Addiko Bank

Annual Report 2017

Addiko Bank d.d.
Slovenia

Addiko Bank

Annual Report 2017

Key data

in 000 of EUR

Ključni podatki	2017	2016
Income statement	**1 Jan – 31 Dec**	**1 Jan – 31 Dec**
Net interest income	33,743	24,886
Net fees and commission income	9,357	8,223
Other operating results	316	(1,837)
Operating expenses	(26,657)	(24,649)
Operating result	**16,759**	**6,623**
Impairments and provisions	1,369	7,253
Result after tax	**18,955**	**12,901**
Statement of financial position	**31 Dec**	**31 Dec**
Loans and receivables to customers	1,064,117	979,768
Customer deposits	1,094,740	975,167
Equity	140,972	121,572
Total assets	1,537,735	1,413,628
Risk weighted assets	938,819	817,841
Key figures	**1 Jan – 31 Dec**	**1 Jan – 31 Dec**
Cost /income ratio	61.9%	74.4%
Net interest margin	2.34%	1.87%
Capital ratios	**31 Dec**	**31 Dec**
Core Tier 1 ratio	13.72%	12.99%
Total capital ratio	15.58%	15.64%

Addiko Bank

Annual Report 2017

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Addiko Bank

Management Board of the Bank

Miha Mihič, CFO, CMO

Responsibilities:
Accounting & Reporting
Financial Controlling & Assets and Liabilities Management
Treasury
Human Resources
Corporate Operations
Retail Operations
Product Management

Tadej Krašovec, CRO, COO

Responsibilities:
Credit Risk Management & Rehabilitation
Retail Risk Management & Collection
Risk Controlling
Operations
Internal Audit
Legal & Compliance
Board Office Support & Public Relations
Organization
IT
Procurement

On 31 December 2017, the Management Board consisted of three members:

- Matej Falatov MSc*, Chairman of the Management Board,
- Miha Mihič, Management Board Member,
- Tadej Krašovec, Management Board Member.

* On 12 January 2018, the term of office of the Chairman of the Management Board, Matej Falatov MSc, ceased. Pursuant to the decision of the Bank's Supervisory Board, the tasks of the President of the Management Board shall be carried out by Tadej Krašovec, a Management Board Member, until further notice.

Report from the Bank's Management Board for 2017

Dear Reader,

We managed to achieve essentially all the objectives set in 2017. Revenues exceeded the plans and amounted to EUR 43 million. Despite several development activities and digitalization investments, strict cost controls ensured a lower cost to income ratio of 61.9%. Advanced credit risk management with the objective of long-term operational sustainability enabled us to achieve a 3.4% share of NPLs, which are covered by impairments of 65.2%, and also the high quality of the new transactions. In 2017, we achieved an above-average interest margin of 2.3%.

A balanced relationship between profitability and risks ensured profit after tax of EUR 18,955 thousand. The Bank included half year profit of EUR 11,075 thousand into retained earnings to strengthen the capital adequacy, which reached 15.58% at the end of the year, providing us with an excellent foundation for further growth in line with our ambitious goals.

In 2017, we followed our principles of straightforward banking with focusing on the essentials through efficiency and simple communications, which was also largely recognized and awarded by our clients. Simple and fast access to banking services enabled our further growth, mostly in the key segment of consumer loans, whilst advanced tools and risk management procedures, which were upgraded in 2017, resulted in a stable and very favourable risk profile.

We reinforced our market presence with two new Express branches, in Krško and Slovenj Gradec. Their modern design and digital profile enable us to offer Slovenian clients in an innovative way a completely new banking experience of simple personal finance management, which is in accordance with our values.

In the segment of legal entities, we focused on small and medium-sized enterprises and looked for optimal client solutions through an in-depth and advisory-based approach. In the segment of large enterprises, we continued to be actively present on the market, but allowing only for financing that avoids exposure concentration and big complex structures.

As for credit risk management, we balanced relationship between profitability and risks, significantly decreased the risk costs and upgraded the credit process.

Last year we continued optimizing liabilities in view of independent and stable financing and diversification of sources. We consolidated long-term financing sources and achieved growth, mostly in the retail segment. The Bank strengthened its short-term and long-term liquidity position, ensuring stability and self-funding capability.

We finished the implementation of the operating model focusing on utilizing the synergies in the Addiko Group, higher efficiency and transparency, the key pillars for excellent client services and the attainment of ambitious objectives.

In 2017, the employees of the Bank were also traditionally socially responsible. As in previous years, they proved to have a big heart that is aware of the social needs of the environment we operate in. We organized a voluntary story-reading campaign for children from socially deprived families, to whom we also donated books within the framework of the Addiko Cares project.

Our success would not have been possible in 2017 without our dedicated employees, loyal clients and supportive business partners. We sincerely thank all of them for helping us make our last year's story a positive one.

Management Board

Miha Mihič	Tadej Krašovec
Member of Management Board	Member of Management Board

Addiko Bank

Business Report 2017

1. Overview of the Bank

Addiko Bank d.d. (hereinafter: the "Bank") is part of the Addiko Bank AG financial group (hereinafter: the "Group"), headquartered in Vienna, Austria, operating through six subsidiary banks in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, efficiently providing clear and direct quality services for over 1.1 million clients.

The holding company AI Lake (Luxembourg) S.à r.l. is the sole shareholder of Addiko Bank AG. The company is indirectly owned by funds advised by Advent International, a global private equity investor, and the European Bank for Reconstruction and Development (EBRD).

Both owners have a long history of investing in the financial industry as well as rich investing experience in Central and Eastern Europe. The common goal of both owners is to develop core banking business focusing on banking services for individuals and small and medium-sized enterprises, while also providing a comprehensive support to large corporate clients.

2 General Economic Conditions in 2017

2.1 International Environment

In 2017, the world economy recorded a growth again. Europe and the USA are gradually freeing themselves from the grip of the financial crisis. All key European countries recorded above-average growth levels. So did Slovenia, which even ended the year among the most successful countries. European troubles related to the debt crisis have been solved completely. The scope of the bond repurchase programme (quantitative release) led by the European Central Bank (ECB) decreased in 2017 for the first time. Greece gradually re-entered the international financial markets. The German economy recorded a record-high growth. Nevertheless, the ECB did not increase the key interest rate. The American central bank FED did, pursuing the strategy of gradually increasing the key interest rate with the purpose of preventing sudden movements on the financial markets. Despite this, the exchange rate of the US dollar to the euro weakened throughout the year, slightly fluctuating and reaching over 1.2000 dollar for a euro at the end of the year. In the second half of the year, the Swiss franc weakened against the euro, so that the exchange rate started moving towards 1.2000 franc for a euro. This was the exchange rate before the Swiss central bank (SNB) released it at this level.

In 2017, Great Britain formally initiated the EC exit procedure, starting the two-year period during which the British government will negotiate the exit conditions with the European Commission. In the meanwhile, the position of the British government has deteriorated both at home and abroad, mostly due to the failure to achieve the absolute majority of Conservatives in the British Parliament, forcing Prime Minister May to form a coalition government. The transitional exit period will end in 2019, but the process of moving the headquarters of some companies to other European countries has already begun. Despite this, the British central bank (Bank of England) increased the key interest rate by 0.25 percentage points to support the pound.

2.2 Slovenia

In 2017, the key economic indicators in Slovenia have continued to improve. The 2017 annual inflation rate stood at 1.7% (with the average annual inflation rate of 1.4%), mostly resulting from higher prices of food and oil products. The driving forces of economic growth (third-quarter year-on-year growth of 4.9%) are export and household consumption, with gross investments in fixed assets also increasing.

The number of unemployed dropped to 66,000 and the unemployment rate was the lowest in the last eight years (6.3%). The number of long-term unemployed is also decreasing. At the end of 2017, the mood in the economy was very optimistic. The impact of the construction confidence indicator was also positive. The growth trend on the real estate market persists. Favourable economic circumstances and, above all, the low interest rate, continue to drive the real estate demand.

3. Significant Events in 2017

3.1 Financial performance in brief

In financial terms the year 2017 was very successful as the profit after tax increased by 46% and at the end of the year amounted to EUR 18,955 thousand.

The main reason was the growth of net loans to customers by EUR 84 Mio, which represented an 8.6% growth, focusing on consumer loans and lending to small and medium-sized enterprises that increased the share of loans with higher interest rates.

In line with the strategy, the bank reduced the financing of housing loans and the public sector. The loan growth was supported by an increase in the deposit base and a changed liability structure. 2017 was also successful in the treasury field, with the optimisation of the bond portfolio. All in all, the net interest margin increased from 1.87% in 2016 to 2.34% in 2017.

The net interest income increased by EUR 8,857 thousand compared to 2016, which represented a 35% increase, while the net fees and commissions increased by EUR 1,134 thousand (+14%). This is a result of successful marketing of consumer loans and customer focus (the number of customers increased by 7%, or by 4,412) and is also reflected in high loan disbursements to the general public amounting to EUR 186,681 thousands and EUR 228,720 thousands to legal and other persons.

The operating costs increased by 8% compared to 2016, with the increase largely related to the implementation of the new Target Operating Model (TOM) that streamlines processes and enables quality steering, better cost management, improves the overall efficiency across the organization ultimately ensuring a higher level of service quality.

The impairments and provisions resulted in a net release of EUR 1,370 thousand in 2017 due to a more favourable macroeconomic situation and the repayments of major individual clients. The higher releases were a result of the close monitoring of clients and the performance of the Distressed asset management department. The share of non-performing exposure also decreased, from 5.4% in 2016 to 3.4% in 2017.

3.2 The Addiko Brand anniversary

The Addiko brand celebrated its 1st birthday in July. The introduction of the new brand signalled a business turnaround for the Bank and a clear strategic orientation to certain business segments. Under the new brand, the Bank also initiated activities for increasing efficiency and strengthening the reputation of the Bank as a trustworthy financial institution.

3.3 Customer centricity driving the business

A straightforward banking service is our promise to our clients and we fulfil this through high-quality services and numerous internal initiatives, all aimed at enhancing user experience.

The Sales Force Effectiveness Project, which we carried out for the retail sector, focuses on three key services: consumer loans, personal accounts and package accounts. The project had an immediate effect on the sales results of our branches. For the corporate segment, the end-to-end process also substantially improved the financing approval process, making it significantly simpler and shorter.

The success of our client-focused approach is reflected in the growing client satisfaction, which was also acknowledged by the professional public. The international organization ICERTIAS certified us as one of the companies ensuring the highest service quality level and best user experience for clients.

Addiko Bank earned the ICERTIAS Customer's Friend certificate with a total score of 4.31 out of 5.0. The Swiss-based institute verified through an in-depth analysis the extent of the Bank's fair and professional attitude towards its clients and employees in Slovenia, how it ensures friendly and professional communications with its publics, what is the level of its client support and how the Bank identifies itself with the environment in which it operates. The analysis was thus based on four categories: reputation, communications and society, user experience and confidence.

By earning the certificate, we have proved that we consistently exercise our commitment about a different, straightforward bank that ensures clear, simple and direct banking services.

3.4 Leading innovations with improved digital capabilities

The biggest challenge banks are facing today are the rapid changes dictated by the introduction of various technological solutions. For this reason, digitalization is something we should not neglect. Even more, for Addiko Bank digitalization is one of the key orientations with the constant allocation of financial and human resources.

Addiko Bank is upgrading and developing various digital solutions that enable a better user experience day by day, resulting in higher user satisfaction. The banking experience is thus friendlier for clients as we focus on the essentials, ensure efficiency and communicate simply. Bearing these values in mind, we have renovated the existing digital channels: the mobile and electronic bank.

The Bank pursues its strategy above all by strengthening its presence on the market with modern, digital branches. Following the extremely positive experience with the first such a branch in BTC Ljubljana, we also opened Express branches in Krško, at the Bank's headquarters in Ljubljana and in Slovenj Gradec. The new branches combine the elements of a traditional bank branch and a new, modern digital branch. Clients will access these branches easier and faster. The branch design deviates from the average and offers an entirely different banking experience. In the new branch, retail clients have access to all the services offered by other branches and, in the digital part of the branch, can also access self-service banking, including obtaining a consumer loan.

We developed our digital strategy in all areas as planned and we also anticipate further activities aimed at our service digitalization in 2018.

3.5 Addiko Bank Received Its First Award for Marketing Excellence (Effie)

In the category of large enterprises of the B2C segment, Addiko Bank d.d. received at the 22nd Slovenian Marketing Conference the 2017 Marketing Excellence award with the following argumentation: marketing played a key role in designing and creating the essence of the new brand, a new brand image, a new business philosophy and corporate strategy. The Bank has exhibited marketing excellence and genuinely advanced marketing at several levels. The Bank focuses on what its clients truly need. In the traditional banking sector, innovativeness and new approaches as exercised by the Addiko Bank are unusual and definitely very refreshing.

3.6 Organizational structure and operating platform provide the foundation for profitable growth

Not only was 2017 the first year when the Bank recorded growth and significant improvement of its operating results for key segments, but it also improved its profit from operations and efficiency at the Group level, all of which resulting in the favourable position of the Bank on the market.

The initiative "Six countries – one winning team" was introduced at the Group level to support the strategy for achieving operational growth, enhancing process efficiency and standardizing risk management.

The operating model is of key importance for achieving these objectives and enables high-quality management, improved cost optimization, and last but not least, improved efficiency of the entire organization for ensuring excellent service quality.

The operating model was designed to support our strategy in the following ways:

- The economy of scale of the Addiko Group means that the use of services that are common at the Group level is more efficient as even better services are ensured than if each country carried out its individual functions independently.
- Our strategy focuses on designing simple and clear services for the key client segments. Our clients fall into two distinctive groups, corporate and retail, which is clearly reflected in our operating model.
- Our operating model focuses especially on the front office with the objective of making everything simpler for our clients, even if that means greater effort within the Addiko Bank. Our back office functions, processes and systems support client communications, i.e. front office operations.
- Our back office functions are present in all countries and directly support our "One winning team" approach and efficient end-to-end processes, which ensure clients a premium user experience.
- Our operating model enables our colleagues to develop and offers them additional possibilities within countries and functions.

4 Financial Development of the Bank

4.1 Analysis of the Statement of Profit or Loss

The table below shows the statement of profit or loss for 2017 and 2016 and the related changes.

in 000 of EUR

Statement of profit or loss	Jan - Dec 2017	Jan - Dec 2016	+/-
Net interest	33,743	24,886	8,857
Dividends	30	47	(18)
Net fees and commissions	9,357	8,223	1,134
Gains (losses) on financial assets/liabilities	667	188	479
Other operating results	(381)	(2,072)	1,691
Operating revenue	**43,416**	**31,272**	**12,144**
Labour costs	(15,784)	(14,440)	(1,344)
Administrative expenses	(9,576)	(8,387)	(1,189)
Amortization and depreciation	(1,297)	(1,822)	525
Operating costs	**(26,657)**	**(24,649)**	**(2,008)**
Operating profit (loss)	16,759	6,623	10,136
Impairments and provisions	1,370	7,253	(5,883)
Profit from ordinary activities	**18,129**	**13,876**	**4,253**
Corporate income tax	826	(975)	1,801
Profit for the financial year	**18,955**	**12,901**	**6,054**

The year 2017 was characterized by a high as 36% growth in net interest (EUR 8,857 thousand), mostly resulting from consumer financing at higher interest rates. The decreasing interest rates on client deposits also had a positive impact. Higher revenue and lower interest rates on deposits neutralized the effect of the new subordinated debt with a higher interest rate. As compared to the year before, the net margin increased by 47 percentage points (2017: 2.34%; 2016: 1.87%), resulting from risk-adjusted prices and the optimization of the liabilities structure.

The positive trend of net interest was followed by the growth in net fees and commissions, which stood at EUR 9,357 thousand at the end of the year, 14% more as compared to the year before. The growth results from increased transactions for instalment cards, a higher volume of payment transactions and the sale of insurance products.

Gains on financial assets increased in 2017 by EUR 479 thousand and equalled EUR 667 thousand at the end of the year. We achieved these results through an increased volume of derivative operations for clients, forex position management and the bond portfolio in the banking book.

The one-off event of tax refund arising from thin capitalization in the amount of EUR 1,600 thousand had a positive impact on other operating results, which stood at EUR -381 thousand at the end of 2017 (2016: EUR -2,072 thousand). The remaining positive result as compared to 2016 is related to the revenue from services rendered to the Group.

Operating costs in 2017 increased by 8% as compared to 2016 and equalled EUR 26,657 thousand at the end of the year as a result of implementation of the new target operational model, strategic initiatives and more active presence on the market. The increase was in line with plans and expectations. Previously, the bank mostly finished the restructuring process already in 2016 as one of the first entities in the group and in addition leasing company was successfully sold in line with the strategy of focusing on the core banking business.

As the new matrix organisation became operational, high value services were provided within the group by different entities, which increased intragroup charging and costs. Further, financial results of the Bank in 2017 exceeded expectations and that was reflected in accruals for renumeration. Business activities were supported by higher costs of advertising, whereas strategic IT infrastructure renovation and operational digitalisation also contributed to administrative costs. Lower depreciation in 2017 results from assets written off and impaired at the end of 2016 mainly as a consequence of IT infrastructure renovation. All in all, the share of operating costs in net interest, fees and commissions decreased by 12.6 percentage points as compared to 2016 (2017: 61.9%; 2016: 74.4%) as the revenues were growing much faster than the costs.

Operating revenue stood at EUR 43,416 thousand at the end of 2017 (2016: EUR 31,272 thousand), whilst operating costs reached EUR 26,657 thousand (2016: EUR 24,649 thousand). Operating profit equalled EUR 16,759 thousand at the end of 2017, which is by EUR 10,136 thousand more as compared to 2016.

The positive economic environment had an impact on changes in impairments and provisions, i.e. impairment reversal, the one-off repayment of one legal person playing an important part. The Bank managed successfully credit risks and debt collection.

Corporate income tax stood at EUR 826 thousand at the end of the year (2016: EUR 975 thousand), with deferred tax exceeding income tax.

Profit for the financial year after tax reached EUR 18,955 thousand at the end of 2017, the 47-percent increase also indicating a positive trend for the future.

4.2 Analysis of the Financial Position

in 000 of EUR

Statement of financial position – assets	Jan - Dec 2017	Jan - Dec 2016	+/-
Cash in hand and balances with the Central Bank and demand deposits with the banks	145,678	264,690	(119,012)
Financial assets held for trading	2,275	2,047	228
Available-for-sale financial assets	152,785	70,065	82,720
Loans	1,186,053	988,589	197,464
Loans to banks	120,258	7,356	112,902
Loans to non-banking clients	1,064,117	979,768	84,348
Other financial assets	1,678	1,465	213
Held-to-maturity investments	42,484	82,634	(40,150)
Non-current assets held for sale	32	303	(271)
Property, plant and equipment	3,234	2,486	749
Intangible assets	1,781	2,139	(358)
Non-current investments in the equity of subsidiaries	-	7	(7)
Tax assets	2,742	-	2,742
Deferred tax	2,742	-	2,742
Other assets	671	668	3
Total assets	**1,537,735**	**1,413,628**	**124,107**

The total assets of the Bank stood at EUR 1,537,735 thousand at the end of the year, an increase of EUR 124,107 thousand compared to 2016.

Cash and cash equivalents decreased by EUR 119,012 thousand in 2017 compared to 2016 due to credit activities and the purchase of securities.

Held-to-maturity investments decreased by EUR 40,150 thousand in 2017 due to regular maturities and equalled EUR 42,484 thousand at the end of the year. Mature investments were replaced with the purchase of available-for-sale securities. These amounted to EUR 152,785 thousand at the end of 2017. We ensured portfolio diversification.

The increased scope of operations is evident from the **growth in loans to non-banking clients.** At the end of 2017, this item stood at EUR 1,064,117 thousand, which represents an increase of 8.6% compared to the year before. **Loans to banks** grew by EUR 112,902 thousand in the same period, due to the optimization of excess liquidity, mostly in the form of short-term deposits with banks.

At the end of 2017, **property, plant and equipment** totalled EUR 3,234 thousand. The increase of EUR 749 thousand results from the renovation of the Bank's headquarters and opening of a new branch in Slovenj Gradec. **Intangible assets** decreased by EUR 358 thousand in 2017 due to write-offs and totalled EUR 1,781 thousand at the end of 2017.

in 000 of EUR

Statement of the financial position – liabilities	Jan - Dec 2017	Jan - Dec 2016	+/-
Financial liabilities held for trading	1,091	1,847	(757)
Financial liabilities measured at the amortized cost	1,385,188	1,279,878	105,310
Deposits and loans from banks	249,322	222,678	26,644
Deposits and loans from non-banking clients	1,094,740	975,167	119,573
Debt securities	1,656	6,544	(4,888)
Subordinated liabilities	30,018	68,719	(38,701)
Other financial liabilities	9,452	6,770	2,682
Provisions	8,641	8,324	318
Tax liabilities	1,078	1,069	9
Corporate income tax	888	975	(87)
Deferred tax	190	94	96
Other liabilities	765	938	(173)
Capital	140,972	121,572	19,400
Total equity and liabilities	**1,537,735**	**1,413,628**	**124,107**

Financial liabilities measured at the amortized cost totalled EUR 1,385,188 thousand at the end of 2017 (2016: EUR 1,279,878 thousand). Of these, **deposits and loans from banks** increased by EUR 26,644 thousand, predominantly to finance small and medium-sized enterprises. Deposits and **loans from non-banking clients** grew by EUR 119,573 thousand and reached EUR 1,094,740 thousand at the end of 2017. The increase in deposits is in line with the strategy of obtaining our own sources of financing. On the other side, **subordinated debt** decreased by EUR 38,701 thousand due to regular maturity and totalled EUR 30,018 thousand at the end of the year.

Provisions stood at EUR 8,641 thousand at the end of 2017 (2016: EUR 8,324 thousand) and resulted from a higher balance of off-balance-sheet liabilities. In 2017, **tax liabilities** remained at the same level as in 2016 (EUR 1,078 thousand), whilst other liabilities decreased slightly and totalled EUR 765 thousand at the end of the year.

Capital increased in 2017 by EUR 19,400 thousand, reaching EUR 140,972 thousand at the end of the year. The tier 1 capital ratio stood at 13.72% at the end of the year, increasing compared to 2016 (12.79%) due to the inclusion of the 2017 half-year profit in the Bank's core capital. The total capital ratio remained at the same level as in the previous year, at 15.58%, despite considerable credit growth and decreased subordinated debt following the inclusion of the half-year profit (2016: 15.64%).

5 Analysis of Non-Financial Key Performance Indicators

5.1 Market and Operations development

5.1.1 Retail Banking

In 2017, the economic situation improved further and was reflected in a higher demand for the Bank's services. In accordance with the guidelines of the new owner, we focused the most on consumer loans and collecting primary sources, at the same time improving processes through the focus on quick responsiveness with less documentation and striving for digital operations.

The retail segment is divided into two departments, the sales force, covering the complete business network, small enterprises and sole traders, and the product and segment management, comprising support, services management and sales channels management. For the second year in a row the Marketing Department was included in product management, which has proven to be very successful for creating sales campaigns.

In the sales network we continued with activities for boosting the efficiency of sales, the purpose of which was to increase the number of services per client and reduce the time necessary to render a service. The sales results and analyses of our clients' opinions show that the activities had a positive effect on client satisfaction and have improved the sales network's efficiency. We could expose micro marketing activities, of which more than 50 were carried out, bringing us closer to the existing and potential clients.

We have adjusted to the new demands and proposals of the owner, changes in the business policy, and at the same time designing activities for the development of the branches. We acquired new knowledge, thereby focusing on recognizing our client's needs.

We complemented our sales activities with product-oriented campaigns by sales staff guided by the Marketing Department. We monitored the results of individual campaigns.

Business operations in 2017

The results of our strategy are evident in the number of services sold per client, per employee as well as per branch office.

In 2017, we strongly focused on selling consumer loans and kept the market share and revenues from commissions and interest at the same level.

The small and medium-sized enterprises still represent a major challenge, which is why we have started to change processes in order to listen to the wishes of our clients and to achieve service satisfaction.

We made a significant progress towards a modern bank in 2017 by opening two new modern, digital Express branches: besides the one in Ljubljana, where we refurbished the branch at our headquarters, also in Krško and Slovenj Gradec.

The Product Management and Marketing Department pursued the new retail strategy and strived for uninterrupted processes together with other departments. The activities related to the changed products and processes and the marketing support were aligned with the monthly plans of the branches. We continued with the digitalization process, thus modernizing the electronic bank and the mobile bank. In 2017, we also received the first award from the Slovenian Marketing Association, the Marketing Excellence Award for the B2B segment.

We further optimized processes based on any weaknesses detected, mostly from the viewpoint of implementing additional security tools and checks that minimize the probability of various kinds of abuse and irregularities and ensure a higher portfolio quality.

By 31 December 2017, the Bank's portfolio consisted of 2.064 loan agreements tied to the Swiss franc, with a total exposure of EUR 86,302 thousand and for this reason the Bank has been closely monitoring the court decisions regarding the Swiss franc loans and the legislative procedure regarding the Act on the relationship between Creditors and Borrowers of Swiss franc loans. Regarding the former, the Bank estimates that the court practice concerning the possible nullity of these loan agreements due to the banks' alleged failure to fulfil their notification duty regarding the risks tied to the loan agreement and repayment of loans in CHF has not formed yet. It is also the opinion of the Bank that the probability of the Act on the relationship between Creditors and Borrowers of Swiss franc loans being adopted is very low, for the reasons that the proposed law retroactively intervenes into open and closed contractual relationships, as well as relationships regarding which the courts have already passed a final decision, whereby the proposed law is in conflict with the Constitution of the Republic of Slovenia due to multiple deficiencies. The Bank of Slovenia and the wider professional public have likewise expressed a negative opinion to regulating this topic through the proposed legislation.

