currency loans where customers claim invalidity of the loan agreements and allege that they have not been sufficiently informed of the risks of foreign currency loans. As the proceedings were all initiated only in 2015, they are still at an early stage and final estimations as to the outcome cannot be made yet. Likewise, the possibility cannot be ruled out that the Slovenian consumer protection organisation will file further claims against the bank.

It is not expected that Slovenia will adopt any legal and/or regulatory measures in connection with CHF loans granted, as both the regulatory authority and the national legislator have thus far predominantly represented the interests of the banks.

A total of 656 legal proceedings relating to foreign currency loans have been initiated in Croatia to date. These largely claim that the contractual foreign currency and/or interest rate adjustment clauses, giving the bank the unilateral right to make interest rate adjustments, are invalid. Only a few final verdicts have been passed to date; this does not enable a reliable prediction as to the outcome of the further legal disputes. Of particular relevance, in part due to significant media interest, is the claim filed by Potrošač (a consumer protection group representing bank customers) against a total of eight Croatian banks, including Hypo Alpe-Adria Bank d.d. in Zagreb. The first-instance commercial court in Zagreb, Croatia, issued a verdict on 4 July 2013 in favour of the consumer protection group, stating the following: The banks are ordered – within 60 days – to offer modified terms and conditions to the customers whereby the loan obligations expressed in Croatian kuna ("HRK") is to be converted to Swiss francs ("CHF") at the CHF/HRK exchange rate on the day the loan agreement was signed and to convert the contractually agreed variable interest rate to the fixed interest rate applicable on the day the loan was taken out (so-called 60-day ruling). The verdict has not taken legal effect as all eight banks have lodged appeals. The highest commercial court issued a decision on the appeal on 16 July 2014, stating the following: The first instance verdict has been amended in favour of the banks in that the foreign currency clauses contained in the loan agreements were deemed valid and in compliance with applicable law, in particular consumer protection legislation. For the banks this means that they will not be required to refund possible foreign currency losses resulting from the HRK/CHF exchange rate. The verdict also confirmed the first instance verdict in favour of Plaintiff with regard to the invalidity of the contractual interest rate adjustment clauses which allow the banks to unilaterally increase the contractual interest rate on the basis of market interest rates. According to the court, these increases do not conform to the law when the bank fails to provide a transparent reason for such an adjustment. The "60-day ruling" was also lifted and it was determined that no direct claims for compensation can be made on the basis of the verdict. The Croatian bank (and all of the other seven banks) duly lodged extraordinary appeals with the highest court on 14 August 2014 against the negative interest rate adjustment decision. On 12 August 2014, the consumer protection group also lodged an appeal both with the highest court and the constitutional court with regard to the interest rate adjustment decision made that went against Plaintiff. The highest court rejected the appeals of the banks and the consumer protection group on 9 April 2015, thereby confirming the second-instance verdict issued on 16 July 2014. This means that the individual customers affected can only assert their claims for agreement modifications or damages by filing individual claims with the court or by contacting the bank. As a result, more than 200 individual claims (receivables from retail clients) have been submitted to Hypo Alpe-Adria-Bank d.d. since the second-instance verdict was issued. The bank then has 30 days in which to respond – a deadline that the bank has met in all cases. A reliable estimation as to the chances for succeeding in the individual proceedings will only be possible by the time the court hearings have started. Furthermore, the bank filed an objection against the third-instance verdict with the constitutional court in June 2015; from a current point of view, there is no telling yet when the constitutional court will make its decision.

