Addiko Bank

Consolidated Interim Report
Half Year 2019

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

			EUR m
Selected items of the Profit or Loss statement	**1H19**	**1H18**	**Change (%)**
Net banking income	123.0	112.4	9.4%
Net interest income	91.0	83.0	9.6%
Net fee and commission income	32.0	29.4	8.9%
Net result on financial instruments	9.3	70.6	-86.9%
Other operating result	-12.5	-6.0	>100%
Operating expenses	-95.6	-92.9	2.9%
Operating result before change in credit loss expense	**24.1**	**84.0**	**-71.3%**
Credit loss expenses on financial assets	1.9	12.7	-85.4%
Tax on income	-5.8	-3.9	49.6%
Result after tax	**20.2**	**92.8**	**-78.2%**
Performance ratios	**1H19**	**1H18**	**Change (pts)**
annualised			
Net interest income/total average assets	3.0%	2.6%	0.34
Return on tangible equity	7.0%	4.9%	2.18
Return on tangible equity (@14.1% CET1 Ratio)	8.2%	5.7%	2.46
not annualised			
Cost/income ratio	77.8%	82.7%	-4.94
Cost of risk ratio	0.0%	0.2%	-0.21
Selected items of the Statement of financial position	**Jun19**	**Dec18**	**Change (%)**
Loans and advances to customers	3,896.6	3,787.3	2.9%
o/w gross performing loans	3,875.1	3,766.1	2.9%
Deposits of customers	4,864.7	4,836.7	0.6%
Equity	848.4	859.5	-1.3%
Total assets	6,188.8	6,152.1	0.6%
Risk-weighted assets[1)]	4,624.6	4,545.0	1.8%
Balance sheet ratios	**Jun19**	**Dec18**	**Change (pts)**
Loan to deposit ratio	80.1%	78.3%	1.80
NPE ratio	4.6%	5.6%	-1.00
NPE coverage ratio	73.2%	75.4%	-2.20
Liquidity coverage ratio	150.8%	149.9%	0.90
Common equity tier 1 ratio[1)]	17.6%	17.7%	-0.10
Total capital ratio[1)]	17.6%	17.7%	-0.06

1) The Group has adopted the EU's regulatory transitional arrangements for IFRS 9 Financial Instruments. These apply to RWAs, regulatory capital and related ratios throughout this report, unless otherwise stated.

Half Year Financial Report 2019

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Condensed Group Management Report

1. Overview of Addiko Bank

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 30 June 2019 approximately 0.8 million customers in CSEE, using a well-dispersed network of 196 branches and modern digital banking channels.

Based on its focussed strategy, Addiko Group repositioned itself as a specialist consumer and SME banking group with a focus on growing its Consumer Business and SME lending activities as well as payment services (its “focus areas”), offering unsecured personal loan products for consumers and working capital loans for its SME customers funded largely by retail deposits. Addiko Group’s Mortgage Business, public lending and large corporate lending portfolios (its “non-focus areas”) have been gradually reduced over time, thereby providing liquidity and capital for the gradual growth in its Consumer Business and SME lending.

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, especially in the Retail Segment and the SME Business Segment, to improve efficiency, reduce risks and maintain asset quality, and have, particularly in the Large Corporates Segment, been further tailored to better meet customer needs.

Al Lake (Luxembourg) S.à r.l., indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD) was at the reporting date the direct parent company of the Addiko Group. On 12 July 2019 Addiko Bank was listed on the Vienna Stock Exchange, which reduced the participation of Al Lake (Luxembourg) S.à r.l. to 44.99%, with the remainder being free float. On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market.

2. General economic environment

2.1. Economic Development 1H19

Growth momentum will remain strong by post-crisis standards across all countries of operation in 2019. However, the current economic cycle is likely to have peaked. The pace of expansion is likely to be in the range of 2.7-3.1% per year in 2019-2021 across the five countries, compared with 3-4% in 2016-2018. Growth in 2019-2021 will be strongest in Slovenia (slightly above 3% per year on average); in the remaining countries it will be 2.7-2.8%.

There are two key reasons for the moderately slower growth outlook: weaker activity in the euro area and some key drivers of global demand (especially China), and in some cases domestic capacity constraints (e.g. shortage of labour and high levels of capacity utilisation in industry after several years of strong growth). The most likely scenario is a continuation of still quite good growth, low inflation, and positive labour market developments.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and still ultra-loose ECB policy. Supply side factors in particular indicate that inflationary pressure will not emerge anytime soon. Across all countries of operation, inflation has picked up somewhat from 2014-16 levels (when many countries experienced a period of deflation) but will remain at historically low levels.

Although most Addiko countries of operation continue to have quite high unemployment rates (with the notable exception of Slovenia, and to a lesser extent Croatia), these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth.

All countries are at a fairly positive point in the credit cycle. Lending growth to the non-financial private sector is firmly positive in all countries, in the range of 3-10% per year. The strongest growth is observed in Serbia with lending rising by around 9% per year, around 6% in Bosnia and Herzegovina, 5.5% in Montenegro, and between 3 and 4% in Croatia and Slovenia (all data as of May 2019). In all five countries, credit demand from households appears to be considerably stronger than that from corporates, which should continue to support private consumption growth.

The main determining factor for credit growth in the next 2-3 years in Addiko countries will be the stance of the ECB. A previous Vienna Institute for International Economic Studies in Austria (wiiw) study commissioned by Addiko found that the most important predictor of household loan growth in the five countries was the growth in the money supply in the euro area. This makes sense, considering the very strong trade and investment integration between Addiko countries and the bloc and their fixed exchange rate regimes (except in Croatia and Serbia). Slovenia is in fact part of the euro area, and Montenegro uses the euro as a legal tender. To this end, the signs for credit growth are quite positive: the ECB remains in ultra-loose mode, and recent statements have suggested that any change is likely to be more in a dovish than hawkish direction.

In Croatia the economy is likely to expand by around 2.8% on average over the next 3 years (1Q19: 2.5%). Tourism will remain a key driver of growth. Outward migration and the ageing of the population will mean that labour supply will increasingly act as a constraint on growth. Euro accession in the next five years is likely. In this context, lending growth should remain quite positive, especially to households (currently rising by 6% per year; 1Q19: 4-5%).

In Slovenia growth will also slow a bit, but at around 3.1% on average in 2019-21 it will be the best performing Addiko country (1Q19: 3%). The economy will continue to benefit from strong inflows of EU funds and rising wages on the back of labour market tightness. As a particularly export-reliant economy, Slovenia will be affected by weaker momentum in Germany and the euro area more broadly and is relatively vulnerable to global protectionist risks. Household demand for credit is likely to remain robust, albeit falling somewhat from the current rate of 6% per year.

The Serbian economy had an excellent 2018 (not least thanks to bumper harvest), and although growth will slow markedly this year (given the high base period, as well as production problems at Fiat Chrysler), it will remain quite good by post-crisis standards at around 2.7% on average in 2019-21 (1Q19: 3%). FDI inflows should continue to support investment, while rising wages will underpin private consumption growth. Positive reform momentum tied to the EU accession process will continue. Credit growth picked up strongly in 2018 on the back of higher confidence, and although the current growth rates of around 9% (11% for households) may not be sustained, the outlook for the next 2-3 years is positive.

In Bosnia and Herzegovina, political factors are likely to have only a modest impact on growth in 2019, and the outlook for 2020-21 is rather good as well. External factors remain important, with the economy benefitting from remittance inflows and increased tourism exports. Overall credit growth has slowed since the beginning of 2018 but remains above 6% year on year (above 7% for households).

Growth in Montenegro has been particularly strong in recent years but will slow down to around 3% per year in 2019-20 and 2.1% in 2021, reflecting the government's fiscal consolidation plans in the face of high public debt and weakening investment activity. At the same time, the growth slowdown will be not as strong as forecasted earlier, partly due to the 15% hike in the official minimum wage as of 1 July 2019, which will benefit private consumption. Besides, economic activity will continue to be supported by strong tourism inflows. Credit growth to households is likely to continue slowing down (from currently around 9% per year) but should remain quite robust in the next 2-3 years.

2.2. Market reports on Consumer Lending in CSEE

Addiko Bank AG commissioned two independent market reports with the aim of providing a detailed analysis of the Central and Southeast European Consumer Lending markets in which Addiko Bank operates. Both reports were published in March 2019 and are available in the Press Releases 2019 section of www.addiko.com.

The first, released by the Vienna Institute for International Economic Studies in Austria (wiiw), provides a detailed overview of the macroeconomic backdrop of the region, the banking market as well as the regulatory environment with a focus on unsecured consumer lending. The second report published by Lafferty Group, London gets to the heart of the topic and analyses the unsecured consumer lending business opportunity in the region.

3. Significant events in 1H19

3.1. Addiko Group goes public

On 12 July 2019, the shares of Addiko Bank AG were admitted to the Official Market of the Vienna Stock Exchange and started trading in the ATX Prime market segment.

Based on the total number of 19,500,000 shares and the offering price of EUR 16.0 per share, reflecting a market capitalization of EUR 312.0 million. This IPO was the third and largest listing in the top segment of the Vienna Stock Exchange this year and was the largest listing in the European financial sector in 2019.

On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market.

As announced on 12 August 2019 by Citigroup Global Markets Limited, acting as Stabilization Manager, the Greenshoe Option was exercised in full (975,000 shares) herewith confirming the free float of ca. 55% after the stabilization period of 30 days.

3.2. Digital transformation & building digital capabilities

In the first quarter 2019, Addiko launched their first digital branch in Croatia with completely digital credit processes, from requests to approvals without physical interaction. With Addiko Virtual Branch the bank is representing the banking of the future - completely digital, simple, practical, fast and tailored to the clients' wishes and needs.

Furthermore, the product “mKredit” was made available on the Serbian market which allows customers to obtain a loan without visiting a branch. The only prerequisite is a mobile phone with access to the Addiko mbanking application. In this way Addiko Bank justifies the role of a leader when it comes to introducing new services in digital banking in Serbia. This effort was also awarded as “best project” by the Veracomp Top 100 CIOs forum in May 2019.

To provide the full range of digital services also for corporate clients, in Serbia and Montenegro “Addiko Business EBank” was released, which is an app with new functionalities and a unique user experience specifically designed for corporate clients using ebanking.

In addition, “Addiko Chat Banking”, which was at YE18 already live in all Group countries except Slovenia, was introduced in 1Q19 now also in Slovenia. “Addiko Chat Banking” is an innovative and first ever Viber-based financial transaction service, which allows users to use different payments services like domestic payments transfers, peer-to-peer payments, or to get the latest info on Addiko offers.

In the second quarter 2019 Addiko Bank launched Synddiko.com, a digital loan syndication platform, the first of its kind in Croatia and Slovenia. By combining modern digital banking and in-depth financing know-how with an innovative Fintech experience, Synddiko opens the door to the digital future of corporate loan markets in CSEE. Synddiko is an easy-to-use, digital loan syndication platform that allows fast completion of syndication in a more transparent way and with less costs for both parties involved: borrowers and institutional investors.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of the Group. Addiko continued to invest in digital solutions as anchor to deliver on the value proposition convencience and speed. For the consumer segment the share of consumer loans sold digitally improved to 8.2% in 1H19 (3.8% for the full year 2018) and the contribution of Bank@Work to 25% (17% for 2018).

3.3. Focus on improving customer experience

As part of its continuous focus on improving customer experience, Addiko's transactional net promoter score (NPS) platform started to operate in 2018, complementing the roll-out of the marketing NPS that has been live since 2017. The NPS is currently available in all markets with the exception of Serbia, which is in final testing.

The possibility to survey customer experience after individual interactions with Addiko allows to measure critical moments of the customer journey. The results show promising customer satisfaction levels, across all channels and customer touchpoints. More important, the measurements allow Addiko Bank to conduct continuous improvements of the services and products offered to its customers.

3.4. Financial performance in brief

The financials for the first half of 2019 show the continued progress of the deployment of Addiko strategy. Addiko posted an operating result before change in credit loss expense of EUR 24.1 million (1H18: EUR 84.0 million). By taking into account adjusted items as described in detail in section 4.2. an improvement in the underlying performance of the Group in comparison with the comparative reporting period is evident.

Net interest income on a reported basis increased by 9.6% to EUR 91.0 million (1H18: EUR 83.0 million) with NIM at 3.0% (+34bp compared to 1H18). By adjusting Tier 2 interest expenses in 1H18 (EUR 3.6 million), net interest income improved by 5.1% and the respective NIM increased by 22bp compared to 1H18. The improved NII was driven by the increase in regular interest income from Consumer lending (11.3%) and supported by a further reduction of funding costs overcompensating the run-down of the healthy nonfocus portfolio.

Net fee and commission income increased by 8.9% to EUR 32.0 million (1H18: EUR 29.4 million) as a consequence of the higher growth in the Consumer and SME business, where the trend from YE18 continued due to new fee models and new product packages promoting increased payments activity through Addiko Bank's accounts. In addition, this development was supported by the acceleration of bancassurance activities.

The **net result on financial instruments** was positive with EUR 9.3 million, mainly driven by the sale of debt instruments. The previous year result of EUR 70.6 million was strongly affected by the EUR 190 million waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018. The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the first quarter of 2018.

The **other operating result** decreased from EUR -6.0 million in the first half of 2018, by EUR -6.5 million, to EUR -12.5 million in the first half of 2019. The development was mainly driven by the recognition of EUR -2.3 million restructuring costs as part of cost initiatives planned to be executed during the second half of 2019. Further impacts due to provision expenses in connection with legal matters on CHF loans in Croatia, and fewer releases related to resolved legal cases compared to 1H18.

Operating expenses increased from EUR -92.9 million in the first half of 2018, by EUR 2.7 million, or 2.9% to EUR -95.6 million at the current reporting date. The increase was mainly connected with the recognition of EUR 1.5 million legal and advisory expenses in connection with the IPO preparation process in the first half of 2019. In addition, the first half of 2018 included a non-recurring release of EUR 1.2 million provision for onerous contracts. Addiko Group further expects for its operating expenses for 2019 a continuation of 2018 given that currently assessed cost initiatives have been decided on and will be executed during the second half of 2019. The related impact, predominantly resulting from back office optimisation and branch closures (8 branches) with expected total decrease for more than 180 FTE, contribute to a reduction of the cost base in the 2020 financial year.

Overall in 1H19 income was growing faster than costs compared to 1H18 as adjusted net banking income increased by 6.0% and adjusted operating expenses by 0.7%. Adjusted jaws was therefore positive by 5.4%.

The development of the **credit losses**, which saw a slight net releases of EUR 1.9 million (1H18: EUR 12.7 million), is positively influenced by repayments and re-migrations to a lower risk portfolio in the non-focus segments Mortgage and Corporate as well as in the focus segment SME. This effect is mainly offset by allocations within the Consumer portfolio and by the negative impact in amount of EUR 8.1 million from the conversion law regarding CHF mortgage loans which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019.

The return on tangible equity on adjusted basis with 7.0% for the first half of 2019 compared to 3.7% for YE18 is reflecting the positive development of Addiko's performance. The return on tangible equity (@14.1% CET1 Ratio) on adjusted basis increased to 8.2% at 1H19 compared to 4.2% at YE18.

With regard to the statement of financial positions, Addiko’s strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is shown by the increased share of these two segments to 60.0% of the gross performing loan book (1H18: 54.5%). The performance in new disbursements, which outperformed the market growth, in these focus segments over the last 12 months clearly highlights that Addiko is delivering on its business strategy, with an increase in the volumes of gross performing loans of +13.3% in Consumer lending and +17.2% in the SME loan books.

The reduction of NPEs continued in the first half of 2019, leading to a further decrease of the non-performing exposure to EUR 329.4 million (EUR 403.8 million at YE18). At 1H19 the prudent risk profile is best reflected in an NPE coverage ratio of 73.2% (YE18: 75.4%) and a further reduced NPE ratio to 4.6% (YE18: 5.6%).

Despite the further reduction in average deposit pricing customer deposits remained stable at EUR 4,864.7 million (increased by 0.6% compared to EUR 4,836.7 million at YE18). The continuous improvements in the structure of customer deposits allows a slight reduction of excess liquidity while keeping very strong self-funding ratios (LTD ratio customers 1H19: 80.1% (YE18: 78.3%)).

In the first quarter of 2019 a dividend in the amount of EUR 50 million was distributed to AI Lake (Luxembourg) S.à r.l.

3.5. Rating agency Moody’s assigns first-time ba2 Baseline Credit Assessment to Addiko Bank AG

On 4 April 2019, Moody's Investors Service assigned for the first-time a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and a Ba2(cr)/NP(cr) Counterparty Risk Assessments to Addiko Bank AG. Concurrently, the rating agency assigned a Ba3 long-term and NP short-term deposit ratings and counterparty risk ratings to Addiko. The outlook on Addiko's long-term deposit rating is stable.

3.6. Human Resources

Addiko Bank employs at the current reporting date 2,967.6 full-time equivalent employees (YE18: 2,933 FTE’s).

During the 1H19 the following changes in the supervisory board of Addiko Bank AG as well as changes in the Management Board of the countries the bank operates were conducted. In General Assembly, on 6 June 2019, the mandate of the current Supervisory Board members has been prolonged and Mr. Sebastian Prinz von Schoenaich-Carolath was additionally appointed as independent member. In the Management Board of Addiko Bank Slovenia Mrs. Anja Bozac was appointed in May 2019 as new Chief Financial Officer.

4. Financial development of the Group

4.1. Analysis of the reported result

EUR m

Reported Result	2Q19	2Q18	Change (%)	1H19	1H18	Change (%)
Net banking income	62.6	60.3	3.8%	123.0	112.4	9.4%
Net interest income	46.1	44.4	3.8%	91.0	83.0	9.6%
Net fee and commission income	16.4	15.9	3.3%	32.0	29.4	8.9%
Net result on financial instruments	6.0	0.1	>100%	9.3	70.6	-86.9%
Other operating result	-7.1	0.4	>100%	-12.5	-6.0	>100%
Operating income	**61.4**	**60.7**	**1.1%**	**119.7**	**176.9**	**-32.3%**
Operating expenses	**-47.3**	**-46.6**	**1.5%**	**-95.6**	**-92.9**	**2.9%**
Operating result before change in credit loss expense	**14.1**	**14.1**	**0.1%**	**24.1**	**84.0**	**-71.3%**
Credit loss expenses on financial assets	-1.8	1.8	>100%	1.9	12.7	-85.4%
Operating result before tax	**12.3**	**15.9**	**-22.8%**	**26.0**	**96.7**	**-73.2%**
Tax on income	-2.2	0.7	>100%	-5.8	-3.9	49.6%
Result after tax	**10.1**	**16.6**	**-39.3%**	**20.2**	**92.8**	**-78.3%**

Reported result after tax of EUR 20.2 million was EUR 72.6 million lower compared with the first half of 2018 and included a net adverse movement of significant items of EUR -8.3 million whereby 1H18 included a net favourable movement of significant items of EUR 73.0 million, which are described in more detail in section 4.2. Excluding these items the result translate on an adjusted basis into EUR 28.5 million and increased by EUR 8.7 million or 43.6% (1H18: EUR 19.9 million).