5.1.2 Corporate Banking

The 2017 high economic growth has not yet resulted in a growth of the banking sector's loans. Financing of the economy did record an increase after a longer period of time, but the total growth of the entire segment (together with the public sector) was again slightly negative, i.e. close to zero. Taking into account our market share, which was again around 4% in 2017, ABS achieved a significantly higher real growth in the corporate segment than the entire banking system in the Republic of Slovenia.

On the other side, interest rates on bank deposits were still decreasing at an accelerated pace on the Slovenian banking market, which also resulted in a further decrease in interest rates for lending operations. We approached selectively new lending transactions due to the low interest rates on the market (the profitability check for an investment was of the highest importance).

In 2018, we will continue with sales and marketing activities that will be regularly monitored and, if necessary (in the case of deviations from plans), also adjusted in a timely manner. One of the key objectives for the segment in 2018 will be to take care of the regular settlement of existing liabilities by borrowers. Repaid amounts will have to be reinvested in the Slovenian economy, particularly in the premium existing and new clients of the Bank. In doing so, we will fully take into account the Group's credit policy and market conditions of the Slovenian economy.

Interest revenue and the growth in net interest margin will remain the key orientations of the corporate segment in 2018. We will dedicate special attention to increasing the share of non-interest revenue in the total revenue again. As concerns revenue, we will focus on our existing clients, but will also strive to win new ones in compliance with the Group's credit policy.

Corporate deposits will stay an important factor for managing the Bank's liquidity, which will remain a priority for the segment. Last year the trend of decreasing interest rates continued, but we still managed to achieve a significant growth in the volume of deposits despite lower interest rates. The corporate segment's rate of self-financing thus even increased. Taking into account other corporate sources, the L/D ratio of the corporate segment is somewhat above 70%. Funds collected in excess can be utilized to finance other segments. In 2018, we will have to achieve a significant growth in deposits, at the same time decreasing the concentration of the biggest depositaries.

The strategy of customer relationship management is one of the key factors of success and the further positive performance of the corporate segment. It is important to precisely define the duties of client managers for individual clients and groups of related companies (global client manager). Each client manager needs to know their customer and detect the type and the scope of their needs in a timely manner. Regular contact with our customers and partners will also be of paramount importance in the future. We will focus on our premium existing clients, to whom we still need to provide quality services at competitive prices, as well as on winning new clients, whom we plan to visit in the next year. Based on a professional, business and trustworthy relationship and positive experience in the Group, we also initiated cross selling within the framework of the Bank@work project, in the scope of which we address employees of our corporate clients together with retail bank consultants and offer them tailor-made financial solutions at the work place. There were more than 110 such activities carried out during the year.

In 2017, we also launched the project for the introduction of a new process application, which is part of the wider digitalization project for products and processes of the corporate segment.

The new process application will enable the corporate segment's clients to obtain a loan in the shortest possible period of time and with minimum required documentation.

The ultimate objective of the project is the integration with the electronic bank, introducing the option of the completely digitalized implementation of the entire loan process from the request to the approval, thus a digital interaction by the client with the Bank.

5.1.3 Poslovna mreža Banke

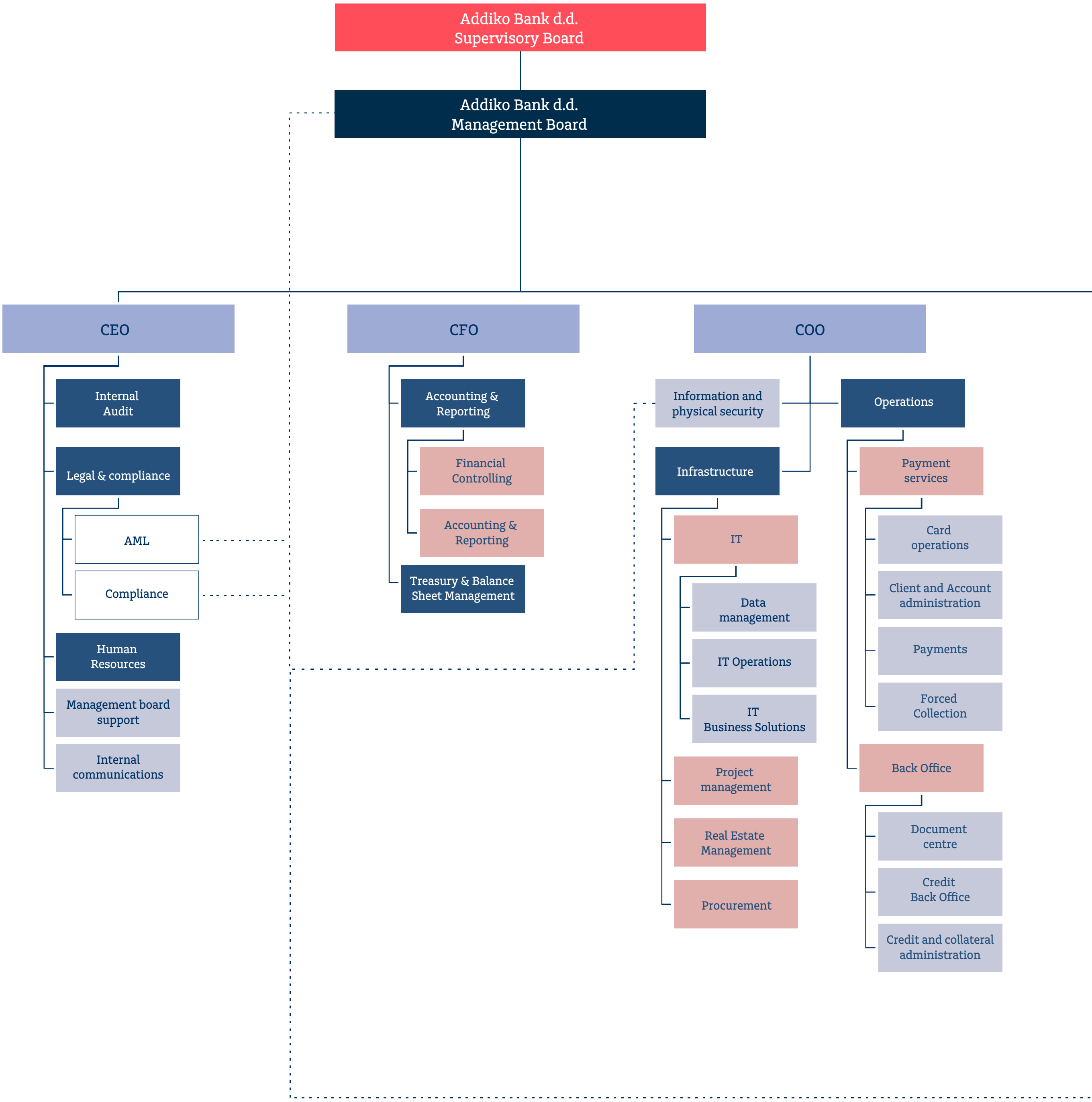
Striving to optimize its operations, in 2017, the Bank moved its Brežice branch to Krško, where it opened a modern new-format branch at the shopping centre, thus bringing itself even closer to clients. Bearing in mind the increased digitalization of our operations, we also renovated the branch at the Bank's headquarters in Ljubljana and aligned it with the new Addiko Bank Express concept for branches. We strengthened our market position further at the end of the year by opening a new branch in Slovenj Gradec. The Bank was not present in this part of Slovenia until now.

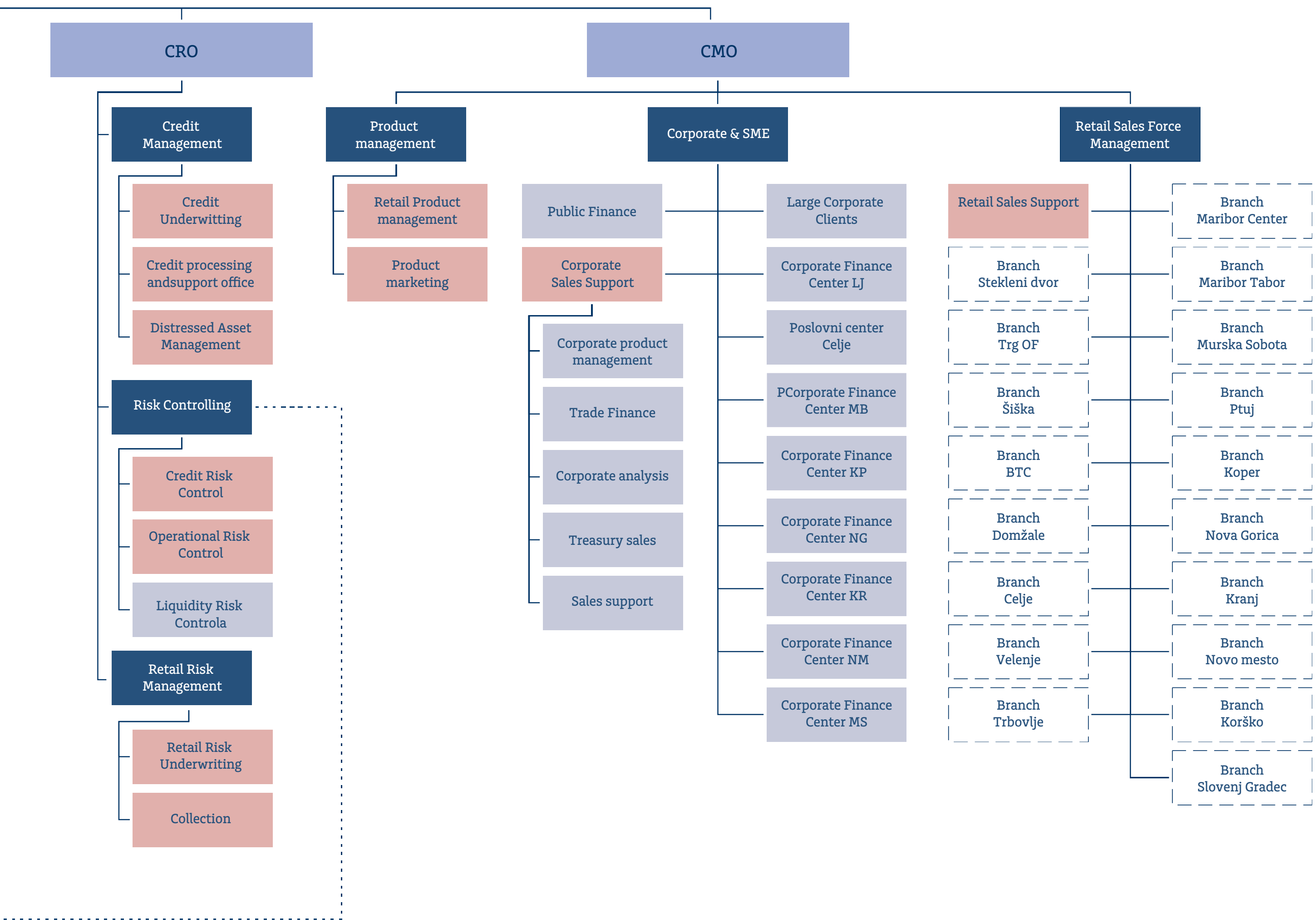
Today, the Bank has 18 branch offices in 14 major cities in Slovenia, 44 ATMs and 11 day-night vaults.

5.1.4 Organization of the Bank

5.1.4.1 Managerial and Supporting Functions in the Bank

Organizational chart




CRO
CMO
Credit Management
Credit Underwitting
Credit processing andsupport office
Distressed Asset Management
Risk Controlling
Credit Risk Control
Operational Risk Control
Liquidity Risk Controla
Retail Risk Management
Retail Risk Underwriting
Collection
Product management
Retail Product management
Product marketing
Corporate & SME
Public Finance
Corporate Sales Support
Corporate product management
Trade Finance
Corporate analysis
Treasury sales
Sales support
Large Corporate Clients
Corporate Finance Center LJ
Poslovni center Celje
PCorporate Finance Center MB
Corporate Finance Center KP
Corporate Finance Center NG
Corporate Finance Center KR
Corporate Finance Center NM
Corporate Finance Center MS
Retail Sales Force Management
Retail Sales Support
Branch Stekleni dvor
Branch Trg OF
Branch Šiška
Branch BTC
Branch Domžale
Branch Celje
Branch Velenje
Branch Trbovlje
Branch Maribor Center
Branch Maribor Tabor
Branch Murska Sobota
Branch Ptuj
Branch Koper
Branch Nova Gorica
Branch Kranj
Branch Novo mesto
Branch Korško
Branch Slovenj Gradec

Bodies and working bodies of the Bank

According to the Articles of Association, the Bank has the following bodies:

- Management Board,
- Supervisory Board and
- Shareholders Assembly.

The Supervisory Board of the Bank comprises five members. On 31 December 2017, the members of the Supervisory Board were:

- Johannes Leopold Proksch, Chairman of the Supervisory Board,
- Henning Giesecke, Deputy Chairman of the Supervisory Board,
- Georgiana Grigore, Member of the Supervisory Board,
- Joško Mihić, Member of the Supervisory Board and
- Balazs Laszlo Györi, Member of the Supervisory Board.

The Supervisory Board met five times in 2017, of which four times for regular meetings.

The Bank also has three Committees of the Supervisory Board, which are:

- An Audit Committee comprising three members, all members of the Supervisory Board: Johannes Leopold Proksch, Chairman, Henning Giesecke, Deputy Chairman, and Joško Mihić, Member. At the last meeting, Joško Mihić took over chairing and Johannes Proksch remained as Member of the Committee. In 2017 they met four times.
- A Risk Committee comprising three members, all members of the Supervisory Board: Henning Giesecke, Chairman, Ian Glover, Deputy Chairman, and Balazs Györi, Member. As Ian Glover, Member of the Supervisory Board, resigned from his position at the last meeting, he was replaced by Georgiana Grigore, also in the Risk Committee. In 2017 they met four times.
- The Remuneration Committee comprises three members, all members of the Supervisory Board: Johannes Leopold Proksch, Chairman, Henning Giesecke, Deputy Chairman, and Ian Glover, Member. As Ian Glover, Member of the Supervisory Board, resigned from his position at the last meeting, he was replaced by Joško Mihić also in the Remuneration Committee. In 2017 they met once.

5.1.4.2 Shareholders Assembly

The Management Board of the Bank convenes the Shareholders Assembly meetings in cases laid down by law or in the Articles of Association or when this benefits the Bank. Two Shareholders Assembly meetings were convened in 2017.

At the Shareholders Assembly meeting the shareholders exercise their rights in accordance with the provisions of the Companies Act. Our Shareholders Assembly is universal as the Bank only has one shareholder; it is 100% owned by Addiko Bank AG. The shareholder exercises its rights by proxy voting. The proxy is chosen for each meeting individually.

In 2017, the Shareholders Assembly decided on the appointment of a Member of the Bank's Supervisory Board. It was also familiarized with the audited 2016 Annual Report, the 2016 Internal Audit Annual Report and the use of accumulated (net) profit.

5.1.4.3 Advisory Bodies of the Bank's Management Board:

- Management Board Session,
- Management Board Collegiate.

5.1.4.4 Committees and Commissions of the Bank:

- Liquidity Commission,
- Bank Credit Committee,
- Assets and Liability Committee – ALCO,
- Risk Executive Committee – RECO,
- Watch Loan Committee,
- Capital Steering Group – CSG,
- Operational Risk Management, Internal Control System and Reputation Risk Management Committee (OpRisk Committee),
- Appeal Commission,
- Change Management Committee – CMC,
- Security Committee – SECO, and
- Information Technology Committee – ITCO.

The objectives, tasks, authorizations and composition of the committees and commissions are laid down in the Rules on Organization and Job Systematization of the Bank, as well as in the Rules on the Powers, Authorization and Signatories in the Bank, while the operation of the Bank's bodies is governed by various rules of procedure or other internal acts. The key rules of procedure and policies of the Bank applicable in 2017 are presented in the Appendix to the Annual Report.

5.1.4.5 Real Estate Management

In 2017, we had real estate management plans to optimize the business network by moving some branches to new, more appropriate locations, which was implemented successfully. The processes for optimizing business premises at other locations and opening of a new branch in Slovenj Gradec were also carried out.

Other activities for real estate management focused on the optimal management of real estate properties and a reduction in maintenance costs as well as of other costs associated with real estate management. The premises at the Bank's headquarters was renovated and an open space concept was introduced, resulting in a significant reduction in surface area and smaller working spaces, but on the other hand, setting up open spaces for uninterrupted information flow and efficient cooperation.

5.1.4.6 Informatics

Using advanced technologies has long been present in the banking sector. In accordance with the Group's guidelines we are also following trends in the field of information technology and infrastructure by providing simple, transparent and user-friendly services. In 2017, significant progress was made in digital commerce. Our esteemed customers were offered a renovated electronic and mobile bank. We also continued introducing the concept of a digital branch on the Slovenian market by opening new branches and renovating existing ones. When designing advanced business solutions, our focus is primarily on the excellent user experience of our clients and also our employees to have the task carried out quickly, professionally and safely, either via digital channels or by visiting a branch. With the aim of an overall positive user experience, there was a lot done in the field of data management as it is of paramount importance in terms of both our customers as well as the service management of the organization. With the automation, digitization and optimization of operations we are constantly contributing to the effectiveness and efficiency of the entire organization.

In 2017, the field of informatics was mostly characterized by the project for IT infrastructure migration to an external provider, the company DXC. Throughout the year, we were carrying out intensive preparation activities and, in the second half of the year, also the activities of infrastructure migration itself based on signed agreements. We were also informing the regulator regularly about our activities.

5.1.5 The Bank's Social Responsibility

5.1.5.1 Responsibility to the Wider Community

In the humanitarian field we mostly help socially deprived families in Slovenia and those affected by natural disasters. These activities mostly include children who need such assistance the most. We are aware that the number of children who never experience the bright side of life is growing, therefore we wish to bring a smile to their faces. For many years the funds that were otherwise intended for business partners' New Year's presents have been donated to children from socially disadvantaged families. The Friends of Youth Association Moste Polje helps us achieve this task the most.

This year, our charity work also expanded to other banks in the Group. In November, we carried out the Addiko Cares project, within the framework of which employees read stories to children. When the project was finished, the Bank also donated books and some didactic aids to the chosen institutions: The Malči Belič Centre and the Ljubljana Multigenerational Centre.

Addiko Bank also donated to the Friends of Youth Association Moste Polje. These are the funds we would have otherwise spent on New Year's business gifts. For many years we have been donating them to those who need them the most. In this way, we contribute to a better society at least a little, especially for those who struggle every day for the most basic goods.

5.2 Human Resources Management

Also under the new brand, Addiko Bank will continue to put employees at the heart of our business, because we know that they are the foundation of our development and success.

In 2017, we continued with intense efforts to make a Family-Friendly Company, which results in a positive and motivating working environment. After receiving the Full Certificate, we continued realizing certain measures; the one that was accepted the best, was co-financing children's holiday activities.

Responsibility to our employees is also reflected in the regular meetings with the Management Board where employees are able to speak freely about strategically important topics and which take place several times a year. In 2017, we also initiated intensive promotion of our values, which we incorporated into all internal processes.

The Bank is not implementing the diversity policy.

At the end of 2017, the Bank had 357 employees.

Year	Headcount at 31 Dec	Headcount according to working hours*	Average Headcount in 2017
2017	357	353,75	362

*The number of employees calculated based on working hours shows the real number of employees in the company. There is a certain number of employees who, due to the nature of their work and their responsibilities, have employment contracts with the Bank and the Addiko Group under a specific percentage principle, which means that they are in the records of both companies.

Educational structure

The educational structure of the Bank's employees is at a very high level.

Level of education	No. of employees by level of education in 2017
IV.	1
V.	115
VI.	42
VII.	181
VIII.	18
Balance at 31 Dec	**357**

Recruitment

Searching and hiring new employees are based on the clearly defined needs of individual organizational units and strategic planning which is related to the development of the Bank and the Addiko Group as a matrix organization. Priority is given to internal recruitment, in which we take the ambitions of employees into account and thus enable career development of employees with transitions from one job to another. The final decision is made on the basis of an analysis of their expertise and personal characteristics needed for the successful performance at a specific post.

For the key functions in the Bank an assessment of the applicant's ability and suitability (Fit & Proper) is also carried out under an internal procedure that complies with all local and European legal and regulatory standards and guidelines.

Education and training

We believe that only highly qualified staff can follow the needs and the challenges of the Slovenian financial market. For this reason, the Bank provides constant and comprehensive expert training to all employees. To achieve our business objectives, we have set key educational areas for the development of banking business, which also arise from strategic requirements.

Each year, we also organize various internal trainings in accordance with our needs. In 2017, we focused mostly on improving managerial competences and foreign language skills for more fluent communications at the Group level and on various professional trainings, at which our employees mostly upgrade their knowledge by updated and relevant information.

The Bank also enables employees to obtain various finance and insurance licences, which are necessary for professional work; in 2017, we thus enabled a large number of employees to cooperate in an e-training dealing with consumer lending for real estate.

HR projects for employees

Addiko Bank employees still remain faithful to humanitarian activities, through which they are able to show their kind hearts. In 2017, we expanded our long-standing charity work to the entire Addiko Group; in November, we carried out the Addiko Cares charity campaign, during which employees read books to children in various organizations. At the end of the campaign, we also donated the books.

Employee satisfaction is very important to us

As part of the activities associated with the introduction of the new brand in the beginning of the summer, we conducted a NPS survey and checked employee loyalty with a simple question. We found that there were more employees that would recommend the Bank as an employer to their friends and acquaintances as those who would not do so. The result was favourable for the Bank and confirms the efforts over several years to create a friendly working environment.

Various informal get togethers organized by the Bank definitely contribute to the well-being of the employees. In 2017, we also continued with the activities promoting health within the framework of the Addiko Sports and Culture Association.

Performance and development interviews and target-oriented management

In 2017, we carried out performance and development interviews again. The aim of the annual interviews is to ensure successful operations of the Bank on a long-term basis. Development interviews enable us to systematically set objectives, review the implementation of the agreed objectives in the previous year, and provide systematic professional and personal development of the managerial staff and employees. Performance target interviews are held twice a year and development interviews once a year.

Bonus system

The Bank's bonuses are awarded within the variable pay framework and are closely linked to target-oriented management. By applying individual bonuses we would like to incite an individual's development, while group bonuses aim at better motivation for team work and achievement of targets as a team. After a few years, we rewarded our best employees in 2017 for exceeding the plans made in 2016. The evaluation took place within the established procedure as part of the development interviews. Evaluations were further confirmed with an internal calibration procedure at the level of the Management Board and heads of departments.

Remuneration policy

The remuneration policy is governed by the provisions of the applicable legislation, the CEBS guidelines, the Bank of Slovenia decisions and EU directives on capital requirements. This policy clearly sets criteria and conditions for the payment of various bonuses to the managerial staff and employees. The key functions that can significantly affect the Bank's risk profile within their duties, tasks and activities include members of the Management Board and directors of individual departments, including risk management and internal audit.

6 Internal Control System for accounting procedures

The Addiko internal control system (ICS) is closely related to operational risk management. The main objectives of the internal control system are the protection of the assets of owners and investors and building trust in the correctness of financial reporting. To achieve these objectives, a consistent implementation and control of high standards of financial reporting based on national and international standards is required. The internal control system is a product of established methods and criteria.

Owners of individual activities are responsible for the establishment of daily checks. Owners of individual activities are the heads of areas and departments.

The main purposes of the internal control system are to:

- establish effective controls in all areas of the organization’s operations;
- ensure clear accountability for the implementation of identified controls;
- ensure proper documentation – the objectives and methods of implementation of internal controls;
- ensure the adequate traceability of the implementation of internal controls.

Daily checks are a constantly changing process formed by the Management Board, the owners of individual activities and all other employees. The aim of the internal control system is to reduce the incidence, number, and possibility of intentional and unintentional errors to the highest possible extent and in this way ensure a continuous trend of their decline.

Documents that define the procedure for implementing the ICS, are defined by the Risk Controlling Department, but the implementation itself is the task of the entire management of the Bank. They are related to project work, the preparation of policies, processes, rules of procedures and work instructions. The bases for the framework are the Group strategy and policies for operational risk management, an internal control system and reputation risk. In 2017, we continued listing the risks and defining the controls and test definitions for the processes that have been with the help of the so-called account matrix identified as significant in terms of materiality of the Bank's accounts. The Bank carried out a self risk assessment. Activities in the area of the internal control system were regularly reported to the Committee for Operational Risk Management, the Internal Control System and Reputation Risk (OpRisk Committee).