Unlike in Slovenia or Serbia, the Croatian legislator has intervened heavily in the operating banking business in the previous two years, imposing rules on the Croatian banks – thus also on Hypo Alpe-Adria-Bank d.d. – as regards the handling of CHF loans granted. The first relevant legal measure in this context was the adoption of new consumer protection legislation, which came into force on 1 January 2014 and affects the granting of future loans as well as the assessment of existing consumer loans. It specifically defines criteria which are to be considered when setting interest rates, and determines methods according to which maximum interest rates are to be calculated. Hypo Alpe-Adria-Bank d.d. had already agreed to the regulations prior to their implementation and applies them to newly granted consumer loans, in particular CHF mortgage loans. The abandonment of the cap on the minimum CHF rate in January 2015 also affected the operating banking business. In Croatia, legislators consequently made extensive amendments to consumer protection legislation, which came into force on 27 January 2015; the new legislation fixed the HRK/CHF exchange rate at 6.39 for a period of one year. Hypo Alpe-Adria-Bank d.d. has implemented the statutory regulations in a timely manner and beyond that decided to voluntarily extend the term of the fixed exchange rate until 1 April 2016. Most recently, the national legislator passed another amendment to the consumer protection law, adding statutory requirements for the retroactive conversion of CHF foreign currency loans; this amendment came into effect on 30 September 2015. These requirements affect all Croatian banks that have granted CHF loans and oblige them to convert CHF loans into EUR loans. Like all other banks affected, Hypo Alpe-Adria-Bank d.d. has filed a request for constitutional assessment and repeal of the amendments with the constitutional court. The decision of the constitutional court is still pending. However, as the request filed with the constitutional court has no suspensive effect, Hypo Alpe-Adria-Bank d.d. has implemented the amendments within the statutory periods and offered conversion to all customers affected. A majority of the clients accepted the offer. The bank is obligated to bear the full amount of the high costs incurred as a result of implementing the new “conversion law”, in particular also the losses from the conversion itself.

Proceedings are also pending against the Serbian subsidiary bank Hypo Alpe-Adria-Bank a.d. Beograd in which bank customers largely assert claims concerning the validity of the foreign currency clauses (30 disputes) and/or the unilateral right of the bank to change interest rates (121 disputes). 17 disputes were settled in court and a further 25 disputes out of court. A total of 151 legal disputes (including the class action filed by the “Efektiva” interest group) are therefore still pending, five of which have been decided in favour of the plaintiffs so far. The outcome of the class action filed by the “Efektiva” interest group against Hypo Alpe-Adria-Bank a.d. Beograd and two other banks will be of major importance for the other pending legal proceedings. In 2014, this class action was already rejected at first instance in favour of the defendant banks. Plaintiff then filed an appeal with the next instance court in Belgrade; no verdict has yet been issued. Hypo Alpe-Adria-Bank a.d. is confident that this court will also rule in favour of the defendant banks.

From a regulatory perspective, the National Bank of Serbia issued binding recommendations 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. Hypo Alpe-Adria-Bank a.d. in Serbia has already fully implemented these recommendations. The National Bank of Serbia also imposed measures on the country’s banks designed to mitigate the effects from the abandonment of the minimum CHF rate in January 2015. 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 on 5 March 2015 provides, among other things, for four contractual amendment models (such as the conversion into EUR according to various criteria) which the bank must offer to customers who took out indexed foreign currency loans. It also provides for monthly reporting on compliance with the measures. Hypo Alpe-Adria-Bank a.d. has already implemented the decision and will also fully comply with the reporting obligations. However, it must be noted that only a small portion of customers affected has accepted the offer so far. Further regulatory and/or legal measures, particularly measures imposing forced conversion of CHF loans, are currently not expected due to the ongoing lack of interest exhibited by Serbian media and politics.

A number of legal proceedings relating to foreign currency loans granted to bank customers have also been initiated against both subsidiary banks in Bosnia and Herzegovina.