Reported net interest income in the first half of 2018 increased from EUR 83.0 million, by EUR 8.0 million, or 9.6%, to EUR 91.0 million in the first half of 2019. This was primarily due to a decrease in interest expenses from EUR -23.7 million in the first half of 2018, by EUR -9.2 million, to EUR -14.5 million in the first half of 2019, principally resulting from lower interest expenses for customer deposit of EUR -5.0 million – mainly due to a shift from higher yield term deposits to lower yield current deposits – and interest expenses of EUR 3.6 million from the waived Tier 2 capital for the first half of 2018, which cease to exist in 2018. Interest income remained almost stable decreasing from EUR 106.7 million in the first half of 2018, by EUR 1.3 million, to EUR 105.5 million in the first half of 2019. This development is reflecting an increase of regular interest income within the focus areas Consumer and SME lending which over-compensated the decrease within the non-focus areas i.e. Mortgage and Public Finance, while interest income from NPEs reduced by EUR 1.6 million vs. 1H18 given the successfully reduction of NPEs during the first half of 2019.

Excluding significant items, the adjusted net interest income increased by EUR 4.4 million or 5.1% to EUR 91.0 million compared with the previous reporting period (1H18: 86.6 million).

Reported net fee and commission income increased from EUR 29.4 million in the first half of 2018, by EUR 2.6 million, or 8.9%, to EUR 32.0 million in the first half of 2019. This was primarily due to the increase of fee and commission income from EUR 36.0 million in the first half of 2018, by EUR 3.3 million, to EUR 39.3 million in the first half of 2019, which was mainly driven by stronger income from Bancassurance, Transactions as well as roll out of further functionalities for guarantee and dynamic currency conversion and transactions in the SME segment.

Reported net result on financial instruments was positive with EUR 9.3 million, mainly driven by the sale of debt instruments. The previous year result of EUR 70.6 million was strongly affected by the EUR 190 million waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018. The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the first quarter of 2018.

Excluding significant items, the adjusted net result on financial instruments decreased by EUR -0.3 million or -3.3% to EUR 9.3 million compared with the previous reporting period (1H18: 9.6 million).

On a reported basis, the **other operating result** as sum of other operating income and other operating expense decreased from EUR -6.0 million in the first half of 2018, by EUR -6.5 million, to EUR -12.5 million in the first half of 2019. The decrease was mainly driven by the following significant items:

- Recognition of EUR -2.3 million restructuring costs as part of cost initiatives planned to be executed during the second half of 2019. The related impact, resulting from predominantly back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.
- Net increase in EUR 1.9 million provision expenses in connection with legal matters on CHF loans in Croatia, which were partially compensated by the release of provisions in 1Q19 in connection with the active settlement strategy for long term lasting court cases. This compared with a net release of EUR 0.9 million in the first half of 2018.
- Recognition of EUR -0.8 million impairments on non-financial assets (1H18: EUR 0.3 million).

The deposit guarantee costs in the amount of EUR -4.5 million were in line with previous year figures; the upfront booking of the full year impact of charges to the recovery and resolution fund decreased from EUR -2.4 million to EUR -1.3 million.

Excluding significant items, the other operating result decreased by EUR 2.7 million to EUR -9.6 million compared to EUR -7.0 million in the first half of 2018.

Reported operating expenses increased from EUR -92.9 million in the first half of 2018, by EUR 2.7 million, or 2.9% to EUR -95.6 million at the current reporting date:

- Personnel expenses stayed at the same level as in the previous period. The number of employees expressed in full-time equivalent (‘FTE’) staff at 30 June 2019 was 2,967.6, an increase of 34.6 from 31 December 2018.
- Other administrative expenses decreased from EUR -37.8 million in the first half of 2018, by EUR -1.3 million, or 3.4% to EUR -36.5 million in the first half of 2019. This development was mainly driven by the implementation, since the beginning of 2019, of the new leasing standard and the related decrease in rental expenses of EUR -3.7 million. The cost reduction was partially offset by the recognition in the first half of 2019 of EUR 1.5 million legal and advisory expenses in connection with the IPO preparation process (1H18: EUR 0.5 million). In addition, the first half of 2018 included a non-recurring release of EUR 1.2 million provision for onerous contracts. The residual increase of the administrative expenses is primarily reflecting investments to grow the business and enhance the digital capabilities of the Group. The impact of inflation was partially absorbed by the cost savings from the productivity programmes within the Group.
- Depreciation and amortisation increased from EUR -5.4 million in the first half of 2018, by EUR -3.9 million, to EUR -9.4 million. This increase included EUR -3.7 million depreciation for the right of use asset driven by the first-time implementation of the new leasing standard IFRS 16 and the corresponding decrease in rental expenses.

Excluding significant items, the operating expenses increased by EUR 0.6 million or 0,7% to EUR -94.2 million at the current reporting date (1H18: EUR -93.5 million).

Due to net releases, the **reported credit loss expenses on financial assets** amounted to EUR 1.9 million (1H18: EUR 12.7 million). The negative balance of allocation of provisions within the consumer portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate as well in the focus segment SME. The first half of 2019 was significantly influenced by the negative impact in amount of EUR 8.1 million from a conversion law regarding CHF mortgage loans which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019. The law obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The Republic of Serbia will participate in the amount of 17% of the reduction. The reported expected credit loss expenses include also EUR 2.5 million releases which were recorded in connection with transactions with corporate clients where exposures would not be granted under the current Addiko risk strategy.

Excluding significant items, the adjusted credit loss expenses increased by EUR 3.3 million to EUR 7.5 million compared with the previous reporting period (1H18: EUR 4.2 million).

Reported taxes on income amounted at 1H19 to EUR -5.8 million compared to EUR -3.9 million at the end of the half year 2018 and included the additional recognition of deferred tax assets on tax loss carried forward in amount of EUR 1.7 million (1H18: EUR 5.6 million).

Excluding significant items, the adjusted tax on income decreased by EUR -2.0 million to EUR -7.5 million compared with the previous reporting period (1H18: -9.5 million).

4.2. Analysis of the adjusted result

Adjusted performance is computed by adjusting reported results for the effect of certain significant items, which distort period-on period comparison. The adjusted performance represents non-financial alternative performance measures which provides useful information to the reader of the financial statements by identifying and quantifying items which the management believes to be significant and providing insight into how management assesses period-on-period performance. The adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

EUR m

Adjusted Result	2Q19	2Q18	Change (%)	1H19	1H18	Change (%)
Net banking income	62.6	60.3	3.8%	123.0	116.0	6.0%
Net interest income	46.1	44.4	3.8%	91.0	86.6	5.1%
Net fee and commission income	16.4	15.8	3.6%	32.0	29.4	8.9%
Net result on financial instruments	6.0	0.1	>100%	9.3	9.6	-3.3%
Other operating result	-2.9	-0.6	>100%	-9.6	-7.0	38.2%
Operating income	**65.6**	**59.8**	**9.8%**	**122.6**	**118.6**	**3.4%**
Operating expenses	**-46.7**	**-47.0**	**-0.6%**	**-94.2**	**-93.5**	**0.7%**
Operating result before change in credit loss expense	**18.9**	**12.8**	**48.0%**	**28.5**	**25.1**	**13.6%**
Credit loss expenses on financial assets	4.1	-4.7	>100%	7.5	4.2	77.3%
Operating result before tax	**23.0**	**8.0**	**>100%**	**36.0**	**29.3**	**22.8%**
Tax on income	-3.0	-1.5	97.5%	-7.5	-9.5	-21.0%
Result after tax	**20.1**	**6.5**	**>100%**	**28.5**	**19.9**	**43.6%**

Adjusted result after tax increased from EUR 19.9 million in the first half of 2018, by EUR 8,7 million, or 43.6% to EUR 28.5 million in the first half of 2019, mainly due to higher adjusted net interest income, higher net fee and commision income and net releases of adjusted changes in credit losses.

On an adjusted basis, **net interest income** was EUR 4.4 million or 5.1% higher compared with the previous reporting period and increased from EUR 86.6 million at 1H18 to EUR 91.0 million at 1H19. The positive development was driven by a continuous shift from non-focus assets i.e. Mortgage, Large Corporates and Public Finance towards Consumer and SME lending and also on an increase of the overall size of the loan portfolio, despite reduction in adjusted interest income from NPEs by EUR 1.6 million compared to 1H18, given the successfully reduction of NPEs during the first half of 2019. In addition, the positive development was supported by a decrease in adjusted interest expenses from EUR -20.1 million in the first half of 2018, by EUR -5.6 million, to EUR -14.5 million in the first half of 2019, principally resulting from lower interest expenses for customer deposit of EUR -5.0 million, mainly due to a shift from higher yield term deposits to lower yield current deposits. The decrease in interest expenses was partially compensated by the additional interest expenses of EUR -0.3 million in connection with the first time implementation of the new leasing standard IFRS 16 which was not adjusted. The **adjusted net interest margin** amounts to 297bp at 1H19, compared to 275bp 1H18.

Adjusted net fee and commission income increased by EUR 2.6 million to EUR 32.0 million (1H18: EUR 29.4 million), with the difference being mainly driven by stronger income from Bancassurance, Transactions as well as roll out of further functionalities for guarantee and trade finance products in the SME segment.

Adjusted net result on financial instruments was positive in 1H19 with EUR 9.3 million, mainly driven by the sale of debt instruments and in line with the previous year result.

Adjusted other operating result as sum of other operating income and other operating expense shows an amount of EUR -9.6 million compared to EUR -7.0 million at 1H18. This position includes, amongst others, deposit guarantee costs in the amount of EUR -4.5 million which were in line with previous year figures and the upfront booking of the full year impact of charges to the recovery and resolution fund which slightly decreased from EUR -2.4 million to EUR -1.3 million. The negative development compared with the previous half-year is mainly due to the recognition of impairments on non-financial assets in amount of EUR -0.8 million (1H18: EUR 0.3 million).

Adjusted operating expenses amounted to EUR -94.2 million at the current reporting date (1H18: EUR -93.5 million). The increase of the expenses is primarily reflecting investments to grow the business and enhance the digital capabilities of the Group. The impact of inflation was partially absorbed by the cost savings from the initiated productivity programmes.

Due to net releases, the **adjusted credit loss expenses on financial assets** amounted to EUR 7.5 million (1H18: EUR 4.2 million). The negative balance of allocation of provisions within the consumer portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate and in the focus segment SME.

Adjusted taxes on income amounted at 1H19 to EUR -7.5 million compared to EUR -9.5 million at the end of the half year 2018 and reflect the theoretical tax burden of Addiko Group, without taking in consideration the recognition of deferred tax assets on tax loss carried forward.

The table presents a reconciliation between the reported and the adjusted result:

EUR m

Reconciliation of reported to adjusted result before tax	1H19	1H18
Adjusted result after tax	**28.5**	**19.9**
- Tier 2 expenses	-	-3.6
- Tier 2 waiver	-	60.9
- active legal settlements	1.3	0.9
- restructuring costs	-2.3	-
- provision on CHF legal matters	-1.9	-
- onerous contracts	-	1.2
- costs for capital market readiness	-1.5	-0.5
- costs for risk strategy adjustment	2.5	8.4
- costs on CHF conversion law	-8.1	-
- deferred tax ramp up	1.7	5.6
Reported result after tax	**20.2**	**92.8**

4.3. Analysis of the consolidated statement of financial position

EUR m

Assets	30.06.2019	31.12.2018	Change (%)
Cash reserves	899.5	1,002.9	-10.3%
Financial assets held for trading	24.3	24.3	-0.2%
Loans and receivables	3,906.1	3,792.9	3.0%
Loans and advances to credit institutions	9.5	5.6	70.1%
Loans and advances to customers	3,896.6	3,787.3	2.9%
Investment securities	1,174.4	1,184.6	-0.9%
Tangible assets	89.4	57.7	55.0%
Intangible assets	30.5	30.3	0.6%
Tax assets	21.4	28.3	-24.4%
Current tax assets	1.6	1.7	-4.9%
Deferred tax assets	19.8	26.6	-25.6%
Other assets	37.9	25.5	48.6%
Non-current assets and disposal groups classified as held for sale	5.4	5.7	-4.7%
Total assets	**6,188.8**	**6,152.1**	**0.6%**

The statement of financial position of Addiko Group shows the simple and solid interest bearing asset structure: more than 63.0%of the investments are represented by customer loans and most of those are already in the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds.

In the first half of 2019 the **total assets** of Addiko Group slightly increased by EUR 36.7 million or 0.6% from EUR 6,152.1 million at YE18 to EUR 6,188.8 million. The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) increased to EUR 4,624.6 million (YE18: EUR 4,545.0 million) reflecting the increases of volumes in the focus segments.

Cash reserve decreased by EUR -103.4 million to EUR 899.5 million as of 30 June 2019 (YE18: EUR 1,002.9 million). This was primarily due to the shift from cash to loans and receivables as well as the payment of the dividend for the financial year 2018 in the amount of EUR 50.0 million. The regulatory required minimum reserves included in the cash balances at central banks decreased from EUR 316.5 million as of 31 December 2018 by EUR 13.6 million to EUR 302.9 million as of 30 June 2019.

Overall **loans and receivables** increased to EUR 3,906.1 million from EUR 3,792.9 million at year end 2018:

- Loans and receivables to credit institutions (net) slightly increased by EUR 3.9 million to EUR 9.5 million (YE18: EUR 5.6 million).
- Loans and receivables to customers (net) increased by EUR 109.3 million to EUR 3,896.6 million (YE18: EUR 3,787.3 million). In line with the Group's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending, which was partly offset by the decrease in the Mortgage Business.

The **investment securities** slightly decreased from EUR 1,184.6 million to EUR 1,174.4 million in 1H19, they are largely invested in high rated government bonds and having a maturity of less than five years. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tangible assets increased to EUR 89.4 million compared to EUR 57.7 million at YE18, which is mainly due to the first-time implementation of IFRS 16, leading to the recognition of a right of use asset in the amount of EUR 31.9 million. Further details regarding the implementation of IFRS 16 are presented in the Note 2.1. IFRS 16 Leases.

Tax assets decreased to EUR 21.4 million (YE18: EUR 28.3 million), as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

Other assets increased to EUR 37.9 million (YE18: EUR 25.5 million) driven by the recognition of the compensation rights from the State of Serbia in connection with the recent CHF conversion law. In addition, this position includes mainly advance payments in relation to IT projects aimed to increase operational efficiency.

EUR m

Equity and liabilities	30.06.2019	31.12.2018	Change (%)
Financial liabilities held for trading	5.5	2.1	>100%
Financial liabilities measured at amortised cost	5,246.5	5,202.5	0.8%
Deposits of credit institutions	312.6	324.4	-3.6%
Deposits of customers	4,864.7	4,836.7	0.6%
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.3%
Other financial liabilities	68.0	40.3	68.7%
Provisions	61.2	62.0	-1.2%
Tax liabilities	0.3	1.0	-73.8%
Current tax liabilities	0.1	0.9	-89.7%
Deferred tax liabilities	0.2	0.1	38.3%
Other liabilities	26.9	25.1	7.5%
Equity	848.4	859.5	-1.3%
Total equity and liabilities	**6,188.8**	**6,152.1**	**0.6%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 5,246.5 million compared to EUR 5,202.5 million at year end 2018:

- Deposits of credit institutions decreased from EUR 324.4 million to EUR 312.6 million in 1H19.
- Deposits of customers increased to EUR 4,864.7 million (YE18: EUR 4,836.7 million).
- Other financial liabilities increased from EUR 40.3 million at YE18 to EUR 68.0 million in 1H19, which is mainly due to the first-time implementation of IFRS 16 regulations.

Provisions slightly decreased from EUR 62.0 million at YE18 to EUR 61.2 million in 1H19. The development was primarily driven by releases of provisions for legal risks in connection with the successful settlement of some long-lasting court cases as well as reductions of provisions for loan commitments and guarantees granted.

Other liabilities increased slightly from EUR 25.1 million to EUR 26.9 million and include accruals for services received but not yet invoiced as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 859.5 million to EUR 848.4 million is related to a dividend payment in the amount of EUR 50.0 million which was partially compensated by the total comprehensive income, which includes the profit of loss for the reporting period in the amount of EUR 20.2 million as well as changes in other comprehensive income in the amount of EUR 18.7 million. This change is mainly due to favourable market related movements from debt instruments measured at FVTOCI.

The **capital base** of Addiko Group is solely made up of CET1 following the Tier 2 waiver in 2018 and excluding retained earnings for the quarter stands at 17.6% (YE18: 17.7%) on a IFRS 9 transitional basis and 16.9% without applying IFRS 9 transitional rules (YE18: 16.9%), well above the Overall Capital Requirements of 14.6% (YE18: 14.6%).