7 Other Disclosures

In compliance with the Decision on the Books of Account and Annual Reports of Banks and Savings Banks, the following additional disclosures are presented below for a period of three years:

in 000 of EUR

INDICATORS (in thousands of EUR)	31 Dec 2017	31 Dec 2016	31 Dec 2015
1. STATEMENT OF THE FINANCIAL POSITION			
Total assets	1,537,735	1,413,628	1,344,363
Total deposits by non-banking clients	1,094,740	975,167	791,112
a) legal and other persons	700,158	665,269	525,909
b) individuals	394,582	309,898	265,203
Total loans to non-banking clients	1,064,117	979,768	1,006,155
a) legal and other persons	453,333	430,889	525,321
b) individuals	610,784	548,879	480,834
Total capital	140,972	121,572	98,290
Impairment of financial assets held at amortized cost	47.903	66.783	107.416
and provisions	47,903	66,783	107,416
Volume of off-balance-sheet operations	820,874	680,497	632,519
2. STATEMENT OF PROFIT OR LOSS			
Net interest	33,743	24,886	25,213
Net non-interest income	9,674	6,386	7,027
Labour costs, general and administrative expenses	25,360	22,827	25,678
Amortization and depreciation	1,297	1,822	2,255
Impairments and provisions	1,370	7,253	(49,169)
Pre-tax profit (loss) from ordinary activities	18,129	13,876	(48,190)
Corporate income tax on ordinary activities	826	(975)	(3,996)
3. INDICATORS			
a) Capital			
Capital adequacy	15.58%	15.64%	12.79%
Tier I capital ratio	13.72%	12.99%	10.68%
Tier I capital	128,777	106,262	96,229
b) Profitability			
Interest margin	2.34%	1.87%	1.86%
Financial intermediation margin	3.00%	3.66%	2.38%
Return on assets after tax	1.31%	0.97%	(3.85)%
Pre-tax return on equity	13.83%	11.83%	(36.11)%
Return on equity after tax	14.46%	11.00%	(39.10)%
c) Operating costs			
Operating costs/average assets	1.84%	1.85%	2.06%
d) Liquidity			
Average liquid assets/average short-term deposits of non- banking clients	63.20%	50.90%	48.05%
Average liquid assets/average assets	26.10%	20.16%	17.71%
4. EMPLOYEES			
At year end	357	395	451
5. SHARES AT YEAR END			
Number of shareholders	1	1	1
Number of shares	41,706	41,706	41,706
Carrying amount of a share	3.38	2.91	2.36

8 Outlook

8.1 Macroeconomic Prospects

According to the Central Bank's assessment, the macroeconomic situation is favourable in Slovenia. The economic activity has been strengthening for the last four years and correspondingly also the situation on the labour market. The positive cyclic movements and the low interest rates also impact favourably the state of public finance, while price increases remain moderate. Macroeconomic forecasts are thus even more optimistic, but still subject to certain risks. The biggest risks for the economic growth still arise from the domestic environment and are related to the growth in private and state investments. We expect the economic growth to be high over the following three years at an average of 4%. The growth is to be the highest in 2017 at 5%, gradually decreasing to 3.4% by 2020. The competitive export sector and favourable economic conditions in the international environment will enable a high growth in exports in the medium term. We can anticipate the average growth in exports to exceed 6% over the following years. The economic recovery also has had a positive impact on the labour market. The employment rate increase should stabilize gradually in the following years following the accelerated growth in 2017, but will remain on average at over 1%. The growing domestic consumption aggregates and cost pressures should push the inflation rate over 2% by the end of 2020.

8.2 Strategy and outlook for the Future

As of 2018, three pillars of our operating concept will be of central importance:

Focus on the essentials: we would rather do a few things excellently than a lot of things well. Therefore, we do not offer everything but only those services that deliver a higher value added to our clients.

Deliver on efficiency: we will concentrate on achieving clarity and simplicity for our customers and deliver only what is relevant.

Simplicity in communications: our employees, services and procedures communicate in a simple and understandable manner.

Technology-based innovations remain the focal point of the Addiko strategy.

Information technology represents to us an extremely important foundation, based on which our business results will flourish. In 2018, we will continue optimizing the operating model and strengthen the development of the data warehouse, the source of quality information for marketing activities and risk management and the basis for an in-depth understanding of and support to our clients.

We will introduce new channels for accessing the Bank and also simplify access to our services through further digitalization. We will expand the branch network, which also will in conceptual terms in the future stand for a different user experience than the one we are used to in line with modern, digital guidelines. We will continue optimizing the branches, moving the existing ones and opening new ones based on internal studies, and optimizing products and services in the spirit of the straightforward strategy. The ultimate objective of our efforts is an excellent user experience for our clients from all points of view.

We will be a partner to our corporate clients, not merely a bank product seller. By developing innovative and professional solutions we will present to companies the effects of various scenarios and offer them the optimal solution in line with these. We will expand the range of products, but also make sure that they are simple for the client both in terms of substance and access. Already in 2018, we are providing easier access for our corporate clients to standard products through digital channels and considerably increasing the scope of self-service for clients practically wherever they may be and in the shortest possible period of time.

To achieve an excellent user experience in terms of speed, we will additionally optimize and automate certain processes, which will positively affect our responsiveness to clients and at the same time decrease our operating risks. As concerns risk management, we will develop new and update existing approaches and methodologies.

Operational cost efficiency also remains one of our fundamental tasks as we are aware that our clients also benefit directly from it.

Focus on clients, efficiency, simple communications, long-term sustainability and operational stability, prompt and active facing of challenges and sensible integration of trends into our operations remain the principles that we will follow and also strengthen in 2018 and the years to come.

9 Report by the Chairman of the Supervisory Board

The year 2017 confirmed the success of the new business model as set out in 2016. New consumer loan volumes were well above the Bank's market share. In addition, important growth on corporate lending was recorded, despite the stagnation on the Slovenian corporate loans' market. Last but not least, the liquidity and funding structure improved significantly.

In terms of corporate culture, Addiko Bank has established a clear vision of enabling straightforward banking to the customers by focusing on essentials, delivering on efficiency and communicating simplicity. At the same time, Addiko has strengthened its position in Slovenia in terms on brand awareness. The main strategic focus has remained on the key segments of Retail, SME and Corporate by streamlining its activities on the key trends of digitalization and customer experience. Several key strategic projects, e.g. digital lighthouse, and end-2-end process optimization in Retail and Corporate were initiated to support the growth of Addiko's customer business.

The most visible demonstration of the Addiko strategy were the Express branches, where customers can experience a modern straightforward approach to banking. Two new modern branches were opened, and one existing branch fully refurbished. The new format is aligned with the digital concept that provides a unique self-service experience to the customers. After very positive customer feedback the strategy was proven to be correct and promising also in terms of additional business potential.

On the group level, the new target operating model became operational with the intention to achieve a more efficient and more profitable banking group. With the "going live" of a matrix organizational structure, "six countries - one winning team" approach was started, which will realize synergies and support group-wide efficiency and steering, while at the same time creating transparency. Despite some initial challenges, significant progress has been achieved in terms of efficiency and provision of services.

Throughout the year, Addiko Bank improved the cost discipline and delivered on significant cost reduction. Optimizing the procurement processes was one of the crucial elements. The Bank will continue to optimize its cost base even further benefiting from the new operating model and improved processes.

An intelligent risk management with a strong risk culture that balances risk and return, ensures that Addiko's risks are well under control and actively managed. This is the key to success in profitably growing its customer base and business volume, while ensuring compliance with all national and international regulatory requirements and professional compliance standards.

Activities of the Supervisory Board

In the financial year 2017, the Supervisory Board of Addiko Bank d. d. held four regular and one extraordinary meeting.

In 2017, the Supervisory Board was working within the following structure: Mr Johannes Proksch as the chairman, Mr Henning Giesecke as deputy chairman, Mr Balazs Györi, Mr Ian Glover and Mr Joško Mihić as members. After the resignation of Mr Ian Glover in October 2017, Mrs Georgiana Grigore joined the Supervisory Board as a member. For the new member the procedure of nomination was held according to the Fit & Proper Policy and the required documentation was submitted to the Bank of Slovenia. Accordingly, the structure of all three Supervisory Board Committees, Audit Committee, Risk Committee and Remuneration Committee were changed.

The work was executed in accordance with the Bank's Statute and the Rules of Procedure of the Supervisory Board. The prepared materials and notes on meetings enabled the efficient supervision of the operations of the Bank in line with the Slovenian and Austrian legislation. The Bank of Slovenia submitted to the Supervisory Board the results from the regular audits of the Bank's operations.

The Bank's Management Board regularly informed the Supervisory Board members about the Bank's operations.

In accordance with Article 282 of the Companies Act and based on the current monitoring of the Bank's operations, periodical reports by the Internal Audit department and the unqualified opinion issued by the auditing company Deloitte Revizija, d.o.o., the Supervisory Board analysed the Business Report of Addiko Bank in 2017.

The Report will be presented also at the General Assembly meeting. In accordance with Article 230 of the Companies Act, the Supervisory Board approved the proposal by the Management Board regarding usage of the net profit and recommended it for adoption at the Bank's General Shareholders' Meeting.

In line with its tasks and obligations, the Supervisory Board supervised the Internal Controls as well as all the activities regarding risk management. It acknowledged the ICAAP process and confirmed renewed Remuneration Policy, Rules of Procedures of the Management Board and the Supervisory Board.

Furthermore, the Supervisory Board acknowledged all the important topics referring to the business decisions, strategies and policies as well as the letters received by the Bank of Slovenia in time and in its entirety.

Ljubljana,

Johannes Leopold Proksch,
President of the Supervisory Board

To achieve a high degree of governance transparency and on the basis of the exemption under point 2 of the fifth paragraph of Article 70 of the Companies Act, Addiko Bank d.d. gives the following statement as part of the Annual Report:

Statement on Internal Governance Arrangements

Addiko Bank d.d. implements the internal governance arrangements, including corporate governance, in accordance with the legislation in force in the Republic of Slovenia, taking into account its internal acts.

Addiko Bank d.d. also fully respects the acts referred to in the second paragraph of Article 9 of the Banking Act .

In order to strengthen the internal governance arrangements, the Bank operates particularly in accordance with the following:

1) the provisions of the applicable Banking Act, which define internal governance arrangements, in particular the provisions of Chapter 3.4 (Governance System of a Bank) and Chapter 6 (Internal Governance Arrangements and Internal Capital Adequacy) in the requirements applicable to a bank/ savings bank or members of a management body;

2) Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks ; and

3) EBA guidelines governing internal governance, assessment of the suitability of the members of the management body and key function holders as well as remuneration policies and practices on the basis of the relevant decisions of the Bank of Slovenia on the application of these guidelines .

At the same time, we are striving to the greatest extent possible to act in accordance with the non-binding recommendations stated in the Letter of the Bank of Slovenia (ref. 38.20-0288/15-TR dated 23. 10. 2015).

By signing this Statement we have also committed ourselves to a further proactive action to enhance and promote adequate internal governance arrangements and corporate integrity in the wider professional, financial, economic and other public.

Ljubljana,

Management Board of the Bank

Miha Mihič
Member

Tadej Krašovec
Member

Supervisory Board of the Bank
Johannes Leopold Proksch,
Chairman

[1]Banking Act (ZBan-2), Official Gazette of RS, nos 25/15, 44/16, 77/16 and 41/17.

[2]Bank of Slovenia's Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Official Gazette of RS, nos 73/15, 49/16 and 68/17.

[3]http://www.bsi.si/zakoni-in-predpisi.asp?MapaId=190

Declaration on the Adequacy of Risk Management Arrangements

In accordance with Article 435(e) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the governance bodies of Addiko Bank d.d. represented by:

Member of the Management Board, Tadej Krašovec,

Member of the Management Board, Miha Mihič,

and represented by the

Chairman of Supervisory Board, Johannes Proksch,

confirm, by signing this Declaration, that **Addiko Bank d.d. has established and maintained adequate system of internal controls and risk management which is in line with the risk profile, volume of assumed risks and strategy.**

Ljubljana,

Management Board of the Bank

Miha Mihič Member	Tadej Krašovec Member

Supervisory Board of the Bank
Johannes Leopold Proksch,
Chairman

10 Independent Auditor's Report

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
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INDEPENDENT AUDITOR'S REPORT
to the owners of Addiko bank Slovenija d.d.

Opinion

We have audited the accompanying financial statements of Addiko bank Slovenija d.d. (hereinafter 'the Company' or 'the Bank'), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Loan portfolio impairment	
Loan portfolio impairment is explained in Chapter Note Impairment of financial assets (accounting policies) and Note 18 (value and assumptions) The Bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio and the respective impairments for the financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2017, the gross exposure of loan portfolio amounted to EUR 1,103,222 thousand, while the relevant impairment was recognised in the amount of EUR 39,105 thousand. The basis for impairment calculation and recognition is determined in the Bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified as individually or collectively impaired assets. • Individually significant exposures are dealt with individually and in case of violation of at least one of the predetermined factors that objectively indicate impairment of a financial asset, also impaired on an	During the performance of our audit procedures, we examined the structure and efficiency of key controls regarding impairment of the loan portfolio: - Control over the adequacy of client classification; - Control over the regular recognition of individual impairments; - Control over obtaining the latest valuations as the basis for determining the value of collateral. In line with the methodology, we analysed a sample of clients from the loan portfolio to assess if impairment occurred for those clients and if it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for individually impaired exposures from the sample. We have prepared an independent assessment of impairment based on the

individual basis. The Bank assesses individually the anticipated cash flows for repayment and in case of a negative difference between the discounted value of all expected cash flows and the carrying amount of the receivable, the Bank makes individual impairments. • Individually irrelevant exposures that also fulfil at least one of the previously determined factors are classified into groups with similar characteristics and then collectively impaired using the formula that reflects the fact that at least one factor, which objectively indicates impairment of a financial asset, was breached. The amount of impairments created depends primarily on client time bucket delay, which has impact on expected loss given default (LGD), and on the segment into which the exposure is allocated. • Group impairments (latent losses) are recognized for exposures that as at the reporting date do not violate any of the objective factors indicating impairment of a financial asset and for individually treated exposures where no individual impairment is required.	information in respect of individual clients and on the applied impairment methodology (expected discounted cash flows from the operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to the group impairment, we examined if the methodology used to assess expected credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We analysed the sample to find out if the Bank had exercised the collective impairment policy consistently and if appropriate parameters had been used for the individual transactions. When assessing the adequacy of general collective impairments, we also checked the accuracy of key credit risk parameters (as appropriate). If the accuracy could not be assessed, benchmarks or system parameters were used.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014

In compliance with the Article 10(2) of EU Regulation No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholder on General Shareholders' Meeting held on 12 August 2016. Our total uninterrupted engagement has lasted 2 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 15 March 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Anja Gorenc
Certified Auditor

For signature please refer to the original Slovenian version.

Ljubljana, 15 March 2018

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Addiko Bank

Financial Report 2017

11 Financial Report

11.1 Statement of Management's Responsibility

The Management Board has approved the financial statements for the year ended 31 December 2017, the accounting policies and estimates used, and notes to the financial statements.

The Management Board is responsible for the preparation of the financial statements that give a true and fair presentation of the financial position of the Bank and of its financial performance for the year ended 31 December 2017. The Management Board is also responsible for proper management of the Bank's accounts and adoption of measures to secure the Bank's assets and to prevent and detect fraud and other irregularities.

The Management Board confirms to have consistently applied the appropriate accounting policies and made the accounting estimates according to the principle of prudence and due diligence. The Management Board also confirms that the financial statements together with notes have been compiled under the going concern assumption and in accordance with the current legislation and the International Financial Reporting Standards effective in the EU.

Tax authorities may, at any time within a period of five years after the end of the period for which tax assessment was made, inspect the Bank's operations, which may lead to additional tax liabilities, default interest and penalties with regards to corporate income tax or other taxes and levies. The Bank's Management Board is not aware of any circumstances that may result in a significant tax liability in this respect.

The most recent inspection of income tax was performed by the tax authorities in 2011 when they reviewed income tax declarations for financial years 2008, 2009 and 2010.

Ljubljana, March 15th 2018

Management Board of the Bank

Miha Mihič Member	Tadej Krašovec Member

11.2 Financial Statements

11.2.1 Statement of Profit or Loss

in 000 of EUR

	Note	2017	2016
Interest revenue	1	41,254	34,306
Interest expenses	1	(7,511)	(9,420)
Net interest		**33,743**	**24,886**
Dividend income	2	30	47
Fee and commission revenue		12,116	11,175
Fee and commission expense		(2,759)	(2,952)
Net fees and commissions	**3**	**9,357**	**8,223**
Realized gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	4	53	(47)
Net gains/(losses) on financial assets and liabilities held for trading	5	9,018	(94)
Net losses from exchange differences	6	(8,267)	325
Net gains/(losses) on derecognition of assets excluding non-current assets held for sale		(137)	4
Other net operating losses	7	(691)	(1,859)
Administrative expenses	8	(25,360)	(22,827)
Amortization and depreciation	9	(1,297)	(1,822)
Provisions	10	(1,325)	4,154
Impairments	11	2,695	3,099
Net gains on non-current assets held for sale and related liabilities	12	310	(213)
PROFIT FROM ORDINARY ACTIVITIES		**18,129**	**13,876**
Corporate income tax on ordinary activities	13	826	(975)
PROFIT FOR THE FINANCIAL YEAR		**18,955**	**12,901**

The accompanying notes on pages 46 to 93 form an integral part of the financial statements and should be read in conjunction with them.

11.2.2 Statement of Comprehensive Income

in 000 of EUR

	Note	2017	2016
NET PROFIT FOR THE YEAR AFTER TAX		**18,955**	**12,901**
OTHER COMPREHENSIVE INCOME AFTER TAX		**446**	**380**
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		**5**	**(16)**
Actuarial gains/(losses)		**5**	**(16)**
ITEMS THAT CAN BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		**441**	**396**
Net losses/(gains) recognized as revaluation surplus related to available-for-sale financial assets		**517**	**456**
Gains/(losses) recognized as revaluation surplus		517	456
Corporate income tax related to items that can be reclassified subsequently to profit or loss	32	(76)	(60)
COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX		19,401	13,282

The statement of comprehensive income holds items that will not be reclassified subsequently to profit or loss.

The accompanying notes on pages 46 to 93 form an integral part of the financial statements and should be read in conjunction with them.

11.2.3 Statement of Financial Position

in 000 of EUR

	Pojasnilo	2017	2016
Cash on hand and balances with the Central Bank and demand deposits with banks	14	145,678	264,690
Financial assets held for trading	15	2,275	2,047
Available-for-sale financial assets	16	152,785	70,065
Loans		1,186,053	988,589
- Loans to banks	17	120,258	7,356
- Loans to non-banking clients	18	1,064,117	979,768
- Other financial assets	19	1,678	1,465
Held-to-maturity investments	21	42,484	82,634
Non-current assets held for sale	22a	32	303
Property, plant and equipment	23	3,234	2,486
Intangible assets	24	1,781	2,139
Non-current investments in equity of subsidiaries	25	-	7
Corporate income tax assets		2,742	-
- Deferred tax assets	32	2,742	-
Other assets	26	671	668
TOTAL ASSETS		**1,537,735**	**1,413,628**
Financial liabilities held for trading	27	1,091	1,847
Financial liabilities measured at amortized cost	28	1,385,188	1,279,878
- Deposits from banks and central banks	28a	15,975	9,873
- Deposits from non-banking clients	28a	1,094,740	975,167
- Borrowings from banks and central banks	28b	233,347	212,805
- Debt securities	28c	1,656	6,544
- Subordinated liabilities	29	30,018	68,719
- Other financial liabilities	30	9,452	6,770
Provisions	31	8,641	8,324
Corporate income tax liabilities		1,078	1,069
- Tax liabilities		888	975
- Deferred tax liabilities	32	190	94
Other liabilities	33	765	938
TOTAL LIABILITIES		**1,396,763**	**1,292,056**
Share capital	34a	89,959	89,959
Capital reserves	34b	18,814	18,814
Accumulated and other comprehensive income	34c	343	(102)
Retained profit or loss (including net profit or loss for the year)	34e	31,856	12,901
TOTAL CAPITAL		**140,972**	**121,572**
TOTAL LIABILITIES AND EQUITY		**1,537,735**	**1,413,628**

The accompanying notes on pages 46 to 93 form an integral part of the financial statements and should be read in conjunction with them.

11.2.4 Statement of Changes in Equity

in 000 of EUR

	Note	Share capital	Capital reserves	Accumulated other comprehensive income	Retained profit (including net profit for the year)	Total equity
Balance at 1 Jan 2016	34	89,959	61,000	(483)	(52,186)	98,290
Comprehensive income for the year after tax		-		380	12,901	13,281
Subscription (payment) of new capital		-	10,000	-	-	10,000
Settlement of losses brought forward		-	(52,186)	-	52,186	-
Reconciliation				1		1
Balance at 31 Dec 2016	34	89,959	18,814	(102)	12,901	121,572
Comprehensive income for the year after tax		-	-	446	18,955	19,401
Reconciliation		-	-	(1)	-	(1)
Balance at 31 Dec 2017	34	89,959	18,814	343	31,856	140,972

11.3 Statement of Cash Flows

in 000 of EUR

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss before tax	18,129	13,876
Amortization and depreciation	1,297	1,822
Impairment of property, plant and equipment, investment property, intangible assets and other assets	(68)	493
Impairment of equity investments in subsidiaries	-	265
Net (gains)/losses from exchange differences	8,267	(325)
Net (gains)/losses on investments held to maturity	116	151
Net (gains)/losses from sale of property, plant and equipment and investment property	136	(4)
Other (gains)/losses from investing activities	(2,735)	(3,979)
Other (gains)/losses from financing activities	2,955	1,548
Net unrealized gains on non-current assets held for sale	(310)	-
Other adjustments to net profit or loss before tax	453	(5,880)
Cash flows from operating activities before changes in operating assets and liabilities	**28,240**	**7,967**
(Increase)/decrease in operating assets (excluding cash equivalents)	**(205,762)**	**52,165**
Net (increase)/decrease in assets deposited with the Central Bank	17,304	(181,496)
Net (increase)/decrease in financial assets held for trading	(228)	628
Net (increase)/decrease in available-for-sale financial assets	(82,273)	23,085
Net (increase)/decrease in loans	(140,485)	157,320
Net (increase)/decrease in non-current assets held for sale	(32)	52,115
Net (increase)/decrease in other assets	(48)	513
Increase/(decrease) in operating liabilities	**141,718**	**55,250**
Net increase/(decrease) in financial liabilities held for trading	(757)	(925)
Net increase/(decrease) in deposits and borrowings measured at amortized cost	142,648	56,591
Net increase/(decrease) in other liabilities	(173)	(416)
Net cash flows from operating activities	**(35,804)**	**115,382**
(Paid)/reimbursed corporate income tax	**(1,982)**	-
Net cash flows from operating activities	**(37,786)**	**115,382**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipts from investing activities	**39,505**	**3,295**
Proceeds from sale of financial assets held for sale	310	-
Proceeds from sale of investments held to maturity	36,460	-
Other receipts from investing activities	2,735	3,295
Cash disbursements for investing activities	**(1,621)**	**(1,143)**
(Disbursements for acquisition of property, plant and equipment and investment property)	(1,077)	(369)
(Disbursements for acquisition of intangible assets)	(544)	(774)
Net cash flows from investing activities	**37,884**	**2,151**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from financing activities	-	**10,000**

Other proceeds related to financing activities	-	10,000
Cash disbursements for financing activities	**(38,700)**	**(5,831)**
(Repayment of subordinated debt)	(35,745)	(5,831)
Other payments related to financing activities	(2,955)	-
Net cash flows from financing activities	**(38,700)**	**4,169**
Effects of exchange rate changes on cash and cash equivalents	(461)	347
Net increase in cash and cash equivalents	**(38,603)**	**121,702**
Cash and cash equivalents at the beginning of the period	**144,409**	**22,360**
Cash and cash equivalents at the end of period	**105,345**	**144,409**

The accompanying notes on pages 46 to 93 form an integral part of the financial statements and should be read in conjunction with them.

in 000 of EUR

	Note	2017	2016
Cash and cash equivalents comprise:			
Cash on hand and balances with the Central Bank	14	35,345	137,035
Loans to banks with maturity up to three months	17	70,000	7,356
TOTAL		**105,345**	**144,409**

Cash equivalents comprise cash on hand and loans to banks with initial maturity of up to 90 days. The same accounting policy in respect of cash equivalents applies to the Group as to the Bank.

Cash flows from interest and dividends

in 000 of EUR

	2017	2016
Interest paid	3,811	2,962
Interest received	32,600	15,347
Dividend income	30	47

11.4 Notes to Financial Statements

11.4.1 Basic Information

Addiko Bank d. d. is a Slovenian public limited company, registered for providing universal banking services on the Slovenian market.

Full address of the Bank is: Addiko Bank d. d., Dunajska cesta 117, Ljubljana, Slovenia.

The Bank is 100 percent owned by Addiko Bank AG, Vienna, Austria.

The consolidated financial statements can be obtained at the headquarters and websites of the institutions below:

Addiko Bank d.d.
Dunajska cesta 117
1000 Ljubljana
Slovenia
www.addiko.si

Addiko Bank AG
Wipplingerstrasse 34
1010 Vienna
Austria
www.addiko.com

All amounts in financial statements and notes to financial statements are expressed in thousands of euros unless otherwise specified.

The Bank's owners have the right to change financial statements after their publication and approval by the management.

11.4.2 Significant Accounting Policies

The following significant accounting guidelines have been applied in the preparation of financial statements. These policies were, unless otherwise stated, also used in previous years.

Basis for the preparation of financial statements

Financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union.

The Bank prepares its financial statements (with the exception of the cash flow information) on the accrual basis of accounting.

Financial statements of the Bank have been prepared on the basis of the cost model and are modified for the revaluation of available-for-sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss and derivative financial instruments.

The Bank's Annual Report includes information and notes as prescribed by the Companies Act, the IFRS as adopted by the EU, and the Decision on Books of Account and Annual Reports of Banks and Savings Banks.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and fundamental accounting assumptions such as going concern and accrual. Under these assumptions, the effects of transactions and other business events are recognized when they occur and not when they are paid, and are recorded and reported for periods to which they refer.

Significant accounting estimates and assumptions are presented in Section 25 of notes to financial statements.

The estimates and assumptions are continuously reviewed and are based on the latest information or latest developments.

Financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and sale of assets and settlement of liabilities in the ordinary course of business.

Going concern assumption

The financial statements of the Bank have been prepared on the going concern basis, which assumes continuity of the Bank's normal business activities.

Segment reporting

In accordance with IFRS 8, the Bank is not required to report per individual business segments as it has not issued either debt or equity instruments that are traded publicly (on domestic or foreign stock exchange or outside the stock market inclusive of local or regional markets). The Bank has not submitted and is not in the process of submitting its financial statements to the Securities and Exchange Commission or another administrative organization with intention to issue any group of instruments on a public market.

Foreign currency translation

Functional and presentation currency

Items in the Bank's financial statements are measured using the currency of the primary economic environment in which it operates, i.e. the euro, which is the functional and presentation currency of the Bank.

Translation of business events expressed in a foreign currency

Gains and losses from exchange differences resulting from the change in amortized cost of monetary securities nominated in a foreign currency that are classified as available-for-sale financial assets are recognized in the statement of profit or loss. Foreign exchange gains and losses resulting from non-monetary securities, such as equity securities classified as available-for-sale financial assets, are recognized in the revaluation surplus together with the fair value measurement effect.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the statement of profit or loss as net gains from financial assets and liabilities held for trading.

