Addiko Bank

Annual Report 2018

Addiko Bank d.d., Slovenia

Addiko Bank

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

EUR million

Selected items of the profit or loss statement	2018	2017	+/-(%)	2016	+/-(%)
Net banking income	**48.8**	**43.1**	**13.4%**	**33.1**	**30.1%**
Net interest income	38.9	33.7	15.4%	24.9	35.5%
Net fee and commission income	9.9	9.4	6.1%	8.2	13.8%
Other profit or loss	3.2	0.3	>100%	-2.2	<100%
Operating costs	-26.6	-26.7	-0.0%	-24.6	8.2%
Operating result before change in credit loss expense	**25.7**	**16.8**	**53.2%**	**6.31**	**>100%**
Credit loss expenses on financial assets	2.2	1.4	50.1%	7.6	-81.9%
Taxes on income	9.5	0.8	>100%	-0.9	<100%
Result after tax	**37.2**	**19.0**	**95.7%**	**12.9**	**46.9%**
Performance ratios	**2018**	**2017**	**+/-(pts)**	**2016**	**+/-(pts)**
Net interest income/total av.assets	2.5%	2.3%	0.2	1.9%	0.5
Cost/income ratio	54.5%	61.8%	-7.3	74.4%	- 12.6
Cost of risk ratio	-0.2%	0.1%	-0.3	0.6%	-0.8
Selected items of the statement of financial position	**2018**	**2017**	**+/-(%)**	**2016**	**+/-(%)**
Loans to customers	1,145.5	1,065.8	3.7%	988.6	11.6%
Customer deposits	1,174.2	1,094.7	7.2%	1,266.6	-13.6%
Equity	173.8	141.0	23.3%	121.6	16.0%
Total assets	**1,618.1**	**1,537.7**	**5.2%**	**1,413.6**	**8.8%**
Total risk exposure amount	1,028.4	938.8	13.9%	817.8	14.8%
Key indicators	**2018**	**2017**	**+/-(pts)**	**2016**	**+/-(pts)**
Loan to deposit ratio	95.1%	97.2%	-2.1	78.1	19.1
Non performing loan ratio	1.9%	3.2%	-1.3	5.1%	-1.9
NPL coverage ratio	70.6%	65.2%	5.4	66.4%	-1.2
Core Tier 1 ratio	13.5%	13.7%	-0.1	13.0%	0.7
Total capital ratio	14.9%	15.6%	-0.6	15.6%	0.0

Content

Addiko Bank

Bank Management



Andrej Andoljšek, CMO, CEO

Responsibilities
- Retail Banking
- Corporate and SME Banking
- Product Management and Marketing
- Human Resources
- Management Board Support
- Internal communications
- Legal Department and Operational Compliance

Tadej Krašovec, CRO, COO

Responsibilities
- Credit Risk Management and Rehabilitation
- Retail Bank Risk Management and Collection
- Risk Control
- Information technology
- Operations
- Organisation
- Procurement
- Facility management

Miha Mihič, CFO

Responsibilities
- Accounting and Financial Control
- Treasury and Bank Balance Sheet Management
- Internal Audit

On 31 December 2018, the Management Board comprised of three members:
- Andrej Andoljšek, President of the Management Board (CEO, CMO),
- Miha Mihič, Member of the Management Board (CFO),
- Tadej Krašovec, Member of the Management Board (CRO, COO).

Management Letter for 2018

Dear Shareholders, Customers, Partners and Employees,

Addiko is no longer a new brand on the Slovenian banking market. Over the past two years, we have managed to build and position Addiko in the Slovenian banking market as a „straightforward“ banking brand, focused on what is relevant. We ensure efficiency and communicate in a clear, understandable language. A simple, convenient and quick access to banking services enables us to grow steadily in the focus segment of consumer loans.

Through consistent monitoring of business strategies and by focusing on innovative market solutions, Addiko Bank achieved all set business objectives in 2018. Revenue was above planned and amounted to EUR 52.3 million. Strict cost management meant reducing CIR to 54.5%, despite numerous development activities and projects.

In 2018, the Bank reports one of the lowest percentages of non-performing ratio in Slovenia. Through our advanced credit risk management approach aimed at long-term sustainability of operations, we achieved a NPL ratio of 1.9%, with a provision coverage of 70.6%, and ensured a high quality of new lending business in our focus areas unsecured Consumer and SME. In 2018, we achieved an above-average interest margin of 2.5%.

The Bank doubled its profit compared to the previous year. The balanced ratio between profitability and risk enabled us to generate profit after tax in the amount of EUR 37.2 million, which is an 95.7% increase compared to 2017. The Bank included its half year 2018 profit into retained earnings to bolster capital adequacy, which resulted in a total capital ratio of 14.9% at the end of the year. This provides us with an excellent basis for further growth in accordance with our increasingly ambitious business objectives.

In 2018, the Bank further reinforced its presence on the market by opening a new Express Branch in Kočevje and set up an innovative, mobile Express Branch in a kiosk format in the Ljubljana Rudnik shopping center. Our aim was to provide banking services where customers needed them the most and where spontaneous needs for financing often arise.

The digital office allows the customers to make previously complicated credit transactions by themselves, bringing an entirely new banking experience in the sense of a quick and convenient personal finance management in line with value proposition. The Bank faced increasingly dynamic market challenges in an innovative way using promotion activities such as Addiko Red Wednesday. Thus, the Bank was able to further strengthen its position on the market as an unsecured consumer loan specialist.

In the legal entities segment, we have introduced a new, technologically advanced application for the management of the loan underwriting process, specifically tailored to SME clients, which makes the process of digital lending and transactions more convenient, faster and more efficient. This simplified lending process, enabled by end-to-end automated back office processes allows to grant financing to customers within three days, in virtually half the time required previously. We remained present in the segment of large enterprises, and continued financing for smaller tickets in line with our strategy.

In the previous year, the Bank further strengthened its sources of long-term financing and achieved growth mainly in the area of retail deposits banking. The Bank enhanced its short-term and long-term liquidity position and secured stability and soundness of business.

In 2018, we continued to exploit the advantages brought by our operating model. We efficiently tap into our diversity and geographical dispersion in our current operations and development of banking services via "Six countries - one winning team" approach, allowing the Bank to leverage synergies in Addiko Group to deliver higher efficiency and transparency.

In 2018, the employees of the Bank were socially responsible, as is our custom: once again, we demonstrated high awareness of the social needs in our operating environment. Within the Addiko Cares project, we carried out a voluntary campaign of food and supplies collection for the children from less privileged families, the Bank also financially supported several charities and charitable initiatives.

Our success story is definitely built on strong and sound grounds. There would be no success without our employees, loyal customers and fair business partners. We sincerely thank everyone for their contribution to our positive story in the previous year.

By pursuing our business strategy and maintaining an innovative marketing approach, we wish to continue our success in the future. We will strive to provide our customers with remarkable user experience and high-quality financial solutions that are relevant to them. This is also confirmed by the "Customers' Friend" certificate, which we are very proud of and which proves that our efforts are headed in the right direction.

Andrej Andoljšek, President of the Management board	Tadej Krašovec, Member	Miha Mihič, Member

Addiko Bank

Business Report 2018

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 banks with its core business in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, providing services to about 860.000 clients.

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

2. General economic environment

In 2018, according to the forecasts of the International Monetary Fund, the world economy grew by 3.7%, which is slightly less than in 2017, when the world economy grew by 3.8%.

Macroeconomic data in the USA are good. Inflation amounts to 1.9%, GDP growth is 3.0% and the unemployment rate is 3.7%. According to the data, the US Federal Reserve System followed a strategy of gradually raising the key interest rate, and increased the latter three times in 2018, which amounted to 2.5%.

The economic setting in the EU is somewhat worse. After a good start at the beginning of the year, the situation of the largest economy in Europe deteriorated significantly towards the end of the year. According to official data, the German economy saw a 1.5% growth last year, the slowest growth since 2013. The reasons for the deterioration can be found in worsened economic data coming from China and other developing markets, problems in the automotive industry, trade conflicts, controversy regarding the conditions of the UK's withdrawal from the Euro zone, controversy regarding Italy's budget deficit projection for 2019, etc.

Despite a clear slowdown of the European economy, the European Central Bank decided to end the quantitative easing (QE) programme after three years, and to stop purchasing debt securities on the secondary market. During the three-year period, the ECB thus put EUR 1,700 billion of new money into circulation. The ECB's key interest rates did not increase in 2018 and remain at a record low, -0.4%, while the expectations regarding interest rate increases are waning.

The conditions of the Slovenian economy continued to improve towards the end of 2018, but at a slower pace than the year before. Export growth slightly decelerated with a slowdown of activities in our main trading partners, particularly production stagnation of the German automotive industry. In relation to export, production growth in manufacturing was also lower than last year, with the exception of high tech industries. However, growth was observed in the area of the economy that highly depends on domestic demand. In addition to favourable conditions on the labour market and, consequently, increase in household disposable income, demand for consumer loans increased, while foreign tourists' consumption also increased. High growth in activities in the construction sector continued, and the accelerated rising of prices of services reflects the strengthening of the service sector. In 2018, consumer prices increased by 1.7% on average, which is slightly more than the previous year.

3. Significant events in 2018

3.1 Organisational structure and Operating Model to support the Bank's growth

The implementation of the Operating Model continued during 2018 with further approvals of non-critical »Central Steering« and »Group Shared Services« received from the local regulators.

This operating model aims to raise levels of productivity and improved efficiency across the organisation while assuring local execution of all critical services. The »Central Steering« and »Group Shared Services« provide each Addiko entity a higher degree of specialisation and standardisation by sharing best practices and therefore raising the quality of service delivery and steering while reducing simultaneously the cost of delivery across the Group.

The operating model ultimately ensures a higher level of service quality across the six countries, increase operational stability and enabling full leveraging of investments at the Group level. Furthermore, it offers interesting perspectives for highly skilled staff and experts.

3.2 Leading innovations through 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, Addiko Bank finds digitalization as 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 customers as we focus on the essentials, ensure efficiency and communicate simply. With these values in mind, we are constantly upgrading the existing digital channels: the mobile bank and electronic bank.

In the area of corporate banking, we have introduced a new, technologically advanced application for the management of banking processes, which shortens the process of digital lending and transactions with corporate customers, including small and medium-sized enterprises. The simplified lending process allows us to grant financing to customers within three days, in virtually half the time. This means corporate customers, including small and medium-sized enterprises, can obtain financing of up to EUR 250 thousand much faster and easier.

The Bank pursues its strategy mainly through strengthening its market presence by expanding the network of digital branches. In 2018, in line with the Express concept, we renovated the Maribor and Murska Sobota branches and opened a branch in Kočevje. The new branches combine the elements of a traditional bank branch, but provide new, modern digital services. Customers can access the branches easier and faster. The branch design deviates from the average and offers an entirely different banking experience. In the new branch, retail customers 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 consumer loans.

At the end of 2018, we took a step further. We converted the Express office concept into a "kiosk" format and set it up in the Supernova shopping center in Ljubljana as the first mobile digital bank branch. This allows customers to access banking services where they need them the most. They can obtain cash credits by themselves or with the help of a bank advisor, and have instant access to the cash they need for their purchases.

We developed our digital strategy in all areas as planned, and we anticipate further activities aimed at our service digitalization in 2019.

3.3 Continuous cost management and efficiency gains

With a continued focus on process optimization and establishing a lean, efficient, agile and integrated organization, a further consolidation of the existing IT applications and landscape was conducted during 2018.

As a result of the ongoing cost improvement initiatives, a reduction of the administrative expense of EUR 0.1 million was achieved on a year-on-year rate, despite additional investments made to improve business growth and enhance the Bank's digital capabilities.

Addiko Bank is well positioned to gain further significant improvement of the overall efficiency and continuous improvement of the Cost-to-Income ratio (CIR) across the organization.

3.4 Focus on improving customer experience

A straightforward banking service is our promise to our customers and we fulfil this through high-quality services and numerous internal initiatives, all aimed at enhancing the user experience. In 2018, the Addiko platform for monitoring the net promoter score (NPS) was introduced at the Group level.

The ability to check customer satisfaction immediately after the service or interaction with the Bank enables us to measure critical points of the purchase path. The first results show a promising level of customer satisfaction.

The Sales Force Effectiveness Project, which we are carrying 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 customer-focused approach is reflected in the growing customer satisfaction, which was also acknowledged by the professional public. In 2018, the ICERTIAS Customer's Friend certificate has once again placed us among the companies that provide services and user experience of the highest quality. Addiko Bank earned the ICERTIAS Customer's Friend certificate with a total score of 4.31 out of 5.0. Through an in-depth analysis, the Swiss based institute examined the extent of the Bank's fair and professional attitude towards its customers and employees in Slovenia, how the Bank ensures friendly and professional communications with its publics, the level of its customer support and how it 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.

The certificate confirms our true commitment to being a straightforward bank that provides transparent, simple and direct banking services.

3.5 Review of the business strategy

After the successful implementation of its original business strategy (established following the change of ownership in July 2015) and the extensive repositioning as a "specialist bank" in CSEE, Addiko Bank has been refining its strategy to differentiate itself from the universal banking models prevalent in the CSEE region by focusing on daily banking activities for which convenience and speed can command higher margins. Such services consist mainly of transactions requiring low or no advisory support, suitable to standardisation and delivery over digital channels.

The Group focuses on higher risk adjusted yield businesses as a specialist bank lending to Consumer and SME customers in the "real economy", consisting of manufacturing, production, trade, agriculture and tourism businesses with a proven cash flow producing track record. The underserved markets in CSEE offer attractive growth which will be achieved through the convergence with European standards, particularly once digital banking capabilities are expanded in the region.

The Addiko Group delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity". Banking products and services have been standardised and refined, especially in the Retail Segment and the SME business Segment, to improve efficiency, promote simplicity and increase customer convenience while at the same time reducing risks and maintaining asset quality.

By pursuing this approach, Addiko Bank has reached its goal of directing its operations toward the strategic core segments – with a focus on growing its Consumer and SME lending activities as well as payment services (its "focus areas"). Addiko Bank is focusing primarily on unsecured personal loans for consumers and working capital loans for its SME customers which are funded largely by retail deposits. The Addiko Group's Mortgage portfolio, Public Finance and Large Corporate lending portfolios (its "non-focus areas") were gradually reduced over time, with repayments by customers exceeding the new business generated in those areas, thereby providing liquidity and capital for the gradual growth in its Consumer and SME lending. Any new lending products in non-focus areas are offered on an opportunistic basis only, primarily to retain existing, profitable customers. Furthermore, the Group continued on its journey of building a distinctive operating model with digital capabilities.

Building on its successful initial strategy, Addiko will now take further steps to become a go-to-bank for selected products with operational excellence, serving basic banking needs with the simplest, most convenient and fastest customer experience and focusing on transparent communication.

In 2018, the Bank, following the examples of large retailers and Western marketing models, introduced the popular concept of sales campaigns for the financing world, offering favourable terms or special deals on transactions on a given day. In line with the overall brand image, we named the campaign "Addiko Red Wednesday". On this day, the Bank's customers get more value for their money or are additionally rewarded for visiting the branches and taking out loans. Excellent customer response confirms the soundness of the business decision. With simple communication and innovative marketing approaches, we are solidifying the customers' perception of being a bank specialized in consumer loans.

3.6 Branches

Striving to digitise its operations, in 2018, the Bank renovated its Maribor and Murska Sobota branches and aligned them with the new Addiko Bank Express branch concept. We additionally enhanced our market presence by opening a new branch in Kočevje. The Bank had not been present in this part of Slovenia before.

The Bank has 19 branch offices in 15 major cities in Slovenia, 1 streamlined format branch in Supernova Ljubljana shopping center and 45 ATMs.

3.7 Financial performance in brief

Following a turnaround in 2017, Addiko continues its path to achieving adequate return on equity and shows good progress with its operating profit published at the end of 2018, which, before impairments and provisions, amounts to EUR 25.4 million (YE17: EUR 16.8 million).

The main reason was the growth of net loans to customers by EUR 50.7 million, which represented a 5% 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. 2018 was also successful in the treasury field, with the optimisation of the bond portfolio. All in all, the net interest margin increased from 2.3% in 2017 to 2.5% in 2018.

As at the reporting date, the net interest income increased to EUR 38.9 million (YE17: EUR 33.7 million), with the net interest margin of 2.5% (+2bp to YE17). This positive trend is a result of increased interest income in consumer financing and a positive effect on interest income arising from the ECB line. Similarly, repricing on the deposit side resulted in increased net interest.

Net fee and commission income increased by 5.3%, to EUR 9.9 million (YE17: EUR 9.4 million) as a consequence of successful marketing of consumer loans and new packages of products.

At the beginning of the year, due to a drastic drop in bond prices, including the bonds of the Republic of Slovenia, the Bank decided to sell its long positions in the portfolio to prevent further potential losses. Consequently, the Bank sold its RS70 bonds in the nominal value of EUR 12.0 million with a maturity of over 8 years and earned EUR 4.7 million of profit.

At the end of 2018, operating expenses amounted to EUR 26.6 million, representing a 0.1 million decrease compared to 2017 (YE17: EUR 26.7 million), thanks to Addiko's operating model and effective cost management throughout the financial year.

Despite the smaller changes in average deposit pricing during 2018, customer deposits slightly increased to EUR 1,174.1 million (7.3% to EUR 1,094.7 million at YE17). The continuous improvements in the structure of customer deposits allows a slight reduction of excess liquidity while keeping solid self-funding ratios (LTD Ratio YE18: 95.0% (YE17: 97.0%)).

The performance in reduction of NPLs remained strong, driven by a focus on workout and collection as well as debt sales programs, leading to a 37.5% decline in non-performing exposure to EUR 35.7 million (EUR 57.1 million at YE17). At the end of the year 2018, the conservative risk profile was best reflected in an NPE coverage ratio of 70.6% (YE17: 65.7%) and a further reduced NPE ratio (Credit Risk Bearing based) to 1.9% (YE17: 3.8%). The development of the expected credit losses was positively influenced by successfully executed restructuring measures among larger individual customers as well as net release in the SME segment. This effect was partially offset by charges in the corporate segment.

3.8 Adoption of IFRS9

On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) took effect. This replaces IAS 39, which was the previous accounting standard for measurements and classification of financial instruments. The regulations set out in the new standard are primarily reflected in the loan loss provisions, as they apply to impairment losses on financial assets valued at amortised cost or at fair value recognised directly in equity. Under IFRS 9, the impairment requirements also apply to credit commitments and financial guarantees. The model used to determine impairment losses also changes, from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected credit losses).

The new rules on valuation are by contrast of lesser significance. The adoption results in an adjustment to equity of EUR +0.9 million.

3.9 General Data Protection Regulation (GDPR)

The new EU Regulation on personal data (GDPR), which entered into force on 25 May 2018, implies that the rights of data subjects have been strengthened, and that data controllers and data processors are subject to new requirements when managing and handling personal data. Owing to the importance of this change in regulation, Addiko implemented well in advance a GDPR readiness program.

A big milestone was the appointment of the Data Protection Central Steering Function for the entire Addiko Group. This team handles and coordinates all data protection activities and reports defined KPIs to the Management Board. On 25 May 2018 the Bank reported that it is compliant with the GDPR requirements.

Data protection also had a significant role in the Operating Model in which grounds for intra-group personal data sharing were laid.

3.10 Changes in the Management Board

By confirming the proposal from 29 March 2018 and in accordance with point 7 of the Rules of Procedure of the Supervisory Board of Addiko Bank d.d., the Supervisory Board appointed Andrej Andoljšek as President of the Management Board (CEO) of Addiko Bank d.d., with the beginning of the mandate on 6 June 2018 for a period of four years.

4. Financial development of the Bank

4.1 Analysis of the profit or loss statement

EUR million

Income statement	2018	2017	Difference (%)
Net banking income	48.8	43.1	13.2%
Net interest income	38.9	33.7	15.4%
Net fees and commissions income	9.9	9.4	6.1%
Net result on financial instruments	5.4	0.6	>100%
Other operating result	-2.0	-0.4	>100%
Operating income	**52.3**	**43.4**	**20.5%**
Operating expenses	**-26.6**	**-26.7**	**0.0%**
Operating result before change in credit loss expense	**25.7**	**16.8**	**53.2%**
Credit loss expense on financial assets	2.2	1.4	50.1%
Operating result before tax	**27.7**	**18.1**	**53.0%**
Income tax	9.5	0.8	>100%
Result after tax	**37.2**	**19.0**	**96.5%**

The year 2018 was characterized by a 15.4% **growth in net interest income** (EUR 5.2 million), mostly resulting from consumer financing at higher interest rates. The decreasing interest rates on customer deposits and the positive effect of interest income from the ECB line also had a positive impact. This was due to the interest rate re-calculated by the Bank of Slovenia on the basis of the auditor's evaluation and the data for participation in the second series of targeted long-term refinancing operations (TLTRO).

As compared to the year before, the net margin increased by 0.2 percentage points (2018: 2.5%; 2017: 2.3%), 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 fee and commission income**, which stood at EUR 9.9 million at the end of the year, 6.1% more as compared to the year before. The growth results from increased transactions for instalment cards, higher volume of payment transactions and the sale of insurance products.

Net result on financial instruments increased in 2018 by EUR 4.8 million and amounted to EUR 5.4 million at the end of the year (YE17: EUR 0.6 million). We achieved these results through selling the RS70 bonds in the nominal value of EUR 12.0 million with a maturity of over 8 years, and earned EUR 4.7 million of profit. Given a drastic drop in bond prices at the beginning of 2018, including the bonds of the Republic of Slovenia, the Bank decided to sell its long positions in the portfolio to prevent further potential losses.

Other operating result at the end of 2018 amounted to EUR -2.0 million (YE17: EUR -0.4 million). This item includes a Single Bank Resolution Fund payment in the amount of EUR 0.7 million and guarantee scheme costs in the amount of EUR 0.4 million. It also included tax on financial services in the amount of EUR 1.4 million (YE17: EUR 1.6 million).

Operating expenses amounted to EUR 26.6 million at the end of 2018, thanks to Addiko's operating model and effective cost management throughout the financial year. The share of operating costs in net interest and net fees and commissions decreased by 7.3 percentage points as compared to 2017 (2018: 54.6%; 2017: 61.8%).

A positive economic environment had an impact on changes in **credit loss expenses on financial assets**, i.e. Impairment reversals, the one-off repayment of one legal person playing an important part. The Bank managed credit risks and debt collection successfully.

Tax on income stood at EUR 9.5 million at the end of the year (YE17: EUR 0.8 million), with deferred tax exceeding the income tax. In 2018, deferred tax ramp up was booked based on expected future profits and the total tax losses from the past, which are transferable for indefinite period according to Slovene Tax Law.

Result after tax for the year amounted to EUR 37.2 million at the end of 2018.

4.2 Analysis of the statement of financial position

The Bank adopted the requirements of IFRS 9 “Financial Instruments” on 1 January 2018. The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial application. As permitted by IFRS 9, the Bank has not restated comparative periods. Therefore, the balance sheet structure compared to YE17 was adjusted to the new requirements according to IFRS 9 and thus only limited comparability with the previous periods figures is given.

EUR million

Assets	31.12.2018	31.12.2017	Difference (%)
Cash reserves	133.4	145.7	8.5%
Financial assets held for trading	1.4	2.3	-39.2%
Investment securities*	222.0	195.3	13.7%
Loans	1.240.2	1.186.0	4.6%
Loans to banks	124.7	120.3	2.7%
Loans to non-banking customers	1.115.5	1.065.8	7.6%
Property, plant and equipment	3.6	3.2	12.5%
Intangible assets	2.2	1.8	22.2%
Tax assets	14.4	2.7	>100%
Deferred tax	14.4	2.7	>100%
Other assets	0.8	0.7	14.3%
Non-current assets held for sale	0.1	0.0	100.0%
Total assets	**1,618.1**	**1,537.7**	**5.2%**

*Investment securities include items classified as “Available-for-sale financial assets” and “Held-to-maturity financial assets” as at 31.12.2017.

The total assets of the Bank amounted at EUR 1,618.1 million at the end of 2018, an increase of EUR 80.4 million compared to last year.

Cash reserves decreased by EUR 12.3 million in 2018 compared to 2017; nevertheless, the balance of cash and cash equivalents exceeded the required minimum reserve balance, which at the end of the year amounted to EUR 9.5 million (YE17: EUR 8.6 million).