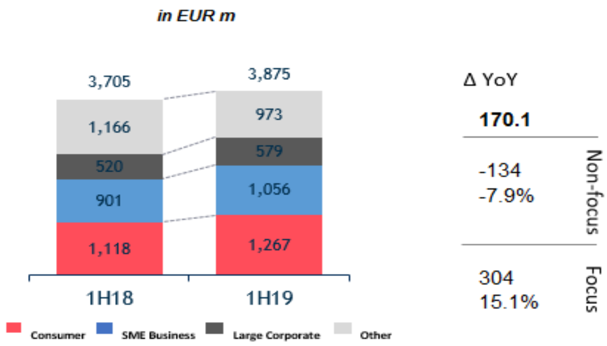
5. Segment reporting

EUR m

30.06.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	83.7	12.2	71.6	19.9	8.3	4.0	7.0	123.0
Net interest income [1]	63.6	12.2	51.5	11.5	5.4	3.3	7.2	91.0
o/w regular interest income [2]	61.7	16.1	45.6	14.3	7.3	2.6	11.0	96.9
Net fee and commission income	20.1	0.0	20.1	8.5	2.9	0.7	-0.2	32.0
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-12.5	-12.5
Operating income	**83.7**	**12.2**	**71.6**	**19.9**	**8.3**	**4.0**	**3.8**	**119.7**
Operating expenses	**-44.3**			**-11.6**	**-2.2**	**-1.1**	**-36.4**	**-95.6**
Operating result	**39.4**			**8.4**	**6.1**	**2.9**	**-32.6**	**24.1**
Change in CL	-8.5	0.8	-9.3	3.4	5.2	0.5	1.3	1.9
Operating result before tax	**30.9**			**11.8**	**11.3**	**3.3**	**-31.3**	**26.0**
Business volume								
Loans and receivables [3]	2,058.8	818.2	1,240.7	1,059.3	602.1	173.0	12.9	3,906.1
o/w gross performing loans	2,068.3	801.2	1,267.1	1,056.5	578.7	171.6		3,875.1
Gross disbursements [4]	328.3	6.1	322.3	308.5	157.2	1.8		795.7
Financial liabilities at AC [5]	2,749.5		2,749.5	638.0	426.2	567.4	865.4	5,246.5
RWA [6]	1,449.0	512.8	936.3	972.6	639.1	96.2	858.3	4,015.3
Key ratios								
Net interest margin (NIM) [7]	4.6%	1.7%	6.1%	2.3%	1.5%	1.2%		3.0%
Cost/income ratio [8]	53.0%			58.0%	26.7%	28.5%		77.8%
Cost of risk ratio	-0.4%	0.1%	-0.6%	0.2%	0.6%	0.2%		0.0%
Loan to deposit ratio [9]	74.9%			166.0%	141.3%	30.5%		80.1%
NPE ratio (CRB based) [10]	9.1%	13.7%	6.2%	3.8%	4.2%	4.4%		6.1%
NPE coverage ratio [11]	81.0%	73.6%	91.3%	63.8%	44.4%	74.1%		73.2%
NPE collateral coverage [12]	41.9%	59.3%	17.5%	64.9%	61.9%	50.9%		48.9%
Change CL/GPL (simply Ø) [13]	0.4%	-0.1%	0.8%	-0.3%	-0.9%	-0.3%		0.0%
Yield GPL (simply Ø) [14]	6.0%	3.9%	7.5%	2.9%	2.5%	2.9%		4.5%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution – explained in point 5.5 Corporate Center) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and Internal refinancing which relates to intra – bank transactions. 5) Financial liabilities at AC at 1H19 include the Direct deposits (Austria/Germany) amounting to EUR 428 million, EUR 313 million Deposits of credit institutions, EUR 124 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortised costs. Total bank: Net customer loans divided by customer deposits 10) Non-performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / Non-performing exposure. 12) Collaterals allocated to Non-performing exposure / Non performing exposure 13) Change in CL / simply Ø gross performing loans - not annualised due to volatility within the year 14) Regular interest income annualised / simply Ø gross performing loans.

The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments of Addiko Bank and into non-focus segments, which are Large Corporates, Public Finance and Retail Mortgages. According to the Group's strategy a reduction of lower margin Mortgage lending and Public Finance is in process. This development can be seen by comparing the gross performing loans in the focus and non-focus assets:



5.1. Retail

Segment definition in brief:
Retail: including Mortgage and Consumer as product based segments.
Consumer: this segment includes both the consumer finance as well as the micro subsegment including private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue.
Mortgage: relating to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.
SME: within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.
Large Corporates: includes corporate clients with an annual gross revenue above EUR 40 million.
Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.
Corporate Center: this segment consists of Treasury business in the Holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

EUR m

Retail			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	63.6	58.9	8.0%
o/w regular interest income	61.7	59.9	3.0%
Net fee and commission income	20.1	19.8	1.9%
Operating income	**83.7**	**78.7**	**6.5%**
Operating expenses	**-44.3**	**-44.5**	**-0.4%**
Operating result	**39.4**	**34.1**	**15.5%**
Change in CL	-8.5	1.3	>100%
Operating result before tax	**30.9**	**35.4**	**-12.8%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	2,058.8	2,049.2	0.5%
o/w gross performing loans	2,068.3	2,046.8	1.0%
Gross disbursements	328.3	303.5	8.2%
Financial liabilities at AC	2,749.5	2,721.8	1.0%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2]	4.6%	4.5%	0.19
Cost/income ratio	53.0%	56.6%	-3.68
Cost of risk ratio	-0.4%	0.1%	-0.41
Loan to deposit ratio	74.9%	75.3%	-0.41
NPE ratio (CRB based)	9.1%	12.8%	-3.70
NPE coverage ratio	81.0%	81.5%	-0.50
NPE collateral coverage	41.9%	43.7%	-1.87
Change CL/GPL (simply Ø)	0.4%	-0.1%	0.48
Yield GPL (simply Ø)	6.0%	5.9%	0.10

EUR m

Consumer			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	51.5	45.3	13.5%
o/w regular interest income	45.6	41.0	11.3%
Net fee and commission income	20.1	19.8	1.9%
Operating income	**71.6**	**65.1**	**10.0%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	1,240.7	1,092.7	13.5%
o/w gross performing loans	1,267.1	1,118.2	13.3%
Gross disbursements	322.3	297.8	8.2%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2]	6.1%	6.2%	-0.08
NPE ratio (CRB based)	6.2%	9.8%	-3.66
Change CL/GPL (simply Ø)	0.8%	0.6%	0.16
Yield GPL (simply Ø)	7.5%	7.7%	-0.21

EUR m

Mortgage			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1)]	12.2	13.6	-10.4%
o/w regular interest income	16.1	18.9	-14.9%
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	818.2	956.5	-14.5%
o/w gross performing loans	801.2	928.6	-13.7%
Gross disbursements	6.1	5.7	6.1%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2)]	1.7%	1.9%	-0.15
Change CL/GPL (simply Ø)	-0.1%	-0.8%	0.71

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center). Interest income Mortgages includes the total interest income plus FTP and asset contribution 2) See for explanation of NIM above.

Retail strategy

Addiko Bank's Retail Segment serves 756 thousand customers through a network of 196 branches and state of the art digital channels. Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner.
During the last period the number of customers has been reduced through the cleanup of inactive customer and pricing adjustment of high interest deposit products to optimize the structure of liabilities. The number of consumers collecting their regular income in an Addiko account utilised for regular payments amounts 244 thousand in 1H19.

In the Segment Retail the focus is on account packages for salary payments, regular transactions and on consumer lending. For the Micro customers the priority is to offer transactional services. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger with services such as Addiko Chat Banking on Viber, virtual branch and on-line account opening capabilities.

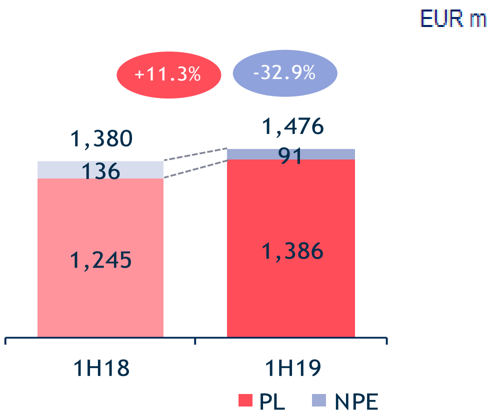
Mortgage lending is not in focus and primarily targets the retention of existing, profitable customers. Private individuals holding an account package for payments or an existing mortgage loan, can get upon demand mortgage loans, primarily for retention purposes. Given the gradual wind-down strategy, mortgage business as the product is not actively marketed.

Retail 1H19 Business review

The segment result is driven by the new business strategy to focus on the Consumer lending and payments, while reducing the mortgage portfolio. Operating result in 1H19 was EUR 39.4 million, 15.5% higher than in 1H18, driven by the 6.5% increase in operating income and 0.4% decrease in operating expenses. Cost reduction and improved efficiency on income side led to a significantly decreased Cost/Incomeratio of 53.0%. In comparison to 1H18 net interest income increased by EUR 4.7 million to EUR 63.6 million at a NIM of 4.6%. The net fee commission income increased by EUR 0.4 million to EUR 20.1 million in 1H19, due to improving sales of account packages and major increase in bancassurance.
Operating result before tax amounts to EUR 30.9 million, which is 12.8% lower than in 1H18 due higher risk provisions compared to last year.
The 1H19 Retail gross performing loans increased by 1.0%, as the growth in cash loans is neutralized by the mortgage book run-down.

The table below, showing the development of the credit risk bearing exposure in 1H19 for Consumer lendings, shows an increase of 11.3% of the performing part and a decrease of 32.9% of the non-performing part showing focused portfolio quality.

Development gross credit risk bearing exposure:



Simplifying product portfolio and exploiting Group synergies

Addiko Bank delivers on its brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers. Account packages are a cornerstone of this strategy. In the last year Addiko has launched new account packages in Croatia, Slovenia and Bosnia & Herzegovina and during 1H19 the Group has sold 43 thousand account packages.

Standardizing products and processes, and consolidating partners and vendors is another critical element of the Group's strategy. Addiko Group has started a strategic partnership with Uniqa Group and during 2018 successfully rolled out new Bancassurance products in all its entities. Consequently, Bancassurance net fee commission income has increased to EUR 2.2 million, compared to EUR 0.9 million in 1H18.

5.2. SME Business

EUR m

SME Business			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	11.5	11.9	-3.6%
o/w regular interest income	14.3	13.7	4.7%
Net fee and commission income	8.5	6.6	27.6%
Operating income	**19.9**	**18.5**	**7.6%**
Operating expenses	**-11.6**	**-10.9**	**5.8%**
Operating result	**8.4**	**7.6**	**10.1%**
Change in CL	3.4	-4.0	>100%
Operating result before tax	**11.8**	**3.5**	**>100%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	1,059.3	927.2	14.2%
o/w gross performing loans	1,056.5	901.3	17.2%
Gross disbursements	308.5	285.0	8.2%
Financial liabilities at AC	638.0	563.5	13.2%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2]	2.3%	3.0%	-0.63
Cost/income ratio	58.0%	59.0%	-0.98
Cost of risk ratio	0.2%	-0.3%	0.48
Loan to deposit ratio	166.0%	164.5%	1.50
NPE ratio (CRB based)	3.8%	5.6%	-1.87
NPE coverage ratio	63.8%	56.3%	7.49
NPE collateral coverage	64.9%	70.2%	-5.30
Change CL/GPL (simply Ø)	-0.3%	0.5%	-0.82
Yield GPL (simply Ø)	2.9%	3.3%	-0.35

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE. Interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

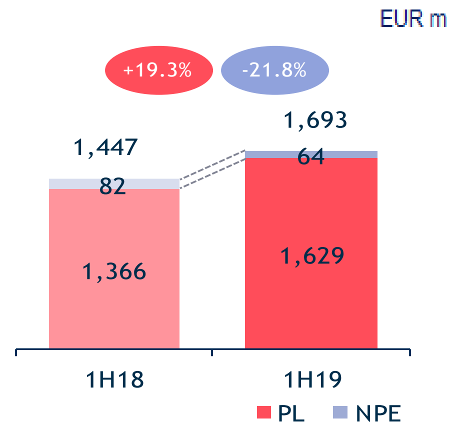
SME Strategy

Addiko Bank offers the full product suite to circa 13 thousand SME clients (companies with annual turnover between EUR 0.5 million and EUR 40 million) in the CSEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the “real economy” with working capital, investment loans and a strong focus on trade finance products.

All SME clients are served by relationship managers, located in 40 SME business centers across the countries where the bank is active. The role of the relationship managers is not only selling banking products but being the trusted financial advisor to the client and active partner in decision-making about financing.
Addiko strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are highly digitized and having competitive advantage.
To support this strategy, Addiko Bank is running a bank-wide project to build up a new digital customer experience platform which will make the SME clients’ daily financial interactions easier by self-service capabilities. With enhanced digital services the Bank is planning to increase the commission income from account keeping services and trade finance, while the funding costs can be lowered by raising current account deposits. Addiko Bank also implements simple loan financing with market leader delivery times for the segment in order to fulfill its value proposition and to improve productivity.

SME 1H19 Business review

In the first half 2019, the bank continued to grow the SME loan book by originating EUR 308.5 million of new loans, which translates into gross performing loan growth of 17.2% compared to the end of 1H18 period. These results were delivered at a continued high focus on disciplined underwriting standards. Net interest income amounts to EUR 11.5 million, with NIM at 2.3%. Both net interest income and NIM decreased comparing to 1H18 due to ongoing margin pressure on market. Net fee and commission income increased by 27.6% compared to 1H18, mainly arising from payments, trade finance and FX&DCC activities. The SME segment has generated EUR 8.4 million Operating result, 10.1% higher than in 1H18. Result before tax improved to EUR 11.8 million, while operating at a Cost/Income ratio slightly decreased to 58.0%. Credit risk bearing exposure increased by EUR 245.5 million from 1H18 to 1H19, showing 19.3% growth of the performing part. The NPE part decreased by EUR 18.0 million compared with 1H18, and remained on very low level, showing the overall excellent quality of the portfolio.



5.3. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	5.4	6.1	-11.0%
o/w regular interest income	7.3	6.6	10.3%
Net fee and commission income	2.9	3.3	-12.4%
Operating income	**8.3**	**9.4**	**-11.5%**
Operating expenses	**-2.2**	**-2.2**	**1.6%**
Operating result	**6.1**	**7.2**	**-15.4%**
Change in CL	5.2	13.7	-62.2%
Operating result before tax	**11.3**	**21.0**	**-46.1%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	602.1	548.0	9.9%
o/w gross performing loans	578.7	519.9	11.3%
Gross disbursements	157.2	100.4	56.6%
Financial liabilities at AC	426.2	513.3	-17.0%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2]	1.5%	1.4%	0.07
Cost/income ratio	26.7%	23.3%	3.45
Cost of risk ratio	0.6%	1.6%	-0.99
Loan to deposit ratio	141.3%	106.8%	34.50
NPE ratio (CRB based)	4.2%	14.5%	-10.28
NPE coverage ratio	44.4%	54.0%	-9.59
NPE collateral coverage	61.9%	25.3%	36.59
Change CL/GPL (simply Ø)	-0.9%	-2.8%	1.89
Yield GPL (simply Ø)	2.5%	2.7%	-0.18

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Large Corporates Strategy

The Large Corporates Segment comprises Addiko Group's business activities relating to the offering of a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large legal entity customers, i.e. companies with annual turnover of over EUR 40 million.

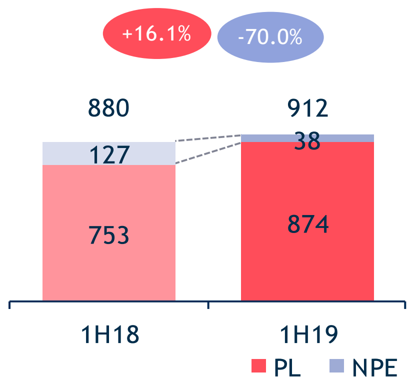
The largest local and international companies are serviced by Addiko Group's centralized and specialized local teams, supported by an experienced group of experts at the headquarters of Addiko Group. Through this structure, Addiko Group aims to provide its customers with a seamless financing service across the entire Addiko Group. The Large Corporates Segment's aim is to deliver its services in a straightforward and efficient manner and provide its customers convenient access to those services. No significant growth in the Large Corporates Segment is anticipated, but Addiko Group will continue to serve selected customers where the risk and reward ratio is favourable.

Large Corporates 1H19 Business review

Increase in regular interest income by EUR 0,7 million was supported by substantial growth in lending (+11,3%) and slightly higher margins but neutralized on net interest income level by drop in interest income from NPE driven by reduction of non-performing portfolio. Net fee and commission income amounts to EUR 2.9 million, decreased mainly due to FX&DCC activities while all other categories in line or showing progress. The Operating result before tax decreased to EUR 11.3 million due to lower credit loss expenses on financial assets by EUR 8.5 million compared to 1H18. Operating expenses in line with 1H 2018 with Cost/Income ratio of 26.7%. The non-performing exposure decreased from EUR 127.5 million to EUR 38.3 million evidencing the Group focus on de-risked asset base. With that said, within the extraordinary administration procedures for a large Croatian retailer, a material amount of NPE was exchanged for equity shares and convertible bonds due to which NPE ratio decreased from 14,5% to 4,2%.

Development gross credit risk bearing exposure:

EUR m



5.4. Public Finance

EUR m

Public Finance			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	3.3	4.8	-31.5%
o/w regular interest income	2.6	3.4	-24.3%
Net fee and commission income	0.7	0.5	30.2%
Operating income	**4.0**	**5.4**	**-25.3%**
Operating expenses	**-1.1**	**-1.2**	**-8.3%**
Operating result	**2.9**	**4.1**	**-30.5%**
Change in CL	0.5	2.1	-78.0%
Operating result before tax	**3.3**	**6.2**	**-46.3%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	173.0	237.3	-27.1%
o/w gross performing loans	171.6	237.0	-27.6%
Gross disbursements	1.8	9.6	-81.6%
Financial liabilities at AC	567.4	644.9	-12.0%
Ratios (YTD)	**1H19**	**1H18**	**Change (pts)**
NIM [2]	1.2%	2.0%	-0.78
Cost/income ratio	28.5%	23.2%	5.30
Cost of risk ratio	0.2%	0.8%	-0.55
Loan to deposit ratio	30.5%	36.8%	-6.31
NPE ratio (CRB based)	4.4%	1.3%	3.05
NPE coverage ratio	74.1%	43.1%	30.98
NPE collateral coverage	50.9%	63.8%	-12.84
Change CL/GPL (simply Ø)	-0.3%	-0.8%	0.55
Yield GPL (simply Ø)	2.9%	2.7%	0.20

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution explained in point 5.5 Corporate Center) 2) See for explanation of NIM above.

Public Finance Strategy

The Public Finance Segment conducts Addiko Group's business with key public institutions in CSEE countries, such as ministries of finance, state enterprises and local governments. Addiko Group offers those public institutions a full suite of products, comprising deposit products (current accounts, savings accounts and term deposits), lending products (term loans, operating financing loans and leasing products) and other complementary products such as domestic and foreign payments, insurance, treasury and trade finance products.

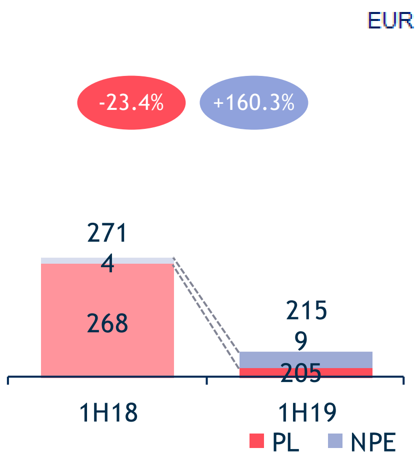
Public Finance lending is not an area that Addiko Group is focused on growing. It rather focuses on maintaining the existing deposits and provide account keeping services while lending on a selected basis only.