Interest revenue and expenses

Interest revenue from debt securities is recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments.

Interest revenue and expenses for all other interest bearing financial instruments are recognized in profit or loss in the charged amounts on the basis of the amounts, deadlines and methods prescribed by the Bank's price list for interest rates.

Once a financial asset or a group of similar financial assets has been individually impaired, interest revenue is recognized using the rate of interest applied in discounting of future cash flows. It is considered technical interest revenue, i.e. unwinding, and is not related to ordinary interest revenue.

Interest revenue includes regular, default and deferred interest under the title of interest bearing financial instruments and prepaid fees for approved loans. Interest on liabilities for deposits and borrowings are recognized as interest expenses.

Fee and commission revenue and expenses

Fees and commissions are generally recognized when the service has been provided. Fees and commissions for services that are performed continuously over a certain period of time are recognized proportionally over the period in which the service is performed.

Fees and commissions include primarily fees for payment transactions, loan transactions (loan management fees, costs of reminders) and guarantee fees.

Fees and commissions resulting from approval of loans are recognized as interest revenue and expenses.

Dividend income

Dividends are recognized in the statement of profit or loss when the Bank acquires the right to dividend payment.

Financial assets

Classification of financial assets:

On initial recognition, the Bank classifies financial assets into the following groups according to the purpose of acquisition, duration of possession and type of financial instrument: financial assets (investments) held to maturity, available-for-sale financial assets, financial assets at fair value through profit or loss, and loans and receivables.

- Held-to-maturity investments

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity undoubtedly intends and is able to hold to maturity, except those that meet the definition of loans and receivables, those designated on initial recognition as assets at fair value through profit or loss or those that are designated as available for sale. Held-to-maturity financial assets are carried at amortized cost. If the Bank sells more than insignificant amounts of held-to-maturity financial assets or if the sale was a result of an isolated event beyond the Bank's control, which is not recurring and the Bank could not reasonably anticipate it, all of the Bank's remaining held-to-maturity financial assets must be reclassified as available for sale in the current and the next two financial years.
- Available-for-sale financial assets

  Available-for-sale financial assets are non-derivative financial assets the Bank intends to hold for an indefinite period of time and which may be sold due to liquidity requirements, changes in interest rates, foreign exchange rates or prices of financial instruments. The Bank exceptionally uses valuation model for measurement of the fair value of certain financial instruments, whereby it must be able to prove that the existing market for these financial assets is not active. To define whether a market is active or not, the Bank must define the key parameters, which indicate market activity and follow the trends of movement of those parameters. The parameters should be used consistently in terms of substance and time, so that subjective judgment in interpretation of the given results can be eliminated to the maximum extent possible. If a market is inactive, the Bank should take into account all risk parameters, which would be, under the condition of an active market, required by the participants on the market, especially credit risk of the financial instrument's issuer and the liquidity premium.
- Financial assets held for trading

  A financial asset is classified as held for trading if it is acquired principally for sale or re-purchase in the near future, or if a financial asset is a part of a portfolio of certain financial instruments that are managed together and for which there is intent of short-term profit taking. Derivative financial instruments are also classified as held for trading. In the statement of financial position, derivative financial instruments are initially recognized at cost, which is equal to the fair value of consideration received or given. They are measured at fair value which is determined on a daily basis using generally accepted financial methodologies, whereby quotations/prices of inputs (e.g. zero coupon yield curve, FRAs, interest rate differentials of currencies, etc.), are obtained from information systems such as Reuters and Bloomberg.

Fair values are recognized under assets if valuation is positive or under liabilities if their fair value is negative. All derivative financial instruments of the Bank are classified as financial assets held for trading and are not used in hedge accounting.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market

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Initial recognition and measurement of loans and receivables

All financial assets are recognized on the date of trading, at fair value, which equals their cost, increased (for instruments that are not recognized at fair value through profit or loss) by costs that are directly attributable to the transaction, whereas for financial assets at fair value through profit or loss, costs of the transaction are reported in the statement of profit or loss. Subsequent measurement of a financial asset depends on its initial group designation.

Financial assets held for trading and available-for-sale financial assets are measured at fair value. Gains and losses from fair value measurement of financial assets held for trading are recognized in profit or loss of the period in which they occurred.

Gains and losses from fair value measurement of available-for-sale financial assets are recognized in comprehensive income and are transferred to profit or loss when the asset is derecognized or impaired. Interest accrued on the basis of effective interest rate method, and exchange differences from cash items classified as available-for-sale financial assets are recognized directly in profit or loss.

Loans and receivables and held-to-maturity investments are measured at amortized cost.

Reclassification of financial assets between groups:

Financial instruments may be reclassified from held-for-trading group, but only in exceptional circumstances, such as when balancing maturity structure of assets and liabilities or natural hedging against market risks. The fair value at the reclassification date becomes financial instrument's new amortized cost. Reclassification of an asset from the group of financial assets held to maturity is not allowed.

Derecognition:

Derecognition of financial assets is carried out when contractual rights to cash flows expire or when financial asset is transferred and such transfer fulfills the criteria for derecognition (an entity has transferred all rights and risks of the asset).

Principles applied in fair value measurement:

The calculation of the fair value of financial instruments traded in active markets is based on quoted market price at the date of the statement of financial position, i.e. the price, which represents the best price currently available on the market (demand) excluding transaction costs. The fair value assessments of financial instruments that are not traded in an active market are based on the assessments made by an external expert. The Bank verifies the value assessment of the external expert and, in case of confirmation, takes such an assessment into account. If value assessment was not performed by an external expert, an internal assessment of value is prepared. Internal assessments of values are obtained using the standard valuation techniques such as the model of discounted expected future cash flows, market method (comparative entities listed on the stock exchange – direct comparison to entities quoted in an organized market) and liquidation value approach. The final estimated value of financial instruments considers all approaches, taking into consideration assessments of importance in respect of company activity, financial stability of an entity, as well as other factors that could impact the fair value of financial instruments.

At the end of 2013, the Bank also considered for the first time CVA and DVA parameters for valuation of derivatives in accordance with IFRS 13. The CVA parameter (credit valuation adjustment) equals expected losses due to counterparty credit risk arising from the party with which a financial institution (the Bank) enters into an OTC transaction. Considering credit risk, fair value is calculated as derivative market value less CVA. The DVA concept (debt valuation adjustment) is a self-assessment of credit risk that is added to the derivative market value.

Impairment of financial assets

Financial assets measured at amortized cost

General

The Bank makes an assessment of its financial assets portfolio valued at amortized cost and the off-balance-sheet exposure on a monthly basis using its own methodology:

- The necessary impairment is recognized for financial assets at amortized cost;
- The required provisions are set aside for off-balance-sheet exposures.

The method used to create the necessary impairment of financial assets at amortized cost depends primarily on the exposure (the Bank distinguishes between individually relevant exposures and individually irrelevant exposures) and on the formal status of financial assets. The Bank distinguishes between financial assets that are subjected to breaches of material factors defined by the Bank as objective factors indicating impairment of a financial asset, and financial assets for which no such factors are detected.

In compliance with the Addiko Group methodology, the Bank treats each group of related entities to which total exposure exceeds EUR 150,000 as individually relevant exposure.

Distinguishing between different methods of impairment of financial assets at amortized cost

For the purpose of impairment, financial assets at amortized cost are classified into one of the following segments:

- individually relevant exposures in relation to which a breach of at least one objective factor indicating impairment of a financial asset at amortized cost is detected;
- individually irrelevant exposures in relation to which a breach of at least one objective factor indicating impairment of a financial asset at amortized cost is detected;
- all exposures where no breach of any of the objective factors indicating impairment of a financial asset at amortized cost is detected and exposures that were dealt with individually but where individual impairment is not required.

In its internal policies the Bank specified the following objective factors that indicate impairment of a financial asset at amortized cost:

- materially important delay in the settlement of contractual obligations lasting over 90 days;
- bankruptcy or compulsory settlement of a client;
- existence of proof of client's serious financial problems, also including:
- reprogramming due to client's economic, legal or other problems,
- irregular settlement of liabilities within a group of related entities,
- poor internal rating of a client; or
- significant economic problems in the client's industry.

Detailed presentation of individual impairment methods for financial assets at amortized cost

Individual adjustments (specific risk provisions)

Individually significant exposures are dealt with individually and in case of violation of at least one of the predetermined factors that objectively indicate impairment of a financial asset, also impaired on an individual basis. The Bank assesses individually the anticipated cash flows for repayment (it evaluates both the expected cash flows from regular loan repayments as well as potential cash flows resulting from realization of collateral). In case of a negative difference between the discounted value of all expected cash flows and the carrying amount of the receivable, the Bank makes individual impairments. Realization of collateral as potential future cash flow is reasonably considered in cases where collateral fulfills the required formal criteria concerning its legal certainty and marketability. Impairments for such exposures are called specific risk provisions (SRP).

Based on information available, the Bank makes individual assessments in terms of the time and amount of expected repayment, whereas the present value of expected cash flows is calculated by discounting with the effective interest rate.

Collective impairments

Individually irrelevant exposures that also fulfill at least one of the previously determined factors are classified into groups with similar characteristics and then collectively impaired using the formula that reflects the fact that at least one factor, which objectively indicates impairment of a financial asset, was breached. The amount of impairments created depends primarily on client time bucket delay, which has impact on expected loss given default (LGD), and on the segment into which the exposure is allocated. Loans and other financial assets at amortized cost granted primarily to the following groups of borrowers are defined by the Bank as groups of loans with similar characteristics:

- group of financial assets granted to enterprises for their ordinary activities;
- group of financial assets granted to sole proprietors;
- group of financial assets granted to public sector entities and budget users;
- group of financial assets granted to individuals.

Impairments for the above exposures are called collective impairments (CI).

Group impairments (latent losses)

Group impairments (latent losses) are recognized for exposures that as at the reporting date do not violate any of the objective factors indicating impairment of a financial asset and for individually treated exposures where no individual impairment is required. Group impairments are also calculated using mathematical formula that reflects the fact that there are no objective factors indicating impairment of a financial asset. The mathematical formula derives from the Basel methodology, taking into account the probability of default, adjusted for the assessment of the scope of already realized but not yet identified losses in the Bank's portfolio. The adjustment is made primarily in respect of the time period in which the Bank is capable of detecting the occurrence of the loss.

Probability of default

The Bank assesses the probability of default using internal rating tools. According to the Addiko Group policy, different rating tools are used for individual segments of clients. Regardless of the tool applied, the final results are transferred to a single 25-level scale that determines the probability of default for each client separately.

Expected loss in the event of default

The expected scope of loss in the event of default (loss given default - LGD) is shown using the LGD coefficient, which indicates what part of the unsecured exposure the Bank can expect to lose in the event of default. The coefficients are compliant with the Addiko Group policy and follow conservative assessments of expected losses in the IRB approach in accordance with the Capital Adequacy Directive CAD III.

Segment	LGD (Basel II Standard)
Banks	0.45
Regional government and local authorities	0.45
Central government and central banks	0.45
Public sector entities	0.45
Individuals secured by residential real estate	0.35
Individuals	0.80
Micro units	0.70
Corporate clients	0.50
Project financing	0.50

Period in which the Bank identifies the realization of portfolio loss

The Bank has defined the period in which it recognizes the realization of loss in its portfolio (loss identification period - LIP factor) as the period during which the Bank can detect that a client is breaching one of the objective factors indicating impairment of a financial asset. The Bank has implemented a monitoring system and assesses that it is capable of detecting negative events for most of its clients in a relatively short time. The Bank uses the LIP factor of 1.0 for financial assets for which, regardless of the sufficient frequency in monitoring of the portfolio, the Bank is unable to assess with sufficient probability potential losses since the regularity of repayments of liabilities does not reflect the ability of clients to repay loans when they mature. Such transactions include above all overdraft facilities on transaction accounts, credit lines, guarantees, bullet loans and loans with a moratorium. For all other transactions, the Bank uses the LIP factor of 0.5.

Available-for-sale financial assets

The Bank assesses on a monthly basis whether there are any indications that available-for-sale financial assets are impaired. If there is objective evidence that impairment loss on financial assets available for sale has been incurred, the cumulative impairment loss is transferred from equity to profit or loss.

Impairment losses included in profit or loss as equity instruments are not derecognized through profit or loss. If the fair value of a debt instrument classified as available for sale increases subsequently and the increase can be directly related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss.

The Bank applies the following criteria to determine whether available-for-sale financial assets have been impaired:

- for debt instruments: fair value is below 90 percent of the cost (which represents the value of 100 percent),
- for equity instruments: significant decreasing of the fair value lasting over 9 months, and the fair value is more than 20 percent below the cost.

Restructured loans

The Bank assesses restructured loans individually at the time of approval in order to determine the need for impairment.

When a loan is restructured due to a client's economic, legal or other problems that significantly affect the client's future ability to repay obligations, the Bank accordingly reclassifies the client to a lower rating grade and individually assesses the need for individual impairment on a monthly basis. If the Bank does not detect the need for individual impairment, the client is treated collectively using the same methodology as for other investments of the Bank.

Property, plant & equipment and intangible assets

Property, plant and equipment and intangible assets are recognized at cost in financial statements, less the accumulated depreciation/amortization and any impairment losses.

On initial recognition, the cost of an asset includes all expenditures that are directly attributable to the acquisition and are necessary to make the asset ready for its intended use. Subsequent expenditure is added to the cost of the asset and recognized only if it is probable that future economic benefits related to the asset will flow to the entity and if these costs can be reliably measured. All other expenditures, such as additional investment, maintenance and repairs, are recognized in profit or loss as an expense when incurred.

Depreciation/amortization is accounted for individually on a straight-line basis by allocating the costs of the assets to the residual value over the useful lives of the assets.

The depreciation/amortization rates applied are as follows:

	2017	2016
Buildings	2.5%	2.5%
Computer equipment	20 to 50%	20 to 50%
Furniture and other equipment	10 to 33.3%	10 to 33%
Personal vehicles	20%	20%
Investments in third-party fixed assets	5 to 50%	5 to 50%
Intangible assets	10 to 20%	10 to 20%

Residual values of assets and their useful lives are reviewed on the day of the statement of financial position and are adjusted accordingly if expectations differ from previous assessments.

Land is recorded separately from buildings. The useful life of land is generally indefinite and therefore not depreciated.

Assets are derecognized upon their disposal or when no additional future economic benefits can be expected from their use. Gains and losses resulting from disposal of assets represent the difference between net gains on disposal and the carrying amount of the asset.

On the day of the statement of financial position, the Bank assesses whether there is any impartial evidence that an asset might be impaired. If there is objective evidence that an asset has been impaired, the assessment of the recoverable amount is made. Recoverable amount is the higher of net selling price and value in use. If the recoverable value is higher than the carrying amount, an asset does not need to be impaired, whereas if the contrary is true, an impairment loss is recognized in profit and loss in the amount of the difference between the recoverable and carrying amount of the asset.

Leases

A lease is a contractual relationship in terms of which the lessor transfers the right to the asset for an agreed period of time to the lessee, in exchange for a payment or a line of payments. Lease contracts are accounted for as finance or operating lease in accordance with their initial classification. The key factor for classifying a lease is the scope in which the risks and rewards of ownership are transferred from the lessor to the lessee.

The Bank as a lessee:

Leases where the lessor bears the majority of risks and rewards relating to the ownership of the asset are treated as operating leases. Payments made in respect of the operating lease are included in profit or loss proportionately over the duration of the contract. If operating lease is terminated prematurely, all payments requested by the lessor are recognized as costs in the period of termination of the contract.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Financial leases are recognized as an asset and liability at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Depreciation of leased assets is consistent with the accounting policies of own depreciable assets. If there are no assurances that the tenant will take over ownership of the leased asset at the end of the lease, the amortization period must be shorter than the useful life of a leased asset or contractually determined period of the lease.

The Bank as a lessor:

When assets are leased under a finance lease, the present value of the lease payments is shown as receivable from finance lease. Finance lease income is recognized in profit or loss over the entire life of the lease. Receivables from financial leases are shown in the amount of the net investment in the lease including the unguaranteed residual value.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash on hand and balances with the Central Bank, excluding the obligatory reserves, short-term bank deposits and other short-term highly liquid investments with maturity of up to 90 days.

Cash and cash equivalents are measured at amortized cost.

Cash flow policy

The cash flow statement has been prepared using the indirect method, i.e. Version II.

Provisions

Long-term provisions for liabilities and charges are recognized by the Bank due to a current liability which is a result of a past event, and it is probable that an outflow of economic benefits will be required to settle this liability and the amount thereof can be reliably measured.

Where there are a number of similar liabilities, the likelihood that an outflow will be required for the settlement is determined by considering the class of liabilities as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of liabilities may be small.

The Bank recognizes the provisions in respect of potential credit-related liabilities (financial and service guarantees, provisions for undrawn part of the loan), employees' benefits (jubilee benefits, termination benefits upon retirement), provisions for potential litigation and other provisions.

Non current assets held for sale

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

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

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

Taxes

Corporate income tax is accounted for at the tax rate applicable on the date of the statement of financial position. Tax is levied on the tax basis determined in accordance with the Corporate Income Tax Act. The tax rate applicable for 2017 is 19%.

Deferred tax is formed by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes; deferred tax is recognized using tax rates enacted at the date when temporary differences are expected to be eliminated. For 2017, the Bank recognizes both deferred tax liabilities and assets.

Deferred tax associated with the measurement of available-for-sale financial instruments is recognized directly in equity.

Employee benefits

In accordance with the law, the Bank provides to its employees jubilee benefits and termination benefits upon retirement. An independent actuary calculates the provisions on the date of the statement of financial position.

The calculation of liabilities for benefits upon retirement is linked to the years of pensionable service of each individual employee. All changes in provisions for jubilee benefits are recognized in profit or loss. The same applies to changes in provisions for benefits upon retirement, except for actuarial gains and losses arising from provisions upon retirement, which are recognized in comprehensive income.

Employees are entitled to a jubilee benefit for every ten years of service.

The Bank pays social security contributions at the rate of 8.85% in accordance with the Slovenian legislation. These payments are recognized in financial statements as labor costs in the period they refer to.

Financial liabilities

Financial liabilities (borrowings, deposits and debt securities) are initially recognized at fair value (which is usually equal to the cost), and transaction costs are recognized in the statement of profit or loss. After initial measurement, they are carried at amortized cost. The difference between the value at initial recognition and the final value is recognized in profit or loss as interest expense using the effective interest rate method. A financial liability is derecognized only when the contractual obligation is fulfilled, cancelled or expired.

Share capital

Share capital is recorded in the nominal value and has been subscribed and paid-up by the owners.

Financial guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such guarantees are issued to banks, financial institutions, and other entities as means of securing loans, overdrafts and other banking facilities. Financial guarantee contracts are initially recognized at fair value which is equal to the fee received. Fees received are transferred to profit or loss using the straight-line method.

Fiduciary activities

In 2016, the Bank offered its clients also brokerage services for securities and asset management services. The Bank conducted these transactions through a separate account. The operational risk was assumed by the client. The commission charged for these services to clients is disclosed in Note 3b. These assets are not included in the statement of financial position but under off-balance-sheet items as authorized transactions.

Additionally, in accordance with the local legislation, assets and liabilities of clients from brokerage services as well as commission and fee revenue and expense related to brokerage services are disclosed in Note no. 34.

Fair value under IFRS 13

The Group measures financial instruments, such as derivatives, at fair value as at the reporting date.

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

Fair value measurement is based on an assumption that the sale or transfer of a liability takes place either on:

- the principal market for the asset or a liability, or
- in the absence of a principal market, on the most advantageous market for the asset or liability.

The Bank must have access to the principal or the most advantageous market. Fair value of an asset or a liability is measured under the assumptions which market participants would use to determine the price of an asset or a liability, assuming that the participants are acting in their own benefit, i.e. their own economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Amendments to standards and interpretations*

New standards and amendments adopted

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

in 000 of EUR

Standard	Description		Compulsory for annual period
IAS 7	Amendments to IAS 7 Statement of Cash Flows	Disclosure Initiative	2017
IAS 12	Amendments to IAS 12 Income Taxes	Recognition of Deferred Tax Assets for Unrealised Losses	2017

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

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

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

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

IFRS 9

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and Measurement of Financial Assets and Financial Liabilities

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets
- how the performance of the portfolio is evaluated and reported to the Bank´s management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of an overall assessment on how the Bank´s stated objective for managing the financial assets is achieved and how cash flows are realized.

Contractual cash flow characteristics

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

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

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

- a financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- a financial asset is measured at fair value through other comprehensive income (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL).

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

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

Impairment

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

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

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

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

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

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

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

Measurement of ECL´s

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

Definition of default

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

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

This definition is largely consistent with the definition that will be used for regulatory purposes.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience where available, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

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

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

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

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the one year PD is determined to have increased in absolute range between 4% to 5%, depending on the portfolio, since initial recognition.

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

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

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

Inputs into measurement of ECLs

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

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

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

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

Forward-looking information

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

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

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

Derecognition and contract modification

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

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

Impacts on capital planning

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

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

The Bank has decided not to adopt the transition requirements. As a consequence, the Bank's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will be limited to a increase in CET1 and total capital of approximately EUR 8.542 thousand.

Impacts from initial application

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

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

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

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

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impacts from initial application of IFRS 9 in the opening equity as of 1 January 2018. The Bank does not restate comparative figures and presents the positive one-off effect in the opening retained earnings amounting to EUR 892 thousand. This adjustment represents:

- a reduction of approximately EUR 898 thousand related to impairment requirements
- an decrease of approximately EUR 6 thousand related to deferred tax impacts.

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

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

Transition

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

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

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

IFRS 15

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

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

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

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

IFRS 4

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant accounting policies and assessments

Impairments of loans and receivables

The Bank makes an assessment of its financial assets portfolio valued at amortized cost and off-balance-sheet exposure on a monthly basis. On the basis of objective factors indicating impairment of a financial asset at amortized cost, the need for its impairment is assessed. Objective criteria are mainly: irregular settlement of liabilities and material delay of over 90 days; deterioration of economic conditions in the industry in which the company operates; reprogramming due to the economic, legal or other problems of the client. For clients fulfilling any of the objective factors, the Bank assesses individually the anticipated cash flows for repayment (it evaluates both the expected cash flows from regular loan repayments as well as potential cash flows resulting from realization of collateral). In case of a negative difference between the discounted value of all expected cash flows and the carrying amount of the receivable, the Bank makes individual impairments. The Bank makes an assessment of other clients collectively using its own methodology and parameters, which are reviewed on a regular basis to decrease the differences between estimated and actual losses.

Credit portfolio quality and related impairment of loans depend materially on macroeconomic factors. Unexpected development of economic conditions, in particular those that affect the real estate market, cannot be excluded and could significantly affect the credit portfolio's market value.

Key assumptions for creating additional impairments in 2018

1. Probability of default (PD): in the case of portfolio improvement as a result of improved economic conditions, the Bank could expect lower probability of default rates than anticipated, which would cause reversal of impairments.
   The Bank anticipates a 10% decrease in default rates, which is estimated to require reversal of EUR 0.9 million of impairments.
2. Collaterals: in case of declining market value of collaterals the Bank could expect reduced cash flows from realized collaterals and therefore additional impairments would be required. On the other hand, collaterals are seen as potential risk mitigator and the Bank is making an effort to improve the current collateral coverage ratios, in line with the business strategy mostly for the corporate portfolio.

   The Bank is considering the possibility to increase the portfolio collateralization by 10%. This would lead to an estimated EUR 0.6 million decrease in impairments.

Detailed description is given under section 8: Impairment of financial assets in the context of “Significant accounting policies”.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are impaired if there is a material or prolonged decrease of their fair value below their cost. Duration and the amount of decrease of their fair value are taken into consideration. The need for impairment may also be indicated by evidence of the deterioration in the financial position of the financial instrument's issuer and the industry in which the issuer operates.

Criteria applied for creation of impairments are described in detail in Note 8, Impairment of financial assets.

Impairment of held-to-maturity financial assets

Prior to any impairment of held-to-maturity financial assets, the following impairment triggers are checked in relation to individual issuer:

- difficulties with repayments/insolvency, bankruptcy,
- decline in market value by a certain percent of the cost,
- negative market information that could impact solvency,
- changes in the issuer's credit rating in a certain period,
- history of previous impairments.

The Bank may decide for impairment based on deterioration of any of the above criteria.

Deferred taxes

For 2017, the Bank recognized deferred tax assets arising from provisions, fixed assets, securities impairment and tax losses carried forward. It also recognized deferred tax liabilities arising from fixed assets and securities valuation.

Sources of estimation uncertainty

Uncertainty related to derivatives

For the valuation of derivatives, the Bank also considers CVA and DVA parameters. The CVA parameter (credit valuation adjustment) equals expected losses due to credit risk of the counterparty with whom a financial institution (the Bank) enters into an OTC transaction. Considering credit risk, fair value is calculated as derivative market value less CVA. The DVA concept (debt valuation adjustment) is a self-assessment of credit risk that is added to the derivative market value.

For derivatives, the Bank is not sensitive to market risk as each new derivative transaction with a client is at the same time closed by an offsetting transaction entered into with the parent bank.

11.4.3 Notes to Items from the Statement of Profit or Loss

1. Interest revenue and expenses

in 000 of EUR

	2017	2016
Interest revenue and similar revenue		
Financial assets held for trading	795	1,009
Available-for-sale financial assets	500	156
Loans and deposits of banks	196	25
Loans and deposits of non-banking clients	37,009	29,104
Held-to-maturity investments	2,735	3,979
Other financial assets	19	33
Total interest and similar revenue	**41,254**	**34,306**
Interest expense and similar expenses		
Demand deposits of non-banking clients	46	61
Deposits of banks	28	1,968
Deposits of non-banking clients	3,607	3,918
Certificates of deposit	32	198
Short-term deposits to the Central Bank	-	78
Bank loans	354	299
Interest on financial liabilities held for trading	720	933
Subordinated debt	2,255	1,548
Interest on other financial liabilities	469	417
Total interest and similar expenses	**7,511**	**9,420**
Net interest	**33,743**	**24,886**

In 2017, revenue recognized on account of the Bank's impaired financial assets ("unwinding") amounted to EUR 330 thousand (2016: EUR 922 thousand).