Investment securities in 2017 included items classified as “Available-for-sale financial assets”, which amounted to EUR 152.8 million, and “Held-to-maturity financial assets”, totalling EUR 42.5 million. Due to the implementation of IFRS 9, the said items are disclosed among Investment securities, amounting to EUR 222.0 million at the end of 2018 (YE17: EUR 195.3 million). The increase is partly due to the revaluation of bonds from the “Held-to-maturity financial assets” portfolio to market value (in 2017, they were carried at amortised costs), and partly due to additional purchases of bonds with which the Bank improves its secondary liquidity.

Loans (gross exposure less impairments) increased slightly from EUR 1,186.1 million to EUR 1,240.2 million. The increase was due both to loans to banks (a 2.7% increase compared to YE17) and loans to customers (a 7.6% increase compared to YE17). In the area of customer loans, in 2018, the Bank pursued a strategy of increasing consumer loans with higher interest rates and reducing housing loans with lower interest rates.

Property, plant and equipment amounted to EUR 3.6 million at the end of 2018. The increase of EUR 0.4 million is mainly due to opening the new branch in Kočevje and the Express branch in the Supernova shopping center.

Intangible assets increased to EUR 2.2 million compared to 2017 (YE17: EUR 1.8 million), mainly due to further investments in the digitalisation of the Bank.

Tax assets increased to EUR 14.4 million (YE17: EUR 2.7 million) and represent in full the deferred tax recognition for temporary differences and tax loss carried forward.

EUR million

Equity and liabilities	31.12.2018	31.12.2017	Difference (%)
Financial assets held for trading	2.0	1.1	81.8%
Financial liabilities measured at amortised cost	1.433.1	1.385.2	3.5%
Deposits and loans from banks	234.7	249.3	-2.2%
Customer deposits	1.174.1	1.094.7	7.3%
Debt securities	1.1	1.7	-54.5%
Subordinated liabilities	15.0	30.0	-50.0%
Other financial liabilities	8.2	9.4	-12.8%
Provisions	7.6	8.6	-11.5%
Tax liabilities	0.9	1.1	-18.2%
Income tax	0.9	0.9	0.0%
Deferred tax	0.0	0.2	-100.0%
Other liabilities	0.7	0.8	-5.2%
Equity	173.8	141.0	23.3%
Total equity and liabilities	**1,618.1**	**1,537.7**	**5.2%**

Financial liabilities measured at amortized cost totalled EUR 1,433.1 million at the end of 2018 (YE17: EUR 1,385.2 million). Of these, deposits and loans from banks decreased by EUR 14.6 million, while customer deposits increased by EUR 79.4 million and amounted to EUR 1,174.1 million (YE17: EUR 1,094.7 million). The increase in deposits is in line with the strategy of obtaining our own sources of financing. On the other hand, due to regular maturity, subordinated debt decreased by EUR 15.0 million and amounted to EUR 15.0 million at the end of the year.

Provisions amounted to EUR 7.7 million at the end of the year (YE17: EUR 8.6 million) and are a result of decreased off-balance sheet liabilities.

Income tax remained almost the same in 2018 as in 2017 (EUR 0.9 million), while other liabilities decreased slightly and amounted to EUR 0.7 million at the end of 2018.

Equity increased by EUR 32.8 million in 2018 and amounted to EUR 173.8 million (YE17: EUR 141.0 million).

5. Market and operations development

5.1 Retail banking

In 2018, the economic situation improved and was reflected in a higher demand for the Bank's services. In accordance with the guidelines of the 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 third year in a row the Marketing was included in Product Management Department, 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.

Through a professional, business and trustworthy relationship, we have also continued with intense cross-sales activities within the "Bank@Work" project, where consultants for retail clients present to employees of our business clients, offering customised financial solutions at the workplace.

We have adjusted to the new demands and proposals of the owner, changes in the business policy, 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 sales staffs' product-oriented campaigns guided by the Marketing Department. We monitored the results of individual campaigns.

Business operations in 2018

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

In 2018, we strongly focused on selling consumer loans and kept the market share and revenues from commissions and interest at the same level.

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

We made a significant progress towards a modern bank in 2018 by opening a new branch in Kočevje and renovating 4 existing branches.

The Product Management and Marketing Department pursued the new retail strategy and strived for uninterrupted processes working 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 2019 we will continue to pursue a strategy focused on consumer loans, continue with digitalizing our processes, taking customer experience on a higher level, looking for alternative ways of accessing customers in order to achieve the set goals and be recognizable as experts in the field of consumer loans.

5.2 Corporate and SME banking

In Slovenia in 2018, growth in lending to the economy and the public sector continued in 2018 compared with 2017. The Bank's market share has grown in comparison with the previous year and ranged at 4.4%, which means that we achieved a higher growth rate than the banking system.

In 2018, sharp price competition between banks continued, which, as a result of the further excess liquidity of the financial sector, led to lower interest rates and thus revenues. Despite the low interest rates on the market, we tried to achieve the appropriate profitability of individual investments and this criterion is one of the key criteria in investment decisions in addition to the appropriate risk profile.

Among the reasons for increasing the Bank's market share, it is necessary to emphasize the Bank's focus on optimizing the credit process. Successful implementation of the new application for the approval of quick loans enabled customers to obtain a loan as soon as possible with the minimum required documentation.

Corporate segment provides presence throughout Slovenia with the teams in Koper, Nova Gorica, Kranj, Ljubljana, Novo mesto, Celje, Maribor and Murska Sobota.

2019’s main goal is to further increase the market share of the Bank with an emphasis on the small and medium-sized enterprise segment. We will continue to implement the growth strategy with proactive sales and marketing activities, which will focus primarily on increasing the number of different products to existing customers and even more active marketing of the bank's products to new customers.

Our main strategy of managing relations with customers will be based on: “We have the agility, focus and professionalism to offer customers the essential services, delivered in the simplest way.”

Growth of interest income and net interest margins will also be one of our key orientations in 2019. Special emphasis will be placed on increasing the share of non-interest income in total revenues, which will be achieved primarily through increased activity in the field of Trade Finance and Guarantees.

In 2019, Corporate deposits will also 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 growth in the volume of deposits despite lower interest rates. The corporate segment’s rate of self-financing still remains very high. Funds collected in excess can be utilized to finance other segments. In 2019, we will continue with decreasing the concentration of the biggest depositaries.

We will continue our successful cooperation with the Retail segment within the “Bank@Work” project, in which we offer tailor made financial solutions to the employees of our business clients at the workplace.

In 2019, alongside other development initiatives, we will strive to upgrade the new process application for SMEs in terms of a greater range of products. Upgrading the application and basic integration with the electronic bank will allow customers to monitor the approval process via digital channels.

6. Analysis of non-financial key performance indicators

6.1 Human resource management

Addiko Bank Slovenia will continue to put employees at the heart of our business as we know that employees are the foundation of our growth and success.

In 2018, we continued our intense efforts to uphold a Family-Friendly Company certificate, which is resulting in a positive and motivating working environment. After receiving the Full Certificate, we continued realizing measures to remain a competitive and attractive employer on the Slovenian market.

The responsibility to our employees is also reflected in regular meetings with the Management Board, where employees are able to speak freely about strategically important topics. Meetings take place several times a year. In 2018 we continued to intensely promote Addiko Values and Behaviours as a pillar of the professional and ethical standards in our Bank. The Values and Behaviours have been incorporated into all internal processes including performance management and leadership development.

The Bank is in the process of implementing the Addiko Bank Diversity and Inclusion Policy. The female to male ratio is listed in the table below. By implementing a Gender Balanced strategy and related long term succession targets for our directors and Boards from 2019 onward, the bank commits to building a diverse and inclusive workforce. This will also be achieved by following the principles of Addiko Bank of equal treatment and opportunities for all employees and prevention of any discrimination.

2018 Addiko Bank Slovenia Gender Diversity Status

Management level	Number of employees based on gender diversity (female to male ratio)
Directors	46.2%:53.8%
Management Board	0.0% : 100.0%
Supervisory Board	20.0% : 80.0%
Total Bank	**62.4% : 37.6%**

At the end of 2018, the Bank had 369 employees.

Year	Number of employees on 31.12.	Number of employees based on working hours*	Average number of employees
2018	369	344.75	363.75

*The number of employees calculated based on working hours shows the real number of employees in the company. There are 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.

Educational structure

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

Level of education	Number of employees based on educational structure
IV. vocational secondary education	1
V. secondary education	123
VI. non-university higher education courses	30
VII. higher education programs, university programs	197
VIII. university degree specialization, diploma of Master of Science	18
Total on 31.12.2018	**369**

Recruitment

Selection and recruitment of new employees is based on the clearly defined needs of individual organizational units and strategic work force planning that is defined during the business planning process each year. The FTE targets are in line with Addiko's matrix Operating Model.

Priority is given to internal recruitment, during 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 selection of candidates is based on strategy and principles that ensure equal treatment and equal opportunities of all qualified candidates and thus ensuring the prevention of discrimination.

Candidates are selected on the basis of their expertise, attitude towards the job, culture fit to the Bank's Values and Behaviours as well as personal characteristics that are identified during the selection process.

For key functions in the Bank an assessment of the applicant's ability and suitability (Fit & Proper) is also carried out under an internal procedure complying 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, trends and 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 Addiko Academy which offers three sets of curriculums: Addiko Leader, Addiko Customer and Addiko Risk Awareness. These key educational areas for development reflect our strategic needs as we transform from a universal bank to a specialized, risk-averse and digital bank focused upon Retail, SME and Corporate. Individual development is also promoted with specific focus upon key employees.

Each year, we also organize various internal trainings in accordance with our needs. In 2018 we focused extensively on elevating leadership skills of senior leaders. All B1 leaders were taken through a leadership assessment center as well as leveraging the 360 feedback tool. In addition, many professional, compliance and legally required trainings are continually offered to our employees ensuring that we upgrade their knowledge.

The Bank also enables employees to obtain various finance and insurance licenses, which are necessary for professional work; in 2018, we enabled a large number of employees to cooperate in e-Learning training dealing with security awareness, GDPR and fraud awareness.

Corporate Social Responsibility projects for employees

Addiko Bank employees remain faithful to humanitarian activities, through which they are able to show their kind hearts. In 2018, we expanded our long-standing charity work through various Addiko Cares charity campaign. Our trade-mark CSR activity is finding the time in our busy days and organizing employees to visit under privileged children's homes and children's hospitals, reading story books to children. At the end of the campaign, we also donate the books to the organization that we visit.

Employee satisfaction is very important to us

As part of the roadmap to culturally transform Addiko Bank, employee engagement and views are very important to us. We conduct internal employee engagement 'pulse check' surveys every quarter. The survey helps us to verify employee loyalty and points to employee concerns that need attention. We found out 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 survey results throughout 2018 are favourable for the Bank and confirm the efforts over several years in creating a friendly working environment.

Various informal get togethers were organized by the Bank throughout the year. These contribute to the well-being and team spirit of the employees. In 2018 we 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 2018, we continued the Addiko Performance Management Cycle through which we evaluate, calibrate and reward our employees. The aim of continual performance feedback and the year-end performance review is to ensure successful individual performance, elevating the operations of the Bank on a long-term basis. The Performance Management Cycle expects that individual targets are set annually, reviewed at least twice during the year and reviewed again at the beginning of the new year. The objective is to provide systematic, professional and personal feedback and development of the managerial staff and employees.

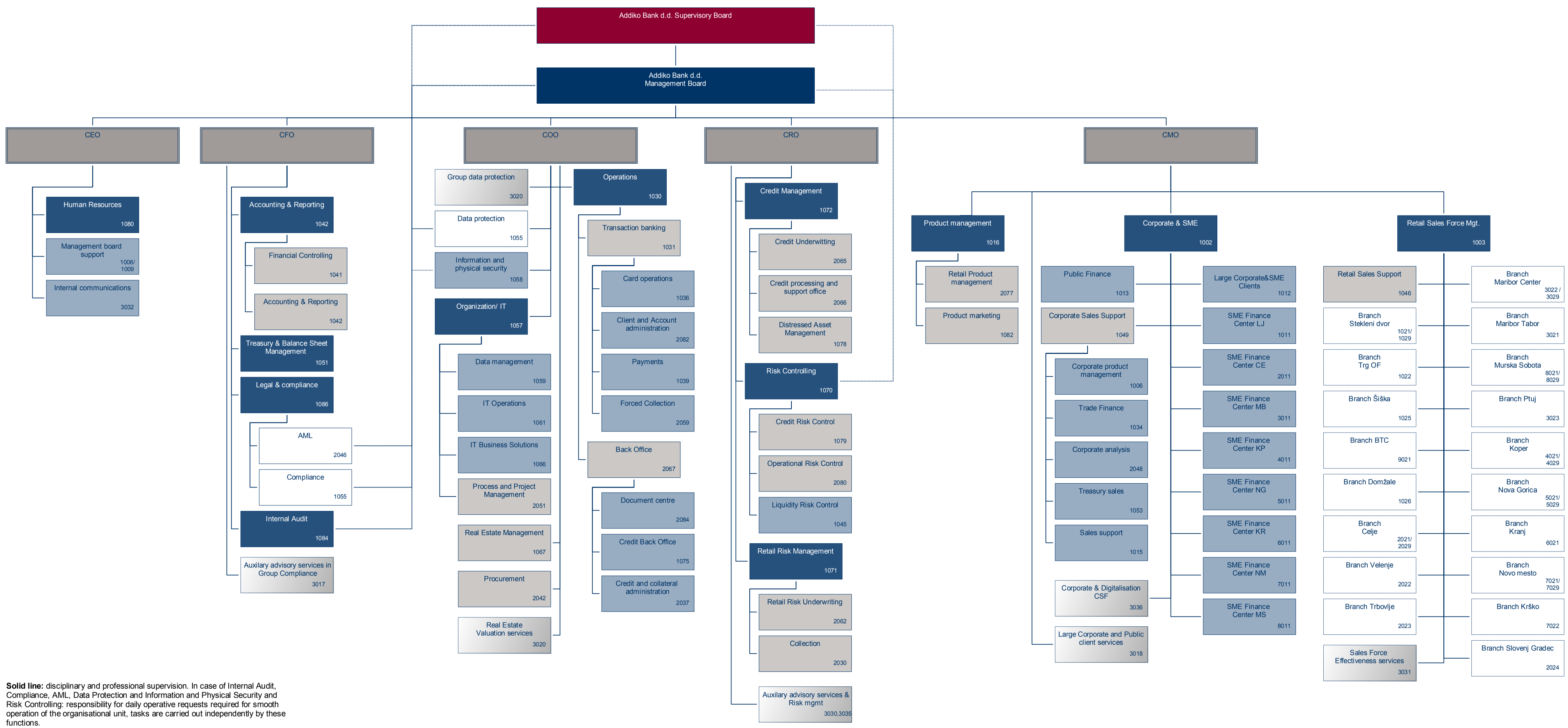
Bonus system

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 reward an individual's performance when demonstrating the extra-mile. They also aim to motivate for team work and achievement of targets as a team.

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.

6.2 Organisation of the Bank

6.2.1 Organisational chart



Solid line: disciplinary and professional supervision. In case of Internal Audit, Compliance, AML, Data Protection and Information and Physical Security and Risk Controlling: responsibility for daily operative requests required for smooth operation of the organisational unit, tasks are carried out independently by these functions.

Dotted line: In accordance with relevant legal regulations, it represents direct access and possibility to report to the Supervisory Board and/or Management Board.

Group function

Valid from 31.12.2017

6.2.2 Supervisory Board

The Supervisory Board of the Bank comprises five members. On 31 December 2018, 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 2018, 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: Joško Mihić, Chairman, Henning Giesecke, Deputy Chairman, and Johannes Leopold Proksch, Member. In 2018 they met four times.
- A Risk Committee comprising three members, all members of the Supervisory Board: Henning Giesecke, Chairman, Georgiana Grigore, Deputy Chairman, and Balazs Györi, Member. In 2018, 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 Joško Mihić, Member. In 2018 they met once.

6.2.3 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. Three Shareholders Assembly meetings were convened in 2018.

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 2018, the Shareholders Assembly decided on the appointment of the Members of the Bank's Supervisory Board and decided on the revocation of Matej Falatov mandate. It was also familiarized with the audited 2017 Annual Report, the 2017 Internal Audit Annual Report and the use of accumulated (net) profit.

6.2.4 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),
- Change Management Committee – CMC,
- Security Committee – SECO,
- Information Technology Committee – ITCO, and
- Outsourcing Committee
- PPSC - Project portfolio steering committee.

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 2018 are presented in the Appendix to the Annual Report.

7. 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 processes 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 extent possible 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 2018, 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).

8. Other disclosures

8.1 Supplementary information required by Bank of Slovenia

In compliance with the Bank of Slovenia Decision on business ledgers and annual reports of commercial and savings banks, the following additional data are presented below for a period of three years:

EUR million

INDICATORS	31.12.2018	31.12.2017	31.12.2016
1. STATEMENT OF FINANCIAL POSITION			
Total assets	1,618.1	1,537.7	1,413.6
Total deposits by the non-banking sector, measured at amortised cost	1,159.2	1,094.7	975.2
a) by legal and other persons carrying out economic activity	730.6	700.2	665.3
b) by retail sector	428.7	394.6	309.9
Total loans to the non-banking sector	1,114.8	1,064.1	979.8
a) legal and other persons carrying out economic activity	513.3	453.3	430.9
b) retail sector	601.5	610.8	548.9
Total capital	173.8	141.0	121.6
Valuation adjustments and credit loss provisions	35.7	47.9	66.8
Off-balance sheet operations	919.2	820.9	680.5
2. INCOME STATEMENT			
Net interest	38.9	33.7	24.9
Net non-interest income	15.3	9.7	6.4
Labour costs, overhead and administrative costs	25.3	25.4	22.8
Amortisation and depreciation	1.3	1.3	1.8
Impairments and provisions (credit losses)	2.1	1.4	7.3
Pre-tax profit or loss from continuing and discontinued operations	27.7	18.1	13.9
Corporate income tax from continuing and discontinued operations	9.5	0.8	-1.0
Other comprehensive income, before tax	6.0	0.5	0.4
Corporate income tax from other comprehensive income	1.4	-0.1	-0.1

3. INDICATORS			
a) Capital			
Common Equity Tier 1 ratio	13.5%	13.7%	13.0%
Core Tier 1 ratio	13.5%	13.7%	13.0%
Total capital ratio	14.9%	15.6%	15.6%
b) Profitability			
interest margin	2.5%	2.3%	1.9%
margin of financial intermediation	3.5%	3.0%	3.7%
return on assets after tax	2.4%	1.3%	1.0%
return on equity before tax	18.3%	13.8%	11.8%
return on equity after tax	24.6%	14.5%	11.0%
c) Operating costs			
operating costs/average assets	1.7%	1.8%	1.9%
d) Liquidity			
Liquidity coverage ratio	154.9%	363.1%	203.0%
Liquidity buffer	160.5	163.6	153.0
Net liquidity outflows	103.6	45.1	75.3
e) Credit risk			
Non-performing (balance sheet and off-balance-sheet) exposures/classified balance sheet and off-balance sheet exposures	1.9%	3.2%	5.1%
Non-performing loans and other financial assets/classified loans and other financial assets	1.9%	3.4%	5.7%
Valuation adjustments and credit loss provisions/non-performing exposures	55.8%	56.9%	61.3%
Received collateral/non-performing exposures	31.2%	24.0%	25.4%
4. EMPLOYEES			
at year-end	369	357	395
5. SHARES AT YEAR-END			
number of shareholders	1	1	1
number of shares	41.7	41.7	41.7
share book value (EUR)	4.2	3.4	2.9

8.2 Event after the business year 2018

After 31 December 2018, there were no events that materially affected the presented financial statements.

9. Outlook

According to the Central Bank's assessment, the macroeconomic situation is favourable in Slovenia. The economic activity has been strengthening for the last five years and its growth will stabilize at around 3.0% by 2021. More moderate GDP growth in the future will be a result of a gradual transition to a more mature phase of the business cycle, both for the Slovenian economy as for the economies of our trading partners. Growth will be supported by domestic demand as well as by continuing encouraging export activity. Private consumption growth is still driven by favourable trends in the labour market and slightly faster wage growth. Further growth in lending activities of banks and availability of low-cost sources of financing will enable companies to continue their investment cycles with their own funds. The growth of housing investments is also expected. These investments are stimulated by the situation on the real estate market, where housing shortage is currently reflected mainly in rapid price rises. More rapid growth of imports will lead to a gradual reduction of the surplus in the current account of balance of payments. Inflation, measured by the HICP, will be slightly above the objective of the ECB's monetary policy in the medium term and will be increasingly driven by domestic factors.

Addiko Bank is continuing to develop the business model and franchise to support its strategy via selected key initiatives:

- Complement physical channels with increasing digital capabilities and alternative sales channels
- Continued implementation of the digital roadmap with the aim to improve service and sales capabilities, increase number of customer touch points and overall customer experience
- Continued execution of Addiko's digital SME transformation progressing towards a consolidated, digitally integrated platform, as well as further digital product features (overdraft and revolving loan) building on a Group-wide business process management platform.

In 2018 Addiko Bank continued with strong performance with yet again a solid profit of EUR 37.2 million. This reiterates that Addiko is well positioned as an innovative unsecured consumer & SME specialist lender in with strong foundations in place to achieve long term sustainable profitability in a market dominated by incumbent universal banks.

The Bank's focus will stay on a rigorously managed risk-return profile and self-funding principle, while providing customers with fast and convenient straightforward banking products and services.

10. Report by the President of the Supervisory Board

The year 2018 confirmed once more 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 SME lending was recorded also due to the implementation of the new end-to-end lending process for SME clients. Last but not least, self funding capability of the Bank is one of the achievements that enables further stability and growth. Business results are very encouraging. The Bank nearly doubled its profit in comparison with the previous year which significantly improved the return on equity.

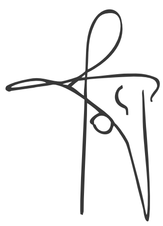
In terms of corporate culture, Addiko Bank has established a clear vision of enabling straightforward banking to the customers by focusing on essentials, delivering on efficiency and communicating simplicity. At the same time, Addiko has strengthened its position in Slovenia in terms of brand awareness.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

The most visible demonstration of the Addiko strategy were again the Express branches, where customers can experience a modern straightforward approach to banking. Two existing branches fully refurbished and one new modern branch was opened. After very positive customer feedback the strategy was proven to be correct and z also in terms of additional business potential and so the Express branch was modified to a new streamlined' format and the first Express mobile branch was opened in one of the biggest shopping centers in Slovenia. The new format is aligned with the digital concept that provides a unique self-service experience to the customers. With the new "mobility" feature the branch can be placed in high frequency areas to meet consumer's needs of banking services and financing of purchases.

Throughout the year, Addiko Bank improved the cost discipline and delivered significantly lower costs than planned. Optimizing the procurement processes was one of the crucial elements. The Bank will continue to optimize its cost base even further benefiting from its 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 the customer base and the business volume, while ensuring compliance with all national and international regulatory requirements and professional compliance standards.

Johannes Leopold Proksch,
President of the Supervisory Board



Activities of the Supervisory Board

In the financial year 2018, the Supervisory Board of Addiko Bank d. d. held four regular and one extraordinary meeting.

In the 2018 financial year, the Supervisory Board was comprised of: Johannes Proksch as President, Henning Giesecke as deputy President and Georgiana Grigore, Balazs Györi and Joško Mihić as members.

The Supervisory Board operated in accordance with the Bank's Statute and the Rules of Procedure of the Supervisory Board. The prepared materials and notes on meetings enabled efficient supervision of the Bank's operations 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 audit firm DELOITTE REVIZIJA d.o.o., the Supervisory Board analysed the Business Report of Addiko Bank in 2018.

The Report will also be presented at the Bank's General Meeting. In accordance with Article 230 of the Companies Act, the Supervisory Board approved the proposal by the Management Board regarding the allocation of accumulated profit and proposed to the Meeting of Shareholders to adopt it.

In line with its tasks and responsibilities, the Supervisory Board supervised the internal controls and risk management activities. It acknowledged the ICAAP process and confirmed renewed Remuneration Policy.

By confirming the proposal from 29 March 2018 and in accordance with Point 7 of the Rules of Procedure of the Supervisory Board of Addiko Bank d.d., the Supervisory Board appointed Andrej Andoljšek as President of the Management Board (CEO) of Addiko Bank d.d., with the beginning of the mandate on 6 June 2019 and the acquisition of an authorisation by the Bank of Slovenia for a period of four years, respectively.

In order to achieve a high degree of transparency in the management and on the basis of the exemption in point 2, Paragraph 5 of Article 70 of the Companies Act, Addiko Bank d. d., as part of the business part of the Annual Report, submits the following statement.

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 complies with the acts referred to in Paragraph 2 of Article 9 of the Banking Act[1].

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[2] ; 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 October 2015).