Public Finance 1H19 Business review

Net interest income in 1H19 amounts to EUR 3.3 million, with NIM at 1.2%. The decrease in net interest income occurred due to strategic run-down of the portfolio and breakage fee received in 2018 related to early repayment of public client in Croatia. Net fee and commission income increased to EUR 0.7 million. The Public Finance Segment has generated EUR 2.9 million operating result and EUR 3.3 million operating result before tax in 1H19. Cost/Income ratio increased slightly to 28.5% due to lowering of operating income, whereby the cost basis decreased by 8,3%.

Due to the strategy to decrease the lending activity in this segment, credit risk bearing exposure of the segment further decreased, and amounts EUR 215.0 million. NPE ratio increase in 1H19 is caused by a re-segmentation of a state-owned Serbian company, which was previously segmented as Large Corporate. Nevertheless, NPE coverage ratio is showing high provisions coverage.

Development gross credit risk bearing exposure:



5.5. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**1H19**	**1H18**	**Change (%)**
Net interest income [1]	7.2	1.3	>100%
Net fee and commission income	-0.2	-0.9	-77.4%
Net result from financial instruments	9.3	70.6	-86.8%
Other operating result	-12.5	-6.0	>100%
Operating income	**3.8**	**65.0**	**-94.2%**
Operating expenses	**-36.4**	**-34.0**	**6.8%**
Operating result	**-32.6**	**31.0**	**>100%**
Change in CL	1.3	-0.4	>100%
Operating result before tax	**-31.3**	**30.6**	**>100%**
Business volume	**1H19**	**1H18**	**Change (%)**
Loans and receivables	12.9	24.7	-47.5%
Financial liabilities at AC [2]	865.4	830.5	4.2%

1) Net interest income = Customer Margin Assets plus Liabilities, including total interest income and expense as well as Fund Transfer Pricing. The Corporate Center Segment included Treasury. Therefore, the Net Interest income the CMA and CML as well as the Interest and Liquidity gap contribution and asset contribution (see explanation below) is included 2) Financial liabilities at AC at 1H19 include the Direct deposits (Austria/Germany) amounting to EUR 428 million, EUR 313 million Deposits of credit institutions, EUR 124 million (Other).

Corporate Center Strategy

The Corporate Center Segment is primarily an internal segment without direct product offerings to external customers containing the results from Addiko Group's liquidity and capital management. It is responsible for Addiko Group's treasury activities as well as other functions, such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levy and other one-off items, including Addiko Group's reconciliation to IFRS (i.e. consolidation effects). In addition, this segment includes direct deposit activities in Austria and Germany, which are steered by treasury for liquidity purposes.

The Corporate Center Segment's prime responsibilities comprise the Group-wide asset and liability management (ALM) steering, management of liquidity portfolios within the regulatory requirements and the optimisation of subsidiaries' funding mix.

Corporate Center 1H19 Business review

The segment reporting is showing combined numbers for treasury and central functions related positions.
The net interest income in the Corporate Center is including the following aspects: 1) the customer margin assets and liabilities of the treasury segment, 2) the interest and liquidity gap contribution (IGC) reduced by the distribution of the IGC to the market segments (see explanation in following point), 3) interest income and expense related to Tier 2 capital (valid for 1H18) and 4) the consolidation of dividends.

Positive development in 2019 of net interest income against 1H18 originates primarily from the cancellation of the Tier 2 instrument in 2018. Tier 2 capital was waived in March 2018. Additional positive contributor to the positive net interest income is the interest income from the group wide bond portfolio mainly invested in government bonds of western and eastern European countries. Residual part of the bond portfolios consisted of securities of global operating financial institutions and highly rated corporate issuers.

The steep drop of net result from financial instruments is a result of the one-off effect in March 2018 from the EUR 190.0 million debt waiver from the shareholder Al Lake (Luxembourg) S.à r.l. with a EUR 61.0 million income. In addition, this line item includes the result from selling bond positions and financial instruments related to Large Croatian retailer. The other operating result includes mainly incurred deposit insurance costs and the full year impact of charges to the Single Recovery & Resolution Fund. Highest impact on other operating result variance 1H 2019 vs 1H 2018 are legal provisions/expenses mostly related to CHF claims in Croatia. In addition, this position contains restructuring expenses in amount of EUR 2,3m related to planned back-office optimisation and branch closure initiatives.
Operating expenses include all headquarter and back-office costs for the countries as well as the Holding which have not been allocated to the business segments. Main driver for the increasing costs in 1H19 are expenses related to capital market readiness.

Considering the above-mentioned adjustments, all relating exclusively to the Corporate Center Segment, the adjusted operating result before change in credit loss expense of the Group would reflect the development as also described in the chapter 4.2. Analysis of the adjusted result.

Asset Contribution

Net interest income in 1H19 in Corporate Center includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 21.3 million. The majority of the IGC in the amount of EUR 15.3 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extend of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and

internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC would be approximately zero.
In reality a certain percentage of longer-term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from Segment Corporate Center to the originator of the IGC, i.e. the respective market segment.

6. Risk management

With respect to the explanations on financial and legal risk at Addiko Group as well as the goals and methods of risk management, please refer to the risk report section of the condensed consolidated interim financial statements.

7. Mid-term targets and outlook 2019

7.1. Mid-Term Targets

In comparison to the strategic financial objectives Addiko Group continued its progress towards achieving Mid-Term target levels. This is a continuation of the established track record and a visible result of our strategy as a specialist with a focus on consumer and SME lending activities as well as payment services ("focus areas"), offering unsecured personal loan products for consumers and working capital loans for SME customers in the CSEE region.

Despite a challenging low interest rate environment, the adjusted Net Interest Margin has slightly increased, with further room for improvement via the continuous shift of the loan book from the "non-focus" to the "focus areas", complemented by a further optimisation of the funding position towards the mid-term targeted LDR of ~100% (80.1% as of 1H19).

Adjusted net fee and commission income growth as of 1H19 of 8.9% compared to 1H18 and is on track regarding the low-teens CAGR target in the mid-term.

7.2. Outlook 2019

Addiko Group expects a continuation of the benign macroeconomic environment in its countries of operation. Although the current economic cycle is likely to have peaked, growth momentum will remain quite strong by post-crisis standards across all countries of operation for the rest of the year 2019 and will likely to be in the range of 2.7-3.1% per year in 2019-2021 compared to 3-4% in 2016-2018.

Going forward we currently expect a moderately slower growth outlook on the back of very loose monetary condition and geopolitical uncertainties.

The main risk factors influencing the banking industry include worsened interest rate outlooks, political or regulatory measures against banks as well as geopolitical and global economic uncertainties.

Addiko Bank will continue to execute its focused strategy as a consumer and SME specialist lender in the CSEE region, and further drive digital transformation along the value proposition convenience and speed.

Rigorously managed risk-return profile and self-funding principle in each entity will remain strong anchors in our strategy.

On the back of the expected developments Addiko Group is well on track in line with the committed target metrics.

The clear ambition is to further optimize the cost base with the implementation of additional cost optimisation initiatives. In 2Q19 Addiko Group has decided on two optimisation measures, including a targeted back office FTE optimisation and branch closures across the region. With implementation being underway and restructuring costs reflected in the 1H19 financial statement, we expect these to be finalised during the second half of 2019 reaping benefits from 2020 onwards.

Cost of risk is expected to increase slightly along with the loan book shifting toward the focus areas unsecured consumer and SME lending, yet remains at low levels despite the negative impact from the CHF conversion law enacted in Serbia in 2Q19 reflected in 1H19 financials.

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I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 30.06.2019	01.01. - 30.06.2018
Interest income calculated using the effective interest method		103.8	104.7
Other interest income		1.7	2.1
Interest expenses		-14.5	-23.7
Net interest income	**(5)**	**91.0**	**83.0**
Fee and commission income		39.3	36.0
Fee and commission expenses		-7.4	-6.7
Net fee and commission income	**(6)**	**32.0**	**29.4**
Net result on financial instruments	(7)	9.3	70.6
Other operating income	(8)	4.0	13.4
Other operating expenses	(8)	-16.6	-19.5
Operating income		**119.7**	**176.9**
Personnel expenses	(9)	-49.7	-49.7
Other administrative expenses	(10)	-36.5	-37.8
Depreciation and amortisation	(11)	-9.4	-5.4
Operating expenses		**-95.6**	**-92.9**
Operating result before change in credit loss expense		**24.1**	**84.0**
Credit loss expenses on financial assets	(12)	1.9	12.7
Operating result before tax		**26.0**	**96.7**
Tax on income	(13)	-5.8	-3.9
Result after tax		**20.2**	**92.8**
thereof attributable to equity holders of parent		20.2	92.8

	30.06.2019	30.06.2018
Result after tax attributable to ordinary shareholders (in EUR m)	20.2	92.8
Weighted-average number of ordinary shares at 30 June (in units of shares)	1,000.0	1,000.0
Earnings per share (in EUR)	**20,195.4**	**92,820.5**
Weighted-average number of ordinary shares at 30 June (in units of shares)	1,000.0	1,000.0
Diluted earnings per share (in EUR)	**20,195.4**	**92,820.5**

Earnings per share are equal to diluted earnings per share, because no conversion rights granted were outstanding during the 2019 and 2018 reporting periods.

Statement of other comprehensive income

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Result after tax	**20.2**	**92.8**
Other comprehensive income	**18.7**	**-11.1**
Items that will not be reclassified to profit or loss	**1.0**	**0.2**
Fair value reserve - equity instruments	1.0	0.2
Net change in fair value	1.2	0.3
Income Tax	-0.2	0.0
Items that may be reclassified to profit or loss	**17.7**	**-11.4**
Foreign currency translation	1.2	3.4
Gains/losses of the current period	1.2	3.4
Fair value reserve - debt instruments	16.5	-14.8
Net change in fair value	24.0	-9.5
Net amount transferred to profit or loss	-5.2	-7.3
Income Tax	-2.3	2.0
Total comprehensive income for the year	**38.9**	**81.7**
thereof attributable to equity holders of parent	38.9	81.7

II. Consolidated statement of financial position

EUR m

	Note	30.06.2019	31.12.2018
Assets			
Cash reserves	(14)	899.5	1,002.9
Financial assets held for trading	(15)	24.3	24.3
Loans and receivables	(16)	3,906.1	3,792.9
Loans and advances to credit institutions		9.5	5.6
Loans and advances to customers		3,896.6	3,787.3
Investment securities	(17)	1,174.4	1,184.6
Tangible assets	(18)	89.4	57.7
Property, plant and equipment		87.5	55.7
Investment property		2.0	2.0
Intangible assets		30.5	30.3
Tax assets		21.4	28.3
Current tax assets		1.6	1.7
Deferred tax assets		19.8	26.6
Other assets	(19)	37.9	25.5
Non-current assets and disposal groups classified as held for sale	(20)	5.4	5.7
Total assets		**6,188.8**	**6,152.1**
Equity and liabilities			
Financial liabilities held for trading	(21)	5.5	2.1
Financial liabilities measured at amortised cost	(22)	5,246.5	5,202.5
Deposits of credit institutions		312.6	324.4
Deposits of customers		4,864.7	4,836.7
Issued bonds, subordinated and supplementary capital		1.1	1.1
Other financial liabilities		68.0	40.3
Provisions	(23)	61.2	62.0
Tax liabilities		0.3	1.0
Current tax liabilities		0.1	0.9
Deferred tax liabilities		0.2	0.1
Other liabilities	(24)	26.9	25.1
Equity		848.4	859.5
thereof attributable to equity holders of parent		848.4	859.5
Total equity and liabilities		**6,188.8**	**6,152.1**

III. Consolidated statement of changes in equity

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Impact of adopting IFRS 16	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Result after tax	0.0	0.0	0.0	0.0	20.2	20.2	0.0	20.2
Other comprehensive income	0.0	0.0	17.5	1.2	0.0	18.7	0.0	18.7
Total comprehensive income	0.0	0.0	17.5	1.2	20.2	38.9	0.0	38.9
Dividends paid	0.0	0.0	0.0	0.0	-50.0	-50.0	0.0	-50.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 30.06.2019	**195.0**	**476.5**	**22.8**	**-4.9**	**158.9**	**848.4**	**0.0**	**848.4**

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2018	**5.0**	**537.8**	**12.5**	**-7.9**	**296.7**	**844.0**	**0.0**	**844.0**
Impact of adopting IFRS 9	0.0	0.0	9.7	0.0	-42.1	-32.4	0.0	-32.4
Equity as at 01.01.2018	**5.0**	**537.8**	**22.2**	**-7.9**	**254.5**	**811.6**	**0.0**	**811.6**
Profit or loss after tax	0.0	0.0	0.0	0.0	92.8	92.8	0.0	92.8
Other comprehensive income	0.0	0.0	-14.5	3.4	0.0	-11.1	0.0	-11.1
Total comprehensive income	0.0	0.0	-14.5	3.4	92.8	81.7	0.0	81.7
Dividends paid	0.0	0.0	0.0	0.0	-170.0	-170.0	0.0	-170.0
Other changes	0.0	128.8	0.0	0.0	0.0	128.7	0.0	128.7
Equity as at 30.06.2018	**5.0**	**666.6**	**7.6**	**-4.5**	**177.2**	**851.8**	**0.0**	**851.8**

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption reduced equity by EUR -32.4 million.

With the purpose of strengthening the capital position of the Bank, Al Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190.0 million, with the fair value of the instruments, net of direct attributable costs, of EUR 128.7 million being recognised as a direct capital contribution and presented in the line item “Other changes”.

IV. Condensed consolidated statement of cash flows

EUR m

	2019	2018
Cash reserves at the end of previous period (01.01.)	**1,002.9**	**1,285.9**
Result after tax	**20.2**	**92.8**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	**28.0**	**23.2**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-188.3	-189.3
Interests received	112.2	113.5
Interests paid	-15.5	-25.9
Dividends received	0.0	0.0
Cash flows from operating activities*	**-43.5**	**14.2**
Proceeds from the sale of:	-2.6	0.3
Tangible assets, investment properties, lease assets and intangible assets	-2.6	0.0
Payments for purchases of:	-7.8	-9.3
Tangible assets, investment properties, lease assets and intangible assets	-7.8	-9.3
Other changes	-0.5	0.2
Cash flows from investing activities	**-10.9**	**-8.8**
Dividends paid	-50.0	-170.0
Cash flows from financing activities	**-50.0**	**-170.0**
Effect of exchange rate changes	1.1	3.1
Cash reserves at end of period (30.06.)	**899.5**	**1,124.5**

* the cash flows from operating activities include the principle portion of lease payments in the amount of EUR -1.3 million

Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The 2018 capital increase in the amount of EUR 128.7 million granted by AI Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a waiver of its entire provided Tier 2 capital and is therefore not presented as cash capital contribution.

V. Condensed notes

Group accounting policies

(1) Accounting principles

The condensed consolidated interim financial statements of Addiko Group for the period from 1 January to 30 June 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRS/SIC) as adopted by the European Union (EU) as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation) and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting".

The provisions of the new accounting standard for leases (IFRS 16) took effect on 1 January 2019. The adoption of IFRS 16 has resulted in changes of accounting policies for lease contracts. Further details of the specific IFRS 16 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 adoption and impact of IFRS 16, the same estimates, judgments, accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements. As these interim financial statements do not include all information and disclosures required in the annual consolidated financial statements, this document should be read in conjunction with Addiko Bank's Group annual report as of 31 December 2018.

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

(2) Application of new standards and amendments

Only new standards, interpretations and their amendments that are relevant for the business of Addiko Group are listed below. The impact of all other standards, interpretations and their amendments not yet adopted is not expected to be material.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2019:

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

2.1. IFRS 16 Leases

IFRS 16 "Leases" was published by the IASB in January 2016. IFRS 16 took effect on 1 January 2019, superseding the previous guidance 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. IFRS 16 introduces significant changes to lessee accounting and requires new disclosures of information on lease contracts.

2.1.1. Accounting policies

2.1.1.1. Leases in which Addiko Group is a lessee

At inception of a contract entered into on or after 1 January 2019, the Addiko Group assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Addiko Group obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Addiko Group has the right to direct the use of the asset.

The right of use asset is initially measured at cost, 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 over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Addiko Group also assess the right of use asset for impairment when such indicators exist. 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 Group´s incremental borrowing rate. Thus, all lease obligations are generally recognised 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 for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognised off the statement of financial position and lease expenses are accounted on straight line basis over the remaining lease term.
Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see Note (3) "Use of estimates and assumptions/material uncertainties in relation to estimates").

Recognising 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 is 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 recognised on a straight-line basis at the actual amount of effected payments in the operating expense. 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 Net interest income. 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 expenses will decrease.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Under IFRS 16, lease incentives are recognised as part of the measurement of right of use assets and lease liabilities whereas under IAS 17 they resulted in recognition of a lease incentive liability and amortised as a reduction of rental expense on a straight line basis.

In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets. Previously under IAS 17 it was required to recognise a provision for onerous lease contracts.

IFRS 16 requires that a lessor recognises as a part of its lease liability only the amount expected to be payable under a residual value guarantee which was provided by a lessee to a lessor, rather than the maximum amount guaranteed as required by IAS 17.

2.1.1.2. Leases in which Addiko Group is a lessor

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.

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

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

2.1.1.3. Presentation in the financial statements

The Addiko Group as a lessee presents the right of use assets in the line item "Property, plant and equipment in tangible assets" in the statement of financial position. Right of use assets that meet the definition of investment property are presented in the line item "Investment property" in the statement of financial position. Lease liabilities are presented in the line item "Other financial liabilities" in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities in presented in the line item "Interest expenses" in the statement of profit or loss.

The Addiko Group as a lessor, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the line item “Other operating income” or "Other operating expense" and scheduled depreciation under “Depreciation and amortisation”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets.

2.1.2. Impact of application of IFRS 16 Leases

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 recognises 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 recognised for all leases henceforth.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for a consideration.

The list of practical expedients which the Addiko Group has made use is provided in 2.1.3. Transition and transitional disclosures.

The Addiko Group assessed the impact on its consolidated financial statements including an assessment of whether it exercises any lease renewal options and the extent to which the Addiko Group chooses to use practical expedients and recognition exemptions. Mainly land and buildings are subject to lease at the Addiko Group. Generally, the Addiko Group uses its incremental borrowing rate as the discount rate.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to EUR 35.5 million on an undiscounted basis under IAS 17, which the Addiko Group assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

The Addiko Group has 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 -11 basis points due to an increase of the total assets in the amount of EUR 30.9 million (including prepayments) and an increase of lease liabilities in the amount of EUR 29.0 million.

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

The application of IFRS 16 has an impact on the consolidated statement of cash flow of the Addiko Group. Under IAS 17, all lease payments on operating leases were presented as part of cash flow from operating activities.

Under IFRS 16, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. Addiko Group has chosen to include the interest paid as as well as cash payments for the principal portion as part of operating activities.