2. Dividend income

in 000 of EUR

	2017	2016
Available-for-sale securities	30	47
Dividend income	**30**	**47**

3. Fee and commission revenue and expense

in 000 of EUR

	2017	2016
Total fee and commission revenue	12,116	11,175
Total fee and commission expense	(2,759)	(2,952)
Net fees and commissions	**9,357**	**8,223**
of which transactions for own account	**9,357**	**8,025**
of which transactions for clients	**-**	**198**

a. Fee and commission revenue and expense related to transactions for the Bank's own account

in 000 of EUR

	2017	2016
Fee and commission revenue		
Fees and commissions from payment transactions	5,321	4,861
Fees and commissions from lending operations	1,600	1,206
Fees and commissions from guarantees given	1,269	1,295
Fees and commissions from transactions accounts	2,545	2,250
Fees and commission from insurance companies	470	360
NODURS* fees and commissions	364	369
ATM fees and commissions	258	188
Fees and commissions from card transactions	165	168
Fees and commissions from other transactions	124	166
Total fee and commission revenue	**12,116**	**10,863**
Fee and commission expense		
Fees and commissions for payment transactions	(395)	(367)
Fees and commissions for guarantees given	(3)	(13)
Fees and commission for insurance companies	(263)	-
ATM fees and commissions	(122)	(119)
Fees and commissions for card transactions	(1,509)	(1,079)
Fees and commissions for other transactions	(467)	(1,260)
Total fee and commission expense	**(2,759)**	**(2,838)**
Net fees and commissions from transactions for own account	**9,357**	**8,025**

*NODURS – Execution of enorfcement

b. Fee and commission revenue and expense from investment services and transactions for clients

in 000 of EUR

	2017	2016
Fee and commission revenue related to investment and auxiliary investment services and transactions for clients		
Receiving, brokerage and processing of orders	-	90
Management of financial instruments	-	84
Fiduciary accounts and related services	-	2
Administration of book-entry securities accounts of customers	-	136
Total fee and commission revenue related to investment and auxiliary investment services and transactions for clients	-	**312**
Fee and commission expense related to investment and auxiliary investment services and transactions for clients		
Fees and commissions paid to KDD (Central Securities Clearing Corporation) and similar organizations	-	(79)
Fees and commissions related to the stock exchange and similar organizations	-	**(35)**
Fee and commission expense related to investment and auxiliary investment services and transactions for clients	-	**(114)**
Net fees and commissions for investment services and transactions for clients	-	**198**

Until October 2016, the Bank offered its clients also brokerage services for securities and asset management services. The Bank conducted these transactions through a separate account. In line with the new owner strategic decision to focus on the core banking business, Bank does not offer these services since October 2016.

The operational risk was assumed by the client. The commission charged for these services to clients is presented in the table above.

4. Realized gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss

in 000 of EUR

	2017	2016
Available-for-sale financial assets	168	8
Held-to-maturity investments	(116)	(137)
Loans and other financial assets	1	82
Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	53	(47)

Gains and losses from available-for-sale financial assets comprise realized gains and losses on derecognition, whereas gains and losses resulting from changes in fair value of available-for-sale financial assets are recognized directly in the statement of comprehensive income.

5. Net gains/(losses) on financial assets and liabilities held for trading

in 000 of EUR

	2017	2016
Foreign currency purchase and sale	(151)	144
Derivative financial instruments	9,169	(238)
Net gains/(losses) on financial assets and liabilities held for trading	**9,018**	**(94)**

Item "Derivative financial instruments" shows net gains/(losses) from forex and interest rate swaps and forex forward contracts and options. In 2017, the Bank extended forex swaps from 2 to 15 weeks, resulting in better prices and higher revenue. To show the net result correctly, the item should be considered together with the item "Net gains from exchange differences".

6. Net gains/(losses) from exchange differences

in 000 of EUR

	2017	2016
Foreign currency items	411	(306)
Currency clause items	(8,678)	631
Net gains from exchange differences	**(8,267)**	**325**

Exchange differences in the table above refer to financial assets and liabilities measured at amortized cost. Exchange differences resulting from financial assets measured at fair value are recognized as part of net gains or net losses from financial assets and liabilities classified as held for trading.

The difference between 2017 and 2016 relates to the volatile EUR/CHF exchange rate in 2017.

7. Other net operating losses

in 000 of EUR

	2017	2016
Other operating revenue		
Non-banking services	539	724
Other	1,713	1,106
Total other operating revenue	**2,252**	**1,830**
Other operating expenses		
Membership fees	(51)	(49)
Taxes and other duties	(1,707)	(1,574)
Guarantee scheme	(377)	(388)
Bank Resolution Fund	(742)	(960)
Other	(65)	(718)
Total other operating expenses	**(2,943)**	**(3,689)**
Other net operating losses	**(691)**	**(1,859)**

In 2017, the Bank received EUR 1,600 thousand (item "Other") of refunded taxes related to the thin capitalization in the tax inspection of the company Hypo Leasing d.o.o., which was the Bank's subsidiary in 2015 and 2016. Last year, the most significant item of other operating revenue and expenses was the cost of integration, which was invoiced by related parties (Hypo leasing d.o.o.). These costs resulted from the provision of services in the integration process of individual segments.

The biggest item of »Tax and other levies« is tax paid on financial services in the amount of EUR 1,587 thousand (2016: EUR 1,463 thousand).

Financial services tax is payable in compliance with the Financial Services Tax Act, published on 10 December 2012 (Official Gazette RS no. 94/10), which became effective on the fifteenth day after its publication. Tax in 2013 and 2014 was paid at the rate of 6.5% of the tax base. On 1 January 2015, the tax rate increased to 8.5% of the tax base (Official Gazette RS no. 90/2014).

8. Administrative expenses

in 000 of EUR

	2017	2016
Labor costs	15,783	14,440
Gross wages and salaries	10,675	10,275
Social security contributions	775	751
Pension insurance contributions	947	917
Other labor costs	3,386	2,497
General and administrative expenses	9,577	8,387
Costs of material	397	477
Rental/lease costs	1,443	1,475
Service costs	2,115	1,667
Business travel expenses	207	136
Maintenance	2,042	2,049
Advertising	1,147	737
Hospitality	101	80
Costs of consulting, audit and lawyers' services	1,499	957
Education and training costs	190	152
Insurance costs	404	545
Other costs	32	112
Total administrative expenses	**25,360**	**22,827**

As at 31 December 2017 the Bank employed 357 persons (31 December 2016: 377). Despite lower number of employees, the average gross salary increased, which partially contributed to the increase of labor costs. In addition, the annual bonus accrual for 2017, which would be paid out in 2018, also increased labor costs.

Rental/lease costs relate to the rental of the Bank's business premises (2017: EUR 1,443 thousand; 2016: EUR 1,475 thousand). The Group has no non-cancellable rental/lease agreements. Agreements have been concluded for a limited or an indefinite period of time. The biggest costs included under the item "Service costs" are the costs of archiving (2017: EUR 117 thousand; 2016: EUR 173 thousand), student employment agency costs (2017: EUR 150 thousand; 2016: EUR 46 thousand) and the costs of leasing/renting software and vehicles (2017: EUR 350 thousand; 2016: EUR 332 thousand).

Bank prepared many cost saving initiatives in 2017, nevertheless advertising costs increased for EUR 410 thousand in order to increase brand awareness of Addiko and the recognition of its products. The positive effects were reflected in excellent sales results.

Implementation of matrix organisation and target operational model (TOM) to support growth (see business report, point 3.6), resulted in higher costs for consultancy (intragroup charging).

Audit costs

in 000 of EUR

	2017		2016	
	Deloitte	Others	Deloitte	Others
Audit of the Annual Report	75	-	80	-
Other audit services	38	11	12	17
Total audit service cost	**113**	**11**	**92**	**17**

In addition to audit services, tax advisory costs amounted to 7 thousand in 2017.

9. Amortization and depreciation

in 000 of EUR

	2017	2016
Property, plant and equipment	402	910
Intangible assets	896	912
Total depreciation and amortization expense	**1,297**	**1,822**

10. Provisions

in 000 of EUR

	2017	2016
Provisions for off-balance-sheet liabilities	989	4,595
Provisions for employee benefits	72	(114)
Other provisions	264	(327)
Total provisions	**1,325**	**4,154**

11. Impairments

in 000 of EUR

	2017	2016
Financial assets measured at amortized cost	2,628	3,857
State	(22)	413
Retail	(4,591)	(2,767)
Other clients	7,241	6,211
Property, plant and equipment	73	(425)
Intangible assets	(6)	(68)
Impairment of equity investments in subsidiaries	-	(265)
Total impairment	**2,695**	**3,099**

12. Net gains on non-current assets held for sale

in 000 of EUR

	2017	2016
Net gains on non-current assets held for sale	**310**	**213**

Net gains on non-current assets held for sale relate to assets that were at the end of the year or during the year transferred to the item “Non-current assets held for sale” with the purpose of subsequent sale.

13. Corporate income tax

in 000 of EUR

	2017	2016
Income tax	(1,895)	(975)
Deferred tax	2,721	-
Total corporate income tax	**826**	**(975)**
The difference between income tax and tax determined using the base tax rate:		
Profit before tax	18,129	13,876
Tax calculated at the applicable tax rate (2017: 19%, 2016: 17%)	3,445	2,359
Tax on income not recognized for tax purposes	(113)	(33)
Tax on expenses not recognized for tax purposes	605	265
Tax on income that increases the tax base	17	255
Other	(2,058)	(1,871)
Total income tax	**1,895**	**975**

In 2017, income tax amounted to EUR 1,895 thousand (2016: EUR 975 thousand). Last year the Bank also recognized deferred tax assets in the amount of EUR 2,721 thousand (2016: EUR 0 thousand), arising from fixed assets, provisions, securities impairment and tax losses carried forward.

In the income tax calculation, income not recognized for tax purposes arises from derecognition (reversal) of provisions and dividends received. Most of the non-deductible expenses consist of expenses arising from impairment of investments, interest expenses on loans received from related parties, transfer prices between related parties, expenses for providing benefits and other employment-related payments and expenses for provisions in the part which is not tax deductible.

In 2017, the Bank took into account in the income tax calculation EUR 10,834 thousand of tax reliefs from tax losses carried forward, investment allowance, relief for employment of disabled persons, relief for voluntary supplementary pension insurance and relief for donations.

Effective tax rate for 2017 is 10.45% (2016: 7,02%).

11.4.4 Notes to Items from the Statement of Financial Position

14. Cash on hand and balances with the Central Bank and demand deposits with banks

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Cash on hand	7,574	6,812
Demand deposits with banks	27,771	130,241
Cash included in cash equivalents	**35,345**	**137,053**
Other short-term deposits with the Central Bank	3,130	3,047
Obligatory reserves with the Central Bank	107,203	124,590
Cash not included in cash equivalents	**110,333**	**127,637**
Total cash on hand and balances with the Central Bank	**145,678**	**264,690**

Slovenian banks are required to maintain obligatory reserves with the Bank of Slovenia; the amount of obligatory reserve depends on the scope and structure of received deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as obligatory reserve is 1% of all time deposits with maturity up to 2 years.

Fair values of cash on hand and balances with the Central Bank are disclosed in more detail in Note »Fair values of assets and liabilities« on page 122.

15. Financial assets held for trading

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Derivative financial instruments		
Forward contracts – foreign exchange	57	67
Options - interest rate	157	225
Swaps – foreign exchange	923	277
Swaps - interest rate	1,138	1,478
Total financial assets held for trading	**2,275**	**2,047**

a. Contractual and fair values of derivatives

The presented table shows contractual and fair values of derivative financial instruments of the Bank and also applies to the Group as subsidiaries do not disclose derivatives.

in 000 of EUR

	Contractual value		Fair value 31 Dec 2017		Fair value 31 Dec 2016	
	31 Dec 2017	31 Dec 2016	Receivables	Liabilities	Receivables	Liabilities
Forward contracts – foreign exchange	8,288	3,467	57	52	67	65
Options - interest rate	27,369	24,473	157	156	225	288
Swaps – foreign exchange	90,800	114,300	923	-	277	66
Swaps - interest rate	159,011	83,490	1,138	883	1,478	1,428
Total derivatives	**285,468**	**225,730**	**2,275**	**1,091**	**2,047**	**1,847**

Contractual value represents derivative financial instruments reported in the Bank’s off-balance-sheet records; however, these amounts do not reflect future cash flows or the Bank's current exposure to the currency or interest rate risk.

Fair value is the carrying amount of the instrument reported in the Bank's statement of financial position as follows: assets are reported under financial assets held for trading and represent positive valuation of derivatives, whereas liabilities are reported under trading financial liabilities and represent negative valuation of derivative financial instruments.

16. Available-for-sale financial assets

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Bonds	**129,323**	**39,486**
Republic of Slovenia	39,306	29,563
Foreign governmental issuer	61,980	9,923
Banks	17,120	-
Other issuers	10,917	-
Shares and interests	**13,456**	**13,481**
Other issuers	313	321
Bank Resolution Fund	13,143	13,160
Treasury bills	**10,006**	**17,098**
Central level	10,006	17,098
Total available-for-sale financial assets	**152,785**	**70,065**

A bank was optimising its liquidity surplus during the whole year also with accelerated purchase of securities, especially foreign government bonds.

On 31 December 2017, securities held for sale amounting to EUR 139,328 thousand were listed on the stock exchange (31 December 2016: EUR 56,585 thousand).

Fair values of available-for-sale financial assets are disclosed in Note »Fair values of assets and liabilities” on page 115.

Total value of pledged financial assets available for sale amounted to EUR 109,125 thousand at the end of the year (2016: EUR 87,277 thousand).

a. Changes in available-for-sale financial assets

in 000 of EUR

	2017	2016
Balance at 1 Jan 2017	**70,065**	**92,921**
Purchases	134,451	32,214
Sales	(27,635)	-
Decrease (withdrawal)	-	(20)
Decrease (matured)	(25,592)	(54,257)
Amortization + interest	1,001	(1,249)
Changes in fair value	495	456
Balance at 31 Dec 2017	**152,785**	**70,065**

17. Loans to banks

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Term deposits	120,258	7,356
Total loans to banks	**120,258**	**7,356**
Loans to banks maturing within 12 months of the reporting date	120,258	7,356
Loans to banks included in cash equivalents	70,000	7,356

18. Loans to non-banking clients

in 000 of EUR

	Note	31 Dec 2017	31 Dec 2016
Loans		1,075,309	1,014,581
Credit lines		20,583	16,682
Receivables from card operations		6,322	5,013
Receivables from guarantees given		1,008	1,182
Other		-	391
Adjustments	20	(39,105)	(58,081)
Total loans to non-banking clients		**1,064,117**	**979,768**
Loans to clients maturing within 12 months of the reporting date		50,438	82,054
Loans to clients maturing in more than 12 months of the reporting date		1,013,679	897,714

Interest receivables are recognized as part of the basic financial instrument.

All loans were impaired to their recoverable value.

As at 31 December 2017, the Bank had pledged loans for long-term refinancing operations and settlements in relation to STEP2. Total value of pledged loans amounted to EUR 71,927 thousand (2016: EUR 75,853 thousand).

Other disclosures pertaining to loans are included in section Financial risk management, Credit risk.

19. Other financial assets

in 000 of EUR

	Note	31 Dec 2017	31 Dec 2016
Fee and commission receivables		356	526
Trade receivables		759	650
Other receivables		721	668
Adjustments	20	(158)	(379)
Total other financial assets		**1,678**	**1,465**
Other financial assets maturing within 12 months of the reporting date		1,678	1,465

20. Changes in adjustment of loans to non-banking clients and other financial assets

	2017				2016			
	State	Retail	Other	Total	State	Retail	Other	Total
Balance at 1 Jan	248	11,981	46,231	58,460	661	13,259	79,198	93,118
Allocation	57	6,640	4,899	11,596	125	5,790	11,955	17,870
Release	(35)	(2,151)	(9,332)	(11,518)	(538)	(3,025)	(17,014)	(20,577)
Recovery	-	(753)	(1,982)	(2,735)	-	-	(1,150)	(1,150)
Net	22	3,736	(6,415)	(2,657)	(413)	2,765	(6,211)	(3,857)
Utilization and unwinding	-	(3,230)	(13,310)	(16,540)	-	(4,043)	(26,756)	(30,801)
Balance at 31 Dec	**270**	**12,487**	**26,506**	**39,263**	**248**	**11,981**	**46,231**	**58,460**

The item “Other” includes legal entities, financial and non-financial, for both 2016 and 2017.

Recovery relates to release of impairment after closing the loan or after reclassification of the loan from individual to collective impairment.

Utilization relates to the write-off of loans recorded under the net principle, whereas unwinding represents technical interest.

21. Held-to-maturity investments

in 000 of EUR

	31 Dec 2017	31 Dec 2016
- Republic of Slovenia bonds	38,624	78,764
- Other issuers’ bonds	3,860	3,870
Total held-to-maturity investments	**42,484**	**82,634**
Investments held to maturity quoted on stock market	42,484	82,634
Investments held to maturity maturing within 12 months of the reporting date	-	40,603
Investments held to maturity maturing in more than 12 months of the reporting date	42,484	42,031

a. Changes in held-to-maturity investments

in 000 of EUR

	2017	2016
Balance at 1 Jan 2017	**82,634**	**81,949**
Maturity	(39,591)	-
Amortization + interest	(559)	685
Balance at 31 Dec 2017	**42,484**	**82,634**

As at 31 December 2017, the Bank pledged securities classified as held to maturity for long-term refinancing operations and settlements in relation to STEP2. Total value of pledged financial assets held to maturity amounted to EUR 46,559 thousand (2016: EUR 40,139 thousand), the calculation being made on the basis of the market value of the pledged financial asset.

Fair values of financial assets classified as held to maturity are disclosed in Note »Fair values of assets and liabilities" on page 115.

22. Non-current assets and liabilities held for sale

in 000 of EUR

	31.12.2017	31.12.2016
Loans	187	-
Loan adjustment	(155)	-
Investments in subsidiary	-	3.895
Investment adjustment	-	(3.592)
Total non-current assets held for sale	**32**	**303**

In 2016 the Bank signed a contract with Gorenjska Banka d.d. on the sale of the subsidiary Hypo Leasing d.o.o., therefore disclosing the investment under non-current assets held for sale. Actual sale of the company was executed as of 1.2.2017 and had no significant effect on the Bank's result for 2017, as the Bank booked the proper valuation of the company already in financial statements for 2016. At the end of 2017, the Bank's non-current assets held for sale include loans that are to be sold to the company EOS in compliance with the agreement signed.

23. Property, plant and equipment

in 000 of EUR

	Land and property	Equipment and small tools	Total
Cost			
Balance at 1 Jan 2017	3,654	10,321	13,975
Increase in assets	947	308	1,255
Decrease	(760)	(1,610)	(2,370)
Balance at 31 Dec 2017	3,841	9,019	12,860
Adjustment			
Balance at 1 Jan 2017	(2,299)	(9,190)	(11,489)
Depreciation	(97)	(305)	(402)
Impairment	-	(30)	(30)
Write-downs	103	-	103
Disposals	647	1,545	2,192
Balance at 31 Dec 2017	(1,646)	(7,980)	(9,626)
Residual value			
Balance at 1 Jan 2017	1,355	1,131	2,486
Balance at 31 Dec 2017	2,195	1,039	3,234

in 000 of EUR

	Land and property	Equipment and small tools	Total
Cost			
Balance at 1 Jan 2016	3,541	10,211	13,753
Increase in assets	218	705	923
Decrease	105	595	700
Balance at 31 Dec 2016	3,654	10,321	13,975
Adjustment			
Balance at 1 Jan 2016	(2,073)	(8,228)	(10,301)
Depreciation	(90)	(820)	(910)
Impairment	(136)	(289)	(425)
Disposals	-	147	147
Balance at 31 Dec 2016	(2,299)	(9,190)	(11,489)
Residual value			
Balance at 1 Jan 2016	1,468	1,983	3,451
Balance at 31 Dec 2016	1,355	1,131	2,486

In 2017, reasons occurred for impairment of equipment in the amount of EUR 30 thousand (2016: EUR 289 thousand). In line with the latest valuations of branches, the Bank reversed impairments from previous years in the amount of EUR 303 thousand.

In 2017 and in the years preceding, the Bank had no items of tangible assets pledged as collateral.

24. Intangible assets

in 000 of EUR

	Programs and business solutions	Total
Cost		
Balance at 1 Jan 2017	11,806	11,806
Increase in assets	711	711
Decrease	(655)	(655)
Balance at 31 Dec 2017	11,862	11,862
Adjustment		
Balance at 1 Jan 2017	(9,667)	(9,667)
Amortization	(895)	(895)
Impairment	(6)	(6)
Write-downs	-	-
Disposals	487	487
Balance at 31 Dec 2017	(10,081)	(10,081)
Residual value		
Balance at 1 Jan 2017	2,139	2,139
Balance at 31 Dec 2017	1,781	1,781

in 000 of EUR

	Programs and business solutions	Total
Cost		
Balance at 1 Jan 2016	11,031	11,031
Increase in qualifying assets	774	774
Balance at 31 Dec 2016	11,805	11,805
Adjustment		
Balance at 1 Jan 2016	(8,174)	(8,174)
Increase	(911)	(911)
Decrease	-	-
Balance at 31 Dec 2016	(9,085)	(9,085)
Impairment of intangible assets		
Balance at 1 Jan 2016	(512)	(512)
Impairment	(69)	(69)
Balance at 31 Dec 2016	(581)	(581)
Residual value		
Balance at 1 Jan 2016	2,345	2,345
Balance at 31 Dec 2016	2,139	2,139

In 2017 there were reasons for impairment of intangible assets in the amount of EUR 6 thousand (2016: EUR 69 thousand).

In 2017 and in the years preceding, the Bank had no items of intangible assets pledged as collateral.

25. Non-current investments in equity of subsidiaries

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Equity investments in subsidiaries	-	7
Total non-current investments in equity of subsidiaries	-	**7**

The subsidiary Hypo rešitve, in which the Bank had a 100% interest in the amount of EUR 7 thousand, was deleted from the Companies Register on 20 October 2017 at the owner's proposal.

a) Changes in non-current investments in equity of subsidiaries

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Balance at 1 Jan	7	574
Impairment	-	(265)
Transfer to non-current assets held for sale	-	(303)
Company dissolution	(7)	-
Balance at 31 Dec	-	**7**

26. Other assets

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Inventories	3	3
Advances given	9	103
Tax assets	13	15
Deferred costs	646	548
Total other assets	**671**	**668**

27. Financial liabilities held for trading

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Derivative financial instruments		
Forward contracts – foreign exchange	52	65
Options - interest rate	156	288
Swaps – foreign exchange	-	66
Swaps - interest rate	883	1,428
Total financial liabilities held for trading	**1,091**	**1,847**

Contractual values of derivatives are presented in Note 15a.

28. Deposits, loans

a. Deposits of banks and non-banking clients

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Demand deposits	**277,381**	**271,927**
Banks	399	368
Non-banking clients	276,982	271,559
Term deposits	**833,334**	**713,113**
Banks	15,576	9,505
Non-banking clients	817,758	703,608
Total deposits of banks and non-banking clients	**1,110,715**	**985,040**
Deposits of banks and non-banking clients maturing within 12 months of the reporting date	674,636	766,719
Deposits of banks and non-banking clients maturing in more than 12 months of the reporting date	436,079	218,321

b. Borrowings from banks

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Borrowings from banks	233,347	212,805
Total borrowings from banks	**233,347**	**212,805**
Borrowings from banks maturing within 12 months of the reporting date	175,000	175,000
Borrowings from banks maturing in more than 12 months of the reporting date	58,347	37,805

c. Debt securities

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Certificates of deposit issued to non-banking clients	1,656	6,544
Total debt securities	**1,656**	**6,544**
Liabilities maturing within 12 months of the reporting date	500	203
Liabilities maturing in more than 12 months of the reporting date	1,156	6,341

d. ECB collateral

in 000 of EUR

	2017	2016
Assets suitable for ECB collateral	**216,673**	**195,704**
- Available-for-sale financial assets	109,125	41,087
- Held-to-maturity investments	46,559	78,764
- Loans	60,989	75,853
Assets pledged into ECB Pool	**175,000**	**175,405**
Non-pledged assets (pledge-free assets)	**41,674**	**20,299**
Value of ECB Pool	**216,673**	**195,704**

PIndividual disclosures of investments/loans in Notes 17 and 20 indicate pledged amounts with ECB with interest.

29. Subordinated liabilities

in 000 of EUR

Currency	Maturity date	Interest rate	31 Dec 2017		31 Dec 2016	
			Principal	Interest	Principal	Interest
EUR	21. 2. 2017	6mEUR+0.65%	-	-	38,000	1
EUR	30.10. 2018	3mEUR+4.00%	15,000	4	15,000	3
EUR	29. 7. 2026	11.00%	15,000	14	15,000	715
	.		30,000	18	68,000	719
Total subordinated liabilities				**30,018**		**68,719**
Subordinated borrowings maturing within 12 months of the reporting date				15,018		38,719
Subordinated borrowings maturing in more than 12 months of the reporting date				15,000		30,000

In 2007 and 2008, the Bank signed 2 contracts for subordinated borrowings, which are included in the Bank's supplementary, tier 2 capital in line with the banking regulations. In 2016 the Bank received new subordinated debt, which is also a the Bank's tier 2 instrument.

The issued contracts do not include any provisions on the conversion to capital or any other obligation, such as a withdrawal clause.

Fair value is disclosed in Note »Fair values of financial assets and liabilities« on page 112.