Overall, Hypo Alpe-Adria-Bank d.d. in Mostar is currently facing a total of 1064 legal disputes relating to the validity of foreign currency clauses and/or interest rate adjustment clauses in foreign currency loans. The validity of the foreign currency clause in use was once again confirmed by several final verdicts in favour of the bank in 2015; these verdicts have now set a precedent for the further pending legal proceedings. Opposing legal practice has developed with regard to the interest rate adjustment clauses included in the loan agreements: this clause is now regularly ruled to be unlawful. Furthermore, there is a negative tendency towards borrowers who have not filed complaints yet or who have not been successful at first instance filing new complaints and claiming the general invalidity of the entire CHF loan agreement. As no final verdicts have been issued to date, neither on the lawfulness of the interest rate adjustment clause nor on the alleged invalidity of the loan agreements, the bank has filed a request with the Supreme Court of the Republic of Bosnia and Herzegovina for clarification of the disputed issues in connection with the interest rate adjustment clause and invalidity. The bank considers the chances of the Supreme Court accepting the bank’s argumentation as high, at least with regard to the claimed invalidity of the loan agreements. Courts of first instance with pending proceedings would then be bound by the legal view of the Supreme Court. The Supreme Court’s decision in this matter is still pending.

The legal situation in Republika Srpska is similar. A total of 335 legal proceedings in which the plaintiffs call into question the bank’s unilateral right to make variable changes to interest rates as well as the validity of foreign currency clauses are currently pending against Hypo Alpe-Adria-Bank a.d. in Banja Luka. The invalidity of CHF loans is not being claimed in Republika Srpska. 16 final verdicts have been issued so far. However, as these verdicts partially go in favour of (predominantly regarding the validity of foreign currency clauses) and partially against (predominantly regarding the changes to interest rates) the bank, the outcome of the further legal disputes cannot be reliably estimated. To prevent the risk of further negative decisions, the bank has made a concerted effort to reach out-of-court settlements with the bank customers who filed the complaints and to counteract a negative outcome of the lawsuits by reaching court settlements.

As a consequence of the increasing number of regulations in the neighbouring countries, Bosnia and Herzegovina has also attempted to legally regulate the subject of CHF loans. In December 2015, the Parliament of the Republic adopted a proposal for a law on the forced conversion of CHF loans into the national currency in its first reading. This would only be applicable to the two Hypo subsidiary banks, as only they have granted CHF loans to customers. For the law to come into force, an adoption in a second reading as well as two further resolutions passed by the House of Representatives are required. From a current point of view it is expected that the proposal will be rejected at whole-state level on procedural grounds and the decision will be taken at entity level (the Federation of Bosnia on the one hand and the Republika Srpska on the other hand) by the respective Parliaments. A proposal to that effect was already under consideration at the Republika Srpska Parliament in March 2016, but has not been adopted yet. In order to prevent a statutory requirement for forced conversion as early as possible and also to solve the legal disputes in connection with CHF loans, both Bosnian subsidiary banks launched a project in coordination with the government to reach amicable agreements with CHF loan clients in March 2016.

Proceedings are also pending against Hypo Alpe-Adria-Bank a.d. in Montenegro, where the lawfulness of the foreign currency clauses in CHF mortgage loans and their partial invalidity or the reduction of credit claims are being challenged. The calculation matrix for repayment instalments (EUR/CHF) included in the agreements is also being challenged to some extent. Specifically, the bank is currently involved in six disputes, none of which have been finally decided as of yet (five disputes are still pending at first instance, and one dispute was decided at first instance in favour of the bank). Special mention should be made in this context of two class actions, one of which was only filed in 2015 and the other has been pending since May 2013. As the success assessment clearly points towards the bank prevailing in both legal disputes, the bank is optimistic about the further course of the proceedings. On 31 July 2015 and thus earlier than the Croatian national legislator, Parliament in Montenegro also adopted a law on the conversion of CHF loans into EUR; it came into effect on 22 August 2015. The law obliges the bank to retroactively convert all CHF foreign currency loans into EUR – including those that have already been terminated; conversion is based on the exchange rate that prevailed at the date the contract was concluded. Conversion is only carried out if the borrowers affected give their consent to the bank's offer. The bank does not have any options to prevent the conversion. On the contrary, the bank is obligated to bear the full amount of losses from the conversion. In the case of Hypo Alpe-Adria-Bank ad this burden weighs even more heavily as it is the only bank in Montenegro affected by this legislative measure. This is one of the reasons why Hypo Alpe Alpe-Adria-Bank ad has challenged the law at the constitutional court (decision pending). Since a constitutional complaint has no suspensive effect, the bank has offered conversion to all customers affected, in full compliance with statutory requirements and within the legal implementation periods; a vast majority of customers accepted the offer. As a consequence of this law and of the conversion, the legal grounds for a dispute in this matter no longer apply in cases of customers who have accepted conversion; complaints are therefore regularly withdrawn.