2.1.3. Transition and transitional disclosures

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

The Addiko Group applied the following practical expedients and exemptions:

- option which allows to adjust the right of use asset by the amount of provision for onerous leases recognised in the statement of financial position immediately before the date of initial application was applied
- practical expedients not to recognise right of use assets but to account for the lease expenses on straight line basis over the remaining lease term for short-term leases (12 month) and for leases for which the underlying asset is of low value were applied
- initial direct costs from the measurement of the right of use asset at the date of initial application were excluded
- the Addiko Group used a hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease
- non-lease components have to be separated from lease components (expedient not to separate non-lease components was not applied)

- contracts which were not classified as leases under IAS 17 in conjunction with IFRIC 4 were not reviewed under the definition of a lease in IFRS 16
- instead of performing an impairment review on the right of use assets at the date of initial application, the Addiko Group has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16

Reconciliation of undiscounted operating lease commitments acc. IAS 17 as of 31 December 2018 and lease liabilities acc. IFRS 16 recognised on 1 January 2019:

EUR m

	Carrying amount
Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018	**35.5**
(-) Discounting (using incremental borrowing rate as at 1 January 2019)	-1.5
Off-balance operating lease obligations (IAS 17) discounted	**33.9**
(+) Minimum lease payments on finance lease as at 31 December 2018	0.0
(-) Exemption for short-term leases	-0.7
(-) Exemption for leases of low-value assets	-3.1
(+/-) Extension and termination options reasonably certain to be exercised	-0.1
(+) Variable lease payments based on an index or a rate	0.2
(-) Residual value guarantees	-0.3
(+/-) Other	-0.9
Lease liabilities recognised as a result of the initial application of IFRS 16 as at 1 January 2019	**29.0**

Recognition of right of use assets at the date of initial application of IFRS 16:

EUR m

	Carrying amount
Right of use assets unadjusted as at 1 January 2019	**29.0**
(+) Prepayments and accruals	2.1
(-) Onerous contracts (IAS 37)	-0.2
Right of use assets recognised as a result of the initial application of IFRS 16 as at 1 January 2019	**30.9**

The recognised right of use assets relate to the following types of assets:

EUR m

	Carrying amount
Land and buildings	26.6
Property, plant and equipment	4.3
Total	**30.9**

The weighted average lessee´s incremental borrowing rate applied to lease liabilities on 1 January 2019 was 1.7% for land and buildings and 1.7% for property, plant and equipment.

2.2. 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. This amendment does not result in any significant changes within the Addiko Group.

2.3. IFRIC 23 Uncertainty over Income Tax Treatments

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. This interpretation does not result in any significant changes within the Addiko Group.

2.4. IAS 28 Investments in Associates and Joint Ventures

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 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.5. IAS 19 Employee benefits

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 is effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.6. Annual improvements to IFRS Standards 2015-2017 Cycle

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 recognised 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. These amendments do not result in any significant changes within the Addiko Group.

There were no new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU which were not yet effective.

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

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

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognises 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 grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

Fair value of financial instruments
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. The input parameters used are based – whenever available – on observable market data. 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. To determine the fair value, the Addiko Group uses the comparison to the current fair value of another largely identical financial instrument, the analysis of discounted cash flows and option pricing models.

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.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans.

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

Lease contracts
The application of IFRS 16 requires the Addiko group to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Addiko Group comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Addiko Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Addiko Group is reasonably certain not to exercise that option. For lease contracts with indefinite term the Addiko Group estimates the length of the contract using the planning models.

The present value of the lease payments is determined using the incremental borrowing rate (discount rate) representing the risk free rate, adjusted by country default swap rates to be applicable for the country and currency of the lease contract and for similar tenor, adjusted by add-on based on mid-to-long credit facilities. The Addiko secured interest rate curve reflects a loan-to-value ratio of 60%. In general, the determination of the discount rates is based on an arm's length pricing principal.

(4) Scope of consolidation

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Addiko Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

	30.06.2019 Fully consolidated	31.12.2018 Fully consolidated
Start of period (01.01.)	**7**	**7**
Newly included in period under review	0	0
Excluded in period under review	0	0
End of period	**7**	**7**
thereof Austrian companies	1	1
thereof foreign companies	6	6

Notes to the profit or loss statement

(5) Net interest income

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Interest income calculated using the effective interest method	**103.8**	**104.7**
Financial assets at fair value through other comprehensive income	8.6	8.6
Financial assets at amortised cost	94.8	94.7
Negative interest from financial liabilities	0.4	1.4
Other interest income	**1.7**	**2.1**
Financial assets held for trading	1.5	1.9
Other assets	0.1	0.1
Total interest income	**105.5**	**106.7**
Financial liabilities measured at amortised cost	-13.4	-22.1
o/w lease liabilites	-0.3	-
Financial liabilities held for trading	-0.5	-0.5
Negative interest from financial assets	-0.6	-1.1
Total interest expense	**-14.5**	**-23.7**
Net interest income	**91.0**	**83.0**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -13.4 million (1H18: EUR - 22.1 million) includes expenses of EUR -8.8 million (1H18: EUR -13.7 million) related to customer deposits. In addition, this position also included the interest expense in the amount of EUR -3.6 million for Tier 2 capital (EUR 190.0 million) which was waived entirely in the first quarter 2018.

(6) Net fee and commission income

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Transactions	10.7	10.1
Accounts and Packages	8.9	8.6
Cards	6.2	6.4
FX & DCC	5.2	4.7
Securities	1.3	1.3
Bankassurance	2.4	1.0
Loans	1.6	1.2
Trade finance	2.4	2.0
Other	0.7	0.7
Fee and commission income	**39.3**	**36.0**
Cards	-3.3	-2.9
Transactions	-2.1	-1.9
Client incentives	-0.3	-0.2
Securities	-0.2	-0.3
Accounts and Packages	-0.1	-0.1
Bancassurance	-0.2	-0.1
Other	-1.1	-1.3
Fee and commission expenses	**-7.4**	**-6.7**
Net fee and commission income	**32.0**	**29.4**

The fees and commission presented in this note include income of EUR 16.7 million (1H18: EUR 16.3 million) and expenses of EUR -3.4 million (1H18: EUR -3.0 million) relating to financial assets and liabilities not measured at FVTPL.

(7) Net result on financial instruments

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Held for trading financial instruments	-0.9	0.4
o/w exchange difference	3.4	2.3
o/w gain or losses on financial instruments	-4.3	-1.9
Non trading financial assets	4.3	0.0
Financial assets at fair value through other comprehensive income	5.9	9.2
Financial liabilities measured at amortised cost	0.0	61.0
Total	**9.3**	**70.6**

(8) Other operating income and other operating expenses

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Other operating income	**4.0**	**13.4**
Release of provisions for legal cases	2.3	9.5
Gains from sale of non financial assets	0.5	0.0
Income from assets classified as held for sale and disposal groups	0.2	0.1
Reversal of impairment on non-financial assets	0.0	0.3
Other income	1.0	3.5
Other operating expenses	**-16.6**	**-19.5**
Restructuring expenses	-2.3	0.0
Allocation of provisions for legal cases	-2.9	-7.7
Impairment on non-financial assets	-0.8	0.0
Recovery and resolution fund	-1.3	-2.4
Deposit guarantee	-4.5	-4.5
Banking levies and other taxes	-2.0	-1.8
Other expenses	-2.7	-3.1
Total	**-12.5**	**-6.0**

The line item “Release of provisions for legal cases” contains in 2019 a release of legal provisions for successful settlement of long term lasting court cases in the amount of EUR 1.3 million (1H18: EUR 1.1 million). Furthermore, this position includes the positive impact from the updated assessment of risks in connection with customer protection claims in the countries in which the Group operates.

The line item “Allocation of provisions for legal cases” in the amount of EUR 2.9 million (1H18: EUR 7.7 million) includes mainly the provision for legal cases in connection with loans granted in the previous years to households denominated in foreign currencies.

(9) Personnel expenses

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Wages and salaries	-35.5	-35.3
Social security	-7.0	-7.1
Variable payments	-5.2	-4.9
Other personal tax expenses	-1.2	-1.3
Voluntary social expenses	-0.5	-0.4
Expenses for retirement benefits	-0.2	-0.2
Expenses for severance payments	-0.2	-0.2
Income from release of other employee provisions	0.2	0.1
Other personnel expenses	-0.1	-0.3
Total	**-49.7**	**-49.7**

(10) Other administrative expenses

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
IT expense	-16.1	-14.5
Premises expenses (rent and other building expenses)	-6.7	-8.5
Legal and advisory costs	-4.8	-4.8
Advertising costs	-4.1	-4.5
Other administrative expenses	-4.8	-5.5
Total	**-36.5**	**-37.8**

(11) Depreciation and amortisation

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Tangible assets	-6.3	-2.6
o/w right of use assets	-3.7	-
Intangible assets	-3.1	-2.9
Total	**-9.4**	**-5.4**

(12) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Change in CL on financial instruments at FVTOCI	**0.8**	**1.2**
Change in CL on financial instruments at amortised cost	**0.1**	**12.7**
Net allocation to risk provision	-1.5	10.7
Proceeds from loans and receivables previously impaired	2.7	3.0
Directly recognised impairment losses	-1.1	-1.0
Net allocation of provisions for commitments and guarantees given	**0.9**	**-1.2**
Total	**1.9**	**12.7**

The positive result is influenced by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Large Corporates as well as in the focus segment SME. This effect is offset by allocations within the Consumer portfolio.

(13) Taxes on income

EUR m

	01.01. - 30.06.2019	01.01. - 30.06.2018
Current tax	-1.4	-2.3
Deferred tax	-4.3	-1.6
Total	**-5.8**	**-3.9**

Notes to the consolidated statement of financial position

(14) Cash reserves

EUR m

30.06.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	106.6	0.0	106.6
Cash balances at central banks	656.9	-3.2	653.7
Other demand deposits	139.6	-0.3	139.2
Total	**903.0**	**-3.5**	**899.5**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	105.2	0.0	105.2
Cash balances at central banks	790.9	-3.7	787.2
Other demand deposits	110.8	-0.3	110.5
Total	**1,006.9**	**-4.0**	**1,002.9**

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 302.9 million (YE18: EUR 316.5 million).

14.1. Cash reserves at central banks and other demand deposits - development of ECL allowance

EUR m

	Stage 1
ECL allowance as at 01.01.2019	**-4.0**
Changes in the loss allowance	0.4
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 30.06.2019	**-3.5**

EUR m

	Stage 1
ECL allowance as at 01.01.2018	**-7.3**
Changes in the loss allowance	3.3
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.12.2018	**-4.0**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (12-month ECL). The overall reduction of the gross carrying amount during 2019 resulted also in the reduction of stage 1 loss allowances.

(15) Financial assets held for trading

EUR m

	30.06.2019	31.12.2018
Derivatives	**4.8**	**5.0**
Debt securities	**19.5**	**19.3**
Governments	19.5	19.3
Total	**24.3**	**24.3**

(16) Loans and receivables

The Addiko Group measures all loans and receivables at amortised cost.

16.1. Loans and advances to credit institutions

EUR m

30.06.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	9.5	0.0	9.5
Credit institutions	9.5	0.0	9.5
Total	**9.5**	**0.0**	**9.5**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	5.6	0.0	5.6
Credit institutions	5.6	0.0	5.6
Total	**5.6**	**0.0**	**5.6**

Loans and advances to credit institutions - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Changes in the loss allowance	0.0	0.0	0.0	0.0	0.0
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-0.4**	**0.0**	**0.0**	**0.0**	**-0.4**
Changes in the loss allowance	0.2	0.0	0.0	0.0	0.2
Transfer between stages	0.3	-0.3	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.3	0.0	0.0	0.2
ECL allowance as at 31.12.2018	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

16.2. Loans and advances to customers

EUR m

30.06.2019	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,297.3	-19.9	-31.8	-150.0	-13.9	2,081.7
Non-financial corporations	1,755.2	-10.4	-5.5	-69.3	0.0	1,670.0
Governments	109.3	-0.6	0.0	-0.7	0.0	107.9
Other financial corporations	37.6	-0.3	0.0	-0.4	0.0	36.9
Total	**4,199.4**	**-31.1**	**-37.3**	**-220.4**	**-13.9**	**3,896.6**

EUR m

31.12.2018	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,311.0	-19.3	-40.3	-171.5	-14.4	2,065.5
Non-financial corporations	1,688.9	-13.1	-7.1	-110.1	0.0	1,558.5
Governments	127.8	-0.9	0.0	-0.9	0.0	126.0
Other financial corporations	38.0	-0.4	0.0	-0.4	0.0	37.2
Total	**4,165.7**	**-33.8**	**-47.4**	**-282.8**	**-14.4**	**3,787.3**

16.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**
Changes in the loss allowance	18.9	-24.1	-7.4	0.5	-12.1
Transfer between stages	-22.8	22.1	0.6	0.0	0.0
Write-offs	3.2	10.5	22.4	0.2	36.3
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	-0.1	5.9	-0.1	5.7
ECL allowance as at 30.06.2019	**-19.9**	**-31.8**	**-150.0**	**-13.9**	**-215.6**

Although overall gross carrying amount of loans remains on the same level in first half of 2019, overall loss allowance for households decreased, mainly driven by write offs of exposures in stage 3 (lifetime ECL impaired) and related loss allowances, as a result of debt sale and debt settlement activities. Additionally the reduction in loss allowances in stage

2 is predominately driven by the CHF conversion (mandatory by local law) in ABSE and resulting migrations from stage 2 (lifetime ECL) to stage 1 (12-month ECL).

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-22.8**	**-25.9**	**-246.8**	**-19.2**	**-314.7**
Changes in the loss allowance	3.8	-19.3	6.5	4.3	-4.7
Transfer between stages	-10.1	14.7	-4.6	0.0	0.0
Write-offs	0.1	0.1	88.7	1.1	90.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	1.2	-2.5	0.0	0.0	-1.3
Foreign exchange and other movements	8.4	-7.3	-15.2	-0.5	-14.7
ECL allowance as at 31.12.2018	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**

16.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**
Changes in the loss allowance	-0.8	1.9	8.5	0.0	9.6
Transfer between stages	3.5	-0.2	-3.4	0.0	0.0
Write-offs	0.0	0.0	36.2	0.0	36.2
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	-0.1	-0.5	0.0	-0.6
ECL allowance as at 30.06.2019	**-10.4**	**-5.5**	**-69.3**	**0.0**	**-85.1**

Although the overall gross carrying amount of loans and advances to non-financial corporations remains on the same level (with an increasing trend) in the half year 2019, the overall loss allowance within stage 1 and 2 re-duced in the same time reflecting the improved quality of the portfolio per rating class. Additionally, the loss allowances in Stage 3 (lifetime ECL impaired) reduced during first half of 2019 as a result of lower non performing exposure mainly driven by large big tickets in Addiko Bank Croatia and Addiko Bank Serbia.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-13.1**	**-6.7**	**-149.9**	**0.0**	**-169.7**
Changes in the loss allowance	-1.3	9.4	-7.5	0.0	0.5
Transfer between stages	0.4	-10.0	9.6	0.0	0.0
Write-offs	0.0	0.0	33.7	0.0	33.7
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.6	0.0	0.0	0.0	0.7
Foreign exchange and other movements	0.3	0.2	4.0	0.0	4.5
ECL allowance as at 31.12.2018	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**

16.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**
Changes in the loss allowance	0.3	0.0	0.1	0.0	0.5
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2019	**-0.6**	**0.0**	**-0.7**	**0.0**	**-1.4**

The overall gross carrying amount of loans and advances to general governments slightly decreased in first half of 2019, especially for the stage 1 portfolio (12-month ECL), mainly driven by decrease of exposure within stage 1 (12-month ECL).

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-1.7**	**-0.1**	**-1.0**	**0.0**	**-2.7**
Changes in the loss allowance	0.6	0.0	0.1	0.0	0.7
Transfer between stages	0.1	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.1	0.0	0.0	0.0	0.1
Foreign exchange and other movements	0.0	0.1	0.0	0.0	0.1
ECL allowance as at 31.12.2018	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**

16.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**
Changes in the loss allowance	0.1	0.0	0.0	0.0	0.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2019	**-0.3**	**0.0**	**-0.4**	**0.0**	**-0.7**

The overall loss allowance for other financial corporations remains on the same level, with a slight decrease in stage 1 (12-month ECL).

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-0.5**	**-0.5**	**-5.6**	**0.0**	**-6.6**
Changes in the loss allowance	0.1	0.5	0.0	0.0	0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	-0.1	0.0	0.0	0.0	-0.1
Foreign exchange and other movements	0.0	0.0	5.1	0.0	5.2
ECL allowance as at 31.12.2018	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**

(17) Investment securities

EUR m

	30.06.2019	31.12.2018
Fair value through other comprehensive income (FVTOCI)	1,157.6	1,168.0
Mandatorily at fair value through profit or loss (FVTPL)	16.7	16.7
Total	**1,174.4**	**1,184.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**
Changes in the loss allowance	0.8	0.0	0.0	0.0	0.8
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2019	**-0.9**	**0.0**	**0.0**	**0.0**	**-0.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	**-2.2**	**0.0**	**0.0**	**0.0**	**-2.2**
Changes in the loss allowance	0.7	0.0	0.0	0.0	0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	-0.2	0.0	0.0	0.0	-0.2
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**

17.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	30.06.2019	31.12.2018
Debt securities	**1,139.3**	**1,150.9**
Governments	805.3	799.7
Credit institutions	232.0	264.0
Other financial corporations	42.3	27.1
Non-financial corporations	59.7	60.1
Equity instruments	**18.3**	**17.1**
Governments	13.2	13.1
Other financial corporations	4.7	3.6
Non-financial corporations	0.3	0.3
Total	**1,157.6**	**1,168.0**

17.2. Mandatorily at fair value through profit or loss (FVTPL)

EUR m

	30.06.2019	31.12.2018
Debt securities	**16.4**	**16.4**
Other financial corporations	16.4	16.4
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**16.7**	**16.7**

(18) Tangible assets

EUR m

	30.06.2019	31.12.2018
Owned property, plant and equipment	55.5	55.7
Land and buildings	43.9	43.9
Plant and equipment	11.6	11.8
Right of use assets	31.9	-
Land and buildings	28.0	-
Plant and equipment	4.0	-
Investment property	2.0	2.0
Total	**89.4**	**57.7**

(19) Other assets

EUR m

	30.06.2019	31.12.2018
Prepayments and accrued income	13.2	13.8
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	5.1	5.4
Other remaining assets	19.6	6.3
Total	**37.9**	**25.5**

Other assets increased driven by the recognition of the compensation rights from the State of Serbia in connection with the recent CHF conversion law.