30. Other financial liabilities

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Commissions payable	19	5
Trade payables	1,021	1,177
Liabilities for wages and salaries	604	617
Liabilities for taxes and contributions	377	378
Accrued costs	3,506	1,646
Other accrued costs and deferred revenue	58	13
Other liabilities from business relationships	3,867	2,934
Total other financial liabilities	**9,452**	**6,770**

The item “Accrued cost” includes accrued employee bonuses for 2017 in the amount of EUR 1,139 thousand (2016: EUR 723 thousand), which will be paid in 2018.

The largest part of the item “Other liabilities from business relationships” are liabilities from card transactions and liabilities for outstanding payments.

31. Provisions

a. Changes in provisions

in 000 of EUR

	Provisions for off-balance-sheet liabilities		Provisions for employee benefits					
	Specific Risk Provision	Portfolio Risk Provision	Termination benefits upon retirement	Jubilee benefits	Provisions for outstanding legal disputes	Provisions for restructuring	Other provisions	Total
Balance at 1 Jan 2016	**5,088**	**5,857**	**322**	**127**	**652**	**2,053**	**200**	**14,299**
Creation during the year	1,368	1,566	99	37	15	312	-	3,397
Reversals during the year	2,444	5,085	-	6	-	-	-	7,535
Utilization during the year	-	-	-	15		1,771	50	1,836
Transfer between items	-	-	-	-	150	-	(150)	-
Balance at 1 Jan 2017	**4,032**	**2,317**	**421**	**143**	**817**	**594**	**-**	**8,324**
Creation during the year	2,763	7,401	52	21	175	228	54	10,694
Reversals during the year	2,277	6,898	-	-	138	-	-	9,313
Utilization during the year	-	-	-	20	407	633	-	1,060
Change in discount rate	-	-	(5)	-	-	-	-	(5)
Balance at 31 Dec 2017	**4,518**	**2,820**	**468**	**144**	**447**	**189**	**54**	**8,640**

b. Provisions for termination benefits upon retirement and jubilee benefits

in 000 of EUR

	Provisions for termination benefits upon retirement - 2017	Provisions for jubilee benefits - 2017	Provisions for termination benefits upon retirement - 2016	Provisions for jubilee benefits - 2016
Balance of provisions at 1 Jan	**421**	**143**	**322**	**127**
Interest costs	4	1	6	2
Past service costs	-	-	34	7
Current service costs	48	17	44	17
Payments of earnings	-	(20)	-	(16)
Actuarial gains (losses) from	(5)	-	15	6
- experience adjustments	(12)	(1)	(6)	7
- changes in financial assumptions	7	1	21	(1)
Balance of provisions at 31 Dec	**468**	**144**	**421**	**143**

Major assumptions included in the actuarial calculation are:

- average interest rate: 0.95%,
- number of employees entitled to receive payments: 345,
- assessment of future growth in jubilee benefits: 0.5% annually,
- expected mortality of employees is taken into account in accordance with the Slovenian mortality tables 2000-2002 separately by gender.

All changes in provisions for jubilee benefits are recognized in profit or loss. The same applies to changes in provisions for termination benefits upon retirement, except for the actuarial gains and losses arising from provisions for termination benefits upon retirement, which are recognized in comprehensive income.

c. Analysis of sensitivity of provisions for termination benefits upon retirement and jubilee benefits to changes

in 000 of EUR

Parameters	Change in parameter	Provisions for termination benefits upon retirement	Provisions for jubilee benefits	Total
Discount interest rate	Shift in discount curve (0.5%)	39	6	45
	Shift in discount curve (0.5%)	(35)	(6)	(41)
Increase in salaries and wages	Change of annual growth in salaries and wages (0.5)	4	-	4
	Change of annual growth in salaries and wages (0.5)	(4)	-	(4)
Death rate	Fixed decrease in death rate for 1 year	40	-	40
	Fixed increase in death rate for 1 year	(35)	-	35

d. Anticipated termination benefits upon retirement

in 000 of EUR

	Current year	Previous year
Next year	6	-
Next 2 to 5 years	6	5
Next 5 to 10 years	79	63
In the next more than 10 years	1,556	2,002
Average duration of termination benefits upon retirement	23.7	25.8

32. Deferred tax

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Deferred tax assets		
Available-for-sale financial assets (through other comprehensive income)	21	-
Available-for-sale financial assets (through profit or loss)	220	-
Different depreciation/amortization rates for operating and tax purposes	325	-
Provisions	76	-
Tax loss	2,100	-
Total deferred tax assets	2,742	-
Deferred tax liabilities		
Available-for-sale financial assets (through other comprehensive income)	190	94
Total deferred tax liabilities	190	94
Net deferred tax assets (liabilities)	2,552	(94)
Included in the statement of profit or loss	**2,721**	-
Available-for-sale financial assets (through profit or loss)	220	-
Different depreciation/amortization rates for operating and tax purposes	325	-
Provisions	76	-
Tax loss	2,100	-

Included in equity	(76)	(60)
Available-for-sale financial assets (through other comprehensive income)	(76)	(60)

Deferred taxes are calculated based on temporary differences using the liability method under the statement of financial position and using the tax rate planned for the year when temporary differences are to be reversed, i.e. 19 percent.

33. Other liabilities

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Liabilities for taxes and contributions	413	469
Deferred revenues	352	469
Total other liabilities	**765**	**938**

34. Equity

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Share capital	89,959	89,959
Capital reserves	18,814	18,814
Revaluation surplus	343	(102)
Profit reserves (including retained losses)	12,901	-
Profit for the year	18,955	12,901
Total	140,972	121,572

The Bank is 100-percent owned by Addiko Bank AG with headquarters in Vienna, Austria.

a. Share capital

Share capital is recorded in the nominal value and has been subscribed and paid-up by the owners.

The last increase in share capital was carried out in 2008, when the Bank raised it by EUR 60,000 thousand by issuing 14,378,489 of no-par value shares representing 52.61 percent increase in subscribed capital. All shares were paid in full.

In 2015, share capital was reduced by a simple procedure to cover losses from previous years. After these entries, there are now a total of 41,706,318 no-par value shares with the designation HYPG in the Central Register. In terms of rights, all shares are ordinary registered no-par value shares.

b. Capital reserves

In 2016, there was an increase in capital reserves of EUR 10,000 thousand due to the owner's contributions and a reduction in capital reserves of EUR 52,186 thousand to cover losses from 2015. At the end of 2016, capital reserves thus equalled EUR 18,814 thousand and remained at the same level in 2017.

c. Accumulated other comprehensive income

Accumulated other comprehensive income relates to valuation of available-for-sale financial assets. At the end of 2017, revaluation surplus amounted to EUR 343 thousand (31 December 2016: EUR -102 thousand).

d. Profit reserves

Profit reserves may only be made from the amounts of net profit for the financial year and profits brought forward. They are intended primarily for the settlement of potential future losses. They are classified as legal reserves, reserves for own shares, own shares, statutory reserves and other profit reserves.

According to the provisions of the Companies Act, the amount of the Bank's reserves, which comprise legal and capital reserves, has to be equal to 10% of the Bank’s share capital or more if so defined by the Articles of Association. When legal and capital reserves together do not amount to the above stated amount of share capital, the Bank has to transfer 5% of net profit less the amount used to cover potential losses brought forward to reserves.

Capital and legal reserves (time reserves) may only be used under the following conditions:

a. If the total amount of these reserves does not reach the percentage of share capital determined by law or the Articles of Association, they may only be used:

- to cover net loss for the financial year if it cannot be covered from retained earnings or from other profit reserves;
- to cover loss brought forward if it cannot be covered from the net profit for the financial year or from other profit reserves.

b. If the total amount of these reserves exceeds the percentage of share capital determined by law or the Articles of Association, the surplus amount of these reserves may be used:

- to increase share capital from the Bank’s assets;
- to cover net loss for the financial year if it cannot be covered from retained earnings, provided that profit reserves are not simultaneously used for a pay-out of profit to the members, or
- to cover net loss brought forward if it cannot be covered from net profit for the financial year, provided that profit reserves are not simultaneously used for a pay-out of profit to the members.

The Bank has no legal reserves, whilst reserves from retained earnings from previous years stood at EUR 12,901 thousand at the end of 2017.

e. Net profit for the financial year

In 2017, the Bank disclosed profit of EUR 18,955 thousand (in 2016: EUR 12,901 thousand).

Net profit for the year may be used to:

- create legal reserves,
- establish reserves for own shares,
- create statutory reserves and
- create other profit reserves.

At the Assembly Supervisory Board and Managemement Board will propose the decision to allocate the Bank's 2017 profit as follows:

- EUR 7,000 thousand to be paid to the Bank's owner and
- EUR 11,955 thousand to be transferred to retained earnings from previous years.

The table below shows accumulated profit.

in 000 of EUR

	2017	2016
Profit for the year	18,955	12,901
Retained net profit (loss)	12,901	(52,186)
Decrease in capital reserves	-	52,186
Total accumulated profit	**31,856**	**12,901**

35. Contingent and assumed financial liabilities

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Guarantees	**85,840**	**77,116**
Service guarantees	**70,666**	**63,445**
Short-term	24,003	15,373
Long-term	46,663	48,072
Financial guarantees	**15,174**	**13,671**
Short-term	7,234	5,975
Long-term	7,940	7,697
Assumed liabilities from loans approved	**135,482**	**107,789**
Approved loans	**32,818**	**15,493**
Short-term	7,098	5,981
Long-term	25,720	9,512
Approved credit lines	**102,664**	**92,296**
Derivative financial instruments	**285,468**	**225,730**
Total contingent and assumed financial liabilities	**506,790**	**410,635**

Assumed liabilities from approved loans can be drawn within one year at the latest.

Residual maturities of financial guarantees are presented in Note »Financial risk management, Liquidity risk".

11.4.5 Other Explanations

36. Fiduciary activities

In accordance with local legislation (Decision on the Books of Account and Annual Reports of Banks and Savings Bank, published in the Official Gazette RS no. 50/15), this note includes assets and liabilities of clients resulting from brokerage transactions.

These assets were in 2016 recorded separately from the Bank's own assets in the off-balance-sheet records (authorized operations).

At the end of October 2016, the Bank transferred assets and liabilities to Alta Invest, investicijske storitve, d.d. in compliance with the signed Agreement on Transfer of Financial Instruments, thus ceasing its fiduciary activities.

in 000 of EUR

	31 Dec 2017	31 Dec 2016
ASSETS	-	**10**
Receivables from the settlement account or transaction accounts for clients' assets	-	10
From financial instruments (35.a)	-	10
LIABILITIES	-	**10**
Liabilities for the settlement account or transaction accounts for clients' assets	-	10
To bank or bank's settlement account for commission, costs and similar items	-	10

a) Receivables from the settlement account or transaction accounts for clients' financial instruments

	31 Dec 2017	31 Dec 2016
Clients' financial instruments, separately by service	-	10
Receiving, brokerage and processing of orders	-	10

37. Related party transactions

a) The Bank's exposure to parties in special relationship with the Bank

in 000 of EUR

	Members of the Management Board and their immediate family members, employees with management service contracts	
	2017	2016
Loans granted		
Balance at 1 Jan	1,082	2,162
New loans	34	240
Repayments	88	237
Changes in the composition of parties	(574)	(1,083)
Balance at 31 Dec	454	1,082
Interest, fee and commission revenue	10	15
Deposits received		
Balance at 1 Jan	175	431
Balance at 31 Dec	156	175
Interest expenses	4	1

Overdrafts and loans approved		
Balance at 1 Jan	182	206
Balance at 31 Dec	75	182

b) Remunerations of employees with management service contracts in 2017

in 000 of EUR

	2017
Fixed pay	1.962
Variable pay	200
Reimbursement of costs	110
Supplementary pension insurance	43

c) Remunerations of the Management Board in 2017

in 000 of EUR

	2017
Fixed pay	636
Variable pay	131
Reimbursement of costs	28
Supplementary pension insurance	9

d) Remunerations of the Supervisory Board in 2017

In accordance with the Rules of Procedure of the Supervisory Board, members of the Supervisory Board employed by the Addiko Group are not entitled to attendance fees or bonus payments. Bonus payments and attendance fees belong just to the external member Henning Giesecke, who received EUR 12 thousand in 2017.

In 2017 and 2016, members of the Supervisory Board were not clients of the Bank.

e) The Bank's exposure to related parties

in 000 of EUR

	Controlling company		Related companies*	
	2017	2016	2017	2016
ASSETS				
Financial assets held for trading				
Balance at 1 Jan	60	83	-	-
Balance at 31 Dec	946	60	-	-
Demand deposits				
Balance at 1 Jan	117,220	2,886	2,504	595
Balance at 31 Dec	13,478	117,220	195	2,504
Short-term deposits				
Balance at 1 Jan	6,644	5,618	-	-
Balance at 31 Dec	-	6,644	-	-
Loans				
Balance at 1 Jan	-	-	350	38,520
New loans	120,158	-	-	350
Repayments	-	-	350	38,520
Balance at 31 Dec	120,158	-	-	350
Other financial assets				
Balance at 1 Jan	-	294	400	910
Balance at 31 Dec	701	-	7	400

in 000 of EUR

	Controlling company		Related companies*	
	2017	2016	2017	2016
LIABILITIES				
Financial liabilities held for trading				
Balance at 1 Jan	1,498	2,459	-	-
Balance at 31 Dec	885	1,498	-	-
Demand deposits				
Balance at 1 Jan	-	-	954	2,796
Balance at 31 Dec	-	-	394	954
Short-term deposits				
Balance at 1 Jan	-	-	-	-
Increase	575	-	-	-
Balance at 31 Dec	575	-	-	-
Long-term deposits				
Balance at 1 Jan	-	107,725	-	-
Increase	-	6,009	-	-
Decrease	-	113,734	-	-
Balance at 31 Dec	-	0	-	-
Subordinated debt				
Balance at 1 Jan	68,719	73,003	-	-
Increase	9	15,716	-	-
Decrease	38,710	20,000	-	-
Balance at 31 Dec	30,018	68,719	-	-
Other liabilities				
Balance at 1 Jan	406	419	93	260
Balance at 31 Dec	692	406	332	93
OFF-BALANCE-SHEET RECORDS				
Guarantees issued				
Balance at 1 Jan	-	-	-	52
Balance at 31 Dec	-	-	-	-
Guarantees received				
Balance at 1 Jan	-	-	-	-
Balance at 31 Dec	-	-	2,537	-
PROFIT OR LOSS				
Interest revenue	190	20	6	369
Interest expenses	3,111	4,611	1	1
Fee and commission revenue	1	-	3	72
Fee and commission expense	2	806	3	3
Other revenue	520	361	-	328
Other expenses	719	446	338	77
Investment impairment	3	-	-	265

*Addiko Bank AG Austria, Hypo Alpe-Adria Leasing, d. o. o., Ljubljana, Addiko Bank, d. d., Zagreb, Addiko Bank d.d., Sarajevo, Addiko Bank a.d., Banja Luka, Addiko Bank a.d., Beograd, Addiko Bank a.d., Podgorica.

The Bank is 100-percent owned by Addiko bank AG. Up to 1 February 2017, the Bank had a subsidiary Hypo Leasing d.o.o. It is also related to banks and companies in the Addiko Group through its parent bank.

The Bank conducts business with the parent bank, related banks and companies in the areas of loans and deposits and issuance of letters of credit and guarantees, which is also presented in the table above.

In accordance with Article 545 of the Companies Act, we hereby declare that to the extent of circumstances known to it, the Bank performs services between related parties under market conditions.

In all transactions with the parent bank and other related companies in the Group in 2017, the Bank has obtained appropriate payments and has not suffered any loss as a result of these transactions.

11.5 Financial Risk Management

Risk control and monitoring

Risk awareness and proactive focus on risk management are the two key elements, which are reflected in the operating activities of the Addiko Group. The Bank manages and monitors its risks in all business segments in order to optimize its risk profile and efficiency, taking into account its capacity for risk taking and managing, thus protecting the Bank's creditors. In cooperation with the owners and the Supervisory Board, the Bank's risk-related activities affect the operating and risk policy for its interests. In this respect, it carries out compatible procedures, strategies and methods for risk control.

The following principles for general control of the Bank are in place:

- For all types of risks, the Bank follows clearly defined procedures and organizational structures, in line with which all tasks, responsibilities and competencies of participants are defined and aligned.
- Sales department and back-office and trading, settlement and monitoring departments are functionally separated to prevent conflicts of interest in compliance with the minimum standards for credit operations and the Slovenian Banking Act (ZBan-2).
- The Bank implements adequate and mutually compatible procedures for identifying, analysing, measuring, merging, controlling and monitoring all types of risks.
- Adequate limitations are defined and efficiently monitored for all types of material risks.

Risk strategy and Risk Appetite Framework (RAF)

The Bank's risk strategy is based on the business strategy and describes the planned business structure of strategic development and growth, taking into account the processes, methodologies and organizational structures, which are important for managing risk factors. As such, the risk strategy represent the bridge between the Bank's business strategy and its risk appetite. It is also a tool for managing the Bank's risks at the highest level and ensures the framework that serves to control, monitor and mitigate risks related to banking operations as well ensures the adequacy of internal capital, the Bank's liquidity position and entire profitability through the cycle.

The Bank's main objectives are merged into the following principal objectives of the risk strategy:

- The risk strategy defines limitations on risk appetite, so that business continuity is always ensured.
- The primary objective of the risk strategy is to preserve internal capital and liquidity position by enabling control of the risks necessary for normal and stress scenarios.
- The secondary objective of the risk strategy is to define an adequate and acceptable risk structure that is aligned with the Addiko Group's business strategy. Risk profile also has to be defined as well as certain measures and rules for risks and risk measurement in order to comply with the defined risk profile.
- Efficient management (including data quality) and implementation of the approach taking into account early warning indicators, the aim of which is long-term alignment of internal capital and liquidity position.
- Assurance of the organizational framework for routine management and decision-making procedures, which enable prudent and continuous control of all risk related to the Addiko Group's business model.

Setting up framework policies and documents defining compliance requirements.

The strategic objectives of the strategy enable the Bank to:

- prevent losing current client base and prevent losing existing business with clients;
- focus on the desired range of clients;
- support new business loans by understanding the related risks and their mitigation;
- understand the client's life cycle and long-term profitability cycle;
- ensure consistency of the entire risk profile, capital and liquidity position;
- strive to achieve the highest possible return on risks.
- In 2017, the risk appetite was redefined again within the Risk Appetite Framework. This framework includes risk dimensions that should be managed, including the statement and certain measures and performance indicators.

Risks organization

The Bank set up a single organizational structure where risk management responsibilities for individual segments are segregated and they all answer directly to the CRO (member of the Management Board responsible for risk management). The organizational structure is defined in more detail in the Target Operating Model project.

Organizational structure of the risk management segment:

- Credit Risk Management
- Risk Controlling
- Retail Risk Management

Credit Risk Management is divided further into the Department for Credit Risk Assessments and the Department for Bad Debt Management.

The Department for Credit Risk Assessments ensures individual risk assessments, risk management, monitoring and reviews for corporate clients (small, medium-sized and large enterprises), financial institutions and public sector entities. The department has both operational and strategic roles related to credit risk management. Its operational role includes analysis and approval of loan applications in compliance with the defined approval limitations from the policy.

The Department for Bad Debt Management deals with clients with delay of over 90 days, individually impaired clients, clients in insolvency proceedings and clients in restructuring process.

Risk Controlling covers monitoring of and reporting on all basic risks the Bank detects and also manages these risks. It deals with portfolio review, reporting, identification, measurement and recommends risk limitations, performing the function of the integral risk manager.

In 2017, **Retail Risk Management** continued adjusting the credit policy to the current guidelines for the retail segment and small and medium-sized enterprises with the objective of ensuring a profitable portfolio growth in relation to the assumed risk level, which is defined in the annual business plan. Credit product risks are monitored regularly through portfolio analyses, which is the basis for adjusting the credit policy in the direction of the Bank's target portfolio.

On the basis of the changes in the portfolio of individuals and micro and medium-sized enterprises, different strategies of recovery are being developed to minimize exposure to non-payers by using various tools of restructuring. In 2017, the Bank upgraded the early collection model, which is based on immediate action in case of overdue liabilities.

Employees in the above mentioned departments are continually involved in active monitoring and assessment of the risk management process by:

- identifying individual risk exposures the Bank is subjected to,
- defining methods used to measure risks that are materially significant,
- defining risk management policies pertaining to individual risks,
- proposing individual risk exposure limits; and
- performing other tasks to mitigate the risks the Bank is exposed to.

The Bank's Management Board defines the Bank's strategy and goals and is responsible for assumed risks (within the Group's strategy and goals). The strategy is defined in more detail in the internally adopted document "Risk Strategy"; important decisions and risk parameters are monitored within the ALCO (Asset and Liabilities Committee) and RECO (Risk Executive Committee) committees. Business segments are responsible for implementing business goals and for risk management related to these goals. Risk is managed actively on all levels and within the valid risk limits (defined by divisions/functions that are independent in respect of operating sectors) by performing activities for assuming, avoiding, mitigating, transferring and diversifying risks.

In 2017 the Bank continued to pursue its objectives of efficient management and control of risk weighted assets and its optimization, to ensure quality capital management. The Capital Steering Group (CSG) was established already in 2012 for this particular purpose. The CSG meets monthly or as necessary, and is monitoring the amount and structure of capital and capital requirements, and consequently the processes that ensure capital adequacy as prescribed by the Bank of Slovenia and the internally set limits.

The Bank manages its capital adequacy, both in terms of legislation and in terms of internal planning, i.e. monthly Internal Capital Adequacy Assessment Procedure - ICAAP. For this reason the Bank established monthly credit portfolio monitoring and appropriate measures to be taken if the set limit exposures are exceeded. Such cases are reported to the ALCO and RECO committees. To ensure appropriate level of capital adequacy, the Bank has set RWA (Risk Weighted Assets) limits for controlling the capital adequacy ratio. Within the framework of its risk management activities, the Bank pursues legislative changes and guidelines. In the context of the implementation of the new capital directive CRD IV/CRR and Basel III, the Bank successfully completed the project and introduced all the necessary activities in the reporting process and in the future operations of the Bank in accordance with the strategy.

Capital adequacy ratios (Pillar I, II, BRRD) are also reported and discussed at the regular monthly meetings of the RECO and ALCO committees. By establishing the framework for the recovery and resolution of credit institutions (BRRD/recovery plan) and defining indicators within the Risk Appetite Framework, the Bank monitors regularly the ratios defined and reports at the RECO meetings at least on a quarterly basis.

Projects

In 2017, the Bank implemented several major projects for risk management, thus upgrading the existing detection, monitoring and limiting of risks. Key projects in 2017:

- RWA (Risk Weighted Assets) optimization:

  Review of calculations of risk weighted assets, optimization of risk-free items and compliant reporting

- Project for report automation within the Addiko Group

  Preparation of structures and data for the purposes of preparing centralized reports at the Group level, thus decreasing the operational risk of errors and multiple compilation of reports within the Addiko Group
- IFRS 9 project

  Transition to the amended International Financial Reporting Standard 9, for which we had to comprehensively re-engineer the process of impairments, accounting entries and modifications as well as introduce groups (Group 1, Group 2), for which we had to upgrade the impairment calculation with lifetime losses.

11.5.1 Credit Risk

Credit risk is the risk of financial loss resulting from the debtor's inability to fulfil his financial or contractual obligations towards the Bank, in part or in full, for any reason. Credit risk management is a key component of the Bank's diligent and safe operations. Diligent credit risk management comprises prudent management of the relationship between risk and return and supervision and reduction of credit risk through different perspectives, such as quality, concentration, currency, maturity, collateral and type of loan.

Throughout the duration of the credit relationship with the client, the Bank monitors client's operations and quality of the financial asset's collateral or the assumed liability.

The starting point for monitoring and classification of clients is a systematic review of the Bank's portfolio. On the basis of internal methodology, the Bank classifies the financial assets measured at amortized cost or assumed liabilities in the off-balance sheet items.

In 2010, the Bank had, in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU and the decisions of the Bank of Slovenia, considered all the exposures where the Bank's exposure to a single debtor exceeded EUR 150,000 as individually relevant financial asset or assumed liability in the off-balance-sheet items and had regularly and individually assessed them.

Other key indicators of potential impairment of a financial asset, which are used by the Bank as criteria for individual assessment of a debtor, are:

- the client is in delay with repayment of its obligations in materially significant amount for over 90 days;
- bankruptcy or compulsory settlement of the client;
- proof of client's serious financial problems, including reprogramming due to the client's economic, legal or other problems, irregular settlement of liabilities within the group of related entities and significant economic problems in the client's industry.

For clients that represent individually insignificant exposure for the Bank or for clients for whom the Bank estimates, based on individual assessment, that individual impairment of the financial asset is not required, a collective calculation of the portfolio impairment of the financial asset is made in accordance with the IFRS requirements. The Bank recognizes the percentage of the group impairment as loss in the profit or loss.

The Bank has procedures in place for monitoring the credit quality of debtors, which enable timely detection of debtors in financial difficulty. In case of financial difficulties of a debtor the Bank pursues the process of restructuring for debtors who have no perspective to limit the Bank's losses and to enhance the chances for successful restructuring, survival and at least partial repayment of debts for viable debtors.

In the process of restructuring the Bank uses measures such as:

- extension of deadline or deferred repayment of amounts receivable,
- reduction in interest rates or other costs,
- write-off of receivables,
- debt-to-equity swap,
- collection of other assets for partial or full repayment of a receivable.

Following restructuring, the Bank regularly monitors the debtor's settlement of obligations in accordance with the new conditions agreed upon and takes further steps to achieve a successful restructuring of the debtor.

The Bank has adopted additional measures designed to ensure appropriate control of credit risks. New tools were added to the investment decision procedure in this respect; these tools are used for credit rating of clients.