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

Ljubljana, 7. 3. 2019

Management Board of the Bank

Andrej Andoljšek, President	Tadej Krašovec, Member	Miha Mihič, Member

Supervisory Board of the Bank

Johannes Leopold Proksch,
President

[1]Banking Act (ZBan-2), Official Gazette of the Republic of Slovenia, no. 25/15, 44/16, 77/16, 41/17 and 77/18.

[2]The Bank of Slovenia Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, Official Gazette of the Republic of Slovenia, no. 73/15, 49/16, 68/17, 33/18 and 81/18.

Declaration on the adequacy of risk management

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. –

the Management Board represented by Members Andrej Andoljšek,Tadej Krašovec and Miha Mihič,

and the Supervisory Board represented by President, Johannes Proksch,

confirm, by signing this Declaration, the adequacy of the risk management system, which represents an independent area in the organizational scheme of the Bank.

The risk management system is in line with the Bank's risk profile and the Bank's strategy and risk-taking capabilities.

Ljubljana, 7. 3. 2019

Management Board of the Bank

Andrej Andoljšek, President	Tadej Krašovec, Member	Miha Mihič, Member

Supervisory Board of the Bank

Johannes Leopold Proksch,
President

11. Independent auditor's report

Deloitte.

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

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Fax: + 386 (0)1 3072 900
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INDEPENDENT AUDITOR'S REPORT
to the owners of Addiko Bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Addiko Bank d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in ownership 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 year ended 31 December 2018. 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.

Impairment of loans to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans to customers in the amount of EUR 1,144 million and total expected credit loss in the amount of EUR 28,3 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models. Additionally, from 1 January 2018, the Bank has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans to customers in notes '2.1 IFRS 9 Financial instruments', ,26 – Financial assets at amortised costs', ,25 – Changes in expected credit loss' to the financial statements. Information regarding the transitional effect of IFRS 9 are disclosed in note '2.1.7 Disclosure of financial impact of IFRS 9' including the impact on shareholders' equity and retained earnings at 1 January 2018.	We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i.models applied in stage allocation ii.assumptions used by the Management in the expected credit loss measurement models iii.criteria used for determination of significant increase in credit risk iv.assumptions applied to calculate lifetime probability of default v.methods applied to calculate loss given default vi.methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i.Assessment of borrower's financial position and performance following latest credit reports and available information ii.Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance

	iii.Reviewing and critically assessing estimated value of collateral and estimated realisation period iv.Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral • v.Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Deferred tax assets

Net deferred taxes amounted to EUR 14.4 million as of December 31, 2018, out of which 14.5 were related to deferred tax assets from unused tax losses and EUR 0.1 million to deferred tax liabilities from the other temporary tax differences.

Key audit matter	How the matter was addressed in our audit
The Bank recognized the deferred tax assets for the first time in 2017, in 2018 deferred tax assets increased significantly based on assessment of future taxable profits in accordance with IAS 12 - Income tax. Assessment of future taxable profits constitutes management judgement area. Therefore combined with the significance of deferred tax asset balance to the financial statements as a whole it is considered as a key audit matter. The disclosure of the deferred tax asset recognition and measurement is contained in the note '12 - tax assets and tax liabilities 'and '26 - income tax'.	Our audit procedures included the assessment whether management judgement is appropriate and whether requirements of IAS 12 are met, including: • Assessment whether deferred tax asset is appropriately determined as of reporting date in accordance with IAS 12 requirements; • Evaluation whether the assumptions used for the assessment of future taxable profit are reasonable and supportable given the current macroeconomic climate and expected future performance; • Assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the requirements of applicable financial reporting standards.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess 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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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 of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing 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 and for approving audited annual report.

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 auditing rules 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 auditing rules, 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 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 Company'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 organization 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 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.

From the matters communicated with Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 12 August 2016. Our total uninterrupted engagement has lasted 3 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 7 March 2019 in accordance with 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 which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Anja Gorenc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 7 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Addiko Bank

Financial Report 2018

Financial report

Statement of Management's responsibility

The Management Board has approved the financial statements for the year ended 31 December 2018, 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 2018. 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 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, along with the notes, were prepared based on the going concern assumption and in accordance with applicable legislation and 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, 7. 3. 2019

Management Board of the Bank

Andrej Andoljšek, President	Tadej Krašovec, Member	Miha Mihič, Member

I. Statement of comprehensive income

Income statement

EUR million

	Note	01.01.-31.12.2018	01.01.-31.12.2017
Interest income	18	46.3	41.3
Interest expenses	18	-7.4	-7.5
Net interest income		**38.9**	**33.7**
Dividend income		0.0	0.0
Fee and commission income	19	12.6	12.1
Fee and commission expenses	19	-2.6	-2.8
Net fee and commission income		**9.9**	**9.4**
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	20	4.9	0.1
Net gains or losses on financial assets and liabilities held for trading	20	-2.6	9.0
Net exchange differences	20	3.1	-8.3
Net gains and losses on derecognition of non-financial assets		0.0	-0.1
Other net operating income	21	-2.4	-0.7
Administrative expenses	22; 23	-25.3	-25.4
Depreciation	24	-1.3	-1.3
Provisions	25; 45	-1.2	-1.3
Impairments	25	3.4	2.7
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		0.2	0.3
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**27.7**	**18.1**
Tax expense or income related to profit or loss from continuing operations	26	9.5	0.8
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		**37.2**	**19.0**
PROFIT OR LOSS FOR THE FINANCIAL YEAR		**37.2**	**19.0**

The accompanying notes on pages 39 to 98 form an integral part of the financial statements and should be read in conjunction with them.

Statement of other comprehensive income

EUR million

	01.01.-31.12.2018	01.01.-31.12.2017
Result after tax	**37.2**	**19.0**
Other comprehensive income	**-6.0**	**0.4**
Items that may be reclassified to profit or loss	**-6.0**	**0.4**
Fair value reserve - debt instruments	-7.4	-
Net change in fair value	-2.5	-
Net amount transferred to profit or loss	-4.9	-
Tax on comprehensive income	1.4	-
AFS financial assets	-	0.4
Gains/losses of the current period	-	0.4
Net amount transferred to profit or loss	-	0.1
Tax on comprehensive income	-	-0.1
Total Comprehensive income fot the year	**31,3**	**19.4**
thereof attributable to equity holders of parent	31.3	19.4

The accompanying notes on pages 39 to 98 form an integral part of the financial statements and should be read in conjunction with them.

II. Statement of financial position

EUR million

	Note	31.12.2018	31.12.2017
Cash reserves	27	133.4	145.7
Financial assets held for trading	28	1.4	2.3
Non-trading financial assets mandatorily at fair value through profit or loss	30; 2.1	0.3	-
Financial assets at fair value through other comprehensive income	30; 2.1	221.7	-
Available for sale financial assets	30; 2.1	-	152.8
Financial assets at amortised cost	29	1,240.2	1,186.1
Loans and advances to credit institutions		124.7	120.3
Loans and advances to customers		1,115.5	1,065.8
Held to maturity investments	30; 2.1	-	42.5
Tangible assets	31	3.7	3.2
Intangible assets	32	2.3	1.8
Tax assets	26	14.4	2.7
Deferred tax assets		14.4	2.7
Other assets	34	0.8	0.7
Non-current assets and disposal groups classified as held for sale	35	0.1	0.0
Total assets		**1,618.1**	**1,537.7**
Financial liabilities held for trading	36	2.0	1.1
Financial liabilities measured at amortised cost	37	1,433.1	1,385.2
Deposits of credit institutions		234.6	249.3
Deposits of customers		1,174.2	1,094.7
Debt securities issued		1.1	1.7
Subordinated loans		15.0	30.0
Other financial liabilities		8.2	9.5
Provisions	38	7.6	8.6
Tax liabilities	26	0.9	1.1
Current tax liabilities		0.9	0.9
Deferred tax liabilities		0.0	0.2
Other liabilities	39	0.7	0.8
Total Liabilities		**1,444.3**	**1,396.7**
Capital	40	90.0	90.0
Share premium		18.8	18.8
Accumulated other comprehensive income		2.0	0.3
Retained earnings (including profit or loss for the financial year)		63.0	31.9
Total equity		173.8	141.0
Total liabilities and equity		**1,618.1**	**1,537.7**

Prior year numbers are compiled according to the requirements of IAS 39. As permitted by IFRS 9, Addiko Bank has not restated comparative periods. Therefore, the balance sheet structure compared to YE17 was adjusted to the new requirements according to IFRS 9 and thus only limited comparability with the previous periods figures is given.

The accompanying notes on pages 49 to 98 form an integral part of the financial statements and should be read in conjunction with them.

III. Statement of changes in equity

EUR million

	Sub-scribed capital	Capital Reserves	Fair value reserves	Cumu-lative results and other reserves	Total
Equity as at 01.01.2018	**90.0**	**18.8**	**0.3**	**31.9**	**141.0**
Impact of adopting IFRS 9	0.0	0.0	7.6	0.9	8.5
Equity as at 01.01.2018	**90.0**	**18.8**	**7.9**	**32.7**	**149.5**
Profit or loss after tax				37.2	37.2
Other comprehensive income			**-6.0**		**-6.0**
Total comprehensive income					31.3
Dividends paid				-7.0	-7.0
Equity as at 31.12.2018	**90.0**	**18.8**	**2.0**	**63.0**	**173.8**

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The changeover effect increased equity by EUR 0.8 million. More details on the changeover are available in the Note (2) »Application of new standards and amendments«.

EUR million

	Sub-scribed capital	Capital Reserves	Available-for-sale reserves	Cumulat-ed result and other reserves	Total
Equity as at 01.01.2017	**90.0**	**18.8**	**-0.1**	**12.9**	**121.6**
Profit or loss after tax				19.0	19.0
Other comprehensive income			0.5		0.5
Total comprehensive income			**0.5**	**19.0**	**19.4**
Equity as at 31.12.2017	**90.0**	**18.8**	**0.3**	**31.9**	**141.0**

The accompanying notes on pages 49 to 98 form an integral part of the financial statements and should be read in conjunction with them.

IV. Statement of cash flows

EUR million

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit or loss before tax	27.7	18.1
Depreciation	1.3	1.3
Impairments / (reversal of impairments) of loans and other financial assets measured at amortised cost	-3.4	-2.6
Impairments of tangible assets (including investment property), intangible assets and other assets	0.0	-0.1
Net (gains) / losses from exchange differences	-3.1	8.3
Net (gains) / losses from sale of tangible assets	0.0	0.1
Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	-3.0	0.0
Other adjustments to total profit or loss before tax	2.0	0.5
Cash flow from operating activities before changes in operating assets and liabilities	**21.6**	**25.6**
(Increases) / decreases in operating assets (excluding cash & cash equivalents)	**-108.2**	**-203.1**
Net (increase) / decrease in financial assets held for trading	0.9	-0.2
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income	-27.8	-82.3
Net (increase) / decrease in loans and receivables measured at amortised cost	-81.3	-137.9
Net (increase) / decrease in other assets	0.0	17.3
Increases / (decreases) in operating liabilities	**64.6**	**141.7**
Net increase / (decrease) in financial liabilities held for trading	0.9	-0.8
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost	63.8	142.6
Net increase / (decrease) in other liabilities	0.0	-0.2
Cash flow from operating activities	**-22.0**	**-35.8**
Income taxes (paid) / refunded	-2.5	-2.0
Net cash flow from operating activities	-24.6	-37.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	10.1	39.5
Receipts from the disposal of investments in debt securities measured at amortized cost	0.0	36.5
Receipts from non-current assets or related liabilities held for sale	10.0	0.0
Other receipts from investing activities	0.0	3.0
Cash payments on investing activities	**-2.3**	**-1.6**
(Cash payments to acquire tangible assets)	-0.9	-1.1
(Cash payments to acquire intangible assets)	-1.4	-0.5
Net cash flow from investing activities	**7.8**	**37.9**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments on financing activities	-22.0	-38.7
(Dividends paid)	-7.0	0.0
(Cash repayments of subordinated liabilities)	-15.0	-38.7
Net cash flow from financing activities	**-22.0**	**-38.7**
Effects of change in exchange rates on cash and cash equivalents	0.1	-0.5
Net increase in cash and cash equivalents	-38.8	-38.6
Opening balance of cash and cash equivalents	**225.6**	**144.4**
Closing balance of cash and cash equivalents	**186.9**	**105.3**

The accompanying notes on pages 49 to 98 form an integral part of the financial statements and should be read in conjunction with them.

EUR million

	Note	2018	2017
CASH AND CASH EQUIVALENTS			
Cash on hand and cash balances with the central bank	27	133.4	145.6
Loans to banks with maturity up to three months		53.5	80.0
TOTAL		**186.9**	**225.6**

The accompanying notes on pages 49 to 98 form an integral part of the financial statements and should be read in conjunction with them.

V. Notes to the financial statements

Basic data

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, with headquarters in Wipplingerstrasse 34, 1010 Vienna, Austria. The consolidated financial statements can be obtained at the headquarters and the following websites: www.addiko.si and www.addiko.com.

Accounting policies

1. Accounting principles

These financial statements were prepared according to the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRS/SIC) as adopted by the EU as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation).

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

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption of IFRS 9 has resulted in changes of accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Further details of the specific IFRS 9 accounting policies, estimates and judgments applied in the current period and its quantitative and qualitative impact are described in more detail in the Note (2) »Application of new standards and amendments«. Apart from IFRS 9 impact and IFRS 15 Revenue from Contracts with Customers, the same estimates, judgments, accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements.

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes and assessments of legal risks from legal proceedings and the recognition of provisions regarding such risks. The actual values may deviate from the estimated figures.

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

On 07 March 2019, the Management Board of Addiko Bank d.d. approved the financial statements as at 31 December 2018 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2018.

These financial statements represent the general-purpose separate financial statements of the Company. The financial statements were prepared for the reporting period from 01.01.2018 to 31.12.2018 in compliance with International Financial Reporting Standards (IFRS).

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Company is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Company. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

2. Application of new standards and amendments

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2018:

Standard	Name	Description	Effective forfinancial year
IFRS 9	Financial Instruments (New Standard)	Changes in the accounting and measurement of financial assets; replacing IAS 39	2018
IFRS 4	IFRS 4 Insurance Contracts (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
IFRS 15	Revenue from Contracts with Customers (New Standard)	Replacing IAS 11 and IAS 18	2018
IFRS 2	IFRS 2 Share-based Payment (Amendments)	Classification and Measurement of Share-based Payment Transaction	2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration (New Interpretation)	Accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	2018
IAS 40	IAS 40 Investment Property (Amendments)	Transfers of Investment Property	2018
IFRS 1, IFRS 12, IAS 28	Annual Improvements to IFRS Standards 2014-2016 Cycle	IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2017/2018

2.1 IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of **IFRS 9** Financial Instruments, which took effect on 1 January 2018. The requirements of IFRS 9 represent a significant change to IAS 39 Financial Instruments. As of 1 January 2018, Addiko Bank has adopted this standard. Also, the amended IFRS 7 Financial instruments: Disclosures was adopted. This standard requires new disclosures of information on financial instruments.

Financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

2.1.1 Classification and measurement

Business models

All financial assets have to assigned to one of the business model. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition.

- Hold to collect: a financial asset held with the objective to collect contractual cash flows.
- Hold to collect and sell: a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- Other: a financial asset held with trading intent or that does not meet the criteria of the categories above.

It may happen that in the subsequent periods a different measurement method would be appropriate due to the cash flows which are realized differently than expected. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model. Other kinds of sales are assessed retrospectively.

Contractual cash flow characteristics

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

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

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features:

- The assessment of unilateral changes of margins and interest concluded that passing on costs related to the basic lending agreement, clauses designed to maintain a stable profit margin, and changes of the interest rate reflect the worsening of the credit rating, are not SPPI harmful.
- The prepayment clauses are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. Prepayment fee has to be smaller than loss of interest margin and loss of interest.
- Other contingent payment features are typically side business clauses. The penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event.
- Project financing was assessed whether there is a reference to the performance of the underlying business project. If there is not such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates can contain interest mismatch features (fixation date is before the start of the period, reference rate´s tenor is different to the rate reset frequency, etc.). To assess whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), quantitative benchmark test has to be performed.

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at FVTOCI.

Upon transition to IFRS 9 there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

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

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

The categories according to IAS 39 – held-to-maturity, loans and receivables and available-for-sale - no longer exist.

A financial asset is recognised when bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss).

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

<u>Financial assets at amortised costs</u>

A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line »Net interest income from instruments measured at FVTOCI and AC«. Impairment is presented in the line »Change in expected credit losses«. Gains and losses from derecognition are presented in the line »Net result on financial instruments«. Major volume of financial assets of the bank is measured at amortised costs with intention to hold and collect contractual cash flow.

<u>Financial assets at fair value through other comprehensive income</u>

A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and is assessed for impairment under the new expected credit loss (ECL) model.

Interest income is presented in the line »Net interest income from instruments measured at FVTOCI and AC«. Impairment is presented in the line »Change in expected credit losses«. The difference between fair value and amortised costs is presented in »Fair value reserve« in the Consolidated statement of changes in equity. The changes in fair value during the reporting period are presented in the line »Fair value reserve - debt instruments« in the Statement of other comprehensive income. Gains and losses from derecognition are presented in the line »Net result on financial instruments«.

For equity instruments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line »Fair value reserve - equity instruments« in the Statement of other comprehensive income without recycling in the statement of profit or loss.

Financial assets at fair value through profit or loss

A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. Interest income and dividend income are presented in the line »Net interest income from instruments measured at FVTPL«. Gains and losses from revaluation and derecognition are presented in the line »Net result on financial instruments«. In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model. Non-trading financial assets consist of two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- Financial assets designated at fair value through profit or loss

  At initial recognition, the bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. »accounting mismatch«) that would otherwise arise from measuring assets and liabilities or recognizing the gains or losses on a different basis. Currently there is not such case in Addiko Bank d.d.
- Financial assets mandatorily at fair value through profit or loss

  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

Equity instruments that are held for trading as well as equity instruments that are not held for trading (and they were not designed at FVTOCI at initial recognition) are measured at FVTPL.

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 recognised in other comprehensive income, the remaining amount of the change in the fair value will be presented in profit or loss.

Addiko Bank does not expect the implementation of IFRS 9 to result in a significant change in its business model.

2.1.2 Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model.

While applying the forward-looking ECL model, Addiko Bank recognizes ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The impairment standards applied, measure ECL on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

Under IFRS 9, the lifetime ECL is the expected present value of losses that arise if borrowers default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

IFRS 9 requires a bank to determine an ECL amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), Addiko Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, taking into account current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. Addiko calculates in total three outcomes: Base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (cf. chapter Forward-looking information).

The observed period and the applied parameters within the ECL calculation depend on the maturity of the transaction, the IFRS 9 stage of the transaction and the macro scenario applied. For stage 1 the one year expected credit loss has to be considered while for stage 2 and 3 the lifetime loss has to be recognised.

The PD parameters reflects the probability of default within a certain period. The PDs used for the ECL calculation are derived by models/methodology which are developed by Addiko Bank internal model development unit. Generally, the models are country and segment specific whenever possible and plausible. For certain parts of the portfolio Bank wide models are applied though to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodological wise, an indirect modelling approach is chosen. This means that underlying existing Basel 3 methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. Within other things, this includes the removal of any conservatism out of the models, the inclusion of forward looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

EAD is an estimate of the exposure including repayments of principal and interest and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cash flow structure (e.g. frames).

LGD is an estimate of the economic loss under condition of a default. For the LGD parameter a simplified approach is chosen. Addiko Bank incorporates expertly determined overall LGD values within the IFRS 9 ECL calculation. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

In addition to the generalized ECL calculation based on internal estimated risk parameters / methodology a portfolio approach is applied for certain circumstances which cannot not be appropriately differently considered within the general framework while being relevant for the reporting date. These aspects are related but not limited to data availability and quality, model/ parameter weaknesses, limited time series and/or time lags in data. A formalized approach is defined to ensure a consistent and sound application within the overall calculation logic.

Significant increase in credit risk

Addiko Bank measures ECL in three stages as the deterioration in credit quality takes place following the IFRS 9 standard. Namely, for stage 1 the 12-month expected credit loss is reported and for stage 2 and 3 the full lifetime expected credit loss.

Stage 1 begins as soon as a financial instrument is originated and 12-month ECL are recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated on the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly assets move into stage 2, referring to Addiko Banks´ staging criteria (as described further below in more details). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortised cost carrying amount. (i.e. gross carrying amount adjusted for the loss allowance.) Regulatory default definition as of CRR (Capital Requirement Regulation) Article 178 of Regulation (EU) No. 575/2013 is followed:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

For the ECL calculation Addiko Bank classifies clients in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken across countries and portfolios types. The staging indicators are classified as follows:

Qualitative staging criteria:

- 30 days past due: Addiko Bank identifies a staging criterion trigger when contractual payments are more than 30 days past due.
- Forborne exposures: are those exposures where Addiko Bank has extended forbearance measures because of the debtor facing financial difficulties. Forbearance events may result in an exposure being classified as performing or non-performing which implies a stage transfer into stage 2 or 3.

Further qualitative criteria around watch list / early warning systems are reflected in the PD via the automatic downgrade of the client (as incorporated within the rating models). Hence no specific criterion was deemed necessary here.

Quantitative criteria are applied based on the probability of default, namely significant adverse changes in the 12-months probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed by different thresholds of PD changes for different portfolios. These thresholds are regularly evaluated from a qualitative and/or quantitative point of view to ensure reasonable stage criteria (cf. validation). In addition, for some parts of the portfolios leverage is applied as an additional stage criterion to reflect changes in exposure caused by macro-economic circumstances which were not foreseeable at initial recognition and/or are not directly reflected in the PD at the reporting date. Due to limited time series there are cases where the rating at origination is not available. For such cases, a simplified proxy approach based on historically simulated ratings is used (PD at certain point in time is used as a proxy for the initial recognition) while additional mechanism are applied to account for potential adverse effects out of this assumption.

Both, the qualitative and quantitative factors used for the staging determination are undergoing a constant validation and monitoring process to ensure their appropriateness and applicability over time (cf. chapter Validation).

Forward-looking information

Under IFRS 9, Addiko Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. Addiko Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include within other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country and portfolio level whenever possible and plausible.

Forecast of these economic variables are provided by Addiko Bank Bank Economic Research function on a regular basis and provide an estimate view of the economy in ensuing years. The input data for the forecasts is collected from both internal and external data source. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect

Addiko's view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current estimates, assumptions and projections of Addiko Bank Economic Research and currently available public information. They are not guarantees of future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements. Addiko Bank does not assume any obligation to update the forward-looking statements contained in this report.

	Baseline case		Optimistic case	Pessimistic case
	Next 12 months[1]	Remaining 2-year period[1]	Remaining 3-year period[1]	Remaining 3-year period[1]
Real GDP (constant prices YoY, %)				
Slovenia	3.6	3.0	4.4	1.2
EMU	1.8	1.6	2.4	0.6
Unemployment Rate (ILO, average %)				
Slovenia	5.2	4.7	4.1	6.4
EMU	7.5	6.8	5.9	8.4
Real-Estate (% of change)				
Slovenia	3.5	2.5	3.7	1.6
EMU	2.0	1.2	2.3	0.6
CPI Inflation (average % YoY)				
Slovenia	1.8	2.0	2.3	1.3
EMU	1.4	1.6	1.9	1.1

[1] The numbers represent average values for the quoted periods

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models / methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalized upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

Addiko distinguishes between an initial and an ongoing validation:

- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values
- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed)

In addition to the yearly process a close monthly monitoring is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled.

The validation is performed by an independent internal unit which deliver reports to local and Bank senior management.

Write-offs

When Addiko Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the bank's judgment that it is no longer reasonable to expect any recovery of that amount.

Write-off can be done only against already recognised ECL. The written-off amount can be either full write-off or partial write-off.

In addition to the general derecognition criteria (see chapter »Derecognition and contract modification« the following specific criteria fulfilment would lead to the derecognition of financial assets:

- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings;
- Unsecured financial asset of no repayment occurred within the period of one year on observed financial asset;
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral;
- Financial asset which have been subject of restructuring three or more times and the bank assessed the debtor is not able to repay their obligations;
- Financial asset for which the bank´s right to claim repayment from the debtor in judicial or other proceedings had been terminated by approval of compulsory settlement
- Other triggers were defined for financial assets that are treated as non-recoverable.

2.1.3 Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments. There was only immaterial impact for the Bank from adopting these new requirements.

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired; or
- Addiko Bank transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a »pass-through« arrangement;
- And either: (i) it has transferred substantially all risks and rewards connected with ownership of the asset, or (ii) has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows.