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

In the current reporting period, this position mainly includes real estate assets in Croatia and Bosnia & Herzegovina, which are part of a Group project to dispose non-core assets and are already actively marketed.

EUR m

	30.06.2019	31.12.2018
Loans and receivables	0.0	0.1
Property plant and equipment	5.0	5.2
Other assets	0.4	0.5
Total	**5.4**	**5.7**

(21) Financial liabilities held for trading

EUR m

	30.06.2019	31.12.2018
Derivatives	5.5	2.1
Total	**5.5**	**2.1**

(22) Financial liabilities measured at amortised cost

EUR m

	30.06.2019	31.12.2018
Deposits	**5,177.4**	**5,161.1**
Deposits of credit institutions	312.6	324.4
Deposits of customers	4,864.7	4,836.7
Issued bonds, subordinated and supplementary capital	**1.1**	**1.1**
Debt securities issued	1.1	1.1
Other financial liabilities	**68.0**	**40.3**
o/w lease liabilities	27.3	-
Total	**5,246.5**	**5,202.5**

22.1. Deposits of credit institutions

EUR m

	30.06.2019	31.12.2018
Current accounts / overnight deposits	41.3	51.4
Deposits with agreed terms	271.3	255.7
Repurchase agreements	0.0	17.4
Total	**312.6**	**324.4**

22.2. Deposits of customers

EUR m

	30.06.2019	31.12.2018
Current accounts / overnight deposits	**2,606.9**	**2,430.8**
Governments	85.5	86.4
Other financial corporations	103.1	112.9
Non-financial corporations	684.6	677.3
Households	1,733.7	1,554.2
Deposits with agreed terms	**2,169.8**	**2,350.4**
Governments	169.2	199.8
Other financial corporations	201.3	169.7
Non-financial corporations	439.0	500.3
Households	1,360.3	1,480.6
Deposits redeemable at notice	**88.0**	**55.6**
Governments	2.9	4.1
Other financial corporations	54.5	18.6
Non-financial corporations	30.5	32.8
Total	**4,864.7**	**4,836.7**

22.3. Debt securities issued

EUR m

	30.06.2019	31.12.2018
Certificates of deposit	1.1	1.1
Total	**1.1**	**1.1**

(23) Provisions

EUR m

	30.06.2019	31.12.2018
Pending legal disputes and tax litigation	30.0	30.1
Commitments and guarantees granted	10.7	11.7
Provisions for variable payments	11.2	13.1
Pensions and other post employment defined benefit obligations	1.9	1.8
Restructuring measures	3.0	1.7
Other long term employee benefits	0.4	0.4
Other provisions	4.0	3.2
Total	**61.2**	**62.0**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

The line item "provision for variable payments" include long- and short-term bonus provision for key management as well as employees.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the financial year 2019.

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**
Changes in the loss allowance	0.5	0.6	-0.1	0.0	0.9
Transfer between stages	-0.6	0.5	0.1	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2019	**-3.1**	**-0.7**	**-6.9**	**0.0**	**-10.7**

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly decreased in the first half of 2019 as a result of the decrease within stage 2 (life-time ECL not credit impaired), while ECL allowance within stage 1 (12-month ECL) slightly increased and stage 3 (lifetime ECL credit impaired) remains unchanged.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-2.6**	**-1.4**	**-6.2**	**0.0**	**-10.1**
Changes in the loss allowance	-0.9	-0.6	-0.3	0.0	-1.8
Transfer between stages	0.3	0.1	-0.4	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.2	0.1	0.0	0.0	0.3
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2018	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**

(24) Other liabilities

EUR m

	30.06.2019	31.12.2018
Deferred income	0.8	0.7
Accruals and other liabilities	26.2	24.3
Total	**26.9**	**25.1**

Accruals and other liabilities include liabilities for services provided and not yet paid as well as salaries and salary compensations not yet paid. Furthermore, liabilities for software applications capitalized but not yet paid are included.

Segment Reporting

The Addiko Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting that is regularly reviewed by the chief operating decision makers (CODM) to assess the performance of the segments and make decisions regarding the allocation of resources. The segments of the Addiko Group are based on a combination between Customer types, which are Retail Customers, Small and Medium Enterprises, Corporate Clients and Public Clients and Business types, which are Consumer loans and Mortgage loans. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes, deposit volumes and belonging KPIs. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Group by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Addiko Group evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes as management´s consideration of the most relevant items in evaluating the results of the respective segments.

Net interest income in Corporate Center includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 21.3 million. The majority of the IGC in the amount of EUR 15.3 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

In reality a certain percentage of longer-term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is redistributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment.

The Addiko Group does not have revenues from transactions with one single external customer amounting to 10% or more of the Addiko Group´s total revenues.

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank's Retail Segment serves just under 0,8 million customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 196 branches and state of the art digital channels.

For Private Individuals (PI) the focus is on daily banking services and consumer lending. In the Micro customer segment, the priority is offering transactional services.

SME Business: Addiko Bank offers the full product suite to circa 13 thousand SME clients (companies with annual turnover between EUR 0.5 and 40 million) in the SEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million. Addiko Bank services the largest local and international companies by centralised and specialized local teams supported by a strong expert unit from the Holding with investment loans, working capital loans and revolving loans.

Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in SEE countries as ministries of finance, state enterprises and local governments.

Corporate Center: This segment consists of Treasury business in the Holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

Segments overview

EUR m

30.06.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	83.7	12.2	71.6	19.9	8.3	4.0	7.0	123.0
Net interest income [1]	63.6	12.2	51.5	11.5	5.4	3.3	7.2	91.0
o/w regular interest income [2]	61.7	16.1	45.6	14.3	7.3	2.6	11.0	96.9
Net fee and commission income	20.1	0.0	20.1	8.5	2.9	0.7	-0.2	32.0
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-12.5	-12.5
Operating income	**83.7**	**12.2**	**71.6**	**19.9**	**8.3**	**4.0**	**3.8**	**119.7**
Operating expenses	**-44.3**			**-11.6**	**-2.2**	**-1.1**	**-36.4**	**-95.6**
Operating result	**39.4**			**8.4**	**6.1**	**2.9**	**-32.6**	**24.1**
Change in CL	-8.5	0.8	-9.3	3.4	5.2	0.5	1.3	1.9
Operating result before tax	**30.9**			**11.8**	**11.3**	**3.3**	**-31.3**	**26.0**
Business volume								
Loans and receivables [3]	2,058.8	818.2	1,240.7	1,059.3	602.1	173.0	12.9	3,906.1
o/w gross performing loans	2,068.3	801.2	1,267.1	1,056.5	578.7	171.6		3,875.1
Gross disbursements [4]	328.3	6.1	322.3	308.5	157.2	1.8		795.7
Financial liabilities at AC [5]	2,749.5		2,749.5	638.0	426.2	567.4	865.4	5,246.5
RWA [6]	1,449.0	512.8	936.3	972.6	639.1	96.2	858.3	4,015.3
Key ratios								
Net interest margin (NIM) [7]	4.6%	1.7%	6.1%	2.3%	1.5%	1.2%		3.0%
Cost/income ratio [8]	53.0%			58.0%	26.7%	28.5%		77.8%
Cost of risk ratio	-0.4%	0.1%	-0.6%	0.2%	0.6%	0.2%		0.0%
Loan to deposit ratio [9]	74.9%			166.0%	141.3%	30.5%		80.1%
NPE ratio (CRB based) [10]	9.1%	13.7%	6.2%	3.8%	4.2%	4.4%		6.1%
NPE coverage ratio [11]	81.0%	73.6%	91.3%	63.8%	44.4%	74.1%		73.2%
NPE collateral coverage [12]	41.9%	59.3%	17.5%	64.9%	61.9%	50.9%		48.9%
Change CL/GPL (simply Ø) [13]	0.4%	-0.1%	0.8%	-0.3%	-0.9%	-0.3%		0.0%
Yield GPL (simply Ø) [14]	6.0%	3.9%	7.5%	2.9%	2.5%	2.9%		4.5%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution – explained in point 5.5 Corporate Center) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and Internal refinancing which relates to intra – bank transactions. 5) Financial liabilities at AC at 1H19 include the Direct deposits (Austria/Germany) amounting to EUR 428 million, EUR 313 million Deposits of credit institutions, EUR 124 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortised costs. Total bank: Net customer loans divided by customer deposits 10) Non-performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / Non-performing exposure. 12) Collaterals allocated to non-performing exposure / Non-performing exposure 13) Change in CL / simply Ø gross performing loans - not annualised due to volatility within the year 14) Regular interest income annualised / simply Ø gross performing loans.

The business volumes presented in the table below show figures as of 30 June 2018.

EUR m

30.06.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	78.7	13.6	65.1	18.5	9.4	5.4	0.5	112.4
Net interest income [1]	58.9	13.6	45.3	11.9	6.1	4.8	1.3	83.0
o/w regular interest income [2]	59.9	18.9	41.0	13.7	6.6	3.4	12.4	96.0
Net fee and commission income	19.8	0.0	19.8	6.6	3.3	0.5	-0.9	29.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.6	70.6
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-6.0	-6.0
Operating income	**78.7**	**13.6**	**65.1**	**18.5**	**9.4**	**5.4**	**65.0**	**176.9**
Operating expenses	**-44.5**			**-10.9**	**-2.2**	**-1.2**	**-34.0**	**-92.9**
Operating result	**34.1**			**7.6**	**7.2**	**4.1**	**31.0**	**84.0**
Change in CL	1.3	7.7	-6.4	-4.0	13.7	2.1	-0.4	12.7
Operating result before tax	**35.4**			**3.5**	**21.0**	**6.2**	**30.6**	**96.7**
Business volume								
Loans and receivables [3]	2,049.2	956.5	1,092.7	927.2	548.0	237.3	24.7	3,786.4
o/w gross performing loans	2,046.8	928.6	1,118.2	901.3	519.9	237.0		3,705.0
Gross disbursements [4]	303.5	5.7	297.8	285.0	100.4	9.6		698.5
Financial liabilities at AC [5]	2,721.8		2,721.8	563.5	513.3	644.9	830.5	5,274.1
RWA [6]	1,451.2	616.5	834.7	876.4	639.5	139.7	881.9	3,988.7
Key ratios								
Net interest margin (NIM) [7]	4.5%	1.9%	6.2%	3.0%	1.4%	2.0%		2.6%
Cost/income ratio [8]	56.6%			59.0%	23.3%	23.2%		82.7%
Cost of risk ratio	0.1%	0.7%	-0.5%	-0.3%	1.6%	0.8%		0.2%
Loan to deposit ratio [9]	75.3%			164.5%	106.8%	36.8%		77.0%
NPE ratio (CRB based) [10]	12.8%	16.4%	9.8%	5.6%	14.5%	1.3%		10.2%
NPE coverage ratio [11]	81.5%	74.4%	90.9%	56.3%	54.0%	43.1%		70.7%
NPE collateral coverage [12]	43.7%	57.0%	26.0%	70.2%	25.3%	63.8%		43.5%
Change CL/GPL (simply Ø) [13]	-0.1%	-0.8%	0.6%	0.5%	-2.8%	-0.8%		-0.3%
Yield GPL (simply Ø) [14]	5.9%	4.0%	7.7%	3.3%	2.7%	2.7%		4.6%

1) Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap (asset contribution – explained in point 5.5 Corporate Center) 2) Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing 3) Gross carrying amount of loans and receivables less ECL allowance 4) Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and Internal refinancing which relates to intra – bank transactions. 5) Financial liabilities at AC at 1H18 include the Direct deposits (Austria/Germany) amounting to EUR 412 million, EUR 275 million Deposits of credit institutions, EUR 144 million (Other) 6) Includes only credit risk (without application of IFRS 9 transitional rules) 7) Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances 8) CIR based on Operating expenses divided by Net banking income which represents net interest income and net fee and commission income 9) Segments: loans and receivables divided by financial liabilities at amortised costs. Total bank: Net customer loans divided by customer deposits 10) Non-performing exposure/credit risk exposure (on and off balance) 11) Provision stock NPE / Non-performing exposure. 12) Collaterals allocated to Non-performing exposure / Non-performing exposure 13) Change in CL / simply Ø gross performing loans - not annualised due to volatility within the year 14) Regular interest income annualised / simply Ø gross performing loans

The net interest income breakdown explains the net interest income details per segment up to total bank. It lists all subpositions of the net interest income including the customer margin assets & liabilities, the basic items within the interest Gap Contribution and Asset Contribution.

EUR m

30.06.2019	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**63.6**	**12.2**	**51.5**	**11.5**	**5.4**	**3.3**	**7.2**	**91.0**
o/w Interest income	**67.8**	**18.0**	**49.9**	**15.9**	**8.1**	**2.7**	**11.0**	**105.5**
o/w Regular interest income	61.7	16.1	45.6	14.3	7.3	2.6	11.0	96.9
o/w Interest income on NPE	1.5	1.0	0.5	0.7	0.4	0.0	0.0	2.5
o/w Interest like income	4.6	0.8	3.8	1.0	0.4	0.1	0.0	6.0
o/w Interest expenses	**-7.2**	**0.0**	**-7.2**	**-1.1**	**-0.7**	**-1.8**	**-3.7**	**-14.5**
o/w FTP (asset & liabilities)	**-9.0**	**-9.7**	**0.7**	**-4.7**	**-3.2**	**1.7**	**-6.0**	**-21.3**
o/w Interest gap contribution	**12.0**	**3.9**	**8.1**	**1.3**	**1.3**	**0.8**	**5.9**	**21.3**
o/w Asset contribution	12.0	3.9	8.1	1.3	1.3	0.8	-15.3	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	21.3	21.3

EUR m

30.06.2018	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**58.9**	**13.6**	**45.3**	**11.9**	**6.1**	**4.8**	**1.3**	**83.0**
o/w Interest income	**66.0**	**20.9**	**45.1**	**15.5**	**8.7**	**4.2**	**12.4**	**106.7**
o/w Regular interest income	59.9	18.9	41.0	13.7	6.6	3.4	12.4	96.0
o/w Interest income on NPE	1.5	1.1	0.4	0.8	1.8	0.0	0.0	4.1
o/w Interest like income	4.6	0.9	3.7	1.1	0.3	0.7	0.0	6.7
o/w Interest expenses	**-11.5**	**0.0**	**-11.5**	**-0.9**	**-0.8**	**-2.7**	**-7.8**	**-23.7**
o/w FTP (asset & liabilities)	**-5.9**	**-10.9**	**5.0**	**-3.3**	**-2.6**	**3.2**	**-6.7**	**-15.3**
o/w Interest gap contribution	**10.3**	**3.5**	**6.8**	**0.6**	**0.8**	**0.2**	**3.5**	**15.3**
o/w Asset contribution	10.3	3.5	6.8	0.6	0.8	0.2	-11.9	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	15.3	15.3

The relation between net commission income and reportable segments can be seen in the tables below:

EUR m

30.06.2019	Retail*	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	4,6	4,3	0,9	0,6	0,3	10,7
Accounts and Packages	8,5	0,3	0,0	0,0	0,0	8,9
Cards	5,5	0,6	0,1	0,0	0,0	6,2
FX & DCC	3,0	1,7	0,3	0,0	0,1	5,2
Securities	0,2	0,0	1,1	0,0	0,0	1,3
Bancassurance	2,4	0,0	0,0	0,0	0,0	2,4
Loans	0,6	0,7	0,3	0,1	0,0	1,6
Trade finance	0,0	1,7	0,6	0,0	0,0	2,4
Other	0,6	0,1	0,1	0,0	0,0	0,7
Fee and commission income	**25,4**	**9,3**	**3,4**	**0,8**	**0,5**	**39,3**
Cards	-2,9	-0,3	-0,1	0,0	0,0	-3,3
Transactions	-1,3	-0,5	-0,1	-0,1	-0,1	-2,1
Client incentives	-0,3	0,0	0,0	0,0	0,0	-0,3
Securities	0,0	0,0	-0,1	0,0	-0,1	-0,2
Accounts and Packages	0,0	0,0	0,0	0,0	-0,1	-0,1
Bancassurance	-0,2	0,0	0,0	0,0	0,0	-0,2
Other	-0,6	-0,1	-0,1	0,0	-0,4	-1,1
Fee and commission expense	**-5,3**	**-0,9**	**-0,4**	**-0,1**	**-0,7**	**-7,4**
Net fee and commission income	**20,1**	**8,5**	**2,9**	**0,7**	**-0,2**	**32,0**

*Subsegment Consumer contributed fully (100%) to the net fee and commission income of the Segment Retail

EUR m

30.06.2018	Retail*	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	4,7	3,8	0,9	0,5	0,2	10,1
Accounts and Packages	8,1	0,5	0,1	0,0	0,0	8,6
Cards	5,8	0,6	0,1	0,0	-0,1	6,4
FX & DCC	2,8	0,8	0,9	0,0	0,3	4,7
Securities	0,3	0,0	1,0	0,0	-0,3	1,0
Bancassurance	1,0	0,0	0,0	0,0	0,3	1,3
Loans	0,6	0,4	0,2	0,0	0,0	1,2
Trade finance	0,0	1,3	0,5	0,1	0,0	2,0
Other	0,7	0,1	0,1	0,0	-0,1	0,7
Fee and commission income	**24,0**	**7,5**	**3,7**	**0,6**	**0,2**	**36,0**
Cards	-2,2	-0,2	-0,1	0,0	-0,3	-2,9
Transactions	-1,1	-0,5	-0,1	-0,1	-0,1	-1,9
Client incentives	-0,3	0,0	0,0	0,0	0,1	-0,2
Securities	0,0	-0,1	-0,1	0,0	-0,1	-0,3
Accounts and Packages	0,0	0,0	0,0	0,0	-0,1	-0,1
Bancassurance	-0,1	0,0	0,0	0,0	0,0	-0,1
Other	-0,4	-0,1	-0,1	0,0	-0,7	-1,3
Fee and commission expense	**-4,2**	**-0,9**	**-0,4**	**-0,1**	**-1,1**	**-6,7**
Net fee and commission income	**19,8**	**6,6**	**3,3**	**0,5**	**-0,9**	**29,4**

*Subsegment Consumer contributed fully (100%) to the net fee and commission income of the Segment Retail

Geographical Segmentation

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia (ABC), Slovenia (ABS), Bosnia & Herzegovina with two entities in Banja Luka (ABBL) and Sarajevo (ABSA), Serbia (ABSE) and Montenegro (ABM). Therefore, the revenues are generated in the CSEE region. In Austria only online deposits for clients in Austria and Germany are provided. Customer groups are not aggregated and assigned to a single country but allocated to their respective countries on single entity level. The geographical segmentation of income from external customers is shown in compliance with IFRSs and does not reflect the Group's management structure, the Management believes that the business segmentation provides a more informative description of the Group's activities. The Reco Column includes mainly the intercompany reconciliation.