(96) 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 31 December 2015 according to the CRR with IFRS amounts and the CRR scope of consolidation (Hypo Group Alpe Adria and AI Lake (Luxembourg) Holding S.a.r.L) and as at 31 December 2014 according to the the CRR based on Hypo Group Alpe Adria group of credit institution. Since 30 September 2015 the regulatory reports are provided on the level of the Hypo Group Alpe Adria AG (Holding) and of AI Lake (Luxembourg) Holding S.a.r.l.
The own capital funds of the Group as defined by EU Regulation 575/2013 (CRR) are made up as follows:

EUR m

	31.12.2015	31.12.2015	31.12.2014
	AI LAKE	**HGAA**	**HGAA**
Core Capital (T1 = CET1)	**791.1**	**728.4**	**1,192.2**
Paid-in capital	57.8	5.0	5.0
Reserves and non-controlling interests	3.1	1,422.8	1,320.5
Intangible assets	–12.4	–12.4	–19.5
Less net loss for the period, material negative results	748.5	–675.2	–97.4
adjustments to core capital (Prudential filters)	–5.9	–11.8	–16
Tier 2 capital (T2)	**0.0**	**0.0**	**0.0**
Own funds (TC = T1 + T2)	**791.1**	**728.4**	**1,192.2**
own funds requirements	**425.1**	**425.2**	**474.2**
Surplus - Own funds	**366.1**	**303.1**	**718.0**

in %

	31.12.2015	31.12.2015	31.12.2014
	AI LAKE	**HGAA**	**HGAA**
Common Equity Tier 1 ratio	14.9%	13.7%	20.1%
Total capital ratio	14.9%	13.7%	20.1%

EUR m

	31.12.2015	31.12.2015	31.12.2014
	AI LAKE	**HGAA**	**HGAA**
Credit risk pursuant to Standardised Approach	**4,619.5**	**4,605.3**	**5,147.5**
position-, F/X-, commodities risk	269.4	269.4	209.9
operational risk	416.3	430.6	560.9
credit valuation adjustment risk (CVA)	10.1	10.1	9.5
Total risk position value	**5,315.3**	**5,315.4**	**5,927.8**

(97) Trading book

The volume of the securities trading book of Hypo Group Alpe Adria AG breaks down as follows:

EUR m

	31.12.2015	**31.12.2014**
Derivatives in trading book(nominal)	1,740.1	874.1
Debt securities (carrying amount)	1.1	4.2
Trading book volume	**1,741.2**	**878.3**

(98) Employee data

	31.12.2015	**31.12.2014**
Employees at closing date (Full Time Equivalent – FTE)	3,756	3,655
Employees average (FTE)	3,770	3,761

(99) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the Group parent company:

EUR thousand

	31.12.2015		**31.12.2014**	
	Severance payments	**Pensions**	**Severance payments**	**Pensions**
Key management personnel	32.8	5.6	12.6	2.3
Other employees	134.4	69.8	84.9	1.8
Members of Executive Board	85.6	63.3	4.2	15.3
Total	**252.8**	**138.7**	**101.7**	**19.4**

Expenses for severance payments and pensions contain contributions to defined contribution plans totalling EUR 321.0 thousand (2014: EUR 39.8 thousand).

(100) Relationship with members of the Company's boards

100.1. Advances, loans and liabilities with regard to board members

As at 31 December 2015, the Hypo Group Alpe Adria AG boards had not received any advances or loans, nor had any liabilities been assumed on their behalf.