Significant modifications leading to derecognition of financial assets

If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset under IFRS 9 Financial Instruments. New financial asset with modified terms is recognised and the difference between amortised costs of derecognised financial asset and fair value of new financial asset is reported in profit or loss statement. If the borrower is in default or the significant modification leads to default, then the new asset will be treated as purchased or originated credit-impaired (POCI). For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in Stage 1.

If the derecognition criteria are applied to borrowers facing financial difficulties classified in Stage 3, then the change in expected cash flows is assessed rather than contractual cash flows. The revised terms of the contract might reflect the borrower's ability to repay the original cash flows, as already reflected in the entity's impairment assessment. This should not be treated as a significant modification because it is not, in substance, an expiry of cash flows.

Insignificant modifications not leading to derecognition of financial assets

If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in derecognition of that financial asset under IFRS 9 Financial Instruments, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

The following main criteria results in significant modification:

- Quantitative - significant change of the contractual cash flows when the discounted present value of the cash flows under the new terms discounted using the original effective interest rate differ from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
  - change of debtor
  - currency change
  - change of the purpose of financing
  - SPPI critical features are removed or introduced in the loan contract.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.1.4 Hedge Accounting

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

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

2.1.5 Impact on capital

On 21 December 2017, the European Parliament adopted amending Regulation (EU) No 575/2013 which allows banks to choose between two approaches to recognize the effects of the transition to regulatory capital, namely:

- gradual recognition of the overall impact over a five-year period or
- recognition of the overall impact as at the date of adoption.

The Bank decided to use the approach to recognition of the overall impact as at the date of implementation of IFRS 9. Consequently, the Bank's CET1 and total capital increased by 8.5 m EUR.

2.1.6 Transition

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

The bank took 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 were generally recognised in retained earnings and reserves as at 1 January 2018.

The new structure of the statement of financial position, the statement of profit and loss and statement of comprehensive income and relevant items in the Notes reflect the new accounting categories in accordance with IFRS 9. The comparative period columns in the 2018 interim financial statements reflect the structure used in 2017 financial statements. The comparative period information and disclosures in the Notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before amendments resulting from IFRS 9).

2.1.7 Disclosure of financial impact of IFRS 9

Changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018:

EUR million

	Measurement category IAS 39	Carrying amount	Measurement category IFRS 9	Carrying amount
Financial Assets				
Cash reserves	Amortised cost (LAR)	145.7	Amortised cost	145.6
Financial assets held for trading	FVTPL (Held for trading)	2.3	FVTPL (Held for trading)	2.3
LAR to credit institutions	Amortised cost (LAR)	121.2	Amortised cost	121.0
Loans and advances to customers	Amortised cost (LAR)	1,064.8	Amortised cost	1,064.3
Derivatives – Hedge accounting	FVTPL (Hedging instruments)	0.0	FVTPL (Hedging instruments)	0.0
Investment Securities				
	FVOCI (AFS)	152.8	FVOCI	204.3
	Amortised cost (LAR)	0.0	Amortised cost	0.0
	Amortised cost (HTM)	42.5	Amortised cost	-
	FVTPL (mandatorily)	-	FVTPL (mandatorily)	0.3
Total financial assets		1,376.5		1,537.7
Financial Liabilities				
Financial liabilities held for trading	FVTPL (Held for trading)	1.1	FVTPL (Held for trading)	1.1
Financial liabilities measured at AC	Amortised cost	1,385.2	Amortised cost	1,385.2
Total financial assets		1,386.3		1,386.3

The loan portfolio classified as loans and advances according to IAS 39 are classified in the business model hold to collect, thus leading to no impact as these loans have been measured at amortised costs according to IFRS 9.

Financial assets held for trading continue to be measured at FVTPL.

The Addiko Bank classified all debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities are measured at FVTOCI as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Debt securities that were classified as held to maturity under IAS 39 in the amount of EUR 42.5 million were reclassified to the category measured at FVTOCI under IFRS 9 as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Equity instruments that were classified as available for sale under IAS 39 in the amount of 13.5 m EUR were reclassified as follows: EUR 0.3 million to the category measured mandatorily at FVTPL due to the planned disposal in the near future and for EUR 13.2 million the option to measure them as FVTOCI was applied.

The original carrying amount under IAS 39 in the line »Financial assets measured at AC« that captures financial liabilities that continue to be measured at amortised costs consists of following items:

- deposits of credit institutions with a carrying amount of EUR 249.6 million
- deposits of customers with a carrying amount of EUR 1,174.2 million
- issued certificates of deposit with a carrying amount of EUR 1.1 million
- other financial liabilities with a carrying amount of EUR 7.0 million.

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

Reconciliation of carrying amounts of financial assets based on measurement categories as at 1 January 2018:

EUR million

	Carrying amount IAS 39	Reclassification	Remeasurement	Carrying amount IFRS 9	Comment
Amortised costs	1,374.2	-42.5	-0.9	1,330.8	
Cash reserves	145.7	0.0	-0.1	145.6	
Loans and advances to credit institutions	121.2	0.0	0.0	121.2	
Loans and advances to customers	1,064.8	0.0	-0.8	1,064.0	
HTM securities	42.5	-42.5	0.0	0.0	1
Fair value through profit and loss	2.3	0.3	0.0	2.6	2
Fair value through OCI	152.8	42.2	9.3	204.3	
FVTOCI	0.0	195.0	9.3	204.3	3) a),b)
AFS	152.8	-152.8	0.0	0.0	4) a),b)
Total financial assets	**1,529.3**	**0.0**	**8.4**	**1,537.7**	
Deferred taxes			-1.7		
Off-balance loss allowances			1.8		
Total ECL impact on equity			**8.5**		

Comments on reclassifications:

1) Subtraction to FVTOCI (IFRS 9) EUR -42.5 million
2) Addition from AFS (IAS 39) EUR +0.3 million
3) a) Addition from AFS (IAS 39) EUR +152.5 million
3) b) Addition from HTM (IAS 39) EUR + 42,5 million
4) a) Subtraction to FVTOCI (IFRS 9) EUR -152.5 million
4) b) Subtraction to FVTPL (IFRS 9) EUR – 0,3 million

There are no changes in classification and measurement of financial liabilities due to the adoption of IFRS 9.

Reconciliation of credit loss allowances:

EUR million

	Closing balance 31.12.2017 IAS 39/IAS 37	Suspended interest recognition	Remeasurement	Carrying amount IFRS 9
Cash reserve	0.0	0.0	-0.1	-0.1
Loans and receivables under IAS 39 / Financial assets at amortised cost under IFRS 9	-39.3	-3.1	-0.8	-43.1
Fair value through OCI	0.0	0.0	0.0	0.0
Available-for-sale debt securities under IAS 39 / Debt securities at FVTOCI under IFRS 9	0.0	0.0	0.0	0.0
Held-to-maturity under IAS 39 reclassified to Financial assets at FVTOCI under IFRS 9	0.0	0.0	0.0	0.0
Loan commitments and financial guarantees	-7.3	0.0	1.8	-5.5
Total	**-46.6**	**-3.1**	**0.9**	**-48.8**
thereof ECL on loans and off-balance exposures			0.9	-48.7
thereof ECL on debt securities			0.0	0.0

The column »Suspended Interest recognition« relates to changes in credit loss allowances due to the increase of gross carrying amounts of financial assets.

The column »Remeasurement« relates to changes in credit loss allowances that continue to stay in the impairment scope under IFRS 9 from 1.1.2018 (till 31 December 2017 under IAS 39 for financial assets and under IAS 37 for off-balance exposures).

Reconciliation of deferred taxes upon transition to IFRS 9:

EUR million

	Closing balance 31.12.2017 IAS 39	Opening balance 1.1.2018 IFRS 9	Retained earnings	OCI
Changes in deferred tax assets	2.7	2.7	0.0	0.0
Changes in deferred tax liabilities	-0.2	-1.5	0.0	-1.7
Total	**2.6**	**1.2**	**0.0**	**-1.7**

Impact of IFRS 9 adoption on equity as at 1 January 2018:

EUR million

Component of equity	Impact
Other comprehensive income	7.6
Retained earnings	0.9
Total	**8.5**

EUR million

IFRS 9 effect	Impact
Remeasurement of financial assets	8.4
Deferred taxes	-1.7
Off-balance loss allowances	1.8
Total	**8.5**

EUR million

IFRS 9 effect	Impact
Equity under IAS 39	**141.0**
Changes in accounting for credit losses	0.9
Changes in accounting of classification and measurement	9.4
Overall deferred taxes	-1.7
Total impact	**8.5**
Equity under IFRS 9	**149.5**

The net impact of adoption of IFRS 9 was EUR 8.5 EUR million (see III Statement of changes in equity).

2.2 IFRS 15 Revenue from Contracts with Customers

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

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

Consequently, interest income as well as dividend income are no longer within the scope of the revenue recognition standard. They become subject to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement. Since the Addiko 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 Addiko 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 1 January 2018.

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

2.3 IFRS 2 – Share-based Payment

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. This standard does not result in any significant changes within the Addiko Bank.

2.4 IFRIC 22 – Foreign Currency Transactions and Advance Consideration

This interpretation clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. This standard does not result in any significant changes within the Addiko Bank.

2.5 IAS 40 – Investment property

The amendment clarifies when assets are transferred to, or from, investment properties. According to these amendments, a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. The amendments apply for annual periods beginning on or after 1 January 2018. This standard does not result in any significant changes within the Addiko Bank.

2.6 Annual improvements to IFRSs 2014-2016

The collection of annual improvements to IFRSs 2014-2016 includes amendments to the following standards: IFRS 1 First-time Adoption of IFRS removes outdated exemptions for first-time adopters of IFRS; IFRS 12 Disclosure of Interests in Other Entities means that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution; IAS 28 Investments in Associates and Joint Ventures implicates that a venture capital 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 following new standards and interpretations issued by the IASB and adopted by the EU were not yet effective:

Standard	Name	Description	Effective for financial year
IFRS 16	Leases (New Standard)	Replacing IAS 17	2019
IFRS 9	IFRS 9 Financial Instruments (Amendments)	Prepayment Features with Negative Compensation	2019

2.7 IFRS 16 Leases

IFRS 16 "Leases" was published by the IASB in January 2016. IFRS 16 will be effective from 1 January 2019, superseding the previous standard IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement contains a lease, SIC – 15 Operating leases – Incentives and SIC – 27 Evaluation the Substance of Transactions Involving the Legal Form of a lease.

2.7.1 General information

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognizes all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either "operating" or "finance". Instead, a right-of-use asset and a lease liability are recognized for all leases henceforth. The right-of-use asset is initially measured at costs, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognized pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases of low value, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases it will be possible to continue a recognition off the statement of financial position. With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset. Conceptually, lessee accounting and lessor accounting are thus divided, which may result in additional challenges in the implementation of the new provisions.

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

2.7.2 Leases in which Addiko Bank is a lessor

Due to the strategic decision of Addiko Bank to focus on core banking business, the leasing portfolio was reduced and therefore IFRS 16 will not have a material impact on accounting for Addiko Bank as a lessor. The same provisions as under IAS 17 will still apply to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Addiko Bank's statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognized.

2.7.3 Leases in which Addiko Bank is a lessee

Addiko Bank has completed as initial assessment of the potential impact on its financial statements including assessment of whether it will exercise any lease renewal options and the extent to which Addiko Bank chooses to use practical expedients and recognition exemptions. Mainly land and buildings are subject to lease in Addiko Bank. Generally, Addiko Bank uses its incremental borrowing rate as the discount rate.

As at 31 December 2018, the Bank´s future minimum lease payments under non-cancellable operating leases amount to EUR 9.3 million on an undiscounted basis under IAS 17, which Addiko Bank assessed for potential recognition as additional lease liabilities under new standard IFRS 16.

Based on available information from initial application date of IFRS 16, Addiko Bank expects only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -12 basis points due to an increase of the total assets in the amount of approximately EUR 8.5 million and an increase of lease liabilities in the amount of EUR 8.5 million.

2.7.4 Transition

Addiko Bank will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. For contracts under which the Addiko Bank acts as lessee a right-of-use asset at the amount equal to the lease liability will be recognized in the statement of financial position (subsequently right-of-use assets will be adjusted for accruals and prepayments). Addiko Bank will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. Addiko Bank will not apply IFRS 16 to any leases on intangible assets. Addiko Bank will use the exemptions for short term leases and leases of low value whereby the right-of-use-asset is not recognized. For leases previously classified as operating leases, the applicable discount rate will be the lessee's incremental borrowing rate determined at the date of initial application will be used as applicable discount rate for leases which were classified as operating leases under IAS 17.

2.7.5 IFRS 9 – Financial Instruments

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

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	Ime	Opis	Velja za poslovno leto
IFRS 17	Insurance Contracts	Accounting for insurance contracts	2021
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 19	Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement	2019
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework	2020
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

IFRS 17 Insurance Contracts is 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.

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

The **IAS 19** amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments to IAS 19 will be effective for accounting periods beginning on or after 1 January 2019.

The Amendments to References to the Conceptual Framework in IFRS Standards have been issued in March 2018. Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document Updating References to the Conceptual Framework which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments will be effective for accounting periods beginning on or after 1 January 2020.

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

3. Standards used for comparative periods

Until 31 December 2017 IAS 39 Financial instruments: recognition and measurement was the applicable standard for Financial instruments. On the 1 January 2018 it was superseded by IFRS 9 Financial Instruments. As IFRS 9 is not applied retrospectively the comparative period is still under the regime of IAS 39.

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit and loss

a. Financial assets held for trading

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

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

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

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

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

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

- The financial instrument contains one or more material separable embedded derivatives
- Through the fair value option, accounting mismatches can be avoided or significantly reduced, or

- A Bank of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

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

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

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

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

Financial liabilities held for trading

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

Financial liabilities measured at amortized cost

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

Embedded derivatives

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

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

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

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

4. Use of estimates and assumptions/material uncertainties in relation to estimates

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

Credit risk provisions

The Addiko Bank regularly assesses the recoverability of its problematic loans and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. Model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as Banking of similar assets when credit risk deterioration has to be assessed on a collective basis.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (2) 2.1. IFRS 9 Financial instruments and for the comparative period in note (8) Financial instruments: recognition and measurement (IAS 39) as well as to the Risk Report under note (55) Development of provisions.

Fair value of financial instruments

For financial instruments recognized at fair value that do not have an active market, the fair value is determined using various measurement models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is determined on the basis of estimates. To determine the fair value, the Addiko Bank uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models. For further details regarding the measurement of financial instruments, see note (2) 2.1. IFRS 9 Financial instruments and for the comparative period the note (8) financial instruments: recognition and measurement (IAS 39).

Deferred tax assets

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

Defined benefit plans

The costs of the defined benefit plan are measured using actuarial methods. Actuarial measurement is based on assumptions regarding discount rates, future salary trends, mortality and future increases in retirement benefits. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Estimates and assumptions applied to the calculation of non-current employee benefits are described in note (38.3) Provisions for retirement benefits and similar obligations. Quantitative information on non-current personnel provisions is disclosed in note (38) Provisions.

Provisions

Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfil these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. Details on provisions are presented in note (38).

Leases

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

5. Foreign currency translation

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

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

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

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

6. Income/expenses

In accordance with IFRS 15, income is recognized when the Bank satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Bank will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies. Dividend income is recognized at the time that a legal right to payment arises. For all financial instruments measured at amortized cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate. This is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the net carrying amount of the financial asset or financial liability. The calculation includes transaction costs, fees that integral are part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees that are not an integral part of the effective interest rate of a financial instrument, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognized upon completion of the underlying transaction.

7. Financial instruments: net gains and losses

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss, impairment losses and impairment reversals, realized gains and losses from the derecognition of financial instruments, the result from trading in securities and derivatives.

8. Financial guarantees

Financial guarantees are contracts that oblige the Company to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognized as liabilities at fair value less transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount determined in accordance with IFRS 9 (in the comparative period in accordance with IAS 37) and the unamortised balance of initially recognised premium.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits with maturity less than 90 days, as well as the minimum reserve. These amounts are stated at nominal value.

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

10. Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Addiko Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment.

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

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

The depreciation rates and expected useful lives were the same also in 2017.

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

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

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

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

11. Intangible assets

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

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

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

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

12. Tax assets and tax liabilities

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

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

Tax rate changes are taken into account in the determination of deferred taxes insofar as they are known at the time the consolidated financial statements are prepared. In accordance with IAS 12, non-current deferred taxes are not discounted.

Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be sufficiently available. This assessment is generally based on business plans as agreed by the Management Board.

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

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

13. Other assets

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

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

14. Non-current assets and disposal groups classified as held for sale

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

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

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

Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (35) Disclosures according to IFRS 5 - non-current assets and disposal groups classified as held for sale.

15. Provisions

15.1 Provisions for retirement benefits and similar obligations

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

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

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Slovenia are an actuarial interest rate of 1.15 % as at 31 December 2018 (2017: 1.00%) and a salary increase of 1.5 % p.a. (2017: 1.5% p.a.) for active staff members. Biometric basic data are taken into account using generation mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

15.2 Provisions for restructuring

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

15.3 Other provisions

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

16. Other liabilities

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

17. Equity

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

Subscribed capital represents the amounts paid in by shareholders in accordance with the articles of association.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income and actuarial gains and losses (in the comparative period the available-for-sale reserve includes the measurement results of financial assets classified as available for sale).

Notes to the profit or loss statement

18. Net interest income

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Interest income calculated using the effective interest method	45.5	40.4
AFS financial assets	-	0.5
Held-to-maturity investments	-	2.7
Financial assets at fair value through other comprehensive income	2.3	-
Financial assets at amortised cost	41.5	37.2
Negative interest from financial liabilities	1.7	0.0
Other interest income	0.8	0.8
Financial assets held for trading	0.8	0.8
Total Interest Income	**46.3**	**41.3**
Financial liabilities measured at amortised cost	-6.3	-6.3
Financial liabilities held for trading	-0.7	-0.7
Negative interest from financial assets	-0.4	-0.5
Total Interest Expense	**-7.4**	**-7.5**
Net Interest Income	**38.9**	**33.7**

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

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Derivatives – Trading	0.8	0.8
Debt securities	3.0	3.2
Governments	2.0	3.1
Credit institutions	0.8	0.0
Non-financial corporations	0.2	0.1
Loans and advances	40.8	37.2
Governments	0.9	0.6
Credit institutions	0.0	0.2
Other financial corporations	0.4	0.4
Non-financial corporations	9.0	9.4
Households	30.4	26.7
Negative interest from financial liabilities	1.7	0.0
Central banks	1.7	0.0
Total	**46.3**	**41.3**

Interest expenses break down by instrument and sector as follows:

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Derivatives – Trading	**-0.7**	**-0.7**
Deposits	-6.3	-6.3
Governments	-0.3	-0.4
Credit institutions	-2.6	-2.6
Other financial corporations	-0.3	-0.4
Non-financial corporations	-0.6	-0.7
Households	-2.5	-2.2
Negative interest from financial assets	**-0.4**	**-0.5**
Total	-7.4	-7.5

19. Net fee and commission income

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Fee and commission income	**12.6**	**12.1**
Payment services	9.0	8.2
Lending business	2.9	2.9
Loan commitments granted	1.7	1.6
Financial guarantees granted	1.2	1.3
Customer resources distributed but not managed	0.6	0.4
Other	0.1	0.7
Fee and commission expenses	**-2.6**	**-2.8**
Other	-2.6	-2.7
Total	**9.9**	**9.4**

20. Net result on financial instruments

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Held for trading financial instruments	0.5	0.8
o/w exchange difference	-2.6	9.0
o/w gain or losses on financial instruments	3.1	-8.3
AFS financial assets	-	0.2
Held-to-maturity investments	-	-0.1
Financial assets at fair value through other comprehensive income	4.9	-
Total	**5.4**	**0.8**

Foreign exchange differences shown in the table above refer to financial assets and liabilities measured at amortized cost. Foreign exchange differences arising from financial instruments measured at fair value are reported within net gains (losses) from financial assets and liabilities held for trading.

The difference between 2018 and 2017 relates to the volatile movement of the EUR against CHF in 2017.

20.1 Gains or losses on financial instruments held for trading, net – by instrument

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Derivatives	-2.6	9.0
Total	**-2.6**	**9.0**

Derivative financial instruments include net gains (losses) arising from currency and interest swaps, currency forward contracts and options.

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

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Interest rate instruments and related derivatives	0.1	9.2
Foreign exchange trading and derivatives related to foreign exchange and gold	-2.7	-0.2
Total	**-2.6**	**9.0**

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

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Gains or losses on financial assets and liabilities, measured at fair value through other comprehensive income	4.9	0.2
Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss	0.0	-0.1
Total	**4.9**	**0.1**

20.4 Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss – By instrument

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Debt securities	4.9	0.1
Total	**4.9**	**0.1**

21. Other operating result

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Other operating income	1.2	2.3
Other income	1.2	2.3
Other operating expenses	-3.6	-2.9
Allocation of provisions for passive legal cases	-0.2	0.0
Resolution fund	-0.7	-1.1
Deposit guarantee	-0.4	0.0
Banking levies and other taxes	-1.8	-1.7
Other expenses	-0.5	-0.1
Total	**-2.4**	**-0.7**

The most important item in Banking levies and other taxes is the paid tax on financial services in the amount of EUR 1.4 million (2017: EUR 1.6 million). The tax on financial services is payable on the basis of the Financial Services Tax Act, which was published on 10 December 2012 (Official Gazette of RS 94/2012). From 1 January 2015, the tax rate amounts to 8.5% of the tax base (Official Gazette of the RS, 90/2014).

22. Personnel expenses

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Wages and salaries	-12.5	-12.3
Social security	-1.8	-1.8
Variable payments	-1.6	-1.5
Expenses for retirement benefits	-0.3	-0.3
Total	**-16.2**	**-15.8**

23. Other administrative expenses

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
IT expense	-2.7	-2.4
Premises expenses (rent and other building expenses)	-2.0	-2.3
Legal and advisory costs	-0.6	-1.3
Advertising costs	-1.3	-1.1
Other	-2.6	-2.5
Total	**-9.2**	**-9.5**
The item Other includes 0.2 million of communication costs (telephone, fax, internet, etc.) and 0.3 million of premises expenses.		

24. Depreciation

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Tangible assets	-0.5	-0.4
Intangible assets	-0.9	-0.9
Total	**-1.3**	**-1.3**

25. Change in expected credit losses

Impairment or reversals of financial assets measured at fair value through other comprehensive income and at amortised cost breaks down as follows in 2018:

EUR million

	01.01.-.31.12.2018
Change in ECL on financial instruments at FVTOCI	**0.0**
Change in ECL on financial instruments at amortised cost	**3.4**
Net allocation to risk provision	1.7
Proceeds from loans and receivables previously impaired	1.7
Directly recognised impairment losses	0.0
Net allocation of provisions for commitments and guarantees given	-1.1
Total	**2.4**

The positive development of the portfolio is mainly driven due to effects resulting from successful restructuring measures among larger individual customers primarily in the Corporate Segment as well as due to collection activities and recoveries / settlement agreements within the Retail Segment.

Impairment on loans and receivables breaks down as follows in 2017:

EUR million

	01.01.-.31.12.2017
Loans and receivables	**2.6**
Net allocation to risk provision	-0.1
Proceeds from loans and receivables previously impaired	2.7
Directly recognised impairment losses	0.0
Net allocation of provisions for commitments and guarantees given	**-1.0**
Total	**1.6**

The development of expected credit losses for risks arising from the lending business is disclosed under note (29) Loans and receivables, note (27) Cash reserves and note (30) Investment securities.

26. Taxes on income

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Current tax	-4.0	-1.9
Deferred tax	13.5	2.7
Total	**9.5**	**0.8**

The adjustment of the expected tax liability to the actual one is as follows:

EUR million

	01.01.-.31.12.2018	01.01.-.31.12.2017
Result before tax	**27.7**	**18.1**
Theoretical income tax expense based on Slovene corporate tax rate of 19 %	5.3	3.4
Tax effects	**-2.6**	**-1.5**
from investment related tax relief and other reducing the tax burden	-2.8	-2.1
from non-tax deductible expenses	0.4	0.8
from other tax effects	-0.1	-0.2
Actual income tax expenses (effective tax rate: 9,55% (2017: 10,45%)	**2.6**	**1.9**

In 2018, the income tax was EUR 2.6 (2017: EUR 1.9 million). In 2018, the Bank recognized deferred tax assets in the amount of EUR 13.5 million (2017: EUR 2.7 million), namely, from fixed assets, provisions, impairment of securities and transferred tax losses.