EUR m

30.06.2019	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	47.1	25.4	9.2	9.9	20.8	6.8	29.2	-25.5	123.0
Net interest income [1]	32.6	20.0	6.2	6.9	15.7	5.7	29.5	-25.5	91.0
o/w regular interest income [2]	36.4	20.1	7.4	7.3	18.5	6.4	32.4	-31.6	96.9
Net fee and commission income	14.5	5.4	2.9	3.0	5.2	1.1	-0.2	0.0	32.0
Net result on financial instruments	7.6	0.8	0.2	0.6	0.6	0.0	-0.2	-0.3	9.3
Other operating result	-10.0	-1.5	-0.4	-0.5	-1.1	-0.6	-1.4	2.9	-12.5
Operating income	**44.6**	**24.8**	**9.0**	**10.0**	**20.4**	**6.2**	**27.7**	**-22.9**	**119.7**
Operating expenses	**-27.8**	**-13.5**	**-7.2**	**-7.9**	**-14.7**	**-3.8**	**-20.1**	**-0.6**	**-95.6**
Operating result	**16.8**	**11.3**	**1.8**	**2.1**	**5.6**	**2.4**	**7.6**	**-23.5**	**24.1**
Change in CL	2.7	1.5	0.0	0.3	-2.6	-0.5	0.1	0.5	1.9
Operating result before tax	**19.5**	**12.8**	**1.8**	**2.3**	**3.0**	**1.8**	**7.7**	**-23.0**	**26.0**
Total assets	**2,459.2**	**1,626.9**	**406.6**	**485.5**	**825.4**	**233.4**	**1,373.4**	**-1,221.5**	**6,188.8**
Business volume									
Loans and receivables [3]	1,412.3	1,302.3	274.5	276.6	584.6	189.5	221.4	-355.2	3,906.1
o/w gross performing loans	1,361.4	1,195.4	271.6	272.6	580.3	193.8	0.0		3,875.1
Gross disbursements	280.9	172.5	59.4	75.9	165.0	42.0	0.0		795.7
Financial liabilities at AC [4]	2,027.7	1,453.9	323.0	367.1	634.3	208.5	609.7	-377.8	5,246.5
RWA [5]	1,437.8	959.5	315.6	369.3	686.2	173.9	74.4	-1.4	4,015.3
Key ratios									
Net interest margin (NIM)	2.7%	2.5%	3.1%	3.0%	3.8%	4.9%	4.4%		3.0%
Cost/income ratio [6]	59.1%	52.9%	78.4%	79.9%	70.7%	56.8%	68.7%		77.8%
Cost of risk ratio	0.1%	0.1%	0.0%	0.1%	-0.3%	-0.2%	0.2%		0.0%
Loan to deposit ratio [7]	76.5%	99.4%	86.7%	78.4%	104.9%	97.3%			80.1%
NPE ratio (CRB based)	7.6%	2.2%	11.3%	11.3%	5.1%	7.0%			6.1%
NPE coverage ratio	68.8%	71.6%	85.6%	85.0%	58.9%	71.9%			73.2%
NPE collateral coverage	53.5%	52.9%	39.0%	36.0%	56.1%	47.4%			48.9%
Change CL/GPL (simply Ø)	-0.2%	-0.1%	0.0%	-0.1%	0.4%	0.3%			0.0%
Yield GPL (simply Ø)	4.7%	3.3%	5.5%	5.2%	5.2%	6.7%			4.5%

1) Net Interest income for the respective country is according to the reported NII. 2) Regular interest income is related to booked interests from market segments excluding interest like income, interest income on NPE and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 428 million presented in ABH 5) Includes only credit risk (without application of IFRS 9 transitional rules) 6) CIR based on operating expenses divided by net banking income which represents net interest income and net fee and commission income 7) Net customer loans divided by customer deposits

EUR m

30.06.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	42.8	24.1	9.7	9.2	18.7	5.7	29.5	-27.4	112.4
Net interest income [1]	29.4	19.3	6.5	6.1	14.0	4.9	29.8	-26.9	83.0
o/w regular interest income [2]	38.2	18.8	7.6	7.0	16.0	6.3	37.3	-35.3	96.0
Net fee and commission income	13.4	4.8	3.2	3.1	4.8	0.8	-0.2	-0.5	29.4
Net result on financial instruments	2.2	5.1	0.0	0.1	1.4	0.0	62.0	-0.3	70.6
Other operating result	-1.8	-1.3	-0.1	-0.9	-0.4	-0.3	-0.6	-0.7	-6.0
Operating income	**43.2**	**27.9**	**9.7**	**8.4**	**19.8**	**5.5**	**90.9**	**-28.4**	**176.9**
Operating expenses	**-27.4**	**-12.7**	**-7.1**	**-7.7**	**-14.4**	**-4.1**	**-22.4**	**2.9**	**-92.9**
Operating result	**15.7**	**15.2**	**2.6**	**0.6**	**5.4**	**1.4**	**68.5**	**-25.5**	**84.0**
Change in CL	3.1	4.3	0.3	2.3	3.2	-0.6	0.2	-0.1	12.7
Operating result before tax	**18.8**	**19.6**	**2.9**	**2.9**	**8.6**	**0.9**	**68.7**	**-25.6**	**96.7**
Total assets	**2,714.1**	**1,515.6**	**376.3**	**461.7**	**775.2**	**267.5**	**1,345.4**	**-1,229.7**	**6,226.2**
Business volume									
Loans and receivables [3]	1,445.9	1,226.5	271.1	233.3	566.0	203.0	248.4	-407.9	3,786.4
o/w gross performing loans	1,339.7	1,110.4	265.5	227.0	561.3	201.1	0.0		3,705.0
Gross disbursements	265.5	155.7	44.0	47.7	137.7	47.9	0.0		698.5
Financial liabilities at AC [4]	2,305.6	1,351.7	294.4	349.2	593.1	242.5	557.8	-420.1	5,274.1
RWA [5]	1,424.0	901.3	324.3	401.1	638.9	225.0	69.6	4.4	3,988.7
Key ratios									
Net interest margin (NIM)	2.1%	2.6%	3.5%	2.7%	3.6%	3.7%	4.2%		2.6%
Cost/income ratio [6]	64.1%	52.8%	72.6%	84.5%	76.8%	71.3%	76.0%		82.7%
Cost of risk ratio	0.2%	0.3%	0.1%	0.5%	0.4%	-0.2%	3.4%		0.2%
Loan to deposit ratio [7]	68.2%	103.9%	99.5%	68.2%	107.5%	94.1%			77.0%
NPE ratio (CRB based)	12.0%	2.6%	14.3%	20.6%	10.8%	8.7%			10.2%
NPE coverage ratio	64.5%	65.5%	85.4%	84.8%	73.5%	58.5%			70.7%
NPE collateral coverage	41.9%	58.1%	41.8%	38.0%	52.0%	64.7%			43.5%
Change CL/GPL (simply Ø)	-0.2%	-0.4%	-0.1%	-1.0%	-0.6%	0.3%			-0.3%
Yield GPL (simply Ø)	5.1%	3.2%	5.8%	5.8%	4.7%	6.5%			4.6%

1) Net Interest income for the respective country is according to the reported NII. 2) Regular interest income is related to booked interests from market segments excluding interest like income, interest income on NPE and funds transfer pricing 3) Based on net loans (incl. NPE with risk provisions stock deducted) 4) Direct deposits (Austria/Germany) amounting to EUR 412 million presented in ABH 5) Includes only credit risk 6) CIR based on operating expenses divided by net banking income which represents net interest income and net fee and commission income 7) Net customer loans divided by customer deposits

Risk Report

(25) Risk control and monitoring

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

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

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

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

Addiko has established a Risk Appetite Framework (RAF) which sets the Groups risk appetite and forms part of the process of development and implementation of the Groups business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the Group is willing to accept. The calibration of measures takes into consideration the Budget, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

In the following chapters, the main risk categories are explained in more detail.

(27) Credit risk

27.1. Reconciliation between Financial instruments classes and Credit risk exposure

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 (including those 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 Group as at 30 June 2019:

EUR m

30.06.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves [1]	796.5	-3.5	792.9	0.0	0.0	0.0	796.5	792.9
Financial assets held for trading	24.3		24.3	0.0		0.0	24.3	24.3
Loans and receivables	3,893.4	-68.5	3,824.8	315.5	-234.3	81.3	4,208.9	3,906.1
of which credit institutions	9.5	0.0	9.5	0.0	0.0	0.0	9.5	9.5
of which customer loans	3,883.8	-68.5	3,815.3	315.5	-234.3	81.3	4,199.4	3,896.6
Investment securities [2]	1,169.9	-0.9	1,169.0	0.0	0.0	0.0	1,169.9	1,169.0
On balance total	**5,884.0**	**-72.9**	**5,811.0**	**315.5**	**-234.3**	**81.3**	**6,199.5**	**5,892.3**
Off balance	1,017.1	-3.8	1,013.3	13.9	-6.9	7.0	1,031.0	1,020.3
ECL on FVTOCI debt securities [3]	-0.9	0.9	0.0	0.0	0.0	0.0	-0.9	0.0
Total	**6,900.2**	**-75.9**	**6,824.4**	**329.4**	**-241.2**	**88.3**	**7,229.7**	**6,912.6**
Adjustments [4]	-0.5		-0.5			0.0	-0.5	-0.5
Total credit risk exposure	**6,899.7**	**-75.9**	**6,823.9**	**329.4**	**-241.2**	**88.3**	**7,229.2**	**6,912.1**

1) The position does not include cash on hand in amount of EUR 106.6 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The loss allowance on debt securities at FVTOCI is not presented for credit risk purposes as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments. 4) Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.

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

EUR m

31.12.2018	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves [1]	901.7	-4.0	897.7				901.7	897.7
Financial assets held for trading	24.3		24.3				24.3	24.3
Loans and receivables	3,783.2	-81.3	3,701.9	388.1	-297.2	90.9	4,171.3	3,792.9
of which credit institutions	5.6	0.0	5.6	0.0	0.0	0.0	5.6	5.6
of which customer loans	3,777.6	-81.2	3,696.3	388.1	-297.2	90.9	4,165.7	3,787.3
Investment securities [2]	1,182.1	-1.7	1,180.4	0.0	0.0	0.0	1,182.1	1,180.4
Other Assets - IFRS 5 [3]	0.0	0.0	0.0	0.4	-0.4	0.1	0.4	0.1
On balance total	**5,891.3**	**-87.0**	**5,804.3**	**388.5**	**-297.6**	**91.0**	**6,279.9**	**5,895.3**
Off balance	949.4	-4.8	944.6	15.2	-6.9	8.4	964.7	953.0
Total	**6,840.7**	**-91.8**	**6,748.9**	**403.8**	**-304.4**	**99.4**	**7,244.5**	**6,848.3**
Adjustments [4]	-8.8		-8.8			0.0	-8.8	-8.8
Total credit risk exposure	**6,831.9**	**-91.8**	**6,740.1**	**403.8**	**-304.4**	**99.4**	**7,235.7**	**6,839.5**

1) The position does not include cash on hand in amount of EUR 105.2 million. 2) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 3) The position includes only loans and receivables. 4) Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties.

27.2. Allocation of credit risk exposure within the Group

As at 30 June 2019, the overall gross exposure within the Group remains on the same level as at 31 December 2018 (slight reduction by EUR 6.5 million). Reductions in the exposures are recognised at Addiko Bank Croatia, Addiko Bank Serbia and Addiko Bank Montenegro which are offset by increased exposure on Addiko Holding, Addiko Bank Slovenia, Addiko Bank Sarajevo and Addiko Bank Banja Luka, with the increase of the exposure in the core segments Consumer Lending and SME compensating the volume reduction in the non-core segments Public Finance, Mortgages and Corporate Center. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	30.06.2019	31.12.2018
Addiko Croatia	2,764.6	2,850.1
Addiko Slovenia	1,839.9	1,795.8
Addiko Serbia	1,018.6	1,044.0
Addiko in Bosnia and Herzegovina	1,069.1	1,026.4
Addiko Montenegro	254.5	271.2
Addiko Holding	282.4	248.3
Total	**7,229.2**	**7,235.7**

27.3. Credit risk exposure by rating class

At 30 June 2019 roughly 26.3% (YE18: 27.0%) of the exposure is categorised as rating classes 1A to 1E. This exposure majorly relates to receivables from financial institutions, sovereigns and private individuals.

During first half of 2019 the NPE Stock reduced by EUR 74.4 million, mainly in the large corporate segment as well as in the consumer and mortgage portfolio, due to write offs driven by Addiko Bank Croatia (large big ticket) and Addiko Bank Sarajevo (Private Individual Segment) as well as collection effects in all countries.

The following table shows the exposure by rating classes and market segment as at 30 June 2019:

EUR m

30.06.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	200.5	817.2	238.2	129.4	91.0	0.3	1,476.5
SME	159.2	859.1	556.8	51.7	63.9	2.0	1,692.7
Non-Focus	533.9	916.7	364.2	59.3	174.6	4.4	2,053.1
o/w Large Corporate	113.0	479.7	272.9	5.0	38.3	3.5	912.3
o/w Mortgage	373.4	330.3	51.2	44.4	126.9	0.0	926.2
o/w Public Finance	47.5	106.7	40.1	10.0	9.4	0.9	214.6
Corporate Center [1]	1,010.9	872.5	123.5	0.0	0.0	0.0	2,006.9
Total	**1,904.5**	**3,465.5**	**1,282.7**	**240.4**	**329.4**	**6.7**	**7,229.2**

1) Corporate Center includes financial institutions considering National Bank exposure, deposits as well as securities.

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	197.5	786.5	212.4	114.6	103.6	0.3	1,415.0
SME	129.8	740.2	558.3	60.1	70.7	0.3	1,559.3
Non-Focus	563.9	881.9	381.8	84.9	229.5	3.8	2,145.8
o/w Large Corporates	111.2	416.8	267.6	26.9	81.0	3.5	907.0
o/w Mortgage	400.6	364.8	57.3	47.8	145.2	0.0	1,015.7
o/w Public Finance	52.2	100.3	57.0	10.1	3.4	0.3	223.2
Corporate Center [1]	1,063.9	893.0	153.6	0.0	0.0	5.1	2,115.5
Total	**1,955.2**	**3,301.5**	**1,306.1**	**259.6**	**403.8**	**9.5**	**7,235.7**

1) Corporate Center includes financial institutions considering National Bank Exposure, deposits as well as securities.

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 customers with a very low risk, having the 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 a very high credit risk or who are 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;
- NPE (default): one or more of the default criteria under Article 178 CRR are met: among others, interest or principal payments on a material exposure have been overdue for more than 90 days, the Group significantly doubts the customer's credit standing, there are risk-oriented restructuring measures leading to a foreborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated.

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

27.4. Credit risk exposure by region

The Addiko Groups country portfolio focuses on Central and South Eastern Europe. The following table shows the breakdown of exposure by region within the Group (at customer level):

EUR m

	30.06.2019	31.12.2018
SEE	6,351.9	6,346.5
Europe (excl. CEE/SEE)	558.3	506.5
CEE	250.4	274.4
Other	68.5	108.2
Total	**7,229.2**	**7,235.7**

27.5. Exposure by business sector and region

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 services and the public sector – account for a share of 31.3% at 1H19 (YE18: 32.1%). The well-diversified private customers sector accounts for a share of 25.3% (YE18: 25.6%).

EUR m

30.06.2019 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	1.8	1,827.3	0.0	0.1	1,829.2
Financial services	424.3	803.0	0.0	54.8	1,282.0
Public sector	112.4	618.3	250.4	0.0	981.1
Industry	12.8	1,035.7	0.0	5.5	1,054.0
Trade and commerce	0.0	719.4	0.0	4.8	724.1
Services	6.1	541.6	0.0	2.4	550.2
Real estate business	0.0	86.7	0.0	0.0	86.7
Tourism	0.0	115.4	0.0	0.0	115.4
Agriculture	0.0	75.1	0.0	0.0	75.1
Other	0.9	529.4	0.0	1.0	531.3
Total	**558.3**	**6,351.9**	**250.4**	**68.5**	**7,229.2**

The following table shows the exposure by business sector and region as at 31 December 2018:

EUR m

31.12.2018 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.1	1,846.2	0.6	0.1	1,849.0
Financial services	411.9	839.0	0.0	89.3	1,340.2
Public sector	72.3	635.4	273.8	0.0	981.5
Industry	13.4	948.3	0.0	5.8	967.5
Trade and commerce	0.0	749.0	0.0	4.7	753.7
Services	6.3	525.1	0.0	2.5	533.8
Real estate business	0.0	88.9	0.0	0.0	88.9
Tourism	0.0	106.4	0.0	0.0	106.4
Agriculture	0.0	75.5	0.0	0.0	75.5
Other	0.5	532.6	0.0	5.9	539.1
Total	**506.5**	**6,346.5**	**274.4**	**108.2**	**7,235.7**

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

27.6. Presentation of exposure by overdue days

EUR m

30.06.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,341.8	47.3	5.1	4.3	77.9	1,476.5
SME	1,620.7	26.9	2.0	8.7	34.4	1,692.7
Non-Focus	1,859.8	53.5	9.9	2.5	127.4	2,053.1
o/w Large Corporate	858.9	32.3	7.1	0.0	14.0	912.3
o/w Mortgage	793.0	21.2	2.8	2.5	106.7	926.2
o/w Public Finance	207.9	0.1	0.0	0.0	6.7	214.6
Corporate Center	2,006.9	0.0	0.0	0.0	0.0	2,006.9
Total	**6,829.3**	**127.7**	**17.0**	**15.4**	**239.8**	**7,229.2**

EUR m

31.12.2018	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,285.1	33.3	5.2	3.1	88.2	1,415.0
SME	1,456.5	63.2	0.2	1.5	38.0	1,559.3
Non-Focus	1,911.7	43.0	7.7	3.2	180.2	2,145.8
o/w Large Corporates	830.4	15.2	1.0	0.0	60.4	907.0
o/w Mortgage	861.4	25.0	6.7	3.2	119.4	1,015.7
o/w Public Finance	219.8	2.9	0.0	0.0	0.4	223.2
Corporate Center	2,115.5	0.0	0.0	0.0	0.0	2,115.5
Total	**6,768.7**	**139.6**	**13.1**	**7.8**	**306.4**	**7,235.7**

27.7. Presentation of exposure by size classes

As of 30 June 2019 around 41.4% (YE18: 41.3%) of the exposure is found in the size range < EUR 1 million. The Group pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 995.1 million (YE18: EUR 1,227.8 million) of exposure in the range > EUR 100 million is entirely attributable to National Banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions.

The presentation is based on the group of borrowers (GoBs).