As at year-end, the members of the Supervisory Board had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Hypo Group Alpe Adria AG, nor did Hypo Group Alpe Adria AG assume any liabilities on their behalf.

100.2. Breakdown of remuneration received by board members of the Group's parent company

Remuneration received by the members of the Executive Board and Supervisory Board of Hypo Group Alpe Adria AG for carrying out their functions, received from this or from another Group company, is presented as follows:

EUR thousand

	31.12.2015	31.12.2014
Executive Board	**2,077.3**	**281.3**
thereof ongoing payments	2,077.3	281.3
Supervisory Board	**151.4**	**3.8**
Total	**2,228.6**	**285.1**

Executive Board remuneration for 2015 did not include any variable elements. The changes in Executive Board remuneration largely result from the fact that in the previous financial year, they only related to parts of the financial year and/or to certain persons, as in the previous year a member of the Executive Board was employed without compensation due to still being in a contractual relationship with the former owner.

The members of the Executive Board and Supervisory Board are stated in note (101) Boards of the Company.

(101) Boards of the Company

1 January to 31 December 2015

Supervisory Board

Chairman of the Supervisory Board:
Walter Knirsch, from 17 November 2014 to 16 July 2015
Marko Voljč, from 17 July 2015 to 1 December 2015
Hermann-Josef Lamberti, from 16 December 2015

Deputy Chairman of the Supervisory Board:
Dietmar Spranz, from 27 October 2014 to 16 July 2015
Hans Lotter, from 17 July 2015
Henning Giesecke, from 17 July 2015

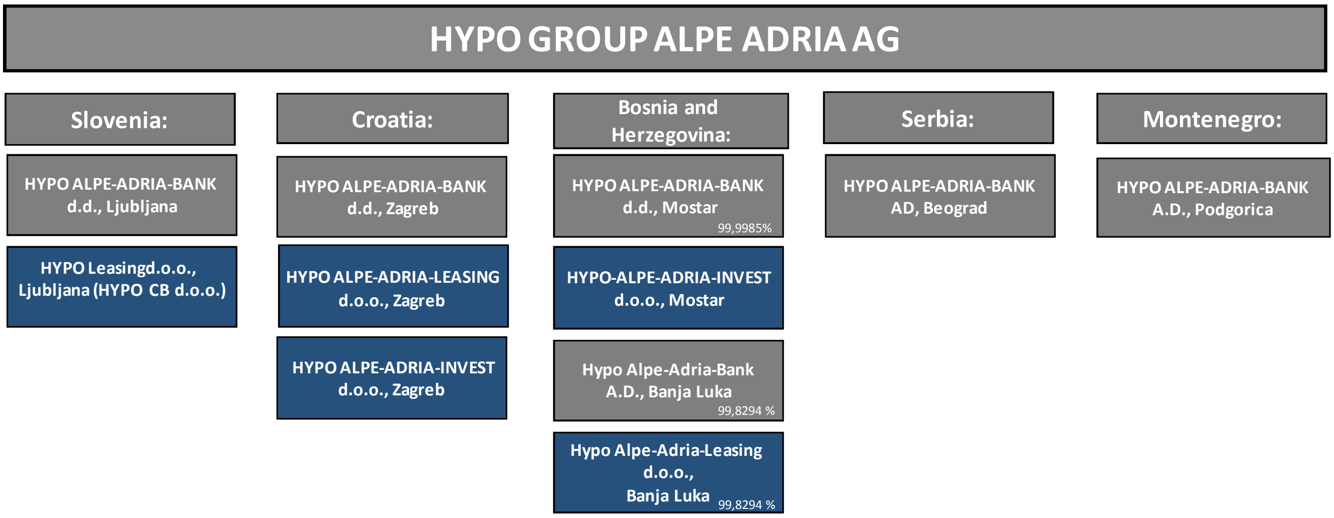
Members of the Supervisory Board:
Thomas Capka, from 27 October 2014 to 16 July 2015
Martin Handrich, from 29 January 2015
Dragica Pilipović-Chaffey, from 17 July 2015