In the Current tax item tax non-deductible income arises from the disposal (utilisation) of provisions and dividends received. The majority of tax non-deductible expenses is represented by the expenses arising from the impairment of investments, interest expenses from loans received from related parties, transfer prices between related parties, expenses for providing bonuses and other payments related to employment, and the non tax-deductible part of the expenses arising from the creation of provisions.

In 2018, when calculating corporate income tax, the Bank took into account EUR 15.0 million (2017: EUR 10.8 million) of tax deductions arising from transferred tax loss, investment relief, relief from the employment of disabled people, relief for voluntary supplementary pension insurance and donation relief.

The effective tax rate for 2018 stood at 9.55% (2017: 10.45%).

26.5 Deferred tax assets/liabilities

In the financial year 2018, deferred tax assets and liabilities were netted, as the requirements in accordance with IAS 12 were met.

Deferred tax (tax liabilities and assets) were recognized for the differences between the carrying values for tax purposes and the values under IFRS for the following items:

EUR million

	Deferred Tax (netted)	Income statement	2018 Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	2017 Other comprehensive income (OCI)
Impact of adopting IFRS 9	**0.0**	**0.0**	**-1.7**	**0.0**	**0.0**	**0.0**
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.0	0.0	0.0	0.3	0.3	0.0
Revaluations of AFS investments to fair value	0.0	0.0	0.0	-0.2	0.0	-0.2
Revaluation of investment securities at FVTOCI	0.0	0.0	1.2	0.0	0.0	0.0
Impairment on AFS debt instruments	0.0	0.2	0.0	0.2	0.2	0.0
Post-employment benefits (pensions and other retirements)	0.0	0.1	0.0	0.1	0.1	0.0
Tax losses carried forward	14.4	14.5	0.0	2.1	2.1	0.0
Total deferred Tax	**14.4**	**14.9**	**-0.5**	**2.6**	**2.7**	**-0.2**

The total year-on-year change in deferred taxes in the financial statements amounts to EUR 11.9 million. Of this, EUR 13.5 million is reflected in the statement of profit or loss as deferred tax revenue, and the amount of EUR 0.3 million has a negative impact on other comprehensive income in equity. In 2018, Bank has utilised 1.3 million deferred tax assets from 2017 loss.

The distribution of deferred tax in net amounts is as follows:

EUR million

	31.12.2018	31.12.2017
Balance at start of period (01.01.)	**2.6**	**-0.1**
Impact of adopting IFRS 9	**-1.7**	**0.0**
Tax income/expense recognised in profit or loss	12.2	2.7
Tax income/expense recognised in OCI	1.4	0.0
Balance at end of period	**14.4**	**2.6**

EUR million

	31.12.2018	31.12.2017
Deferred tax assets	15.0	2.7
Deferred tax liabilities	-0.5	-0.2
Total	**14.4**	**2.6**

As at 31 December 2018, the Bank had EUR 200.5 million of unused tax losses from previous years (EUR 214.9 million as at 31 December 2017), for 153.1 million unused tax losses Bank has already recognised the deferred tax assets.

Notes to the statement of financial position

27. Cash reserves

27.1 Cash reserves

EUR million

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash	10.2	0.0	10.2
Cash balances at central banks	112.3	0.0	112.3
Other demand deposits	10.8	0.0	10.8
Total	**133.4**	**0.0**	**133.4**

EUR million

31.12.2017	Gross carrying amount	Portfolio risk provisions	Carrying amount (net)
Cash	7.6	0.0	7.6
Cash balances at central banks	110.3	0.0	110.3
Other demand deposits	**27.8**	**0.0**	**27.8**
Total	**145.7**	**0.0**	**145.7**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 9.5 million (2017: EUR 8.6 million).

27.2 Cash reserves - development of gross carrying amount

EUR million

2018	12-month ECL
Gross carrying amount at 01.01.2018	**138.1**
Changes in the gross carrying amount	-14.9
Additions	160.8
Releases	-175.8
Gross carrying amount at 31.12.2018	**123.2**

27.3 Cash reserves - development of ECL allowance

EUR million

2018	12-month ECL
ECL allowance at 01.01.2018	**-0.1**
Changes in the loss allowance	0.1
Increases due to change in credit risk	-0.3
Decreases due to change in credit risk	0.4
ECL allowance as at 31.12.2018	**0.0**

28. Financial assets held for trading

EUR million

	31.12.2018	31.12.2017
Derivatives	1.4	2.3
Total	**1.4**	**2.3**

The contractual values of derivative financial instruments are presented in Note 50.

29. Loans and receivables

29.1 Loans and advances to credit institutions

EUR million

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	125.0	-0.4	124.7
Credit institutions	125.0	-0.4	124.7
Total	**125.0**	**-0.4**	**124.7**

EUR million

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	120.3	0.0	0.0	120.3
Total	**120.3**	**0.0**	**0.0**	**120.3**

29.2 Loans and advances to credit institutions – development of gross carrying amount

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount at 01.01.2018	121.2	0.0	0.0	121.2
Changes in the gross carrying amount	3.8	0.0	0.0	3.8
Additions	4.1	0.0	0.0	4.1
Releases	-0.3	0.0	0.0	-0.3
Gross carrying amount at 31.12.2018	**125.0**	**0.0**	**0.0**	**125.0**

29.3 Loans and advances to credit institutions – development of ECL allowance

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance at 01.01.2018	-0.2	0.0	0.0	-0.2
Changes in the loss allowance	-0.1	0.0	0.0	-0.1
Transfer between stages	0.0	0.0	0.0	0.0
Increases due to change in credit risk	-0.5	0.0	0.0	-0.5
Decreases due to change in credit risk	0.4	0.0	0.0	0.4
ECL allowance as at 31.12.2018	**-0.4**	**0.0**	**0.0**	**-0.4**

EUR million

2017	As at 01.01.2017	Foreign-exchange-differences	Allocations	Releases	Utilization	Un-winding	Other	As at 31.12.2017
Specific provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

29.4 Loans and advances to customers

EUR million

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Governments	45.3	-0.1	45.2
Other financial corporations	17.9	-0.4	17.5
Non-financial corporations	451.1	-12.0	439.1
Households	629.6	-15.9	613.7
Total	**1,143.9**	**-28.3**	**1,115.5**

EUR million

31.12.2017	Gross carrying amount	Specific risk provisions	Portfolio risk provisions	Carrying amount (net)
Loans and advances	**1,104.1**	**-32.8**	**-6.4**	**1,064.8**
General governments	51.9	0.0	-0.3	51.6
Other financial corporations	19.3	-0.2	-0.4	18.7
Non-financial corporations	410.7	-22.5	-3.4	384.7
Households	623.3	-10.1	-2.4	610.8
Total	**1,105.1**	**-32.8**	**-6.4**	**1,065.8**

The total value of pledged loans for long-term financing operations amounted to EUR 51.2 million at the end of the year (in 2017: EUR 71.9 million).

29.5 Loans and advances to customers - development of gross carrying amount

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	POCI	Total
Gross carrying amount at 01.01.2018	1,029.6	28.1	49.4	0.0	1,107.2
Changes in the gross carrying amount	-150.4	39.6	4.0	0.0	-106.8
Additions	215.4	4.4	1.3	0.0	221.2
Releases	-313.4	-9.8	-4.9	0.0	-328.0
Transfer between stages	-52.4	45.0	7.5	0.0	0.0
Write-offs	0.0	0.0	-3.3	0.0	-3.3
New financial assets originated or purchased	253.8	1.1	0.9	0.0	255.9
Financial assets that have been derecognised	-78.5	-5.3	-4.9	0.0	-88.7
Foreign exchange and other movements	0.0	0.0	-20.3	0.0	-20.3
IFRS 5	0.0	0.0	-20.3	0.0	-20.3
Gross carrying amount at 31.12.2018	1,054.6	63.5	25.8	0.0	1,143.9

29.6 Loans and advances to customers - development of ECL allowance

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	POCI	Total
ECL allowance at 01.01.2018	-2.9	-4.2	-35.7	0.0	-42.9
Changes in the loss allowance	0.2	-0.5	1.2	0.0	0.9
Transfer between stages	-4.7	6.1	-1.5	0.0	0.0
Increases due to change in credit risk	-3.0	-12.1	-8.4	0.0	-23.5
Decreases due to change in credit risk	7.9	5.4	12.0	0.0	25.3
Unwinding	0.0	0.0	-0.9	0.0	-0.9
Write-offs	0.0	0.0	3.3	0.0	3.3
New financial assets originated or purchased	-1.5	-0.2	-0.4	0.0	-2.1
Financial assets that have been derecognised	0.2	0.5	1.3	0.0	2.1
Changes in models/risk parameters	0.0	0.0	10.3	0.0	10.4
IFRS 5	0.0	0.0	10.3	0.0	10.4
ECL allowance as at 31.12.2018	-4.0	-4.4	-19.9	0.0	-28.3

EUR million

2017	As at 01.01.2017	Foreign-ex-change-dif-ferences	Allocations	Releases	Utilization	Un-winding	Other	As at 31.12.2017
Specific provisions	-52.8	0.0	-8.8	9.5	17.5	0.3	1.4	-32.8
Portfolio provisions	-5.6	0.0	-2.8	2.0	0.0	0.0	0.0	-6.4
Total	**-58.5**	**0.0**	**-11.6**	**11.5**	**17.6**	**0.3**	**1.4**	**-39.3**

30. Investment securities

EUR million

	31.12.2018	31.12.2017
Fair value through other comprehensive income (FVTOCI)	221.7	-
Mandatorily at fair value through profit or loss (FVTPL)	0.3	-
AFS financial assets	-	152.8
Held-to-maturity investments	-	42.5
Total	**222.0**	**195.3**

The transition to IFRS 9 and the classification of instruments are detailed in Note 2.

30.1 Investment securities - development of gross carrying amount

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount at 01.01.2018	0.0	0.0	191.2	191.2
Changes in the gross carrying amount	0.0	0.0	-5.3	-5.3
Additions	0.0	0.0	2.6	2.6
Releases	0.0	0.0	-7.9	-7.9
New financial assets originated or purchased	0.0	0.0	70.9	70.9
Financial assets that have been derecognised	0.0	0.0	-48.2	-48.2
Gross carrying amount at 31.12.2018	0.0	0.0	208.6	208.6

30.2 Ivestment securities - development of ECL allowance

EUR million

2018	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance at 01.01.2018	0.0	0.0	0.0	0.0
Changes in the loss allowance	0.0	0.0	0.2	0.2
Increases due to change in credit risk	0.0	0.0	0.0	0.0
Decreases due to change in credit risk	0.0	0.0	0.2	0.2
New financial assets originated or purchased	0.0	0.0	-0.2	-0.2
Financial assets that have been derecognised	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	0.0	0.0	-0.1	-0.1

30.3 Fair value through other comprehensive income (FVOCI)

EUR million

	31.12.2018
Debt securities	208.5
Governments	166.9
Credit institutions	24.4
Other financial corporations	8.4
Non-financial corporations	8.7
Equity instruments	**13.1**
Governments*	13.1
Total	**221.7**

*includes the mandatory participation in the bank resolution fund in Slovenia.

The fair values of financial instruments measured at fair value through other comprehensive income are disclosed in Note 49.

The total value of pledged financial assets measured at fair value through other comprehensive income for long-term financing operations amounted to EUR 139.0 million at the end of the year (in 2017: EUR 155.6 million).

30.4 Mandatorily at fair value through profit or loss (FVTPL)

EUR million

	31.12.2018
Equity instruments	0.3
Non-financial corporations	0.3
Total	**0.3**

30.5 Available-for-sale financial assets

EUR million

	31.12.2017
Equity instruments	13.5
Debt securities	**139.3**
Governments	111.3
Credit institutions	17.1
Other financial corporations	8.0
Non-financial corporations	2.9
Total	**152.8**

30.6 Held-to-maturity investments

EUR million

	31.12.2017
Debt securities	42.5
Governments	38.6
Non-financial corporations	3.9
Total	**42.5**

31. Tangible assets

EUR million

	31.12.2018	31.12.2017
Land, buildings and plants	3.7	3.2
Investment properties	0.0	0.0
Total	**3.7**	**3.2**

As at 31 December 2018, the Bank had no property, plant or equipment pledged as collateral.

32. Intangible assets

EUR million

	31.12.2018	31.12.2017
Purchased software	2.3	1.8
Total	**2.3**	**1.8**

As at 31 December 2018, the Bank had no intangible fixed assets pledged as collateral.

33 Development of tangible and intangible assets

33.1 Development of cost and carrying amounts

EUR million

2018	Land and buildings	Equipment - internally used	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 31.12.2018	3.8	9.0	11.9	24.7
Additions	0.4	0.5	1.4	2.3
Disposals	0.0	-0.8	-0.1	-0.9
Acquisition cost l. 2018	4.3	8.7	13.2	26.1
Cumulative depreciation l. 2018	-1.9	-7.5	-10.9	-20.2
Carrying amount 31.12.2018	2.4	1.2	2.3	5.9

EUR million

2017	Land and buildings	Equipment - internally used	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2017	3.7	10.3	11.8	25.8
Additions	0.9	0.3	0.7	2.0
Disposals	-0.8	-1.6	-0.7	-3.0
Acquisition cost l. 2017	3.8	9.0	11.9	24.7
Cumulative depreciation l. 2017	-1.6	-8.0	-10.1	-19.7
Carrying amount 31.12.2017	2.2	1.0	1.8	5.0

33.2 Development of depreciation and amortization

EUR million

2018	Land and buildings	Equipment - internally used	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2018	-1.6	-8.0	-10.1	-19.7
Disposals	0.0	0.8	0.0	0.8
Scheduled depreciation	-0.2	-0.3	-0.9	-1.3
Cumulative depreciation 31.12.2018	-1.9	-7.5	-10.9	-20.2

EUR million

2017	Land and buildings	Equipment - internally used	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation 01.01.2017	-2.3	-9.2	-9.7	-21.2
Disposals	0.6	1.5	0.5	2.7
Scheduled depreciation	-0.1	-0.3	-0.9	-1.3
Write-ups	0.1	0.0	0.0	0.1
Cumulative depreciation 31.12.2017	-1.6	-8.0	-10.1	-19.7

34. Other assets

EUR million

	31.12.2018	31.12.2017
Prepayments and accrued income	0.8	0.7
Total	**0.8**	**0.7**

35. Non-current assets and disposal groups classified as held for sale

EUR million

	31.12.2018	31.12.2017
Loans and receivables	0.1	0.0
Total	**0.1**	**0.0**

36. Financial liabilities held for trading

EUR million

	31.12.2018	31.12.2017
Derivatives	2.0	1.1
Total	**2.0**	**1.1**

The contractual values of derivative financial instruments are presented in Note 49.

37. Financial liabilities measured at amortised cost

EUR million

	31.12.2018	31.12.2017
Deposits	1,423.8	1,374.1
Deposits of credit institutions	234.6	249.3
Deposits of customers	1,174.2	1,094.7
Subordinated loans	15.0	30.0
Issued bonds, subordinated and supplementary capital	1.1	1.7
Debt securities issued	1.1	1.7
Other financial liabilities	8.2	9.5
Total	**1,433.1**	**1,385.2**

37.1 Deposits of credit institutions

EUR million

	31.12.2018	31.12.2017
Current accounts / overnight deposits	4.9	0.4
Deposits with agreed terms	229.7	248.9
Total	**234.6**	**249.3**

37.2 Deposits of customers

EUR million

	31.12.2018	31.12.2017
Current accounts / overnight deposits	**363.8**	**306.9**
Governments	0.4	1.7
Other financial corporations	6.9	18.9
Non-financial corporations	156.4	130.6
Households	200.1	155.7
Deposits with agreed terms	**754.9**	**720.3**
Governments	113.1	98.8
Other financial corporations	81.9	79.0
Non-financial corporations	315.0	336.9
Households	244.9	205.5
Deposits redeemable at notice	**55.6**	**67.6**
Governments	4.1	7.2
Other financial corporations	18.6	8.8
Non-financial corporations	32.8	18.3
Households	0.0	33.3
Total	**1,174.2**	**1,094.7**

37.3 Debt securities issued

EUR million

	31.12.2018	31.12.2017
Debt securities issued	1.1	1.7
Certificates of deposit	1.1	1.7
Total	**1.1**	**1.7**

37.4 Subordinated loans

EUR million

	31.12.2018	31.12.2017
Subordinated loans	15.0	30.0
Total	**15.0**	**30.0**

In 2018, the Bank repaid a subordinated debt of 15 million.

38. Provisions

EUR million

	31.12.2018	31.12.2017
Pending legal disputes and tax litigation	0.0	0.4
Commitments and guarantees granted	6.6	7.3
Provisions for variable payments	0.2	0.1
Pensions and other post employment defined benefit obligations	0.5	0.5
Restructuring measures	0.2	0.2
Other long term employee benefits	0.1	0.1
Total	**7.6**	**8.6**

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

Details regarding restructuring measures are presented in note (15.2) Provisions for restructuring. Outflows of eco-nomically useful resources resulting from these restructuring measures are to be expected in the course of the financial year 2019.

38.1 Provisions – development of loan commitments, financial guarantee and other commitments given

EUR million

Loan commitments, financial guarantee and Other c ommitments given	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount at 01.01.2018	259.6	6.3	10.7	276.5
Changes in the gross carrying amount	-11.7	1.9	-0.5	-10.3
Additions	256.2	4.7	0.3	261.1
Releases	-265.7	-4.6	-1.1	-271.4
Transfer between stages	-2.2	1.8	0.4	0.0
New loan commitments, financial guarantee and Other com-mitments given originated or purchased	123.0	0.0	0.3	123.3
Loan commitments, financial guarantee and Other commit-ments given that have been derecognised	-67.5	-1.4	-0.6	-69.5
Gross carrying amount at 31.12.2018	**303.3**	**6.8**	**9.9**	**320.0**

EUR million

Loan commitments, financial guarantee and Other commitments given	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance at 01.01.2018	-0.4	-0.6	-4.5	-5.5
Changes in the loss allowance	0.2	0.0	-1.1	-0.9
Transfer between stages	-0.1	0.1	0.0	0.0
Increases due to change in credit risk	-0.8	-0.7	-1.5	-3.0
Decreases due to change in credit risk	1.2	0.5	0.5	2.2
New financial assets originated or purchased	-0.6	0.0	-0.1	-0.7
Financial assets that have been derecognised	0.1	0.0	0.4	0.5
ECL allowance at 31.12.2018	-0.7	-0.6	-5.3	-6.6

EUR million

2017	As at 01.01.2017	Foreign-ex-change-dif-ferences	Allocations	Releases	Utilization	Un-winding	Other	As at 31.12.2017
Specific provisions	-4.0	0.0	-2.8	2.3	0.0	0.0	0.0	-4.5
Portfolio provisions	-2.3	0.0	-7.4	6.9	0.0	0.0	0.0	-2.8
Total	**-6.3**	**0.0**	**-10.2**	**9.2**	**0.0**	**0.0**	**0.0**	**-7.3**

38.2 Provisions - development of other provisions

EUR million

2018	Carrying amount 01.01.2018	Allocations	Use	Releases	Carrying amount 31.12.2018
Pensions and other post employment defined benefit obligations	0.5	0.1	0.0	0.0	0.5
Other long term employee benefits	0.1	0.0	0.0	0.0	0.1
Restructuring measures	0.2	0.2	-0.2	0.0	0.2
Pending legal disputes and tax litigation	0.4	0.1	-0.5	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0	0.0
Provision for variable payments	0.1	0.2	0.0	0.0	0.2
Total	1.3	0.5	-0.7	0.0	1.1

EUR million

2017	Carrying amount 01.01.2017	Allocations	Use	Releases	Carrying amount 31.12.2017
Pensions and other post employment defined benefit obligations	0.4	0.1	0.0	0.0	0.5
Other long term employee benefits	0.1	0.0	0.0	0.0	0.1
Restructuring measures	0.6	0.2	-0.6	0.0	0.2
Pending legal disputes and tax litigation	0.8	0.2	-0.4	-0.1	0.4
Provision for variable payments	0.0	0.1	0.0	0.0	0.1
Other provisions	0.0	0.0	0.0	0.0	0.0
Total	2.0	0.5	-1.1	-0.1	1.3

38.3 Provisions – development of provisions for retirement benefits and severance payments

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

EUR million

	2018	2017
Present value of the defined benefit obligations as of 1.1	**0.5**	**0.4**
+ Current service cost	0.1	0.0
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	0.0	0.0
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes from experience assumptions	0.0	0.0
- Payments from the plan	0.0	0.0
+ Past service cost	0.0	0.0
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	0.0	0.0
Present value of the defined benefit obligations as of 31.12	**0.5**	**0.5**

Details regarding assumptions used in the calculation are presented in note (15.1) provisions for retirement benefits and similar obligations.

Due to the low amount of personnel provisions for the Addiko Bank as at 31 December 2018, further disclosures according to IAS 19 are omitted.

39. Other liabilities

EUR million

	31.12.2018	31.12.2017
Deferred income	0.3	0.4
Accruals and other liabilities	0.4	0.4
Total	**0.7**	**0.8**

40. Equity

EUR million

	31.12.2018	31.12.2017
Equity holders of parent	173.8	141.0
Subscribed	90.0	90.0
Capital reserves	18.8	18.8
Fair value reserves	2.0	-
Available-for-sale-reserves	0.0	0.3
Cumulative results and other reserves	63.0	31.9
Total	**173.8**	**141.0**

Share capital

Share capital is recorded in the nominal value and has been subscribed and fully paid-up by the owners. It is divided into 41,706,318 no-par value shares.

Capital reserves

In 2016, capital reserves increased by EUR 10.0 million due to payments by the owner and a decrease in capital reserves to cover the loss in 2015 amounting to EUR 52.2 million. Thus, capital reserves amounted to EUR 18.8 million at the end of 2018.

Fair value reserves

Accumulated other comprehensive income refers to the valuation of financial assets measured or measured mandatorily at fair value through other comprehensive income. At the end of 2018, the revaluation surplus amounted to EUR 2 million (31 December 2017: EUR 0.3 million).

Revenue reserves

Revenue reserves can only be created from net profit for the financial year and retained earnings. They are mainly intended for covering potential future losses. They are mandatorily broken down into legal reserves, reserves for own interests, own shares, statutory reserves and other revenue reserves.

Pursuant to the Companies Act, the Bank shall set aside legal reserves in such an amount that the sum of legal reserves and capital surplus amounts to 10% of the nominal capital or to a higher amount that is prescribed in the Articles of Association. If the legal reserves and capital surplus do not reach the percentage of share capital stated in the previous sentence, the Bank, when compiling the balance sheet, shall pay into the legal reserves take 5% of the amount of net profit less the amount used to cover any transferred losses.

Capital surplus and legal reserves (tied-up reserves) may only be used under the following conditions.

a. If the total amount of these reserves falls short of the statutory percentage of share capital, they may only be used for:

- coverage of net loss for the financial year if it cannot be offset against retained earnings or other revenue reserves;
- coverage of transferred loss if it cannot be offset against the net profit for the financial year or other revenue reserves.

b. If the total amount of these reserves exceeds the statutory percentage of share capital, the surplus amount of these reserves may only be used for:

- increasing the share capital from company assets;
- coverage of net loss for the financial year if it cannot be offset against retained earnings and if no revenue reserves are used for the payment of profit to the shareholders; or
- coverage of transferred net loss if it cannot be offset against the net profit for the financial year and if the revenue reserves are not used for the payment of profit to the shareholders.

The Bank has no legal reserves, while the reserves from retained earnings from the previous years amounted to 25.7 million at the end of the year (2017: EUR 12.9 million).

Net profit for the financial year

In 2018, the Bank recognized profit in the amount of EUR 37.2 million (2017: EUR 19.0 million).

41. Statement of cash flows

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

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

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

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

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits with residual maturity less than 90 days.