Table of the Bank's and Group's internal credit ratings, mapped pursuant to credit ratings of external credit rating agencies and assigned best rating grade according to Bank of Slovenia:

Internal rating	PD	Assigned best rating grade according to Bank of Slovenia	S&P	Moody's	Fitch	Description
1A	0.00%	A	AAA, AA+	Aaa, Aa1, Aa2	AAA, AA+, AA	Investment grade
1B	0.03%	A	Aa, AA-			Investment grade
1C	0.07%	A	A+, A, A-	Aa3, A1, A2, A3	AA-, A+, A	Investment grade
1D	0.15%	A	BBB+, BBB	Baa1, Baa2	A-, BBB+, BBB	Investment grade
1E	0.30%	A	BBB-	Baa3	BBB-	Investment grade
2A	0.50%	A	BB+			Investment grade
2B	0.80%	A	BB	Ba1, Ba2	BB+, BB	Non-investment grade
2C	1.20%	A	BB-		BB-, B+	Non-investment grade
2D	1.70%	A		Ba3		Non-investment grade
2E	2.30%	A	B+	B1	B	Non-investment grade
3A	3.00%	A			B-	Non-investment grade
3B	3.9%	A		B2		Non-investment grade
3C	5.00%	A	B			Non-investment grade
3D	6.30%	B		B3		Non-investment grade
3E	7.50%	B		Caa1		Non-investment grade
4A	9.00%	B	B-			Non-investment grade
4B	11.00%	B				Non-investment grade
4C	14.00%	C				Non-investment grade
4D	19.00%	C		Caa2		Non-investment grade
4E	25.00%	C	CCC/C	Caa3, Ca to C	CCC to C	Non-investment grade
5A	100.00%	D	D	D	D	Default class
5B	100.00%	D	D	D	D	Default class
5C	100.00%	D	D	D	D	Default class
5D	100.00%	D	D	D	D	Default class
5E	100.00%	E	D	D	D	Default class

The Bank also pays special attention to identification and monitoring of credit risk concentration. The risk management department prepares regular monthly reports on risks in the Bank's credit portfolio for the decision makers; they include reporting on exposure, excessive concentration, above all in specific industries, credit rating groups and the type of collateral. The key indicators are presented at the ALCO and RECO committee meetings.

Total credit risk exposure of the Bank at 31 December 2017 amounts to EUR 1,759,099 thousand. The capital requirement in respect of credit risks is presented in the equity calculation table.

Different outlines of credit risk exposures as at 31 December 2017 are presented below:

a) **The highest (maximum) credit risk exposure without taking into consideration collateral or other improvements** (the carrying amount of the receivable decreased for potential loss and impairment; in the case of financial assets at fair value, the amounts in the table below show the present fair value and do not show the risk resulting from the future change of the fair value).

in 000 of EUR

Banka	2017			2016		
	Gross	Adjustment	Net	Gross	Adjustment	Net
I. Balance-sheet items	**1,577,976**	**40,569**	**1,537,407**	**1,605,677**	**59,024**	**1,546,654**
1. Cash on hand and balances with the Central Bank	117,908	-	117,908	134,450	-	134,450
2. Loans to banks	148,085	-	148,085	138,103	-	138,103
3. Loans to non-banking clients	1,104,080	40,569	1,063,511	1,166,272	59,024	1,107,248
3a. Retail loans	610,407	12,403	598,004	560,463	11,507	548,956
- housing loans	308,870	5,766	303,104	361,258	7,641	353,617
- consumer loans	281,210	6,034	275,176	185,606	3,403	182,203
- other	20,327	602	19,724	13,599	463	13,136
3b. Corporate loans	493,673	28,166	465,506	605,810	47,517	558,292
- large enterprises	134,979	1,639	133,340	295,943	19,690	276,253
- small and medium-sized enterprises	202,766	19,895	182,871	153,516	8,604	144,912
- other	155,928	6,633	149,295	156,350	19,223	137,127
4. Financial assets held for trading	6,275	-	6,275	8,551	-	8,551
5. Financial assets held to maturity and available-for-sale financial assets	195,269	-	195,269	153,008	-	153,008
6. Other financial assets	6,361	-	6,361	5,293	-	5,293
II. Off-balance-sheet items	**181,123**	**3,670**	**177,453**	**130,637**	**2,882**	**127,754**
1. Payment guarantees	16,404	2,208	14,196	13,671	1,939	11,733
2. Undrawn loans	164,719	1,463	163,257	116,965	944	116,022
Total maximum exposure	**1,759,099**	**44,239**	**1,714,860**	**1,736,314**	**61,906**	**1,674,408**

Item »Other« in the category "Corporate loans« refers to business entities, which are defined as micro units i.e. business entities for which the size is not calculated according to the criteria of the RS (e.g. municipalities). This applies to all the data hereinafter within the category "Corporate loans".

b) Summarized exposure and impairment percentage by credit rating segment

in 000 of EUR

Credit rating	2017				2016			
	Gross	Adjust-ment	Gross (%)	Adjustment (%)	Gross	Adjustment	Gross (%)	Adjustment (%)
A	1.307.541	7.738	91,23%	17,49%	1.292.101	6.144	90,04%	9,92%
B	54.791	643	3,82%	1,45%	50.630	804	3,53%	1,30%
C	21.072	894	1,47%	2,02%	13.964	404	0,97%	0,65%
D	44.632	30.546	3,11%	69,05%	63.833	44.049	4,45%	71,15%
E	5.251	4.418	0,37%	9,99%	14.483	10.506	1,01%	16,97%
TOTAL	**1.433.288**	**44.239**	**100,00%**	**100,00%**	**1.435.012**	**61.906**	**100,00%**	**100,00%**

The Bank values received collateral pursuant to the internal Manual on Management and Valuation of Collateral. The value of collateral depends above all on market conditions, time remaining to the realization of the collateral and related costs. Conditions for appropriate collateral for those exposures are defined in the Bank's internal acts. The Bank pays special attention to continuous improvement of all conditions for legal executability of collaterals. In the case of default the Bank is entitled to sell the assets received as collateral in accordance with the contractual and applicable legal provisions.

c) Credit risk concentration by geographic location

in 000 of EUR

31 Dec 2017	Slovenia	Other EU countries	Former Yugoslavia countries	Other	Total
Item					
I. Balance-sheet items	**1,420,627**	**150,744**	**6,333**	**271**	**1,577,976**
1. Cash on hand and balances with the Central Bank	117,908	-	-	-	117,908
2. Loans to banks	2,984	144,869	-	232	148,085
3. Loans to non-banking clients	1,097,341	366	6,333	40	1,104,080
3a. Retail loans	609,887	346	135	39	610,407
- housing loans	308,423	286	127	34	308,870
- consumer loans	281,164	44	-	2	281,210
- other	20,299	16	8	3	20,327
3b. Corporate loans	487,454	20	6,198	-	493,673
- large enterprises	134,979	-	-	-	134,979
- small and medium-sized enterprises	202,766	-	-	-	202,766
- other	149,710	20	6,198	-	155,928
4. Financial assets held for trading	765	5,509	-	-	6,275
5. Financial assets held to maturity and available-for-sale financial assets	195,269	-	-	-	195,269
6. Other financial assets	6,361	-	-	-	6,361
II. Off-balance-sheet items	176,050	5,067	2	5	181,123

1. Payment guarantees	**16,134**	**270**	**-**	**-**	**16,404**
2. Undrawn loans	159,916	4,797	2	5	164,719
Total maximum exposure to credit risk	**1,596,677**	**155,811**	**6,335**	**276**	**1,759,099**

in 000 of EUR

31 Dec 2016	**Slovenia**	**Other EU countries**	**Former Yugoslavia countries**	**Other**	**Total**
Item					
I. Balance-sheet items	**1,449,958**	**150,761**	**988**	**3,970**	**1,605,677**
1. Cash on hand and balances with the Central Bank	134,450	-	-	-	134,450
2. Loans to banks	965	132,842	351	3,945	138,103
3. Loans to non-banking clients	1,154,307	11,303	637	25	1,166,272
3a. Retail loans	559,725	538	174	25	560,463
- housing loans	360,669	408	161	19	361,258
- consumer loans	185,479	117	7	3	185,606
- other	13,577	12	7	2	13,599
3b. Corporate loans	594,582	10,765	463	-	605,810
- large enterprises	295,906	37	-	-	295,943
- small and medium-sized enterprises	153,516	-	-	-	153,516
- other	145,159	10,728	463	-	156,350
4. Financial assets held for trading	1,935	6,616	-	-	8,551
5. Financial assets held to maturity and available-for-sale financial assets	153,008	-	-	-	153,008
6. Other financial assets	5,293	-	-	-	5,293
II. Off-balance-sheet items	**124,302**	**6,326**	**3**	**6**	**130,637**
1. Payment guarantees	13,632	40	-	-	13,671
2. Undrawn loans	110,670	6,286	3	6	116,965
Total maximum exposure to credit risk	**1,574,260**	**157,087**	**991**	**3,976**	**1,736,314**

d) Credit risk concentration by industry

in 000 of EUR

31 Dec 2017	Financial institutions	Pro-duction	Real estate	Wholeale and retail trade	Public sector	Other Industries	Indivi-duals	Total
I. Balance-sheet items	358,359	114,010	76,118	64,361	193,152	161,569	610,407	1,577,976
2. Loans to banks	148,085	-	-	-	-	-	-	148,085
3a. Retail loans	-	-	-	-	-	-	610,407	610,407
- housing loans	-	-	-	-	-	-	308,870	308,870
- consumer loans	-	-	-	-	-	-	281,210	281,210
- other	-	-	-	-	-	-	20,327	20,327
3b. Corporate loans	42,135	111,039	76,050	64,192	43,185	157,071	-	493,673
- large enterprises	2,629	28,196	12,831	17,467	-	73,856	-	134,979
- small and medium-sized enterprises	17,405	71,441	36,055	31,072	5,565	41,228	-	202,766
- other	22,101	11,403	27,164	15,654	37,620	41,987	-	155,928
4. Financial assets held for trading	5,580	81	68	168	52	326	-	6,275
6. Other financial assets	6,361	-	-	-	-	-	-	6,361
II. Off-balance-sheet items	5,795	41,551	56,247	14,045	1,612	38,584	23,290	181,123
1. Payment guarantees	240	3,066	304	7,126	263	5,406	-	16,404
2. Undrawn loans	5,555	38,485	55,943	6,919	1,349	33,178	23,290	164,719
Total maximum exposure to credit risk	364,154	155,560	132,365	78,406	194,764	200,153	633,697	1,759,099

in 000 of EUR

31 Dec 2016	Financial institutions	Pro-duction	Real estate	Wholeale and retail trade	Public sector	Other Industries	Indivi-duals	Total
I. Balance-sheet items	473,935	119,175	68,495	54,284	184,656	144,669	560,463	1,605,677
1. Cash on hand and balances with the Central Bank	134,450	-	-	-	-	-	-	134,450
2. Loans to banks	138,103	-	-	-	-	-	-	138,103
3. Loans to non-banking clients	174,958	118,956	68,315	54,238	49,307	140,035	560,463	1,166,272
3a. Retail loans	-	-	-	-	-	-	560,463	560,463
- housing loans	-	-	-	-	-	-	361,258	361,258
- consumer loans	-	-	-	-	-	-	185,606	185,606
- other	-	-	-	-	-	-	13,599	13,599
3b. Corporate loans	174,958	118,956	68,315	54,238	49,307	140,035	-	605,810
- large enterprises	132,476	37,263	34,352	23,940	-	67,912	-	295,943
- small and medium-sized enterprises	19,022	65,640	13,865	23,105	981	30,904	-	153,516
- other	23,460	16,053	20,098	7,194	48,326	41,219	-	156,350
4. Financial assets held for trading	7,654	219	180	46	-	452	-	8,551
5. Financial assets held to maturity and available-for-sale financial assets*	13,478	-	-	-	135,349	4,182	-	153,008
6. Other financial assets	5,293							5,293
II. Off-balance-sheet items	6,323	50,162	10,870	15,324	974	25,596	21,388	130,637
1. Payment guarantees	10	3,129	199	6,082	263	3,989	-	13,671
2. Undrawn loans	6,313	47,033	10,671	9,242	711	21,607	21,388	116,965
Total maximum exposure to credit risk	480,258	169,337	79,365	69,608	185,630	170,265	581,851	1,736,314

At 31 December 2017, the Bank shows the maximum exposure to credit risk in the amount of EUR 1,759,099. Exposure for loans to non-banking clients amounts to EUR 1,104,080. The largest share in the segment of retail loans belongs to housing loans with 50.60%, whilst for corporate loans the largest share belongs to large enterprises with 41.07%. Most of receivables under this title belong to enterprises headquartered in the Republic of Slovenia and they account for 99.39% of total exposure.

The Group continuously monitors changes in its credit portfolio and assesses the possibilities of excessive concentration in individual industries using the SWOT analysis. These analyses are the basis for adoption of business decisions affecting the Bank's and Group's investment policies in respect of reduction of excessive exposure to industries with identified increased credit risk. Thorough analyses are prepared on a quarterly basis and are part of regular reporting and discussion at the RECO committee meetings.

e) Overview of credit risk for the item »Loans to banks« and »Loans to non-banking clients«, including off-balance-sheet credit exposures

in 000 of EUR

Exposure	2017 Loans to banks	2017 Loans to non-banking clients	2016 Loans to banks	2016 Loans to non-banking clients
Exposure neither in default nor impaired	-	12,989	-	153,760
Exposure in default but not individually impaired	-	2,432	-	5,480
Exposure not in default and collectively impaired	-	1,207,659	-	1,051,089
Individually impaired exposure	148,085	40,107	138,103	65,825
Total	**148,085**	**1,263,187**	**138,103**	**1,276,154**
Adjustment (impairment)	-	40,569	-	59,024
Net	**148,085**	**1,222,618**	**138,103**	**1,217,130**
Individual Impairments	-	**28,966**	-	**47,535**
Collective Impairments	-	11,604	-	11,489
Total	-	**40,569**	-	**59,024**

*The tables include the balance sheet and off-balance sheet exposure and exclude service guarantees.

f) Loans neither past due nor impaired

in 000 of EUR

31. 12. 2017	Loans to non-banking clients							
	Retail loans			Corporate loans				
Credit ratings	Housing loans	Consumer loans	Other	Large enter-prises	Small and medi-um-sized enterprises	Other	Total loans to non-banking clients	Loans to banks
Investment grade	-	-	2	10,214	3,008	11	13,235	-
Non-investment grade	-	1	7	419	62	18	507	-
Default class	-	0	1	-	-	31	32	-
Total	**-**	**1**	**9**	**10,633**	**3,070**	**60**	**13,774**	**-**

in 000 of EUR

31 Dec 2017	Loans to non-banking clients							
	Retail loans			Corporate loans				
Credit ratings	Housing loans	Consumer loans	Other	Large enter-prises	Small and medi-um-sized enterprises	Other	Total loans to non-banking clients	Loans to banks
Investment grade	-	1	3	137,040	649	559	138,252	-
Non-investment grade	-	5	6	14,976	1,111	135	16,233	-
Default class	-	-	2	37	-	20	60	-
Total	-	**6**	**10**	**152,053**	**1,760**	**715**	**154,544**	-

The tables include the balance sheet and off-balance sheet exposure and exclude service guarantees.

g) Loans past due but not impaired

in 000 of EUR

31 Dec 2017	Retail loans		
	Housing loans	Consumer loans	Other
in default up to 30 days	-	-	-
in default 31 to 60 days	-	-	-
in default 61 to 90 days	-	-	-
Total	-	-	-
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	-

in 000 of EUR

31 Dec 2017	Corporate loans		
	Large enter-prises	Small and medium-sized enterprises	Other
in default up to 30 days	-	-	-
in default 31 to 60 days	-	-	98
in default 61 to 90 days	-	-	-
Total	-	-	**98**
Internal collateral value	-	-	98
Unsecured part of exposure	-	-	-

in 000 of EUR

31 Dec 2016	Retail loans		
	Housing loans	Consumer loans	Other
in default up to 30 days	-	-	-
in default 31 to 60 days	-	-	2
in default 61 to 90 days	-	-	3
Total	**-**	**-**	**5**
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	5

in 000 of EUR

31 Dec 2016	Corporate loans		
	Large enter-prises	Small and medium-sized enterprises	Other
in default up to 30 days	-	-	1
in default 31 to 60 days	-	-	2
in default 61 to 90 days	-	-	1
Total	**-**	**-**	**4**
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	4

For calculation purposes we take into account the value of collateral up to the amount of loan exposure. In cases where the unsecured part of the exposure is 0, the amounts of overdue loans are fully secured.

*The tables include the balance sheet and off-balance sheet exposure and exclude service guarantees.

h) Past due and impaired loans to non-banking clients

Only individually impaired assets are taken into consideration. Collective impairments are calculated and treated as group impairments.

in 000 of EUR

31 Dec 2017	Retail loans			Corporate loans			
	Housing loans	Consumer loans	Other	Large enter-prises	Small and medi-um-sized enterprises	Other	Total
Individually impaired exposure	3,960	3,815	47	3,321	22,963	6,002	40,107
Individual impairments	3,164	3,260	47	500	17,164	4,832	28,966
Internal collateral value	1,113	1,212	0	2,905	10,600	2,303	18,132

in 000 of EUR

31 Dec 2016	Retail loans			Corporate loans			
	Housing loans	Consumer loans	Other	Large enter-prises	Small and medi-um-sized enterprises	Other	Total
Individually impaired exposure	5,154	2,743	53	29,349	9,931	18,595	65,825
Individual impairments	3,747	1,797	48	18,322	6,666	16,955	47,535
Internal collateral value	2,739	1,702	1	13,891	4,620	3,545	26,499

The table shows the following data:

- exposure of loans which are individually impaired before taking collaterals into consideration;
- amounts of individual impairments;
- internal value of collateral for loans which are individually impaired up to the amount of loan exposure.

The share of the Bank's exposure that is not past due and is not impaired represents 1.25% of total exposure of "Loans to non-banking clients". Exposures that are past due but are not individually impaired represent 0.01% of total exposure to non-banking clients.

*The tables include the balance sheet and off-balance sheet exposure and exclude service guarantees.

i) Restructured loans

Loan restructuring based on detected different risk factors usually stems from financial problems of borrowers. Restructured loans range from simple reduction of principal or interest rates to very complex restructuring, involving a number of different measures and usually also several different banks. In these cases, a joint agreement on restructuring is signed, which is prepared in accordance with the principles of Slovenian restructuring, endorsed and accepted by all Slovenian banks.

in 000 of EUR

	2017	2016	2017	2016
Restructured loans to non-banking clients (in thousands of EUR)	Gross	Adjustment	Gross	Adjustment
Balance of restructured loans at 1 Jan	49,166	34,018	74,110	51,461
Net increase/decrease	17,903	11,975	24,943	17,443
Balance of restructured loans at 31 Dec	31,263	22,042	49,166	34,018

j) Debt securities

The following table presents the credit quality analysis of debt securities by rating.

in 000 of EUR

31 Dec 2017	Available-for-sale financial assets	Held-to-maturity financial assets
Investment grade	152,785	42,484
Non-investment grade	-	-
Default class	-	-
Total	**152,785**	**42,484**

in 000 of EUR

31 Dec 2016	Available-for-sale financial assets	Held-to-maturity financial assets
Investment grade	70,062	82,634
Non-investment grade	313	-
Default class	-	-
Total	**70,375**	**82,634**

k) Repossessed collateral

As at 31 December 2016 and 2017, the Bank had no assets repossessed for settlement of liabilities.

l) Fair values of collateral

in 000 of EUR

	2017		2016	
	Individuals	Legal entities and sole proprietors	Individuals	Legal entities and sole proprietors
Collateral for individually impaired exposures	3,179	24,241	5,035	33,514
Land, real estate	3,021	17,647	4,962	24,446
Securities (shares, bonds, mutual fund points)	108	-	-	5
Other (guarantees, pledges, insurances)	50	6,594	73	9,063
Collateral for collectively impaired exposures	137,403	260,456	296,088	280,482
Land, real estate	85,284	186,273	215,039	178,345
Securities (shares, bonds, mutual fund points)	144	10,065	80,428	102,009
Other (guarantees, pledges, insurances)	51,976	64,117	621	127
Total*	**140,582**	**284,697**	**301,123**	**313,996**

*Collateral represents the weighted value of the collateral. For calculation purposes we take into account the value of collateral up to the amount of loan exposure.

Factors affecting the value of collateral depend on the type of collateral. Pledge values are determined based on past experience and depend on marketability, rating, time required for the realization of collateral and its costs, proceeds from realization, and foreign currency risk.

11.5.2 Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to fulfil its financial obligations in a timely and continuous manner. This risk derives from time inconsistency between received assets and liabilities.

The Addiko Group has developed its own Liquidity Ratio Tool (LRT) for the purpose of monitoring future liquidity needs. It is used for monitoring short-term liquidity.

The Bank manages liquidity risk on the basis of cash flows planning for various intervals. The LRT tool provides the basis for analysing short-term and structural (long-term) liquidity as it classifies cash flows to individual time buckets based on actual contractual plans, which allows for a presentation of the so-called deterministic cash flows. We also consider the stochastic cash flows, which result from modelling of certain assets and liabilities that have no maturity and are not liquid. To these we add liquidity potential that includes assets designated for liquidity needs and allocate it to time buckets in accordance with the adopted model. For monitoring short-term liquidity, a liquidity ratio is calculated based on scenarios prepared in advance for general and specific liquidity crises.

The Bank's liquidity is managed by the Asset Liability Management Department, which records all known liquidity flows. Liquidity calculations and reporting are the responsibility of the Market and Liquidity Risk Control Department.

Liquidity management is reviewed at weekly liquidity meetings and monthly ALCO meetings, where the following information is presented:

- the amount and compliance with the obligatory reserve,
- achieved liquidity ratios,
- status of refinancing by the parent bank,
- access to the primary liquidity of the Central Bank and
- other matters arising and requiring discussion.

The Annual Report shows contractual run-off analysis of cash flows. The run-off analysis presents contractual cash outflows and inflows for the future in relation to 31 December 2017.

The Bank's contractual cash flows as at 31 December 2017

in 000 of EUR

	2017	2018	2019	2020	>2020	NR*	Total
Financial assets							
Cash on hand and balances with the Central Bank	117,908	-	-	-	-	-	117,908
Financial assets held for trading	2,275	-	-	-	-	-	2,275
Available-for-sale financial assets	23,461	22,674	30,936	26,946	48,767	-	152,784
Loans	417,061	163,145	141,407	125,539	527,648	50,829	1,425,629
Held-to-maturity financial assets	-	1,028	19,923	9,958	11,574	-	42,483
Total financial assets	**560,705**	**186,847**	**192,266**	**162,443**	**587,989**	**50,829**	**1,741,079**
Financial liabilities							
Financial liabilities to the Central Bank	-	-	175,000	-	-	-	175,000
Financial liabilities held for trading	1,091	-	-	-	-	-	1,091
Financial liabilities measured at amortized cost	967,026	135,012	30,997	10,173	66,983	-	1,210,191
Total financial liabilities	**968,117**	**135,012**	**205,997**	**10,173**	**66,983**	-	**1,386,282**

*NR (Not Relevant) Balance sheet item, for which cash flow is not expected.

The Bank's contractual cash flows as at 31 December 2016

in 000 of EUR

	2017	2018	2019	2020	>2020	NR*	Total
Financial assets							
Cash on hand and balances with the Central Bank	134,450	-	-	-	-	-	134,450
Financial assets held for trading	2,047	-	-	-	-	-	2,047
Available-for-sale financial assets	43,262	-	11,216	-	15,588	-	70,066
Loans	363,400	164,595	123,245	107,189	485,750	79,233	1,323,412
Held-to-maturity financial assets	40,603	-	1,019	19,692	21,320	-	82,634
Total financial assets	**583,762**	**164,595**	**135,480**	**126,881**	**522,658**	**79,233**	**1,612,609**
Financial liabilities							
Financial liabilities to the Central Bank	-	-	-	175000	-	-	175,000
Financial liabilities held for trading	1,847	-	-	-	-	-	1,847
Financial liabilities measured at amortized cost	838,414	188,704	23,843	1,011	52,905	-	1,104,877
Total financial liabilities	**840,261**	**188,704**	**23,843**	**176,011**	**52,905**	-	**1,281,724**

*NR (Not Relevant) Balance sheet item, for which cash flow is not expected.

The Bank calculates the liquidity ratios on a daily basis in accordance with the Decision of the Bank of Slovenia on Minimum Requirements for Ensuring an Adequate Liquidity Position of Banks and Savings Banks. These ratios are calculated as the ratio between investments and liabilities under the residual maturity principle. First class liquidity ratio (maturity up to 30 days) must not fall below 1.

Liquidity ratios are as follows

	31 Dec 2017	31 Dec 2016
First class investments/assets (0-30 days)	1.35	1.33
Second class investments/assets (0-180 days)	0.67	0.80

In compliance with standards aligned with the Basel III standards, the Bank must calculate the LCR (liquidity coverage ratio) on a monthly basis and the NSFR (net stable funding ratio) on a quarterly basis.

Liquidity ratios are as follows

	31 Dec 2017	31 Dec 2016
LCR	363%	203%
NSFR	93%	88%

11.5.3 Market Risk

Market risks are potential losses that occur due to unfavourable market conditions and are linked to a company's exposure to individual market parameters or risk factors (currency exchange rates, interest rates, share prices, credit spreads).

Managing market risks in the Bank is a procedure that comprises identification, measuring, monitoring and mitigation of individual market risks in order to minimize the potential negative financial consequences. The set of rules, methodologies and responsibilities for market risk management is defined in the Framework Risk Policy and other policies and manuals for market risk management.

The Bank is exposed to different market risks through its daily operations, amongst other to position risk in securities, credit spread risk, currency risk and interest risk. The risks are managed through daily monitoring, calculation and reporting on risk rates, utilization of limits and achieved operational results.