Delegated by the Works Council:
Horst Floriantschitz, from 22 September 2015
Christian Lobner, from 22 September 2015
Saša Nedić, from 22 September 2015

Executive Board

Alexander Picker, Chairman of the Executive Board, until 30 June 2015
Ulrich Kissing, Chairman of the Executive Board, from 17 July 2015
Johannes Proksch, Deputy Chairman of the Executive Board
Markus Krause, Member of the Executive Board, from 17 August 2015
Csongor Bulscu Németh, Member of the Executive Board, from 1 November 2015
Martin Stefan Thomas, Member of the Executive Board, from 1 November 2015
Stefan Selden, Member of the Executive Board, until 16 August 2015
Rainer Sichert, Member of the Executive Board, until 25 September 2015

(102) Material subsidiaries as at 31 December 2015



Participations without additional percentage are direct or indirect 100%
Participations of HYPO GROUP ALPE ADRIA AG

(103) Scope of consolidation

The consolidated group of companies as defined under IFRS as at 31 December 2015 includes the following direct and indirect subsidiaries of Hypo Group Alpe Adria AG, using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	Closing date	Type
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.0	100.0	31.12.2015	CI
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o.	Ljubljana	100.0	100.0	31.12.2015	FI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.0	100.0	31.12.2015	CI
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.0	100.0	31.12.2015	FI
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100.0	100.0	31.12.2015	FI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Beograd	100.0	100.0	31.12.2015	CI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	100.0	100.0	31.12.2015	CI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	100.0	100.0	31.12.2015	CI
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100.0	100.0	31.12.2015	FI
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.8	99.8	31.12.2015	CI
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100.0	99.8	31.12.2015	FI

Explanations:

CI Credit Institution
FI Financial Institution

(104) Events after the reporting date

According to an announcement at the end of January, Mr. Johannes Proksch will resign from his position as Chief Financial Officer and will hold the position of Chief Transformation Officer (CTO) instead. Mr. Christian Kubitschek will take over as Chief Financial Officer from April 2016.

As a result of the SREP process conducted in 2015, the JRAD decision was served on Hypo Group Alpe Adria at the end of December. The respective decision was received on 17 March 2016. As stipulated in the decision, Hypo Group Alpe Adria will have to achieve a total capital ratio (TCR) of 14.5%, a TIER I ratio of 10.9% and a CET 1 ratio of at least 8.1% at consolidated level, starting on 31 March 2016. Additionally, a capital conservation buffer of 0.625% is required.

The new Vienna headquarters were opened in mid-April, with a centre of excellence remaining at the Klagenfurt site.

Klagenfurt am Wörthersee, 17 May 2016
Hypo Group Alpe Adria

EXECUTIVE BOARD

Dkfm. Ulrich Kissing
(Chairman)

Mag. Johannes Proksch

Dr. Christian Kubitschek

Dipl. Math. Markus Krause

Csongor Bulscu Németh

Dr. 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.

Klagenfurt am Wörthersee, 17 May 2016
Hypo Group Alpe Adria

EXECUTIVE BOARD

Dkfm. Ulrich Kissing
(Chairman)

Mag. Johannes Proksch

Dr. Christian Kubitschek

Dipl. Math. Markus Krause

Csongor Bulscu Németh

Dr. Martin Stefan Thomas

Razvan Munteanu

Auditor’s Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **HYPO GROUP ALPE ADRIA AG**, Klagenfurt am Wörthersee, that comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2015, as well as the notes.

Management's Responsibility for the Consolidated Financial Statements

The Company’s management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and Section 59a BWG (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing – ISA. In accordance with International Standards on Auditing, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group’s preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company’s position.

In our opinion, the management report for the Group is consistent with the consolidated financial statements.