Supplementary information required by IFRS

42. Analysis of remaining maturities

EUR million

Analysis of remaining maturity as at 31.12.2018	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	123.8	9.5	0.0	0.0	0.0	133.4
Financial assets held for trading	0.0	0.0	0.1	0.6	0.7	1.4
Financial assets designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.3	0.3
Financial assets at fair value through other comprehensive income	0.0	21.0	2.4	176.8	21.4	221.7
Financial assets at amortised cost	23.0	15.0	162.2	268.4	771.6	1,240.2
Non-current assets and disposal groups classified as held for sale	0.1	0.0	0.0	0.0	0.0	0.1
Total	**146.9**	**45.5**	**164.7**	**445.9**	**794.0**	**1,597.0**
Financial liabilities held for trading	0.0	0.0	0.0	1.7	0.2	2.0
Financial liabilities measured at amortised cost	416.3	311.3	228.4	296.5	180.6	1,433.1
Total	**416.3**	**311.4**	**228.5**	**298.3**	**180.7**	**1,435.1**

EUR million

Analysis of remaining maturity as at 31.12.2017	thereof : due on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	Total
Cash, cash balances at central banks and other demand deposits	137.1	8.6	0.0	0.0	0.0	145.7
Financial assets held for trading	0.0	0.0	1.0	1.2	0.0	2.3
Available-for-sale financial assets	13.5	10.0	0.0	112.0	17.3	152.8
Loans and receivables	22.7	15.7	181.0	237.7	729.0	1,186.1
Held-to-maturity investments	0.0	0.0	0.0	30.9	11.6	42.5
Total	173.2	34.3	182.0	381.9	757.9	1,529.3
Financial liabilities held for trading	**0.0**	**0.0**	**0.0**	**0.9**	**0.1**	**1.1**
Financial liabilities measured at amortised cost	**310.4**	**324.8**	**315.4**	**354.4**	**80.2**	**1,385.2**
Total	**310.4**	**324.8**	**315.4**	**355.3**	**80.3**	**1,386.3**

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

43. Maturities pursuant to IAS 1

EUR million

31.12.2018	up to1 year	over year
Cash, cash balances at central banks and other demand deposits	133.4	0.0
Financial assets held for trading	0.1	1.3
Financial assets designated at fair value through profit or loss	0.0	0.3
Financial assets at fair value through other comprehensive income	23.4	198.2
Financial assets at amortised cost	200.2	1,040.0
Tangible assets	0.0	3.7
Intangible assets	0.0	2.3
Tax assets	0.0	14.4
Deferred tax assets	0.0	14.4
Other assets	0.8	0.0
Non-current assets and disposal groups classified as held for sale	0.1	0.0
Total	**357.9**	**1,260.2**
Financial liabilities held for trading	0.0	1.9
Financial liabilities measured at amortised cost	956.0	477.1
Provisions	7.6	0.0
Tax liabilities	0.9	0.0
Current tax liabilities	0.9	0.0
Other liabilities	0.7	0.0
Total	**965.3**	**479.0**

EUR million

31.12.2017	up to 1 year	over 1 year
Cash, cash balances at central banks and other demand deposits	145.7	0.0
Financial assets held for trading	1.0	1.2
Available-for-sale financial assets	23.5	129.3
Loans and receivables	219.3	966.7
Held-to-maturity investments	0.0	42.5
Tangible assets	0.0	3.2
Intangible assets	0.0	1.8
Tax assets	0.0	2.7
thereof deferred tax assets	0.0	2.7
Other assets	0.7	0.0
Total	**390.2**	**1,147.5**
Financial liabilities held for trading	0.0	1.1
Financial liabilities measured at amortised cost	950.6	434.6
Provisions	6.3	2.3
Tax liabilities	0.9	0.2
thereof current tax liabilities	0.9	0.0
thereof deferred tax liabilities	0.0	0.2
Other liabilities	0.8	0.0
Total	**958.7**	**438.1**

44. Operating leases

44.1. Operating leases from the view of Addiko as lessee

The Addiko Bank leases the majority of its offices and branches under various rental agreements. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restrictions on the Addiko Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

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

EUR million

	31.12.2018	31.12.2017
up to 1 year	1.4	1.0
from 1 year to 5 years	5.0	5.0
more than 5 years	2.8	4.1
Total	**9.3**	**10.1**

45. Assets/liabilities in foreign currencies

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

EUR million

	31.12.2018	31.12.2017
Assets	95.5	103.2
Liabilities	14.7	15.4

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

46. Transfer of financial assets – repurchase agreements

At year-end 2018 and 2017, no repurchase and reverse repurchase commitments from repurchase agreements included in the statement of financial position existed.

47. Contingent liabilities and other liabilities not included in the statement of financial position

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

EUR million

	31.12.2018	31.12.2017
Loan commitments given	167.7	140.0
Financial guarantees given	28.3	16.5
Other commitments, given	124.0	120.0
Total	**320.0**	**276.5**

48. Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorized under the three levels of the fair value hierarchy.

Quoted prices in active markets (Level I)

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

Value determined using observable parameters (Level II)

If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models using directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. Financial instruments are classified in Level II if all significant inputs in the valuation are observable on the market.

Value determined using non-observable parameters (Level III)

This category includes financial instruments for which there are no observable market rates or prices.

The fair value is therefore determined using measurement models and theoretical input data (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. Financial instrument is classified in Level III if one or more significant inputs are not observable directly on the market.

Valuation models are regularly reviewed, validated and calibrated. All valuations are performed independently of trading departments.

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

Equity instruments

Equity instruments are reported under Level I if prices are quoted in an active market. If no quoted prices are available, they are reported under Level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

Derivatives

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

Fixed-interest receivables and liabilities

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

As the carrying amount of unhedged fixed-interest receivables according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount which is determined by means of a capital value-oriented measurement method.

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

48.1 Fair value of financial instruments carried at fair value

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

EUR million

31.12.2018	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0.0	1.4	0.0	1.4
Non-trading financial assets mandatorily at fair value through profit or loss	0.0	0.0	0.3	0.3
Financial assets at fair value through other comprehensive income	13.1	208.5	0.0	221.7
Total	**13.1**	**209.9**	**0.3**	**223.4**
Liabilities				
Financial liabilities held for trading	0.0	2.0	0.0	2.0
Total	0.0	2.0	0.0	2.0

There were no reclassifications between the individual levels in 2018.

EUR million

31.12.2017	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0.0	2.3	0.0	2.3
Available for sale financial assets	13.1	139.3	0.3	152.8
Total	**13.1**	**141.6**	**0.3**	**155.1**
Liabilities				
Financial liabilities held for trading	0.0	1.1	0.0	1.1
Total	**0.0**	**1.1**	**0.0**	**1.1**

There were no reclassifications between the individual levels in 2017.

The level III position »Available-for-sale financial assets« includes at year end 2017 EUR 0.3 million equity instruments, which in accordance with IAS 39.46.b were measured at cost. Due to the move to IFRS 9, as of 1 January 2018 AFS financial assets in the level III we reclassified to financial assets mandatorily at FVTPL. Equity instruments in new categories are measured at fair value, as IFRS 9 removed an exemption allowing the measurement of certain non-traded equity instruments at costs. For these instruments, no sensitivity disclosures are presented.

Non-trading financial assets at FVTPL classified in level 3 of fair value hierarchy consist of equity instruments acquired principally for the purpose of selling or repurchasing them in near future.

The reconciliation of the assets reported under Level III as at 31 December 2018 was as follows:

EUR million

2018	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	Balance at end of period (+)
Assets									
Non-trading financial assets mandatorily at fair value through profit or loss	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.3**

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

EUR million

2017	Balance at start of period (+)	Total gains/ losses	Changes in AFS reserve	Additions	Disposals	Transfer into Level III	Transfer out of Level III	Other	Balance at end of period (+)
Assets									
Available for sale financial assets	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.3**

Measurement methods used to determine the fair value of level II and level III items

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

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

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

Present value of the future cash flows

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

Option measurement models

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

Non-observable input factors for level III items

Volatilities and correlations

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

Risk premiums

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

Loss given default

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

Probability of default

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

Fair value adjustments

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

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

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

OIS discounting

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

48.2 Fair value of financial instruments and assets not carried at fair value

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

EUR million

31.12.2018	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Financial assets at amortised cost	1,240.2	1,311.3	-71.1	0.0	0.0	1,311.3
Non-current assets and disposal groups classified as held for sale	0.1	0.1	0.0	0.0	0.0	0.1
Total	**1,240.3**	**1,311.4**	**-71.1**	**0.0**	**0.0**	**1,311.4**
Liabilities						
Financial liabilities measured at amortised cost	1,431.9	1,433.0	-1.1	0.0	0.0	1,433.0
Total	**1,431.9**	**1,433.0**	**-1.1**	**0.0**	**0.0**	**1,433.0**

EUR million

31.12.2017	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Loans and receivables	1,186.1	1,129.2	-56.9	0.0	0.0	1,129.2
Held-to-maturity investments	42,5	47.9	5.4	0.0	0.0	47.9
Total	**1.228,6**	**1,177.1**	**-51.5**	**0.0**	**0.0**	**1,177.1**
Liabilities						
Financial liabilities measured at amortised cost	1,352.0	1,355.2	-3.2	0.0	0.0	1,355.2
Total	**1,352.0**	**1,355.2**	**-3.2**	**0.0**	**0.0**	**1,355.2**

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the balance sheet and statement of profit or loss. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Bank are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in SEE/CEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. With regard to the existing uncertainty, a broad range of the fair value to be determined exists.

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

49. Derivative financial instruments

49.1 Derivatives held for trading

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

EUR million

	31.12.2018	Fair values		31.12.2017	Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	417.1	1.3	1.0	554.7	2.2	1.0
OTC options	38.6	0.1	0.1	56.1	0.2	0.2
OTC other	378.5	1.2	0.9	498.6	2.1	0.9
b) Foreign exchange and gold						
OTC-products	179.5	0.1	1.0	16.6	0.1	0.1
OTC other	179.5	0.1	1.0	16.6	0.1	0.1

50. Related party disclosures

The Bank is 100-percent owned by Addiko bank AG. It is 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.

Pursuant to Article 545 of the Companies Act, we declare that the Bank, in circumstances known to it, performs the between connected persons under normal market conditions.

In 2018, in all transactions held with the parent bank and other related companies within the Group, the Bank received adequate payments and repayments and was not disadvantaged on the basis of any transaction.

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

EUR million

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	3,5	0,6	0.0	0.0
Financial assets held for traning	0,1	0,0	0,0	0,0
Financial assets	121,1	3,5	0,0	0,0
Debt securities	0.0	0.0	0.0	0.0
Loan and advances	**121,1**	**3,5**	**0.0**	**0.0**
Financial liabilities held for trading	1,7	0,0	0.0	0.0
Financial liabilities	15,2	0,7	0,3	0,0
Deposits	15.0	0.4	0.3	0.0
Other financial liabilities	0,2	0,3	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**10.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**3.6**	**0.0**	**0.0**

EUR million

31.12.2017	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	13,5	0.2	0.0	0.0
Financial assets held for trading	1,0	0,0	0,0	0,0
Financial assets	120,9	0,0	0,0	0,0
Debt securities	0.0	0.0	0.0	0.0
Loan and advances	**120,9**	**0.0**	**0.0**	**0.0**
Financial liabilities held for trading	0,9	0.0	0.0	0.0
Financial liabilities	31,3	0,7	0,3	0,0
Deposits	30.6	0.4	0,3	0.0
Other financial liabilities	0.7	0.3	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0
Nominal amount of loan commitments, financial guarantees and other commitments given	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments, financial guarantees and other commitments received	**0.0**	**2.5**	**0.0**	**0.0**

EUR million

2018	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.7	0.0	0.0	0.0
Interest expenses	-2.8	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0
Other operating income	1,1	0,0	0,0	0,0
Other administrative expenses	-0.3	-0.3	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0
Total	**-1.3**	**-0.2**	**0.0**	**0.0**

EUR million

2017	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.2	0.0	0.0	0.0
Interest expenses	-3.1	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0
Other operating income	0,5	0,0	0,0	0,0
Other administrative expenses	-0.7	-0.0	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0
Total	**-3.1**	**-0.0**	**0.0**	**0.0**

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

EUR million

	31.12.2018	31.12.2017
Short-term employee benefits	0.9	0.8
Other long-term benefits	0.2	0.1
Total	**1.2**	**0.8**

Financial risk management

51. Risk control and management

Risk awareness and proactive focus on risk management are the two key elements reflected in the operating activities of the Bank, which manages and monitors its risks at all levels of transactions to optimize returns on the risks it takes or is able to take. This approach allows the Bank to protect creditors, while maximizing its profits. It also influences the Bank's business policy and assumed risks, which the Bank monitors regularly through committees and meetings. The central risk management organizational unit is Risk Controlling, which integrates the entire Bank into the management of risks. The latter is coordinated with the Group, whereby the Management Board and the Supervisory Board adopt the Bank's Risk Strategy, which is in line with the Bank's Business Strategy.

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.
- 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.

52. Risk strategy and risk appetite framework

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 that are important for managing risk factors. The risk strategy is the bridge between the Bank's Business Strategy and risk-taking approach. It is also a risk management tool at the strategic level, providing a framework for monitoring and limiting risks inherent to business activities. The Risk Strategy framework also ensures the adequacy of internal capital and the Bank's liquidity and profitability.

The Bank's Risk Strategy reflects the key approaches to risk management integrated into the business strategy. Both strategies are in line with the business plan, thus supporting safe and sustainable growth and ensuring that the Bank's regulatory ratios stay in line with regulatory requirements.

The Bank has established a risk appetite framework (RAF) that determines the Bank's appetite to take risks and is part of the process of developing and implementing the Bank's business strategy and general strategy. RAF is in line with the business plan and risk strategy and defines the taken risks that the Bank aggregates into the risk dimensions. For each risk assumed, the Bank uses thresholds to set the permissible risk levels. The risk appetite framework is also coordinated with the Bank's Recovery Plan in the case of exceptional events.

53. Risks organization

The Bank has a single organizational structure that is in line with the Group. The responsibilities of individual risk management segments are divided into three areas. All risk management segments report directly to a Member of the Management Board responsible for risks (CRO).

In risk management, the Bank pays attention to all significant risks. It focuses the most on the counterparty credit risk, liquidity risk and capital adequacy risk. In 2018, the Bank made a significant step in monitoring operational risks and process control, and has examined in detail the majority of the processes that affect materially the Bank's operations. In the field of stress testing, the Bank has upgraded the existing practices and expanded them to individual portfolio units and products. To provide a better control environment, the Bank has upgraded the key selected reports so they can be compiled automatically and on a daily basis (LCR, NSFR, etc.).

In 2018, the Bank had the following operational units:

- Credit Risk Management;
- Retail Bank Risk Management;
- Risk Controlling.

Retail Bank Risk Management is divided into Underwriting department, which provides an advanced system for the approval of credit transactions and portfolio monitoring and Collection department, which proceeds to collection immediately after the customer's delay.

In 2018, Retail Risk Management continued adjusting the credit policy to the current guidelines for the retail segment and the segment of small and medium-sized enterprises, with the objective of ensuring profitable portfolio growth according to the risk appetite level. The risk of credit products is regularly monitored through portfolio analyses, which are the basis for adjusting the credit policy to the Bank's target portfolio. In the decision-making process, the Bank applies the following principle: in assessing the willingness and ability to repay lower-value loans, the credit history of a customer is of particular importance, while other information have no significant added value. The approach has proved to be very effective and enables us effective credit risk management as well as quick approvals of loans, which are required by our customers.

Based on and along with the movements in the portfolio of the retail segment and the segment of micro and medium-sized enterprises, various collection strategies are developed using various restructuring tools whose aim is to reduce exposure to customers in default. The Bank regularly updates the early recovery model, which is based on taking immediate action in cases of overdue liabilities.

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 line with certain powers.

Distressed Assets Management Department deals with the following categories of customers: delay of over 90 days, individually impaired customers, customers in insolvency proceedings and customers in restructuring process or in observation phase.

Risk Controlling covers monitoring of and reporting on all fundamental 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.

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

- identifying individual risk exposures the Bank is subject 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.

54. Internal risk management documents

The Bank defines its business standards through adopted strategic documents, including Strategies, Policies and subordinate documents. The Bank also regulates the risk area through adopted documents that provide a framework for a standardized approach to risk management. This approach ensures stable risk management harmonized with the Bank's sales areas. Such a unified system also allows the Bank to rapidly introduce organizational and other changes. Reviews of strategic documents are performed on an annual basis. The Bank has clear and transparent organization with clearly defined and assigned responsibilities. Establishing the structure and preparing the documents is in the domain of the departments responsible for risk management. The verification of the implemented documents is in the domain of Internal Audit, External Audit, the Bank of Slovenia and representatives of the Group.

54.1 Integrated Recovery Plan for the Addiko Group

In accordance with the updated regulatory requirements, the Bank participated in the Group's joint project in 2018, where the Bank made a Recovery Plan integrated into the Recovery Plan of the entire Group. The project was completed by the delivery of an updated plan to the regulator within the prescribed deadlines.

54.2 Risk Controlling

In 2018, the Bank implemented several major projects for risk management, thus upgrading the existing detection, monitoring and limiting of risks. Key projects in 2018:

- 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 stages (Stage 1, Stage 2), for which we had to upgrade the impairment calculation with lifetime losses.

54.3 Investment approval process

In order to optimize the entire credit process for companies and customers in the public sector, a project was launched that comprised two basic procedural approaches: a standardized approach and a customized approach. The standardized approach is intended for small business customers, who are considered using predetermined criteria; while the custom approach is intended for large corporate customers, with an emphasis on repayment capabilities and the adequacy of future cash flows.

Optimization as such also took place in other parts of the credit transaction approval process, including the recast of various policies and rules. The focus will still be on external and internal training in order to improve financial analysis and credit risk assessment. Key employees have already been involved in the external training. On this basis, further internal training is envisaged to transfer knowledge and best practices to all levels of employees involved in the credit approval process.

54.4 IFRS 9 project

IFRS 9, a new standard on the recognition of financial instruments, was published in its final version on 24 July 2014 and adopted by the EU. The standard supersedes IAS 39, which entered into force on 1 January 2018. The Bank implemented the standard in cooperation with the Group.

A detailed description of the key aspects and expected impacts of implementing the new standard is available in 2.1.2.

54.5 Process tool for distressed assets management

Addiko Bank continuously improves the efficiency and automation of work processes in all areas of work. Thus, the use of the “Appian Business Process Management” tool for simplifying, improving and partially automating distressed assets management process is also planned. The tool will support the entire distressed assets management (restructuring and realisation of investments) and will be linked to the EWS (Early Warning System) tool, which also runs on the Appian platform, and to the tool for calculating individual impairments.

54.6 Early Warning System (EWS)

A new EWS tool is in development. The tool will have an additional range of warning signals, an automated signal monitoring process and measures to eliminate perceived risks. The tool is based on the Appian platform and is designed to monitor business operations in order to any detect problems in the operations of companies as soon as possible, and thus any problems with the payment of financial liabilities. The new EWS tool will feature a wider range of warning signals. The signals will be arranged in a priority matrix, which will enable the Bank to respond more quickly to the detected risks, and minimize its losses and solve customer problems in the shortest possible time.

Along with the perceived warning signals, the EWS tool will also display the most relevant information about the customer and their business, which will enable even faster processing of signals.

55. Development of risk provisions

55.1 Method of calculating risk provisions

Provisions are calculated fully in line with the new international accounting standard for financial instruments (IFRS 9). The model used to determine impairment losses changed from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected losses). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition expected credit losses up to twelve-months. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (stage 2). In case of an objective indication of an impairment (NPL, stage 3) the lifetime expected credit loss is recognised.

IFRS 9 requires a bank to determine an expected credit loss (ECL) amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it. In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), Addiko Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). In general, fully statistical models are applied to determine the parameters used wherever possible and plausible. These models rely on internal historical and / or external market available data. Methodologies are based on internal already available credit risk models while being adapted to be fully IFRS 9 compliant.

The (lifetime) ECL is calculated for different scenarios separately, taking into account current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. Addiko calculates in total three outcomes: Base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks.

As for the non-performing part (stage three) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cash flow estimation for larger exposures.

Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

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

For the part of the non performing portfolio where the exposure at default (EAD) on group of borrowers level is below a certain country specific materiality threshold the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and entity.

55.2 Development of risk provisions

The positive development of the risk provisions (releases) is mainly present due to effects resulting from some large non performing clients within Corporate Segment, based on successful restructuring measures, as well as refinancing by other banks. Release of provisions in Retail Segment are mainly based on forward sell agreements and debt sell. This resulted in a reduced NPL portfolio in 2018, and the release of risk provisions at the same time, mostly within large Corporate Segment.

The introduced daily monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the early collections resulted into stabilized NPL portfolio within Retail Segment.

The positive, decreasing trend in terms of NPL ratio was continuous throughout 2018 in the Corporate segment. The decrease was also experienced in absolute figures too.

55.3 Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework in Addiko Bank, updates are performed regularly to make sure that latest available information and internal data is considered. In 2018 a refinement of PI unsecured models was performed for all subsubsdiaries, resulting within other things also in a re-calibration. The changes included an improvement in model quality particularly reflected in migration stability as well as in improved performance. In addition, macro models were adapted in line with validation findings and new macro economic forecasts were used to reflect latest available economic outlooks throughout all segments.

55.4 Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing loans) increased from 65.7% to 70.6% during the end of 2018 mainly driven by SME segment as well as due to the restructuring of big ticket in Addiko Bank Slovenia.

The following table shows the NPL and coverage ratio (coverage ratio 1 considers stage 3 risk provision stocks, while coverage ratio 2 additionally considered collaterals):

EUR million

31.12.2018	Exposure	NPL	Provi-sions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Mortgage	274.7	6.2	4.0	2.8	2.3%	63.8%	109.5%
Consumer	373.5	7.9	6.6	1.5	2.1%	83.2%	102.8%
SME Business	432.8	13.8	11.8	5.8	3.2%	85.3%	127.4%
Large Corporate	298.7	7.9	2.9	4.0	2.6%	36.8%	88.1%
Public Finance	233.7	0.0	0.0	0.0	0.0%	0.0%	0.0%
Corporate Center	318.8	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**1,932.1**	**35.7**	**25.2**	**14.2**	**1.8%**	**70.4%**	**110.2%**
o/w Credit Risk Bearing	**1,598.0**	**35.7**	**25.2**	**14.2**	**2.2%**	**70.6%**	**110.4%**

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2017:

EUR million

31.12.2017	Exposure	NPL	Provi-sions	Collateral (NPL)	NPL Ratio	Coverage Ratio 1	Coverage Ratio 2
Mortgage	308.9	7.6	5.1	2.7	2.4%	67.2%	102.7%
Consumer	335.4	6.9	5.7	2.1	2.0%	83.5%	114.4%
SME Business	392.9	16.3	10.3	7.7	4.1%	63.6%	110.8%
Large Corporate	225.5	26.4	16.3	12.6	11.7%	61.9%	109.7%
Public Finance	247.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Corporate Center	293.8	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**1,803.5**	**57.1**	**37.5**	**25.1**	**3.2%**	**65.7%**	**109.7%**
o/w Credit Risk Bearing	**1,498.2**	**57.1**	**37.5**	**25.1**	**3.8%**	**65.7%**	**109.7%**

The increase in coverage ratio until YE2018 (YTD) is predominantly resulting in additional provisions in SME segment as well as the recognition of the suspended interests as part of the 100.0% provisioned NPL exposure, in connection with the implementation of IFRS 9.

56. Valuation of real estate and other collaterals

The management of collaterals is laid down in the Collateral Management Policy, which includes the criteria for accepting real estate as collateral, which is the most important type of collateral for the Bank. In accordance with the Collateral Management Policy, all real estate collaterals must be regularly monitored and reassessed (at least once a year for commercial real estate and once every three years for residential real estate). Valuations of commercial real estate in the amount of EUR 1 million are carried out on an individual basis, while values of lower-valued commercial real estate are monitored using statistical methods.

Internal collateral values (or collateral values reduced using the weights outlined in the Collateral Management Policy) are shown in the table below for the cut-off dates of 31 December 2018 and 31 December 2017:

EUR million

Collateral Distribution	31.12.2018	31.12.2017
Exposure	1,932.1	1,803.5
Internal Collateral Value (ICV)	330.3	425.3
thereof CRE	145.2	202.8
thereof RRE	109.4	89.4
thereof financial collateral	47.6	76.4
thereof guarantees	20.6	22.6
thereof other	7.5	34.1
ICV coverage rate	**17.1%**	**23.6%**

Most of the above collaterals are pledged for credit transactions.

57. Measures to improve risk management

57.1 Basel III – liquidity risk management

In 2018, the Bank ensured an automated calculation of liquidity ratios (LCR, NSFR) and accelerated the implementation of the Kamakura tool, which the Bank plans to finally implement in co-operation with the Group in 2019. With this approach, the Bank aims to transition from the local ratio reporting solutions to a joint solution for the entire Group, which will enable better risk management and further steps in terms of management and compliance.

57.2 Development of credit rating processes

Credit rating processes are developed in accordance with the standards issued by the regulators. The Bank has a Policy that lays down the process of developing the credit risk model. The Policy represents a permanent framework for improvements of the model. The Bank currently uses the following credit rating tools: enterprises, medium-sized enterprises (SMEs), expert, support, start-up, project financing, market real estate, municipalities, countries, insurance companies, banks, scoring models for individuals.