The Bank has established a system of limits where market risk limits are determined pursuant to the annual plan and the owner's risk appetite. The competent departments of the parent bank jointly decide on these limits at least once a year. The procedure of confirmation of limits is formally concluded with acceptance of the suggested limits by the parent bank's Management Board and the Management Board of the Bank.

a) Trading book

The Bank's trading book serves primarily for monitoring services for clients and conclusion of trading transactions for asset&liability management in the Bank's own name and for its own account. The Bank offers its customers the possibility of concluding a variety of derivative financial instruments, which are in accordance with the approved limits for market risks immediately closed at the other bank (parent bank, adequate other bank) and thus minimized. The Bank is nevertheless exposed to counterparty credit risk, which is mitigated with the amount of limit for credit exposure to each individual client as well as measured and reported in accordance with the standardized approach. The Bank enters into foreign currency purchase/sale transactions in order to serve its clients and to balance its overall foreign currency position. Equity securities are reported in the banking (non-trading) book and were purchased mainly as a result of realizing collateral on non-performing investments.

For measuring the position risk in the trading book, the Bank uses the value at risk (VaR) method. This method gives information with a specific level of probability (which is defined with a confidence interval) that maximum expected loss within a defined time horizon (a period of holding a position) will not exceed the calculated amount. As a system support for the calculation of value at risk, the Bank uses the PMS system (Portfolio and Risk Management System), for the development and improvement of which are responsible the departments of Information Technology and Market Risk Controlling of the parent bank. In order to determine the risk parameters, the Bank uses a 250-day time series of exponentially weighted daily yields. The used methodology for calculation of value at risk is the Monte Carlo method with 10,000 simulations and a 99-percent confidence interval (1-day position holding).

Changes in VaR for 2017 (trading and banking book)

in EUR

	Maximum	Minimum	Average
Equity securities	5,892	3,329	4,235
Derivatives	243	6	112

Changes in VaR for 2016 (trading and banking book)

in EUR

	Maximum	Minimum	Average
Equity securities	7,024	2,555	4,817
Derivatives	349	10	167

Besides the value-at-risk limits (VaR-limits), the entire system of limits also includes exposure limits, limits for the maximum permitted loss and other limits, including minimum rating of the securities issuer, allowed product forms and markets. These measures ensure that the positions are in line with the outlined business strategy.

b) Interest rate risk in the banking book

The interest rate risk is the risk of loss arising from different maturities and dynamics of interest rate fluctuations of interest-rate sensitive assets and sources of financing these assets.

The result of measuring the Bank's exposure to interest rate risk is the net present value of differences between assets and liabilities, which are subject to market interest rate changes in the given time period. Taking into account the Basel guidelines, the Bank regularly checks the influence of interest rate shock in the amount of 200 basis points and internally tightens the 20-percent absorption effect of net equity of the Bank at the prescribed interest rate shock. Besides the prescribed interest rate shock with parallel and non-parallel shift in the yield curve, the Bank also measures the effect of other interest rate shocks.

VaR interest rate risk in the banking book amounted to EUR 319,549 at the end of 2017 (at the end of 2016, EUR 173,922). Minor change is resulting from change in net interest position, however inside approved limits.

The effects of yield curve shift are shown in the tables below and apply for the stated scenarios of yield curve shift.

Effects of yield curve shift by individual scenario for the Bank (only interest rate sensitive items) as at 31 December 2017

in 000 of EUR

Scenario	Effect of yield curve shift
ICAAP scenario => -50% negative case	(2,663)
ICAAP scenario => 90% stress case	(5,649)
parallel shift + 10 basis points	492
parallel shift - 10 basis points	(492)
rotation (ON-3M -> +60 BP, 3M-5Y -> -20 BP, 5Y -> -50 BP)	893
rotation (ON-3M -> -60BP, 3M-5Y -> +20 BP, 5Y -> +50 BP)	(762)

Effects of yield curve shift by individual scenario for the Bank (only interest rate sensitive items) as at 31 December 2016

in 000 of EUR

Scenario	Effect of yield curve shift
ICAAP scenario => -50% negative case	(4,797)
ICAAP scenario => 90% stress case	(10,621)
parallel shift + 10 basis points	704
parallel shift - 10 basis points	(704)
rotation (ON-3M -> +60 BP, 3M-5Y -> -20 BP, 5Y -> -50 BP)	(2,268)
rotation (ON-3M -> -60BP, 3M-5Y -> +20 BP, 5Y -> +50 BP)	2,330

The Bank monitors the interest rate risk in the banking book very carefully and reports on risk factors on a regular basis; risk factors were defined and adopted with the new retail business strategy. The main driver for increase of ICAAP factors (-50% negative case and 90% stress case) results from the gap, which is primarily driven by 4y LTRO operation on the liabilities side and fixed interest retail loans on the assets side.

Interest rate risk by maturity bucket and currency (taking into account interest-sensitive items) as at 31 December 2017 and as at 31 December 2016 for the Bank

in 000 of EUR

	2017				2016			
Maturity bucket	gap EUR	gap CHF	gap other currencies	total	gap EUR	gap CHF	gap other currencies	total
1M	41,034	-27,675	-2,139	11,221	132,657	-112,024	4,851	25,485
3M	334,328	-56,275	-163	277,889	386,204	2,935	1,627	390,766
6M	99,882	87,334	-251	186,964	66,601	110,942	-882	176,660
1Y	-113,883	-112	-211	-114,206	-224,406	-859	-3,776	-229,040
2Y	-7,975	-1,251	9,198	-29	-67,097	-185	-716	-67,998
3Y	-144,815	-113	-147	-145,074	-14,412	-189	-1,014	-15,615
4Y	41,240	-	-	41,240	-166,247	-189	-1,014	-167,450
5Y	28,941	-	-	28,941	-11,857	-189	-1,014	-13,060
7Y	35,876	-	-	35,876	7,393	-120	-314	6,959
10Y	22,448	-	-	22,448	15,844	-	-	15,844
15Y	9,947	-	-	9,947	2,695	-	-	2,695
20Y	716	-	-	716	910	-	-	910
>20Y	168	-	-	168	322	-	-	322

The gap represents individual positions in relation to the sensitivity of the interest rate (fixed interest rate - depending on maturity; variable interest rate - depending on the volatility of variable interest rates; UFN - depending on the model).

The structure of assets and liabilities in terms of interest rate type for the Bank as at 31 December 2017 and as at 31 December 2016

	2017		2016	
TYPE OF IR	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Fixed	42.16%	65.05%	29.20%	63.41%
UFN*	9.51%	19.29%	17.20%	21.13%
Variable	46.95%	5.68%	52.12%	6.67%
Other	1.38%	9.97%	1.48%	8.78%

*UFN (Until further notice), i.e. until the next change in interest rates

c) Currency risk

Currency risk is the risk of loss arising from mismatch of the currency sub-balance and volatility of exchange rates.

The Bank monitors on a daily basis exposure to foreign currency risks and limits them by setting volume limits for individual currencies, groups of currencies and total open position. The measurement method is based on the principle of net open position, which is reported in the domestic currency. The group of volume limits is rounded up by the VaR limit on total open position. The VaR methodology is the same as the methodology in the trading book (250-day history – ECB fixed rates, exponentially weighted daily changes of exchange rate, 99-percent confidence interval and 1-day holding period).

Narrow volume limits for individual currencies, groups of currencies and total open position indicate a conservative approach to managing currency risks. The Bank's total net position in foreign currencies does not exceed 2 percent of its capital, so it does not have to report on the currency risk requirement in compliance with the regulatory capital requirement for currency risk.

Changes in VaR for total net position of the Bank in foreign currency for 2016 and 2017

in EUR

	Maximum	Minimum	Average
VaR 2017	11,473	486	1,794
VaR 2016	15,765	452	2,272

2017 VaR is lower as compared to 2016.

Total foreign currency position for the Bank is shown in the table below. It also shows the Bank's exposure to currency risk.

Exposure to currency risk

in 000 of EUR

	2017			2016		
	USD	CHF	Other currencies	USD	CHF	Other currencies
Financial assets						
Cash on hand and balances with the Central Bank	143	379	129	181	195	155
Financial assets held for trading	-	3	-	-	7	-
Available-for-sale financial assets	9,516	-	-	-	-	-
Loans	788	91,009	1,225	10,738	117,535	1,122
Total financial assets	**10,447**	**91,391**	**1,354**	**10,919**	**117,737**	**1,277**
Financial liabilities						
Financial liabilities held for trading	-	3	-	-	7	-
Financial liabilities measured at amortized cost	10,369	3,660	1,378	13,177	3,849	1,188
Provisions	2	-	13	-	-	38
Total financial liabilities	**10,371**	**3,663**	**1,391**	**13,177**	**3,856**	**1,226**
Net off-balance-sheet liabilities arising from spot transactions and derivatives	103	87,818	-8	-2,199	113,895	-58

11.5.4 Fair Values of Assets and Liabilities

a) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not disclosed at fair value in the Bank's statement of financial position.

in 000 of EUR

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
1. Cash on hand and balances with the Central Bank	145,678	145,678	134,450	134,450
2. Loans to banks	120,258	120,073	7,356	7,349
3. Loans to non-banking clients	1,064,237	1,129,192	979,768	960,059
4. Held-to-maturity financial assets	42,484	47,895	82,634	93,792
5. Other financial assets	2,291	2,291	1,465	1,465
Financial liabilities				
1. Financial liabilities to the Central Bank	175,000	173,794	175,000	168,708
2. Financial liabilities to banks measured at amortized cost	15,975	16,285	9,873	9,482
3. Financial liabilities to non-banking clients measured at amortized cost	1,094,740	1,098,208	975,167	976,204
4. Borrowings from banks	58,347	58,366	106,524	117,349
5. Debt securities	1,655	1,755	6,544	6,552
6. Other financial liabilities	9,119	9,667	6,770	6,271

- Financial assets held to maturity: the fair value is based on the quoted market price.
- Loans (to banks and non-banking clients): the fair value of loans is determined based on the present value of future cash flows. Risk premium for loans depends on the internal or external rating of the borrower taking into account country risk. (Kamakura Risk Manager is used for calculations and discounting of future cash flows.)
- Liabilities at amortized cost: the assessed fair value is based on discounted contractual values, using the market interest rates the Bank should currently pay for the replacement of these liabilities with new ones of similar residual maturity.
- For current receivables and liabilities it is assumed (according to the standard) that the carrying amount is an accurate enough approximation of the fair value.

b) Financial instruments measured at fair value

The fair value assessments for financial instruments that are not traded on an active market are based on the assessments made by an external expert. The Bank verifies the value assessment of the external expert and, in case of confirmation, takes such an assessment into account. Values of investments presented in Level 3 are obtained by using the standard valuation techniques, such as discounted expected future cash flows, market approach (method of comparative entities listed on the stock exchange – direct comparison to entities quoted in an organized market) and the liquidation value approach. The final estimated value of financial instruments considers all approaches, taking into consideration assessments of importance in respect of the company's industry, the company's financial stability, as well as other factors that could impact the fair value of financial instruments.

The table below shows financial assets measured at amortized cost as at 31 December 2017.

in 000 of EUR

	31 Dec 2017	31 Dec 2016
Financial assets at fair value	155,070	72,112
Financial assets held for trading	2,286	2,047
Available-for-sale financial assets	152,785	70,065

c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, whereas unobservable inputs reflect market assumptions of the Bank. The two types of inputs have resulted in the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on stock exchanges (for example London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and traded derivatives such as futures.
- Level 2 – Inputs without quoted prices included in Level 1; these observable inputs relate to assets and liabilities either directly (as prices) or indirectly (as derived from prices). Level 2 includes the majority of OTC derivative contracts, traded loans and issued structured bonds. The sources of input parameters such as yield curves or relevant increases for credit risk are Bloomberg and Reuters.
- Level 3 – Inputs for the assets and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data available. The Bank considers significant and observable market prices in its valuations whenever possible. For measurement of non-marketable securities the Bank uses methods prescribed in accordance with IVS (International Valuation Standards) 2012.

Hierarchy of the Bank's financial assets measured at fair value as at 31 December 2017

in 000 of EUR

Financial assets at fair value	Level 1	Level 2	Level 3	Total
Financial assets held for trading	-	2,286	-	2,286
Available-for-sale financial assets	-	152,472	313	152,785

The table below shows changes in the value of the portfolio of Level 3 assets in 2017.

in 000 of EUR

Changes in the portfolio of Level 3 assets	Balance 31 Dec 2016	Purchases	Disposals	Revaluation effect	Balance 31 Dec 2017
Assets					
Available-for-sale financial assets	313	-	-	-	313

Hierarchy of the Bank's financial instruments not measured at fair value as at 31 December 2017

in 000 of EUR

Financial assets and liabilities at fair value	Level 1	Level 2	Level 3	Total
Financial assets				
1. Cash on hand and balances with the Central Bank	145,678	-	-	145,678
2. Loans to banks	-	-	120,073	120,073
3. Loans to non-banking clients	-	-	1,129,192	1,129,192
4. Held-to-maturity financial assets	-	47,895	-	47,895
5. Other financial assets	-	-	2,291	2,291
Financial liabilities				
1. Financial liabilities to the Central Bank	-	-	173,794	173,794
2. Financial liabilities to banks measured at amortized cost	-	-	16,285	16,285
3. Financial liabilities to non-banking clients measured at amortized cost	-	-	1,098,208	1,098,208
4. Borrowings from banks	-	-	58,366	58,366
5. Debt securities	-	-	1,755	1,755
6. Other financial liabilities	-	-	9,667	9,667

11.5.5 Capital Risk

Capital adequacy ratio

The Bank is required to have adequate capital at all times as a provision for different risks to which it is exposed in the course of its operating activities. This is an ongoing process of determining and maintaining a sufficient volume and quality of capital, taking into consideration the assumed risks defined in the Bank's capital management policy. For this purpose, the Bank established in 2012 a Capital Monitoring Committee with the task to monitor and manage capital adequacy on at least monthly basis, while pursuing the 5-year strategic business plan of the Bank.

Regulatory capital requirement is defined as the ratio between own funds and risk-bearing assets that should not fall below 8 percent.

The table below shows the calculation of regulatory capital and the capital adequacy ratio.

in 000 of EUR

	31 Dec 2017	31 Dec 2016
EQUITY	**146,302**	**127,926**
CORE CAPITAL	128,777	106,262
Common equity Tier 1 capital	128,777	106,262
Share premium	18,814	18,814
Retained earnings	23,976	-
Accumulated other comprehensive income	339	(102)
Adjustments to common equity Tier 1 capital for prudential filters	(156)	(74)
(-) Other intangible assets	(1,781)	(2,139)
(-) Deferred tax assets relating to future profits and not arising from temporary differences, less related tax liabilities	(2,100)	-
(-) Reserves from deduction from additional capital items over additional core capital	(356)	(855)
Other transitional adjustments of core capital	82	659
ADDITIONAL CAPITAL (OWN FUNDS)	**17,525**	**21,664**
Equity instruments and subordinated debts acceptable as additional capital	17,525	21,664
TOTAL RISK EXPOSURE	938,819	817,841
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT AND COUNTERPARTY CREDIT RISK, AND RISK OF DILUTION AND FREE DELIVERY	867,998	746,295
TOTAL RISK EXPOSURE FOR POSITION, FOREIGN EXCHANGE AND COMMODITY RISK	3,059	44
TOTAL RISK EXPOSURE FOR OPERATIONAL RISK (OpR)	67,762	71,502
Common Equity Tier 1 Ratio	13.72%	12.99%
Tier 1 capital ratio	13.72%	12.99%
Total capital ratio	15.58%	15.64%

In 2017 the Bank calculated capital requirements in accordance with Regulation no. 575/2013, Directive 2013/36/EU and all subordinated legal acts.

The amount of each capital requirement is evident from the calculation of regulatory capital and capital adequacy ratio. In accordance with the process of assessing adequate internal capital of the Bank and the Bank's internal policies, the Bank regularly monitors the capital risk profile, assesses its ability to assume risks and provides capital adequacy assessments as well as internal capital requirement assessments for all types of material risks. The results are reported at monthly meetings of the ALCO Committee.

The Bank fully complied with the legal requirements regarding capital in 2017, which stood at EUR 146,302 thousand at the end of 2017 (2016: EUR 127,926 thousand), of which core capital EUR 128,777 thousand (2016: EUR 106,262 thousand) and additional capital EUR 17,525 thousand (2016: EUR 21,664 thousand). Capital adequacy ratio was 15.58% (2016: 15.64%).

In the process of supervisory review and risk assessment, the Bank received during 2017 from the Bank of Slovenia minimum SREP ratios that are to be maintained from 1 January 2018 onwards. Minimum total capital requirement amounts to 13.125% (up to 1 January 2018: 12.5%), of which minimum capital requirement for common equity Tier 1 ratio 10.75% (up to 1 January 2018: 10.65%).

On 16 November 2017, the Bank obtained from the Bank of Slovenia permission to include half-year profit in the amount of EUR 11,075 thousand in common equity.

Leverage ratio

Pursuant to Article 521(2)(a) of the CRR regulation, banks must disclose information on the leverage ratio as of 1 January 2015. Disclosures are aligned with the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions.

Summary of reconciliation of accounting assets and total exposure rate for the calculation of the leverage ratio

in 000 of EUR

	31 Dec 2017	31 Dec 2016
All assets according to the financial statements issued	1,537,735	1,413,628
Adjustment for derivatives	4,607	3,709
Adjustment for securities financing transactions		
Adjustment for off-balance sheet items (i.e. conversion to credit replacement values of off-balance sheet exposures)	91,168	100,332
Other adjustments	(5,736)	(4,186)
Total exposure rate for the leverage ratio calculation	1,627,774	1,513,483

Leverage ratio - harmonized disclosure

in 000 of EUR

	Total exposure rate for the leverage ratio calculation according to CRR	
	31 Dec 2017	31 Dec 2016
Balance sheet exposures (excluding derivatives and securities financing)		
Balance sheet items (excluding derivatives, securities financing and fiduciary assets, but including collateral)	1,533,780	1,411,581
(The amount of assets that are deducted in determining core capital)	(1,781)	(2,139)
Total balance sheet exposures (excluding derivatives, securities financing and fiduciary assets)	1,531,999	1,409,442
Exposures from derivatives		
Premiums for potential future exposure related to all transactions with derivatives (current exposure method)	4,607	3,709
Total amount of exposures from derivatives	4,607	3,709
Other off-balance-sheet exposures		
Off-balance-sheet exposures at gross hypothetical amount	280,194	257,839
(Adjustment for conversion to credit replacement values)	(189,026)	(157,507)
Other exposures for off-balance-sheet items	91,168	100,332
Capital and total exposure rate		
Core capital	128,777	106,065
Total exposure rate for the leverage ratio calculation	1,627,774	1,513,483
Leverage ratio		
Leverage ratio	7.91	7.01

Classification of balance sheet exposures (excluding derivatives and securities financing transactions and exempt exposures)

in 000 of EUR

		Total exposure rate for the leverage ratio calculation according to CRR	
		31 Dec 2017	1 Dec 2016
EU-1	Total amount of balance sheet exposures (excluding derivatives and securities financing transactions and exempt exposures), of which	1,533,780	1,409,442
EU-2	Exposures in the trading book		
EU-3	Exposures in the banking book, of which:	1,533,780	1,409,442
EU-4	Covered bonds		
EU-5	Exposures treated as exposures to central government	261,404	263,029
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities which are not treated as central government	35,107	44,045
EU-7	Institutions	165,939	137,899
EU-8	Exposures secured with a mortgage on a real estate	162,691	259,013
EU-9	Retail exposures	588,810	430,401
EU-10	Exposures to corporates	268,746	217,637
EU-11	Defaulted exposures	13,707	21,813
EU-12	Other exposures (e.g. equity, securitization and other assets from uncovered liabilities)	37,376	37,748

In accordance with internally adopted policies, the Bank regularly monitors its risk profile, evaluates the risk assuming capacity and calculates the capital leverage ratio. Calculations and conclusions are presented at regular monthly meetings of the RECO risk committee.

Leverage ratio as at 31 December 2017 stood at 7.91 (31 December 2017: 7.01), which means that it increased by 0.9 percentage points as compared to 31 December 2016.

11.5.6 Operational Risk

The Bank defines the operational risk (OpRisk) as the risk of losses arising from inadequacies or errors of internal processes, systems, people or external factors. This definition included legal risks, but not the reputation and strategic risks. The objective of the Bank's operational risk management it to follow the proactive approach (risk management) rather than the reactive approach (loss management).

The Addiko Group's internal control system (ICS) is closely related to the OpRisk management and strives to protect the owner's and investors' assets as well as to strengthen confidence in reporting accuracy. In order to achieve the objectives set, the high standard of unified reporting, the Bank pursues international best practices, which are to be utilized and supervised. The internal control system is the basis for alignment with the mentioned standards.

As a subsidiary subject to consolidation, the Bank is committed to operational risk management in the context of adequate local conditions based on standardized methods defined by the Group.

The operational risk strategy is supported by various instruments and methods. These methods are usually used to detect and assess risks. Measures for loss control have to be planned based on results. Operational risks are defined and evaluated in such a way that adequate measures are defined to prevent, mitigate, transfer or assume risks, including priority tasks for the implementation of security and safeguarding measures.

Assessment and measurement of operational risk is based on the collection of loss events that are registered in the central database. This allows for a more efficient reporting on loss events, their causes and proposed measures.

All loss events which present an actual direct or indirect financial loss for the Bank are registered, regardless of whether financial loss occurred at the time of the event or subsequently. Registered are also events which could present potential loss for the Bank.

In 2017, the Bank registered 44 loss events. The Bank defines a loss event as any event the gross loss of which exceeds EUR 5,000. At the end of the year, the balance of potential gross losses from loss events not connected with impairments or provisions resulting from credit risk, amounted to EUR 2.03 million.

Preventive assessment of potential operational risk is carried out with the procedure for detecting selected risk scenarios on an annual basis, when in cooperation with area/segment managers the business impacts are reassessed.

The Bank measures and monitors individual risk indicators on the basis of which, in the event of unacceptable deviations, it plans control activities.

Based on perceived and assessed operational risks and losses, the Bank plans and carries out activities to prevent, mitigate, transfer or assume risk for significant risks.

Realized loss events and the status of implementation of control measures are regularly reported to the Management Board of the Bank and the Committee for Operational Risk Management, Internal Control System and Reputation Risk (OpRisk Committee). The Management Board and senior management of the Bank are informed immediately of any case of material losses and exposure.

Addiko Bank

Business Centers and Branch Offices

Addiko Bank

12 Business Centers and Branch Offices

Basic data about Addiko Bank d.d.

Full name: Addiko Bank d. d.

Registered office: Dunajska cesta 117, SI-1000 Ljubljana

Entry in the Companies Register: no. 1/31020/00, SRG 99/01362

Company registration number: 1319175

VAT ID: SI75482894

Transaction account: SI56 3300 0330 0000 034

SWIFTHAABSI22

Share capital: EUR 89,958,958.47

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Instagram https://www.instagram.com/addikobank_slovenija/

LinkedIn: https://www.linkedin.com/company/addiko-bank-slovenija

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Addiko Bank

13 Appendices to the Annual Report

The list of rules of procedure and policies applicable in 2017:

- Addiko Business Strategy
- Addiko Risk Strategy
- Addiko IT Strategy
- Strategy for Business Continuity Planning in Addiko bank d.d.
- Interest Rate Risk Strategy
- Strategy for internal Control Organization
- Strategy for the Retail Segment
- Strategy for Data Backup and Recovery
- Rules of Procedure of the Supervisory Board of Addiko Bank d.d.
- ALCO Rules of Procedure
- Rules of Procedure of the Data Quality Committee
- Rules of Procedure of the Bank's Credit Committee
- Rules of Procedure and Authorizations of the Liquidity Committee
- Rules of Procedure and Authorizations of the Risk Executive Committee (RECO) in ABS
- Rules of Procedure of the Remuneration Committee
- Rules of Procedure of the Risk Committee
- Rules of Procedure of the Supervisory Board's Audit Committee
- Rules of Procedure of the Change Management Committee
- Rules of Procedure of the Committee for Operational Risk Management in ABS
- Rules of Procedure of the Security Committee
- Rules of Procedure of the Management Board of Addiko Bank d.d.
- Code of Business Conduct and Ethics
- Compliance Policy
- Complaints Management Policy
- Watch Loan Policy
- Policy for Legal Risk Management
- Planning Policy
- Segment Report Policy
- HAA Real Estate Valuation Policy (REV Standard)
- Policy for Defining Related Entities
- ABS Lending Principles
- Policy for Internal Control Management
- ABS OpRisk Policy
- Operations with Persons in a Special Relationship with the Bank
- HR Hiring and Selection Policy
- Real Estate Management Policy
- Document on the Operations of Internal Audit
- Investment Management Policy
- Policy for Financial Institutions
- Umbrella Document for Information Protection Policy
- Policy for Acceptable Use of Information
- Business Continuity Policy
- Outsourcing Policy
- Policy for Credit Risk Reporting
- ICAAP Policy
- Policy for Counterparty Portfolio Risk
- Retail Collection Policy
- Retail Restructuring Policy
- Impairment Creation Policy
- Policy for Default Detection and Settlement of Liabilities
- Policy for Managing Local Regulatory and Internal Capital
- Policy for Using Models
- Policy for Evaluating Credit Models
- Policy for HR Planning and Hiring
- Remuneration Policy
- Fit & Proper Policy
- Business Process Management Framework
- Policy for IFRS Financial Reporting - Preparation of HGAA IFRS Consolidated Financial Statements
- Policy for Collateral and Collateral Monitoring and Management
- Credit Policy
- Corporate Governance Policy of the Addiko Group
- Product Introduction Policy - PIP
- Policy for Project and Project Portfolio Steering
- Organizational Policy
- Fast Close Policy
- IT Risk Management Policy
- Liquidity Policy
- Policy for Interest Rate Risk in the Banking Book at the Group Level
- Procurement Policy
- Policy for Data Management at the Group Level
- Policy for Data Quality Management
- Policy for Credit Fraud Prevention
- Retail Risk Framework
- Retail Risk Policy
- Local Forbearance Policy
- Policy for Prevention of Money Laundering and Terrorism Financing
- Group Policy for Client Definition and Segmentation
- Policy for Managing Corporate Bad Investments
- Policy for Collection in the Corporate and Public Sector Segment