Vienna, 23 May 2016

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Bernhard Mechtler
Wirtschaftsprüfer

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker Wirtschaftsprüfer	Nikolaus Müller Wirtschaftsprüfer

Report of the Supervisory Board

Dear Shareholders,

The year 2015 was marked by the privatization of Hypo Group Alpe Adria AG. It was a demanding and challenging year, but despite the substantial financial loss also a positive year for the Group as the foundation was laid for a successful restructuring and future business growth.

Business development

Following the finalization of the privatization process, which was successfully completed on 17th of July 2015, with funds advised by Advent International, a globally active private equity investor, and the European Bank for Reconstruction and Development (EBRD) acquiring Hypo Group Alpe Adria AG (HGAA) and its South Eastern Europe banking network, HGAA conducted the final clean-up of its balance sheet and portfolio. This along with the restructuring, reorganization and structural efficiency improvements that were, in the headquarters and subsidiary banks, undertaken following the in-depth analysis of all parts of business, had one-off effects on the year end result.

The past year also saw the implementation of several strategic decisions concerning the future development of the HGAA Group, hence setting the foundations for a new, more focused strategy and sustainable future of the Group and subsidiary banks. The new ownership structure enables HGAA to fully be 'back on the market' and focus on client business. In the SEE region, during the year 2015, economies were still in a vulnerable state. One of the severest impacts on the local economies was the imposed implementation of retroactive Swiss Franc conversion laws in Croatia and Montenegro. These regulatory measures presented a massive hit to HGAA's year-end financial results. Nevertheless the negative financial effects of the past year – which have been counterbalanced by a capital increase in March 2016 – shall not deter the development of customer oriented business plans for achieving sustainable and profitable long term development of HGAA.

By concluding its privatization and right-sizing the organization given its focus on client business in Slovenia, Croatia, Serbia, Montenegro and Bosnia and Herzegovina, HGAA set the basis for future development. By further consolidating its unique regional presence, leveraging its integrated business model, implementing latest regulatory initiatives, and improving its operational sales and CRM activities, HGAA has made progress in all areas that encompass Group's Business Strategy and the Group's focus will in 2016 be on generating long term sustainable business, while at the same time achieving operating excellence.

Activities of the Supervisory Board

During the past financial year, the Supervisory Board fulfilled all the duties assigned to it by Statute and by the articles and by-laws of Hypo Group Alpe Adria AG and was included in all decisions of strategic, business and risk importance to Hypo Group Alpe Adria AG. Supervisory Board participated in the discussions on corporate strategy, the prospects for business development and planning, and the risk management of HGAA as a whole, the holding company in Austria, and the affiliated subsidiary banks in Slovenia, Croatia, Serbia, Montenegro and Bosnia and Herzegovina. The proposals made by the Management Board were approved after detailed examination and discussion.

Sixteen Supervisory Board meetings were held within the business year 2015. After the concluded privatization, the Supervisory Board in cooperation with the Management Board diligently restructured the organizational set-up, business processes, business development plans and examined HGAA's effectiveness, which resulted in the forming of the Group's Business Strategy, strengthening the control functions, improving procedures, intensifying cooperation across all businesses, with the aim to achieve a lean organization.

The Supervisory Board currently has six standing Committees formed by members of the Supervisory Board, which are

- the Audit Committee (conducting eleven meetings),
- the Credit Committee (conducting eight meetings),
- the Risk Committee (conducting three meetings),
- the Nomination Committee (conducting eight meetings),
- the Remuneration Committee (conducting two meetings) and
- the Committee for Management Board Matters (conducting five meetings).

With the privatization completed on 17th of July, Walter Knirsch (President of the Supervisory Board), Dietmar Spranz (Vice-President) and Thomas Capka (Member) handed over their functions within the Supervisory Board of HGAA, to Marko Voljč (President of the Supervisory Board), Hans Lotter and Henning Giesecke (Vice-Presidents of the Supervisory Board) and Dragica Pilipović-Chaffey, who were appointed by decision of the General Assembly as of 17th of July 2015, thus joining Martin Handrich, who was appointed as of 29th of January 2015.