57.3 Credit assignment validation

Credit rating processes are approved in accordance with the standards issued by the regulators. The Bank has a Policy that lays down the process of model validation in the area of credit risk. Furthermore, validation concepts for the PD models and the IFRS 9 framework have been designed. Based on these concepts, all PD models associated with credit risk and some risk parameters (e.g. LGD) and the IFRS 9 methodology are validated, and the relevant validation reports are distributed to all relevant stakeholders. The Bank has established monthly reporting and monitoring with the Group to ensure proper progress in implementing the recommendations from the validation reports.

57.4 Fraud prevention and fraud risk management

In 2018, a fraud prevention structure was set up at the Group level with the aim to reduce the risk of fraud. Systematic reviews and fraud risk management were ascribed to the Member of the Management Board responsible for risk. Fraud is defined as acts based on unfair behaviour, and may involve bank employees, customers and sellers, and are a one of the causes of financial losses.

Fraud prevention is considered as a two-level activity. It is strategic in that it defines a company's entire approach to fraud and compares it with similar organizations in order to detect potential fraudulent patterns, etc. It works by examining business products and processes with the aim to identify fraudulent patterns, analyse potential fraud risk and monitor fraudulent practices. Finally, it works by implementing the necessary controls to reduce fraud risk and investigate cases of fraud.

58. Capital risk

The capital management of Bank is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel 3 Pillar 1) and the economic capital management approach (Basel 3 Pillar 2) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by the Capital Requirements Regulation 575/2013 (CRR) and the Capital Requirement Directive (CRD IV). The CRD IV was enacted in national law in the Slovene Banking Act.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar 2 capital guidance (risk coverage ratio) are set for the Bank. In addition to the minimum capital ratios required by the regulators, Bank defines early warning and recovery levels in Bank's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BRRD.

Additionally, the Bank tracks all new regulatory changes, e.g. MREL, IFRS 9 and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank is presented to the respective division heads and board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

58.1 Own funds and capital requirements

Own funds according to CRR consist of common equity Tier 1 (CET1), additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk. The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2018 amount to:

- 6.375% for CET1 (4.5% CET1, +1.875% capital conservation buffer and +0.00% countercyclical capital buffer),
- 7.875% for Tier 1 capital (sum of CET1 and AT1) and
- 9.875% for Total Capital.

As of 31 December 2017, the regulatory minimum capital ratios amounted to:

- 5.75% for CET1 (4.5% CET1, +1.25% capital conservation buffer and +0.00% countercyclical capital buffer),
- 7.25% for Tier 1 capital (sum of CET1 and AT1) and
- 9.25% for Total Capital.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). Thus, the overall CET1 capital requirement amounts to 10.65% (2017: 10.75%), the Tier 1 capital to 11.125% (2017: 10.75%) and Total Capital of 13.125% (2017: 12.5%).

The following table shows the breakdown of own funds of Addiko Bank AG applying transitional rules and its own funds requirement as per 31 December 2018 and 31 December 2017.

EUR million

		31.12.2018	31.12.2017
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	138.5	128.8
2	CET1 capital as if IFRS 9 had not been applied	138.5	128.8
5	Total capital (TC)	153.5	146.3
6	TC as if IFRS 9 transitional rules had not been applied	153.5	146.3
	Risk-weighted assets (amounts) (RWAs)		
7	Total RWAs	1,028.4	938.8
8	Total RWAs as if IFRS 9 transitional rules had not been applied	1,028.4	938.8
	Capital ratios %		
9	CET1	13.5	13.7
10	CET1 as if IFRS 9 transitional rules had not been applied	13.5	13.7
13	TC	14.9	15.6
14	TC as if IFRS 9 transitional rules had not been applied	14.9	15.6
	Leverage ratio (LR)		
15	LR total exposure measure	1,689.2	1,627.8
16	LR	8.2	7.9
17	LR as if IFRS 9 transitional rules had not been applied	8.2	7.9

CET1 capital increased during the reporting period by EUR 0.1 million, due to:

- inclusion of half-year profit in the amount of EUR 19.9 million in common equity; on 20 December 2018, the Bank obtained the permission from the Bank of Slovenia
- inclusion of profit 2017 in the amount of EUR 0.9 million in common equity
- Decrease in the amount of EUR 12.4 million due to booked deferred tax assets
- Decrease in the amount of EUR 0.5 million due to increase of intangible assets
- Increase in the amount of EUR 1.7 million due to change in fair value reserves
- Decrease in the amount of EUR 2.5 million due to matured sub loans considered as Tier 2 capital

58.2 Capital requirements (risk-weighted assets) based on a transitional basis

RWAs increased by EUR 89.6 million during the reporting period. The increase was primarily due to growth of loans portfolio

EUR million

		31.12.2018	31.12.2017
1	Credit risk pursuant to Standardised Approach	951.3	868.0
6	Counterparty credit risk	0.0	0.0
19	Market risk	2.5	3.1
23	Operational risk	74.7	67.8
Total risk exposure amount		**1,028.4**	**938.8**

58.3 Leverage ratio on a transitional basis

The leverage ratio calculated in accordance with CRD IV was 8.3% at 31 December 2018, up from 7.9% at 31 December 2017. The development was driven by growth in Tier 1 capital as well as decrease in leverage exposure, primarily due to decrease in balances at central banks and investment securities.

v mo EUR

		31.12.2018	31.12.2017
20	Tier 1 capital	138.5	128.3
21	Total leverage ratio exposure	1,689.2	1.627.8
22	**Leverage ratio %**	**8.2**	**7.9**

Disclosures as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of EU directive 575/2013

EUR million

		31.12.2018	31.12.2017
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	138.5	128.8
2	CET1 capital as if IFRS 9 had not been applied	138.5	128.8
5	Total capital (TC)	153.5	146.3
6	TC as if IFRS 9 transitional rules had not been applied	153.5	146.3
	Risk-weighted assets (amounts) (RWAs)		
7	Total RWAs	1,028.4	938.8
8	Total RWAs as if IFRS 9 transitional rules had not been applied	1,028.4	938.8
	Capital ratios %		
9	CET1	13.5	13.7
10	CET1 as if IFRS 9 transitional rules had not been applied	13.5	13.7
13	TC	14.9	15.6
14	TC as if IFRS 9 transitional rules had not been applied	14.9	15.6
	Leverage ratio (LR)		
15	LR total exposure measure	1,689.2	1,627.8
16	LR	8.2	7.9
17	LR as if IFRS 9 transitional rules had not been applied	8.2	7.9

59. ICAAP – Internal Capital Adequacy Assessment Process

In order to ensure risk capacity, the Bank monitors risks centrally, which the Bank defines as the ICAAP process.

Risks are managed within the overall management processes of banks, which provides access to risk capital depending on the types of risks involved, so that the banks can pursue their strategies, restrict capital and monitor capital through the restrictions. The starting point for calculating risk capacity is identifying all significant risks through conducting annual risk inventories. In order to calculate the capital requirements for credit risk, the Bank uses the building block approach, where Pillar 1 is the starting point for calculating the underlying risk. Based on risk assessment and quantification, the Bank includes the remaining identified material risks that are not fully covered by Pillar 1 (concentration risk, shadow banking, equity risk, interest rate risk in the banking book, etc.). The Value at Risk method (VaR) is used to calculate capital requirements for market and liquidity risk. The Bank uses the confidence levels of 99.9% and 95.0%.

Capital requirements are monitored through coverage with risk-bearing capital. The latter is used as a basis for the annual planning of restrictions and for monthly comparisons with capital requirements for risk-bearing capital as part of the risk management capability analysis. Furthermore, stress tests are performed, where risk parameters for specific scenarios (probability of default, values of collaterals and rates, etc.) are stressed. The effects of these scenarios on liquidity and capital are displayed.

The report on the risks assumed and the results of the stress tests are prepared through integrated risk management and presented to the RECO Committee, where necessary measures are considered and taken. In this regard, RECO serves as an operational basis for risk control. This Committee addresses and approves the risk standards (methods, processes, systems, assumptions regarding the organisation and stress tests) for the Group. The report is submitted monthly to the Management Board and disclosed to the Supervisory Board.

60. Credit risk (counterparty default risk)

60.1 Definition

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

60.2 General requirements

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

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

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

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

60.3 Risk measurement

The Addiko Bank network uses its own rating procedures to analyze and assess each individual borrower's credit

rating. The allocation of debtors to rating classes is carried out on the basis of default probabilities on a 25-level master rating scale.

60.4 Risk limitation

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

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

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving

derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

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

60.5 Portfolio overview – credit risk

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown inclusive the portfolio that is classified as held for sale according to IFRS 5.

Breakdown of net exposure within the Addiko Bank as at 31 December 2018:

EUR million

31.12.2018	Performing			Non Performing			Total	
Financial instruments	**Exposure**	**ECLS1&2**	**Net**	**Exposure**	**ECL S3**	**Net**	**Exposure**	**Net**
Cash reserves[1]	112.3	0.0	112.3	0.0	0.0	0.0	112.3	112.3
Loans and advances to customers	1,252.3	8.8	1,243.5	25.8	19.9	5.8	1,278.0	1,249.3
of which credit institutions	134.8	0.4	134.4	0.0	0.0	0.0	134.8	134.4
of which customer loans	1,117.5	8.4	1,109.1	25.8	19.9	5.8	1,143.2	1,114.9
Investment securities[2]	221.7	0.1	221.6	0.0	0.0	0.0	221.7	221.6
Other Assets - IFRS 5[3]	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
On balance total	**1,586.2**	**8.9**	**1,577.4**	**25.8**	**19.9**	**5.9**	**1,612.1**	**1,583.3**
Off balance	310.1	1.3	308.8	9.9	5.3	4.6	320.0	313.5
Total credit risk exposure	**1,896.3**	**10.2**	**1,886.2**	**35.7**	**25.2**	**10.6**	**1,932.1**	**1,896.7**

1) The position does not include cash on hand in amount of EUR 10,2 million.

2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia

The following table shows the exposure as at YE17:

EUR million

31.12.2017	Performing			Non Performing				Total
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3	Net	Exposure	Net
Cash reserves[1]	110.3	0.0	110.3	0.0	0.0	0.0	110.3	110.3
Loans and advances to customers	1,205.8	7.6	1,198.2	46.4	33.0	13.4	1,252.2	1,211.6
of which credit institutions	148.1	0.0	148.1	0.0	0.0	0.0	148.1	148.1
of which customer loans	1,057.7	7.6	1,050.1	46.4	33.0	13.4	1,104.1	1,063.5
Investment securities[2]	195.0	0.0	195.0	0.0	0.0	0.0	195.0	195.0
Other Assets - IFRS 5[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On balance total	**1,511.1**	**7.6**	**1,503.5**	**46.4**	**33.0**	**13.4**	**1,557.5**	**1,516.9**
Off balance	**235.3**	**2.8**	**232.5**	**10.7**	**4.5**	**6.2**	**246.0**	**238.7**
Total credit risk exposure	**1,746.4**	**10.4**	**1,736.0**	**57.1**	**37.5**	**19.6**	**1,803.5**	**1,755.6**

1) The position does not include cash on hand in amount of EUR 7.6 million.

2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia

3) Off balance exposure considers open credit lines and guarantees in amount of EUR 79.7 million

Exposure by rating class within the Addiko bank

At 31 December 2018 roughly 38.9% (YE17: 25.0%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions which are categorized under Corporate Center and private individuals (Retail).

The overall NPL stock development in 2018 is mainly influenced by an increase due to activation of suspended interests due to IFRS 9 implementation and reductions resulting out of the repayments especially in large corporate segment. Taking all these effects into consideration the overall non-performing loans decreased within 2018 by EUR 21.4 million.

Following table shows the Exposure by Rating classes and Market Segment as at 31 December 2018:

EUR million

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPL	No rating	Total
Retail	236.6	309.1	52.3	36.1	14.1	0.0	648.1
Medium and Small Corporate	56.8	247.1	104.4	10.7	13.8	0.0	432.8
Large Corporate	78.4	162.1	50.4	0.0	7.9	0.0	298.7
Public Finance	198.6	32.4	2.6	0.0	0.0	0.0	233.7
Corporate Center	180.4	138.4	0.0	0.0	0.0	0.0	318.8
Total	**750.7**	**889.1**	**209.7**	**46.8**	**35.7**	**0.0**	**1,932.1**

EUR million

31.12.2017	1A-1E	2A-2E	3A-3E	Watch	NPL	No rating	Total
Retail	29.2	406.9	174.6	19.2	14.4	0.0	644.3
Medium and Small Corporate	31.8	217.1	114.7	13.1	16.3	0.0	392.9
Large Corporate	22.3	103.2	70.9	2.7	26.4	0.0	225.5
Public Finance	215.6	28.3	2.5	0.5	0.0	0.0	247.0
Corporate Center	152.4	141.4	0.0	0.0	0.0	0.0	293.8
Total	**451.3**	**896.9**	**362.6**	**35.6**	**57.1**	**0.0**	**1,803.5**

The classification of credit assets into risk grades is based on Addiko internal ratings. For external reporting, internal rating grades are grouped into the following five risk categories:

- 1A-1E: representing customer with a very low risk, having best, excellent or very good credit standing;
- 2A-2E: representing customers with a good or moderate credit standing;
- 3A-3E: representing customers with a medium or high credit risk;
- Watch: representing customers with very high credit risk or likely to default. This class includes customers which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term;
- NPL (default): one or more of the default criteria under Article 178 CRR are met: among others, interest or principal payments on a material exposure has been overdue for more than 90 days, the bank significantly doubts the customer's credit standing, risk-oriented restructuring measure which leads to a foreborne non-performing exposure, realization of a loan loss or initiation of bankruptcy proceedings.

Addiko applies the customer view for all customer segments, including retail clients, if an obligor defaults on one deal then the customers' performing transactions are classified as non performing as well.

Exposure by region within the Group

The Addiko Bank Slovenia portfolio focuses on Slovenia and correspondingly to South Eastern Europe. The following table shows the breakdown of exposure by region within the Group (at customer level):

EUR million

	31.12.2018	31.12.2017
SEE	1,671.2	1,567.9
Europe (excl. CEE/SEE)	181.2	193.9
CEE	69.9	37.6
Other	9.7	4.1
Total	**1,932.1**	**1,803.5**

Exposure by industry and region within the Addiko Bank Slovenia

The following tables present the exposure by industry based on the classification code "NACE Code 2.0". This code is mapped into ten business sectors for reporting purposes.

The lower-risk business sector groups – financial institutions and the public sector – account for a share of 28.5% at YE18 (YTD) (YE17: 29.9%). The well-diversified private customers sector accounts for a share of 33.2% (YE17: 35.1%).

EUR million

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	0.4	640.6	0.0	0.0	641.1
Financial services	154.6	188.8	0.0	3.9	347.3
Public sector	24.2	108.5	69.9	0.0	202.6
Industry	0.0	332.5	0.0	5.8	338.3
Trade and commerce	0.0	104.9	0.0	0.0	104.9
Services	2.0	207.8	0.0	0.0	209.9
Real estate business	0.0	50.0	0.0	0.0	50.0
Tourism	0.0	34.2	0.0	0.0	34.2
Agriculture	0.0	1.4	0.0	0.0	1.4
Other	0.0	2.4	0.0	0.0	2.4
Total	**181.2**	**1,671.2**	**69.9**	**9.7**	**1,932.1**

The following table shows the exposure by business sector and region as at YE 2017:

EUR million

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	0.3	633.3	0.0	0.0	633.6
Financial services	166.2	174.1	0.0	4.1	344.4
Public sector	24.5	132.2	37.5	0.0	194.2
Industry	2.9	271.4	0.0	0.0	274.3
Trade and commerce	0.0	97.4	0.0	0.0	97.4
Services	0.0	190.8	0.1	0.0	190.9
Real estate business	0.0	47.0	0.0	0.0	47.0
Tourism	0.0	19.1	0.0	0.0	19.1
Agriculture	0.0	1.6	0.0	0.0	1.6
Other	0.0	1.1	0.0	0.0	1.1
Total	**193.9**	**1,567.9**	**37.6**	**4.1**	**1,803.5**

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

Presentation of exposure by size classes

As of YE18 around 40.5% (YE17: 43.1%) of the exposure is found in the size range < EUR 1 million. The Bank slightly increased concentration, mostly due to higher exposure towards financial institutions; nevertheless the Bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 263.5 million (YE17: EUR 245.0 million) of exposure in the range > EUR 100 million is entirely attributable to national banks or Addiko Group. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

EUR million

Size classes	31.12.2018 Exposure EUR m	31.12.2018 GoBs	31.12.2017 Exposure EUR m	31.12.2017 GoBs
< 10,000	72.2	25.613	70.9	26.407
10.000-50.000	317.9	13.694	284.9	12.154
50.000-100.000	139.9	1.999	150.4	2.147
100.000-250.000	133.8	958	149.7	1.073
250.000-500.000	47.6	137	48.4	138
500.000-1.000.000	71.6	102	72.8	101
1.000.000-10.000.000	462.5	149	409.9	143
10.000.000-50.000.000	350.2	23	283.6	18
50.000.000-100.000.000	72.8	1	87.9	1
> 100,000,000	263.5	2	245.0	2
Total	**1,932.1**	**42.678**	**1,803.5**	**42.184**

60.6 Breakdown of financial assets by degree of impairment

Financial assets classified by rating class and impairment stage:

EUR million

Rating class	31.12.2018 Stage 1 12-month ECL	31.12.2018 Stage 2 Lifetime ECL	31.12.2018 Stage 3 Lifetime ECL	31.12.2018 Total	31.12.2017 Total
1A-1E	728.6	22.2	0.0	750.7	451.3
2A-2E	881.9	7.1	0.0	889.1	896.9
3A-3E	205.0	4.7	0.0	209.7	362.6
Watch	10.6	36.2	0.0	46.8	35.6
NPL	0.0	0.0	35.7	35.7	57.1
No rating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Exposure	**1,826.1**	**70.3**	**35.7**	**1,932.1**	**1,803.5**
Net	5.1	5.0	25.2	35.3	47.9
Total Net	**1,820.9**	**65.2**	**10.6**	**1,896.7**	**1,755.6**

Financial assets that are neither overdue nor impaired:

EUR million

Rating class	31.12.2018 Exposure	31.12.2018 Collateral	31.12.2017 Exposure	31.12.2017 Collateral
1A-1E	750.7	121.6	450.7	12.4
2A-2E	887.6	125.1	884.3	237.1
3A-3E	208.4	59.6	350.9	121.6
Watch	42.9	8.0	32.0	15.9
NPL	0.0	0.0	0.9	1.0
No rating	0.0	0.0	0.0	0.0
Total	**1,889.7**	**314.4**	**1,718.9**	**388.0**

The non-performing loans stated in the table above primarily result from the fact that high primary and secondary cash flow expectations make setting up specific risk provisions redundant.

Overdue but not impaired financial assets:

EUR million

	31.12.2018		31.12.2017	
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers				
– overdue to 30 days	5.0	0.5	18.2	5.4
– overdue 31 to 60 days	1.7	0.9	9.6	2.9
– overdue 61 to 90 days	0.4	0.0	0.4	0.0
– overdue 91 to 180 days	0.0	0.0	0.3	0.0
– overdue 181 to 365 days	v0.0	0.0	0.0	0.0
– overdue over 1 year	0.0	0.0	0.0	0.0
Total	**7.0**	**1.4**	**28.6**	**8.4**

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

Impaired financial assets:

EUR million

Loans and advances to customers	31.12.2018	31.12.2017
Exposure	35.3	56.0
Provisions	25.2	37.5
Collateral	14.2	24.1

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

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

The over-collateralization (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the Stage 3 collective impaired calculation, in which no collateral values are recognised.

60.7 Forbearance

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Forbearance measures and risks are monitored by the operative risk units responsible for corporate and retail as a part of the regular semi-annual review. Additionally, forbearance measures are representing a trigger event in order to perform impairment tests in accordance to the IFRS requirements.

In the assessment when performing an impairment test, forbearance measures represent a trigger event for carrying out the impairment loss calculation according to IFRS.

The following chart provides an overview of the forbearance status at the Addiko Bank Slovenia in the course of the financial year 2018. The off-balance positions only include loan commitments.

EUR million

	OPENING balance 1.1.2018	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2018
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.3	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	28.9	3.5	-3.6	-18.4	-0.2	0.0	10.2
Households	4.7	5.7	-2.1	0.0	0.0	0.0	8.2
Loans and advances	**33.5**	**9.4**	**-5.7**	**-18.4**	**-0.2**	**0.0**	**18.6**
Loan commitments given	0.1	0.0	-0.1	0.0	0.0	0.0	0.0

The following table shows the forbearance status in the course of the year 2017:

EUR million

	OPENING balance 1.1.2016	additions of assets to which forbearance measures have been extended (+)	assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2016
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	10.6	0.0	-10.6	0.0	0.0	0.0	0.0
Non-financial corporations	37.3	0.5	-5.8	0.0	0.0	-3.1	28.9
Households	10.4	1.6	-6.9	0.0	0.0	-0.5	4.7
Loans and advances	**58.3**	**2.1**	**-23.2**	**0.0**	**0.0**	**-3.6**	**33.5**
Loan commitments given	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Forbearance exposure was as follows in 2018:

EUR million

	Closing Balance 31.12.2017	Neither past due nor impa ired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.2	0.0
Non-financial corporations	10.2	1.4	0.0	8.8	0.2
Households	8.2	5.3	0.2	2.7	0.2
Loans and advances	**18.6**	**6.7**	**0.2**	**11.7**	**0.4**

EUR million

	Internal Collateral Value (ICV) in respect of forborne assets	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0.0	0.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	1.5	1.5	0.0	0.0	0.0	0.0
Medium and Small Corporate	3.4	3.1	0.0	0.0	0.3	0.0
Retail	5.2	0.1	5.1	0.0	0.0	0.0
Total	**10.2**	**4.7**	**5.1**	**0.1**	**0.3**	**0.0**

Forbearance exposure was as follows in 2017:

EUR million

	Closing Balance 31.12.2017	Neither past due nor impa ired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	28.9	3.2	0.0	25.7	2.4
Households	4.7	1.8	0.0	2.8	0.3
Loans and advances	**33.5**	**5.0**	**0.0**	**28.5**	**2.7**

EUR million

	Internal Collateral Value (ICV) in respect of forborne assets	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0.0	0.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	13.1	11.6	0.0	0.0	0.0	1.5
Medium and Small Corporate	4.9	3.7	0.6	0.0	0.6	0.1
Retail	2.1	0.2	1.7	0.2	0.0	0.0
Total	**20.1**	**15.5**	**2.3**	**0.2**	**0.6**	**1.6**

Fair value of collateral and credit enhancements held under the base case scenario 31.12.2018

EUR million

Fair value of collateral and credit enhancements held under the base case scenario 31.12.2018	Gross carrying amount	Securities	3rd party/gov guarantees	Property	Other	Offsetting agreements	Surplus collateral	Total collateral	Net Exposure	Associated ECL
Loans and advances	**7.7**	**0.0**	**0.0**	**2.5**	**0.3**	**0.0**	**0.0**	**2.8**	**4.9**	**4.2**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	3.6	0.0	0.0	1.3	0.3	0.0	0.0	1.5	2.1	1.7
Households	4.2	0.0	0.0	1.3	0.0	0.0	0.0	1.3	2.9	2.6
Commitments and financial guarantees	**5.7**	**0.0**	**0.0**	**0.6**	**0.0**	**2.8**	**0.0**	**3.4**	**2.4**	**1.7**
Loan commitments given	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial guarantees given	3.0	0.0	0.0	0.6	0.0	0.2	0.0	0.8	2.2	1.6
Other commitments given	2.7	0.0	0.0	0.0	0.0	2.5	0.0	2.6	0.1	0.1

61. FX induced Credit Risk

61.1 Definition

Currency induced credit risk represents an integral part of credit risk. It is a risk associated with a currency in which a loan or another placement is granted. It occurs if liabilities are denominated (or indexed) in another currency to the currency in which the consumer receives their income or holds their assets in, from which the loan is intended to be repaid from.

61.2 General requirements

According to the Credit Risk Principles, FX loans are only in exceptional cases allowed (client has income based in FX currency, etc.). The FX loans are managed by Credit Management and Retail Risk Management within the approval process by introducing buffers as well as limitations.

61.3 Risk measurement

The currency induced credit risk occurs when a currency mismatch between the customer's account currency and the currency of the country of residence of the customer exist. Such transactions can be excluded from the Currency induced credit risk control if the customer can prove income from the account currency or if the customer is a type of client which regularly manages their FX risk (e.g. financial institution, sovereign). Currency Induced Credit Risk is computed for the clients exposed to it and is calculated via the IRB formula like the single name credit risk but with PDs which are one notch worse than the client PDs.