Ulrich Kissing was appointed Chairman of the Management Board of HGAA on 17th of July 2015, replacing Alexander Picker, who resigned on 30th of June 2015, while Markus Krause was appointed as Chief Risk Officer on 17th of August 2015, replacing Stefan Selden, who resigned from his position on 16th of August 2015. As Rainer Sichert resigned from his position as Chief Operations and Market Officer as of 25th of September 2015, two new members joined the Management Board team as of 1st of November 2015, Martin Thomas (Chief Operations Officer) and Csongor Németh (Chief Corporate & SME Banking Officer) fostering the market functions, together with Razvan Munteanu (Chief Retail Banking Officer) assuming this position as of 1st of January 2016.It should be noted that the Management Board was finally completed by Christian Kubitschek joining as Chief Financial Officer on 16th of April 2016 while Johannes Proksch, former Chief Financial Officer, assumed the responsibility as Chief Transformation Officer.

After supporting the team within the first restructuring process, Marko Voljč, resigned as President of the Supervisory Board on 30th of November, with Hermann-Josef Lamberti, being appointed member of the Supervisory Board by the General Assembly, as of 1st of December 2015 and by its members elected to Chairman as of 16th of December 2016.

On 22nd of September, the Worker's Council of HGAA appointed Horst Floriantschitz, Christian Lobner and Saša Nedić as their representatives to the Supervisory Board of HGAA.

HGAA's Supervisory Board would like to express its gratitude to the departing members of the Management and Supervisory Board for their dedication and cooperation, and will continue to support the broadened HGAA Management Board team with whom HGAA gained outstanding managers.

Separate financial statements for 2015

The separate Financial Statements of Hypo Group Alpe Adria AG were prepared in accordance with the regulation of the Austrian Banking Act (BWG) and, where applicable, with the provisions of the Austrian Commercial Code (UGB).

The separate Financial Statements and Management Report of Hypo Group Alpe Adria AG as at 31 December 2015 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, registration number 36059d, and KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, 1090 Vienna, registration number 269873y, in a joint audit and were granted an unqualified auditors' opinion.

The Audit Committee therefore recommended that the Supervisory Board approve the separate financial statements in accordance with section 96 (4) of the Austrian Stock Corporation Act (AktG) and endorse the results of the audit.

The Supervisory Board concurs with the audit results with regard to the separate Financial Statements and Management Report submitted by the Management Board, which were granted an unqualified auditors' opinion. The separate Financial Statements have been approved by the Supervisory Board and have been adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act (AktG).

The Supervisory Board has also acknowledged the 2015 consolidated Financial Statements and Group Management Report.

Supervisory Board's Outlook for 2016

Operating environment will likely remain demanding in 2016 and considering the finalization of the NPL carve-out and the settlement of HETA indemnities (which led to a capital increase in March 2016 to compensate for losses resulting from Swiss Franc conversions and from credit deterioration of a specific part of the retail portfolio), there are still several milestones to be achieved. Still, entering year 2016 HGAA, with a planned rebranding ahead, it is a far more stable, stronger, better balanced institution than a year ago, and is in a strong competitive position to focus on strengthening its market presence, improving key financial and business indicators and achieving long term profitability.

The Supervisory Board would like to thank the Members of the Managing Board, as well as the employees and employee representatives of all subsidiaries for their work. Hypo Group Alpe Adria AG intends to continue investing in its operations and its clients. The new leaner organizational structure and the more focused business strategy represent great possibilities that will allow sustainable success and development of Hypo Group Alpe Adria AG.

For the Supervisory Board

Hermann-Josef Lamberti
Chairman of the Supervisory Board

Klagenfurt, 24 May 2016

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Forward-looking statements and forecasts are based on information and data available at the time of going to press **(24 May 2016)**. Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this Group Annual Report that were used in the interests of better legibility also cover the feminine form.
The Group Annual Report was produced in-house using Fire.sys.