61.4 Risk limitation

FX risk is only allowed in exceptional cases. Bank is not granting such transactions and products and only has maturing portfolio.

61.5 Risk control and monitoring

Credit Risk Controlling centrally monitors currency mismatch loans on a monthly basis and reports directly to the Management Board as part of regular risk reporting. Ad-hoc reports are additionally prepared upon request.

62. Concentration risk

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

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

- Single name concentrations
- Industry sector concentrations
- Collateral concentrations
- Large indirect credit exposures

Counterparty default and industry sector concentrations are measured, managed and backed with capital within the context of the regular ICAAP calculations. Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor which, based on the type of concentration, is dependent on the amount of credit volume.

63. Market risk

63.1 Definition

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 process 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 then the umbrella strategy, policies and manuals for market risk management.

Addiko Bank Slovenia 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.

In Addiko Bank Slovenia, a system of limits has been established 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 Management Board of Addiko Bank Slovenia.

63.2 Measurement of market risk

To measure market risk, Addiko Bank Slovenia 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, Addiko Bank Slovenia uses the PMS system (Portfolio and Risk Management System), In order to determine the risk parameters, the Bank uses a 250-day time series of exponentially weighted daily yields. The methodology used for the calculation of value at risk is the Monte Carlo method with 10,000 simulations and a 99-percent confidence interval (1-day position holding).

63.3. Review of market risks

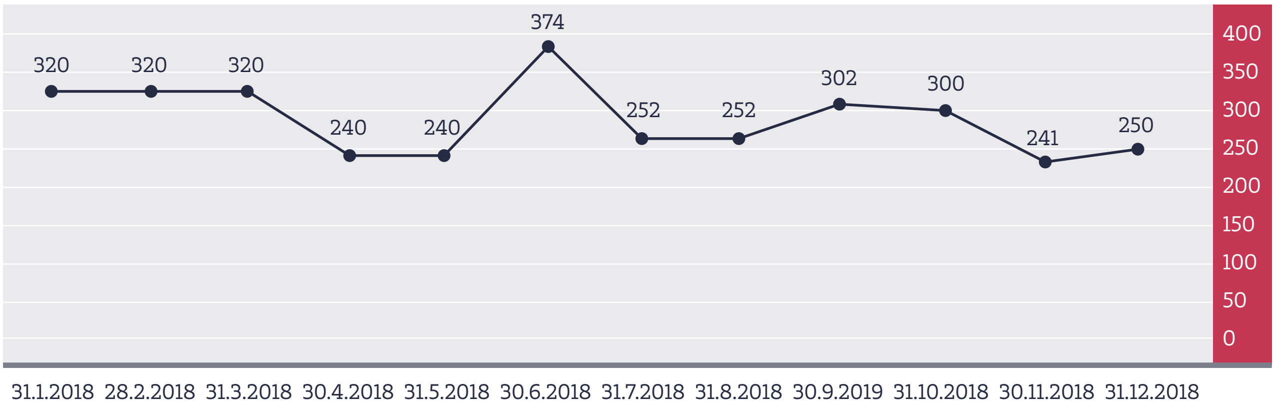
63.3.1. Interest rate risk

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.

VaR interest rate risk in the banking book amounted to EUR 0.3 million at the end of 2018 (at the end of 2017, EUR 0.3 million). The minor change is a result of changed gaps within the allowed limits. The Bank includes positions in interest rate gaps depending on interest rate sensitivity (fixed interest rate – depending on maturity; variable interest rate – depending on the volatility of variable interest rates; UFN – depending on the model).

Changes in VaR (trading and banking book) of Addiko Bank Slovenia for 2018:

Interest rate risk (trading and banking book) - VAR (99,0 %, 1 day) - EUR thousand



Another 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 a given time period. Taking into account the Basel guidelines, the Bank regularly checks the effect 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 with the accepted limit. The effect of the change in the interest rate curve by 200 basis points on the net present value never significantly approached the internally set limit of 15% of capital (7.2% as at 31 December 2018 and 5.0% as at 31 December 2017). Besides the prescribed interest rate shock with parallel and non-parallel shift in the yield curve, the Bank measures the effect of other interest rate shocks.

The effect of the change in the interest rate curve by 1 basis point on the net present value amounts to EUR 72 thousand (EUR 49 thousand as at 31 December 2017).

Effects of yield curve shift by individual scenario for the Bank (only interest rate sensitive items) as at 31 December 2018 and 31 December 2017 are shown in the following table:

EUR million

	Effect of yield curve shift	
Scenario	2018	2017
Parallel shift + 10 BP	-0.7	-0.5
Parallel shift - 10 BP	0.7	0.5
Rotation (ON-3M -> +60BP, 3M-5Y -> -20 BP, 5Y -> -50 BP)	0.9	0.9
Rotation (ON-3M -> -60BP, 3M-5Y -> +20 BP, 5Y -> +50 BP)	-0.9	-0.8

Interest rate risk by time bucket and currency (taking into account interest-sensitive items) as at 31 December 2018 and 31 December 2017 is shown in the following table:

EUR million

Time Bucket	2018				2017			
	gap EUR	gap CHF	gap other currencies	total	gap EUR	gap CHF	gap other currencies	total
ON	-233.7	24.1	-8.3	-217.9	-164.0	-2.0	-8.7	-174.7
1M	40.8	-27.7	-7.0	6.1	41.0	-27.7	-2.1	11.2
3M	386.8	-46.9	20.9	360.8	334.3	-56.3	-0.2	277.8
6M	48.4	50.9	0.1	99.4	99.9	87.3	-0.3	186.9
1Y	-174.2	-0.2	-0.2	-174.6	-113.9	-0.1	-0.2	-114.2
2Y	-120.7	-0.1	-0.3	-121.1	-8.0	-1.3	9.2	-0.1
3Y	49.5	0.0	0.0	49.5	-144.8	-0.1	-0.1	-145.0
4Y	73.5	0.0	0.0	73.5	41.2	0.0	0.0	41.2
5Y	33.6	0.0	0.0	33.6	28.9	0.0	0.0	28.9
7Y	41.8	0.0	0.0	41.8	35.9	0.0	0.0	35.9
10Y	4.3	0.0	0.0	4.3	22.4	0.0	0.0	22.4
15Y	5.7	0.0	0.0	5.7	9.9	0.0	0.0	9.9
20Y	0.6	0.0	0.0	0.6	0.7	0.0	0.0	0.7
Over 20Y	0.1	0.0	0.0	0.1	0.2	0.0	0.0	0.2

The gap represents the difference individual positions according to interest rate sensitivity (fixed IR – according to maturity; variable IR - depending on interest rate variability; UFN - according to the model).

The structure of assets and liabilities in terms of interest rate type for the Bank as at 31 December 2018 and 31 December 2017:

	2018		2017	
IR TYPE	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Fixed IR	43.63%	62.94%	42.16%	63.41%
UFN*	9.24%	25.58%	9.51%	21.13%
Variable IR	45.17%	3.23%	46.95%	6.67%
Other	1.96%	8.25%	1.38%	8.78%

*UFN (Until further notice)

63.3.2 Currency risk

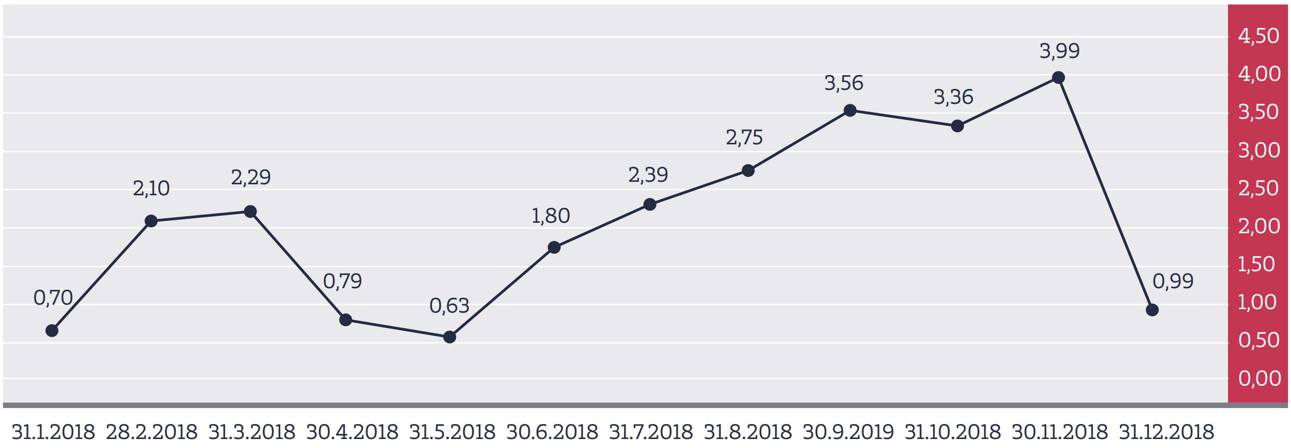
Currency risk is the risk of loss arising from mismatch of the currency sub-balance and volatility of exchange rates.

Addiko Bank Slovenia 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 used (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. Addiko Bank Slovenia'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 on total open position of Addiko Bank Slovenia for 2018:

Currency risk - VAR (99,0 %, 1 day) - EUR thousand



As at 31 December 2018, VaR on total open position amounted to EUR 0.99 thousand with a 99.0 confidence interval (see the above presentation of changes in VaR). VaR limit on total open position amounts to EUR 50.0 thousand.

Exposure to currency risk:

EUR million

	2018			2017		
	USD	CHF	Other currencies	USD	CHF	Other currencies
Financial assets						
Cash on hand and balances with the Central Bank	1.3	2.0	0.2	0.1	0.4	0.1
Available-for-sale financial assets	0.0	0.0	0.0	9.5	0.0	0.0
Financial assets at fair value through other comprehensive income	0.0	0.0	9.7	0.0	0.0	0.0
Financial assets at amortised cost	77.2	0.0	5.7	0.8	91.0	1.2
Total financial assets	**78.5**	**2.0**	**15.6**	**10.4**	**91.4**	**1.3**
Financial liabilities						
Financial liabilities measured at amortized cost	2.8	1.8	10.0	10.4	3.7	1.4
Total financial liabilities	**2.8**	**1.8**	**10.0**	**10.4**	**3.7**	**1.4**
Net off-balance-sheet liabilities arising from spot transactions and derivatives	-75.7	0.0	-5.6	0.1	87.8	0.0

The sum of absolute open positions per currency as at 31 December 2018 amounts to EUR 0.3 million. The limit for the total open position of Addiko Bank Slovenia amounts to EUR 2.0 million and was taken into account as at 31 December 2018.

63.3.3 Equity risk

Equity risk arises from the uncertainty about the future value of these assets (fluctuations in share prices, investment funds, etc.).

The main factors in the equity price risk for the Bank are the positions that are the result of liquidity insurance related to credit risk transactions where liquidation is currently not possible due to illiquidity or due to regulations or agreements.

As at 31 December 2018, Addiko Bank Slovenia was exposed to a negligible level of risk for level of risk for equity items (VaR amounted to 5 thousand).

63.3.4 Credit spread change risk

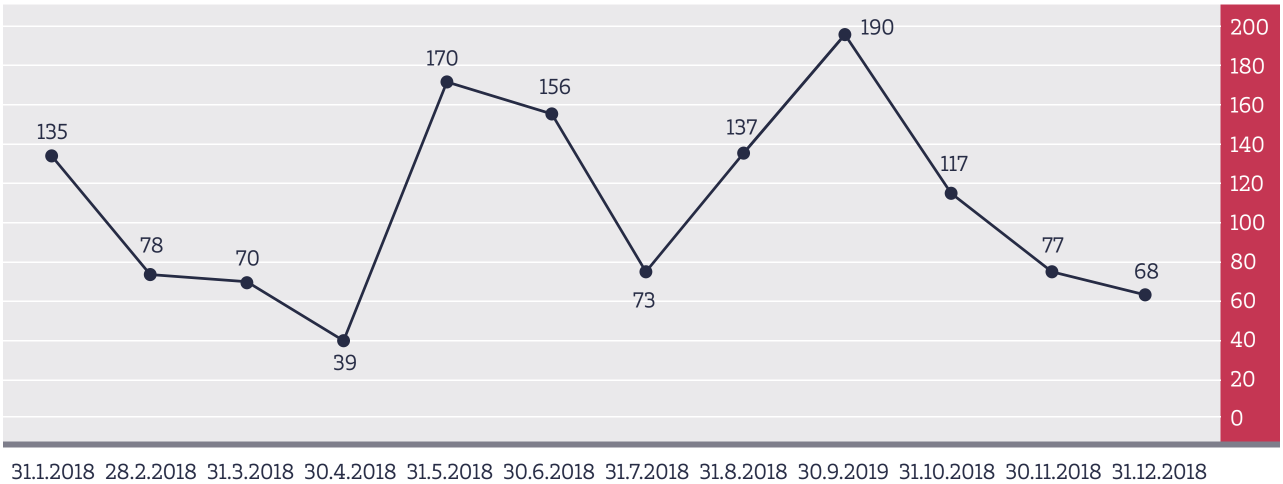
Credit spread change is a default risk premium that the issuer of a bond (or of a similarly structured instrument suitable for the capital market) must pay to the buyer. This means current risk-free interest rate premiums as well as deductions from the resulting price.

Potential decreases in the value of financial instruments based on a widened or narrowed credit spread are covered by the term "credit spread change risk".

Addiko Bank Slovenia monitors credit spread change risk using the Value at Risk (VaR) method.

Changes in VaR of Addiko Bank Slovenia for 2018:

Credit spread risk - Var (99,0 %, 1 dan) - EUR thausand



On 31 December 2018, the credit spread risk in Addiko Bank amounted to EUR 68 thousand with a one-day VaR and 99.0% confidence level (risk on 31 December 2017: EUR 98 thousand). As at 31 December 2018, the Bank was within the limit of EUR 0.3 million.

64. Liquidity risk

64.1 Definition

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 mismatch between cash flow of matured assets and cash flows.

64.2 General terms

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,
- Access to the primary liquidity of the Central Bank and
- Other matters arising and requiring discussion.

Addiko Bank Slovenia adopted an emergency liquidity plan in the form of a written document. It lays down the procedures and instruments of control or protection necessary to prevent direct crises or to overcome acute crises. In the event of a liquidity crisis, the Bank's top priorities are defined, which aim to maintain solvency and prevent damage to the reputation of the Bank.

The Bank calculates the liquidity ratios on a daily basis in accordance with the Decision of the Bank of Slovenia on macroprudential supervision in the area of liquidity and financing structure. These ratios are calculated as the ratio between investments and liabilities under the residual maturity principle.

64.3 Liquidity reserves

A group of different liquidity reserves ensures the Bank's solvency at all times, even in crisis situations. These liquidity reserves are subject to various stress scenarios in order to maintain an overview of available liquidity sources through individual units, even in crisis situations. The Bank also has its own liquidity buffer for stress scenarios, composed of securities eligible for the ECB and securities that can be quickly sold.

In the first quarter of 2018, the liquidity coverage ratio (LCR) dropped from the highest level, 205% , and reached the level of 126% in September 2018. In the second half of the year, the ratio ranged from 121% to 157%.

Per December 2018, the counterbalancing capacity at the Addiko Bank Slovenija was structured as follows:

EUR million

Liquidity Buffer	countable
Securities eligible for Central Bank	47.2
Securities eligible for Repo	0
Credit Claims eligible for Central Bank or Repo	0
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	50.0
Counterbalancing Measures	**97.2**
Other liquefiable Assets (short-, medium-term)	30.0
Committed/Required Credit Lines	14.0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**141.2**

In 2017, the counterbalancing capacity at the Addiko Bank Slovenija was structured as follows:

EUR million

Liquidity Buffer	countable
Securities eligible for Central Bank	54.4
Securities eligible for Repo	0
Credit Claims eligible for Central Bank or Repo	1.2
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	21.0
Counterbalancing Measures	**76.7**
Other liquefiable Assets (short-, medium-term)	70.0
Committed/Required Credit Lines	9.0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**155.7**

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

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

64.4 Overview – liquidity situation

Overall, the liquidity situation of the Bank in 2018 was compliant with required standards and regulation. All liabilities were met without the need to draw liquidity reserves. Capital market activities were therefore not necessary.

During the financial year, the Bank recorded a continuous growth of deposits that reached the level of approx. EUR 1.2 billion at the end of the year. Bank has strengthened deposit gathering activities and made actions in order to reduce concentration.

The concentration of the liquidity risk is followed with the diversification of funding based on the main products. The biggest positions in the funding are a-vista and term-deposits; followed by equity. The most important currency in funding is EUR, followed by USD and CHF.

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

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

EUR million

At 31 December 2018	1 Year	1 – 5 Years	> 5 Years	Total
Assets				
Cash, cash balances at central banks and other demand deposits	132.1	0.0	1.3	133.4
Financial assets held for trading	1.4	0.0	0.0	1.4
Financial assets designated at fair value through profit or loss	0.3	0.0	0.0	0.3
Financial assets at fair value through other comprehensive income	38.5	181.9	1.3	221.7
Financial assets at amortised cost	384.6	600.0	461.7	1,446.3
Subtotal	**556.9**	**781.9**	**464.2**	**1,803.0**
Financial liabilities				
Financial liabilities held for trading	2.0	0.0	0.0	2.0
Financial liabilities measured at amortised cost	1,084.2	288.1	60.8	1,433.1
Subtotal	**1,086.2**	**288.1**	**60.8**	**1,435.1**
Total	**-529.3**	**493.8**	**403.4**	**367.9**

As at December 31, 2018, assets relevant to liquidity at the bank came to EUR 1,803 million. Liabilities totalled EUR 1,435 million and represent 79.6% of assets.

EUR million

At 31 December 2017	1 Year	1 – 5 Years	> 5 Years	Total
Assets				

Cash, cash balances at central banks and other demand deposits	117.9	0.0	0.0	117.9
Financial assets held for trading	2.3	0.0	0.0	2.3
Available-for-sale financial assets	23.5	109.5	19.8	152.8
Loans and advances	415.0	525.9	484.8	1,425.7
Held-to-maturity investments	0.0	30.9	11.6	42.5
Subtotal	**558.6**	**666.4**	**516.1**	**1,741.1**
Financial liabilities				
Financial liabilities held for trading	1.1	0.0	0.0	1.1
Financial liabilities measured at amortised costs	967.0	352.4	65.8	1,385.2
Subtotal	**968.1**	**352.4**	**65.8**	**1,386.3**
Total	**-409.5**	**314.0**	**450.4**	**354.9**

65. Operational risk

65.1 Definition

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.

65.2 General requirements – operational risk management framework

Operational risk management is at the heart of the Bank's operations and integrates risk management practices into the Bank’s processes, systems and culture. As an active senior management partner, the value of operational risk management lies in supporting and compelling senior management to harmonize the control business environment with the banking strategy by measuring and reducing risk exposure, which contributes to optimal profitability for stakeholders.

A robust operational risk management framework that includes identifying, measuring, managing, monitoring and reporting operational risk provides a mechanism for discussion and effective escalation of issues that lead to better risk management and increased resilience of the Bank.

Comprehensive data collection supported by the framework enables the analysis of complex issues and facilitates tailor-made risk mitigation measures.

Operational risk management is an ongoing cyclical process that involves risk and control self-assessment, risk-related decision making, analyses of scenarios and implementation of risk control, resulting in the assumption, mitigation or avoidance of risk.

65.3 Risk monitoring

Operational Risk Management reports monthly to the Executive Risk Committee at the Group level and quarterly to the Management Board Audit Board Committee in order to provide the management with an overview of the operational risk situation for integrated risk management and to incorporate operational risk management into the banking processes.

65.4 Overview of exposure and capital

The cyclical processes of operational risk indicate changes in the realization of losses that influence operational risk management, which is evident through the collection of loss events and self-assessment of risks and controls, which are the most important tools in operational risk management.

Operational risk Capital regulation Pillar 1 is calculated using a standardized approach based on the operating revenue (using a suitable indicator and multiplied for the corresponding business line). The model for the measurement of operational risk related to the adequacy of internal capital is calculated in the same way as for Pillar 1 and includes the subtypes of operational risk that the Bank treats as assets under Pillar 2.

66. Object risk

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

Capital requirements for object risk are calculated according to the methodology of the Standardised Approach and included in ICAAP evaluation. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

67. Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational Risk
- Risk arising from excessive debt
- Macro-economic risks
- Systemic risks
- Business Risk / Strategic Risk

For material “other risks”, economic capital is considered in the risk bearing capacity calculation.

68. Historical unilateral interest change clause risks

In 2018, an amount of 4,1 million EUR was related to retail F/X disputes or claims for payment.

Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles. Accordingly, no legal provision is required to be set up if Addiko Bank d.d. is very likely to prevail in the proceedings. The bank extensively monitors its effectiveness in each legal proceeding, including the bank’s likeliness to prevail, with the engagement of external legal experts and lawyers if necessary. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans.

Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency

Particularly during 2004-2008, numerous private customers in Slovenia have taken out foreign currency loans (especially CHF loans). From 2015, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by associations of borrowers. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans, while at the same time retaining the benefits of low reference interest rates (e.g. LIBOR and

EURIBOR) from the past few years.

Several first and second-instance verdicts have been issued on the subject in Slovenia, and while only some of the verdicts went against the defendant banks, none of which are final, most cases were ruled in their favour.

Addiko Bank d.d. has several ongoing legal disputes in connection with CHF loans. Addiko Bank d.d. is optimistic as regards the outcome of the proceedings, as first- and second-instance courts have passed verdicts in favour of the banks and the Slovenian Supreme Court rendered verdicts which give clearer guidance regarding the information and notification duty of banks regarding currency risks. While the Bank of Slovenia and the Ministry of finance have requested additional reports from all Slovenian banks, no measures were adopted against Addiko Bank d.d.

EUR million

	2018		2017	
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Bank d.d.	1,932.1	82.2	1,803.5	91.9

In 2018, the bank was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from 91,9 million EUR at the end of 2017 to 82,2 million EUR at the end of 2018.

69. Legal risks

The overall number of passive legal disputes increased in 2018. There is one major passive legal dispute pending (legal passive disputes with an amount in dispute exceeding EUR 15.0 million).

The significant majority of pending as well as new proceedings are related to consumer loans with F/X clauses. The increase in the numbers of pending cases shows that there is a future risk of increasing numbers of proceedings due to the possible statute of limitation for such claims.

Supplementary information required by the Companies Act

70. Costs of audit services

EUR million

	1.1.–31.12.2018 Deloitte revizija d.o.o.	1.1.–31.12.2017 Deloitte revizija d.o.o.
Annual Report audit	0.1	0.1
Other assurance engagements	0.0	0.0
Total costs of audit services	**0.1**	**0.1**

71. Receipts of the Members of the Management Board, Supervisory Board and staff with individual contracts

Receipts of the Members of the Management Board and staff with individual contracts

EUR thousand

2018	Management Board	Staff with individual contracts
Fixed income	637.2	1,962.8
Variable income	130.0	200.0
Cost reimbursement	28.5	109.7
Supplementary pension insurance	8.4	42.6
Total remuneration	**804.0**	**2,315.1**

Receipts of the Supervisory Board

In accordance with the Rules of Procedure of the Supervisory Board of the Bank, Members of the Supervisory Board employed in the Addiko Group do not receive bonuses and attendance fees. Bonuses and attendance fees belong only to an external member, Henning Giesecke, who received EUR 12 thousand in 2018.

In 2018 and 2017, the Members of the Supervisory Board of the Bank were not customers of the Bank.

72. Events after the end of the 2018 financial year

Since 31 December 2018, there were no events that would materially affect the financial statements herein.

73. Accumulated profit

Net profit for the financial year may be used for:

- setting aside legal reserves,
- setting aside reserves for own interests,
- setting aside statutory reserves and
- setting aside other revenue reserves.

The Management Board and the Supervisory Board of the Bank will propose at the General Meeting in April 2019 to allocate the year-end profit for 2018 as follows:

- EUR 10 million to be paid to the owner of the Bank, and
- EUR 27,2 million to be transferred to retained earnings from the previous years.

The accumulated profit is shown in the table below:

EUR million

	31.12.2018	31.12.2017
Dobiček poslovnega leta	37,2	19,0
Zadržani čisti dobiček	25,7	12,9
Skupaj bilančni dobiček	**63,0**	**31,9**

Addiko Bank

Business Centers and Branch Offices

Addiko Bank

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
Registration number: 1319175
VAT ID: SI75482894
Transaction account: SI56 3300 0330 0000 034
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Instagram: https://www.instagram.com/addikobank_slovenija/
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