		30.06.2019		31.12.2018
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	559.6	299,463	554.3	302,969
10.000-50.000	1,233.9	58,534	1,194.7	56,123
50.000-100.000	383.5	5,573	417.1	6,058
100.000-250.000	332.4	2,296	356.2	2,469
250.000-500.000	194.7	570	196.4	575
500.000-1.000.000	288.8	417	270.0	400
1.000.000-10.000.000	1,671.9	591	1,646.2	576
10.000.000-50.000.000	903.7	49	1,007.6	48
50.000.000-100.000.000	665.5	10	365.4	5
> 100,000,000	995.1	4	1,227.8	6
Total	**7,229.2**	**367,507**	**7,235.7**	**369,229**

27.8. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

		30.06.2019		31.12.2018
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	1,904.3	431.9	1,953.9	463.8
2A-2E	3,419.4	779.8	3,274.2	716.3
3A-3E	1,249.8	367.9	1,242.8	332.5
Watch	179.8	71.4	212.3	87.1
NPE	1.7	1.5	0.5	0.3
No rating	6.7	0.5	9.4	0.0
Total	**6,761.6**	**1,652.9**	**6,693.2**	**1,600.1**

The non-performing exposure stated in the table above primarily results 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 m

		30.06.2019		31.12.2018
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	122.8	29.4	125.8	48.5
- overdue 31 to 60 days	7.5	2.1	9.3	4.7
- overdue 61 to 90 days	9.7	5.4	4.3	1.5
- overdue 91 to 180 days	0.0	0.0	0.0	0.0
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.0	0.0	0.0	0.0
Total	**140.0**	**36.9**	**139.4**	**54.7**

Impaired financial instruments:

EUR m

Loans and advances to customers (on- and off-balance)	30.06.2019	31.12.2018
Exposure	327.5	403.1
Provisions	241.2	304.4
Collateral	159.5	183.1

All financial assets to which one or more default events apply (positive impairment trigger) are tested for potential need of impairment through applied provisioning methodology. Consequently, an impairment calculation 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.

27.9. Development of risk provisions

The positive development of the portfolio mainly driven due to effects resulting from collection activities as well as remigrations to lower risk portfolio (migration from stage 2 to 1) within the Mortgage and Corporate segments, which resulted in releases of risk provisions, was partially offset by risk provision bookings during the second quarter 2019 as a result of the executed CHF conversion (mandatory by local law) in Addiko Bank Serbia. Beside of that, releases within the Corporate Center are recognised, mainly due to reductions of exposure towards the National Bank in Bosnia and Herzegovina as well as releases within the securities portfolio in Addiko Bank Croatia and Addiko Holding, which are offset by allocations within the Consumer portfolio.

27.10. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) slightly reduced (73.2%) compared to the YE18 (75.4%) resulting out of the write offs of well provisioned portfolios in Addiko Bank Croatia (big ticket in Corporate Segment) and Addiko Bank Sarajevo (write offs in Mortgage and Consumer Portfolio).

The following table shows the NPE and coverage ratio (NPE coverage ratio considers Stage 3 allowances, while NPE coverage ratio (incl collateral) additionally consideres collaterals):

EUR m

30.06.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,476.5	91.0	83.0	15.9	6.2%	91.3%	108.8%
SME	1,692.7	63.9	40.8	41.5	3.8%	63.8%	128.7%
Non Focus	2,053.1	174.6	117.4	103.8	8.5%	67.2%	126.7%
o/w Large Corporate	912.3	38.3	17.0	23.7	4.2%	44.4%	106.3%
o/w Mortgage	926.2	126.9	93.5	75.3	13.7%	73.6%	132.9%
o/w Public Finance	214.6	9.4	7.0	4.8	4.4%	74.1%	125.0%
Corporate Center	2,006.9	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,229.2**	**329.4**	**241.2**	**161.2**	**4.6%**	**73.2%**	**122.1%**
o/w Credit Risk Bearing	**5,371.3**	**329.4**	**241.2**	**161.2**	**6.1%**	**73.2%**	**122.1%**

The Credit Risk Bearing exposure does not include exposure towards National Banks as well as securities and derivatives.

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2018:

EUR m

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,415.0	103.6	94.4	18.2	7.3%	91.1%	108.7%
SME	1,559.3	70.7	45.0	48.3	4.5%	63.7%	132.0%
Non Focus	2,145.8	229.5	165.0	117.0	10.7%	71.9%	122.9%
o/w Large Corporates	907.0	81.0	56.8	28.0	8.9%	70.1%	104.6%
o/w Mortgage	1,015.7	145.2	106.8	86.8	14.3%	73.6%	133.4%
o/w Public Finance	223.2	3.4	1.4	2.2	1.5%	42.0%	108.4%
Corporate Center	2,115.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,235.7**	**403.8**	**304.4**	**183.5**	**5.6%**	**75.4%**	**120.8%**
o/w Credit Risk Bearing	**5,236.6**	**403.8**	**304.4**	**183.5**	**7.7%**	**75.4%**	**120.8%**

27.11. CHF portfolio

Following table shows the portion of the CHF loans as of 30 June 2019 and 31 December 2018:

EUR m

	Exposure	30.06.2019 thereof CHF	Exposure	31.12.2018 thereof CHF
Addiko Bank Croatia	2,764.6	44.7	2,850.1	45.8
Addiko Bank Slovenia	1,839.9	72.9	1,795.8	79.5
Addiko Bank Serbia	1,018.6	19.2	1,044.0	91.9
Addiko Bank Sarajevo	589.8	10.9	553.1	14.2
Addiko Bank Banja Luka	479.4	6.0	473.3	6.9
Addiko Bank Montenegro	254.5	4.5	271.2	5.6
Addiko Holding	282.4	23.7	248.3	0.0
Total	**7,229.2**	**181.9**	**7,235.7**	**243.9**

During 1H19, CHF portfolio decreased from EUR 243.9 million at the end of 2018 to EUR 181.9 million at 30 June 2019. The reduction was mainly driven by the CHF conversion law for mortgage loans, which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019. The law obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The Republic of Serbia participates in the amount of 17% of the reduction. The increase in CHF exposure in Addiko Holding should be seen as temporary change in connection with the process of closing of the open FX position resulting from the above described conversion law.

(28) Market risk

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days.

The following table shows the value at risk of the relevant market risk factors at the 99.0% confidence level and with a holding period of one day.

EUR m

	30.06.2019	31.12.2018
Interest Rate Risk (Banking and Trading Book)	1.3	0.8
Credit Spread Risk	0.6	0.5
Foreign Exchange Risk	0.5	0.8
Equity Risk - Investments	0.0	0.0
Equity Risk – Client Default	0.0	0.0

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

(29) Liquidity risk

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

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

The majority of financing relies on collection of funds from Retail and Corporate customers.

In 2019, the Liquidity Coverage Ratio (LCR) was stable and moved between 164.7% in February 2019 and 147.9% in April 2019. Per 30 June 2019 the LCR was 150.8% (31 December 2018: 149.9% (testat value)).

(30) Operational risk

The Addiko Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Apart from capital calculation based on gross income as a quantitative measure of operational risk, quantification of internal loss data, collected throughout the Group using a standardised methodology, is performed. Internal operational risk loss data is collected and entered into a central database as well as relevant mitigation measures. Measurement of operational risk management also relies on qualitative approaches used to determine operational risk such as Risk and Control Self Assessment (RCSA).

Appropriate reporting mechanisms for the results and proposal for risk control derived from both quantitative and qualitative processes that support proactive management of operational risk are set-up.

Supplementary information

(31) 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 m

	30.06.2019	31.12.2018
Loan commitments, given	603.9	600.6
Financial guarantees, given	235.7	192.5
Other commitments, given	191.4	171.5
Total	**1,031.0**	**964.7**

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

Addiko Group, in particular its operating subsidiaries in Bosnia & Herzegovina and Croatia, faces a number of passive legal cases, where former customers filed claims against Addiko Group seeking compensation for damages, mainly related to FX and unilateral interest change clauses. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group's position in these legal disputes.

(32) 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 categorised 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. A financial instrument is 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 unobservable inputs (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. A 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 the trading departments.

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy, if the financial instrument does not longer meet the criteria for the respective fair value level.

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 with the corresponding yield curves. 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.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities 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 techniques 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.

32.1. Fair value of financial instruments carried at fair value

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

EUR m

30.06.2019	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	14.4	9.9	0.0	24.3
Derivatives	0.0	4.8	0.0	4.8
Debt securities	14.3	5.1	0.0	19.5
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.4	0.0	0.0	16.4
Investment securities at FVTOCI	861.3	295.8	0.5	1,157.6
Equity instruments	13.4	4.3	0.5	18.3
Debt securities	847.9	291.5	0.0	1,139.3
Total	**892.1**	**305.7**	**0.8**	**1,198.6**
Liabilities				
Financial liabilities held for trading	0.0	5.5	0.0	5.5
Derivatives	0.0	5.5	0.0	5.5
Total	**0.0**	**5.5**	**0.0**	**5.5**

Transfers between Level I and Level II during 2019
Debt securities at FVTOCI with a book value of EUR 86.8 million were transferred from Level I to Level II due to subsequent illiquid markets. Debt securities at FVTOCI with a book value of EUR 63.9 million and debt securities held for trading with a book value of EUR 2.1 million were moved from Level II to Level I due to a more liquid market.

EUR m

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	13.4	10.9	0.0	24.3
Derivatives	0.0	5.0	0.0	5.0
Debt securities	13.4	6.0	0.0	19.3
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.4	0.0	0.0	16.4
Investment securities at FVTOCI	946.0	221.5	0.5	1,168.0
Equity instruments	13.2	3.3	0.5	17.1
Debt securities	932.7	218.1	0.0	1,150.9
Total	**975.7**	**232.4**	**0.9**	**1,208.9**
Liabilities				
Financial liabilities held for trading	0.0	2.1	0.0	2.1
Derivatives	0.0	2.1	0.0	2.1
Total	**0.1**	**2.1**	**0.0**	**2.1**

There were no transfers between level I and level II in 2018.

Non-trading financial assets at FVTPL classified in level III of the fair value hierarchy consist of equity instruments acquired principally for the purpose of selling or repurchasing them in the near future. Financial assets mandatorily at FVTOCI classified in level III of the fair value hierarchy consist of equity instruments where there is no trading intent and the market is very illiquid. For these instruments, no sensitivity disclosures are presented.

The reconciliation of the assets reported under level III as at 30 June 2019 was as follows:

EUR m

30.06.2019	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									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	0.6	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	0.7
Equity instruments	0.6	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	0.7
Total	**0.9**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**1.0**

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

EUR m

31.12.2018	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									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Equity instruments	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Total	**3.5**	**0.0**	**0.7**	**0.0**	**0.0**	**0.0**	**-3.3**	**-0.1**	**0.9**

Equity instruments at FVTOCI with a book value of EUR 3.3 million were reclassified from level III to level II due to the reassessment of observability of market inputs for the pricing model.

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 (discounted cash flow method)
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 significant input factors are observable for level II instruments while some significant 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 Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.

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

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

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

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

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

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

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

EUR m

30.06.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves*	899.5	899.5	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,906.1	4,296.4	390.3	0.0	0.0	4,296.4
Loans and receivables	3,906.1	4,296.4	390.3	0.0	0.0	4,296.4
Total	**4,805.6**	**5,195.9**	**390.3**	**0.0**	**0.0**	**4,296.4**
Liabilities						
Financial liabilities measured at amortised cost	5,246.5	5,287.8	-41.3	0.0	0.0	5,287.8
Deposits	5,177.4	5,218.7	-41.3	0.0	0.0	5,218.7
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	68.0	68.0	0.0	0.0	0.0	68.0
Total	**5,246.5**	**5,287.8**	**-41.3**	**0.0**	**0.0**	**5,287.8**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

EUR m

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						
Cash reserves*	1,002.9	1,002.9	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Loans and receivables	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Total	**4,795.7**	**4,936.4**	**140.6**	**0.0**	**0.0**	**3,933.5**
Liabilities						
Financial liabilities measured at amortised cost	5,202.5	5,238.2	-35.7	0.0	0.0	5,238.2
Deposits	5,161.1	5,197.0	-35.9	0.0	0.0	5,197.0
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	40.3	40.2	0.2	0.0	0.0	40.2
Total	**5,202.5**	**5,238.2**	**-35.7**	**0.0**	**0.0**	**5,238.2**

*Certain financial instruments have not been assigned to a level as the carrying amount always approximates their fair value due to their short term nature

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 statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of the Addiko Group are placed on the market, 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 CSEE 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 management assessed that cash positions are approximate to their carrying amounts largely due to the short term maturities of these instruments.

32.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by certified experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At 1H19 the carrying amount of investment properties amounts to EUR 2.0 million (YE18: EUR 2.0 million), whereas the fair value amounts to EUR 2.1 million (YE18: EUR 2.1 million). All investment properties were classified in level III (YE18: level III).

(33) Derivative financial instruments

33.1. Derivatives held for trading

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

EUR m

			30.06.2019 Fair values			31.12.2018 Fair values
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**436.2**	**2.6**	**4.1**	**374.2**	**1.8**	**0.5**
OTC options	34.7	0.0	0.0	46.6	0.1	0.1
OTC other	401.5	2.6	4.1	327.6	1.7	0.4
b) Foreign exchange and gold						
OTC-products	**317.8**	**2.2**	**1.3**	**295.3**	**10.0**	**0.4**
OTC other	317.8	2.2	1.3	295.3	10.0	0.4
c) Credit derivatives	**8.8**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**
Credit default swap	8.8	0.0	0.1	0.0	0.0	0.0

(34) Related party disclosures

At the reporting date the sole shareholder of the Addiko Group was the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. 96.3% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l., and 3.7% by natural persons. AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (a globally active private equity investor) and the European Bank for Reconstruction and Development (EBRD). On 12 July 2019 Addiko Bank joined the prime market of the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l. below 50%.

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

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

EUR m

30.06.2019	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.1	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.1	0.0
Financial liabilities	0.0	0.0	0.0	1.0	40.2
Deposits	0.0	0.0	0.0	1.0	40.2
Loan commitments, financial guarantees and other commitments received	0.0	0.0	0.0	0.0	3.0

EUR m

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Associates and joint ventures	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0	0.3	3.4
Debt securities	0.0	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.0	0.3	0.0
Financial liabilities	0.0	0.0	0.0	0.9	39.0
Deposits	0.0	0.0	0.0	0.9	39.0
Other liabilities	0.2	0.0	0.0	0.0	0.0

(35) Own funds and capital management

35.1. Capital management

The capital management of the Addiko Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel III Pillar I) and the economic capital management approach (Basel III Pillar II) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by the Capital Requirements Regulation No. 575/2013 (CRR) and the Capital Requirements Directive (CRD IV). The CRD IV was enacted in national law in the Austrian Banking Act (BWG).

In terms of the calculation of risk weighted assets (RWA) at Group level (for regulatory reporting), the following approaches are applied:

- Standardised Approach for credit risk (SA-CR) and
- Standardised Approach (STA) for operational risk at the Addiko Group level

The Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the Group's business, to analyse changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilisations for each segment. The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar II capital guidance (risk coverage ratio) are set for the Addiko Group. In addition to the minimum capital ratios required by the regulators, the Addiko Group defines early warning and recovery levels in the Addiko Group'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 BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Recovery and Resolution Act").

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

35.2. ICAAP – Internal Capital Adequacy Assessment Process

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

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

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

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

35.3. Own funds and capital requirements

Own funds according to the 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 determination of eligible total capital in accordance with the applicable regulations is based on international accounting standards.

The regulatory minimum capital ratios including the regulatory buffers as of 30 June 2019 and 31 December 2018 amount to:

	30.06.2019			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	4.10%	4.10%	4.10%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.002%	0.002%	0.002%	0.002%
Overall Capital Requirement (OCR)	**11.102%**	**12.602%**	**14.602%**	**11.077%**	**12.577%**	**14.577%**

In addition to Pillar I minimum capital ratios, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2017 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group and AI Lake scopes of consolidation additional 4.7% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. At the beginning of January 2019, Addiko Bank AG received a decision as result of the 2018 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the 24 June 2019, when the corresponding decision was issued by the FMA, the additional Pillar II requirement decreased from 4.7% to 4.1%.

According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. The transitional provisions for capital conservation buffers, by way of derogation from the requirements under Section 23 BWG, are regulated in Section 103q (11) BWG as follows:

- for the period from 1 January 2016 until 31 December 2016: 0.625%;
- for the period from 1 January 2017 until 31 December 2017: 1.25%;
- for the period from 1 January 2018 until 31 December 2018: 1.875%;
- for the period from 1 January 2019: 2.5%.

A breach of the combined buffer requirement (the CCB and the systemic risk buffer) would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, Austrian banks are required by the BaSAG (and potentially also the SRM Regulation) to meet MREL at all times. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, which is the SRB in the case of Addiko Group. Under the currently applicable legal regime, MREL targets are expressed as a percentage of Total Liabilities and Own Funds (“TLOF”) of the relevant institution.

Addiko Group expects that the Single Resolution Board (SRB) will decide on the minimum requirements for own funds and eligible liabilities (MREL) target for Addiko Group, which have to be met after a transitional period of up to 4 years, during the second half of 2019. SRB envisaged, in its preliminary announcement received on the 30. July 2019 a TLOF ratio of 20.58% and a “single-point-of-entry” (SPE) approach as resolution strategy, as a result of which Addiko Group shall comply with MREL on a consolidated basis until 31. December 2023. The Management Board of Addiko is, however, of the view and has communicated in written to the SRB that Addiko Group performs critical functions for bank resolution purposes only in Croatia. Consequently, a "multiple-point-of-entry" (MPE) resolution approach, should be the adequate approach.

Effective 15 July 2019, AI Lake (Luxembourg) Holding S.à r.l. has ceased to be a financial holding company within the meaning of Art. 4 (1) point (20) CRR, a parent financial holding company in a Member State within the meaning of Art. 4 (1) point (30) CRR as well as the EU parent financial holding company of Addiko Bank AG within the meaning of Art. 4 (1) point (31) CRR. Accordingly, AI Lake (Luxembourg) Holding S.à r.l. is no longer the super-ordinated financial holding company (übergeordnete Finanzholdinggesellschaft) of Addiko Bank AG within the meaning of Sec. 73 (3) of the Austrian Banking Act (Bankwesengesetz – "BWG").

The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 30 June 2019 and 31 December 2018:

EUR m

Ref*		30.06.2019	31.12.2018
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	195.0	195.0
2	Retained earnings	615.3	561.0
3	Accumulated other comprehensive income (and other reserves)	17.9	-0.8
5	Minority interests (amount allowed in consolidated CET1)	0.0	0.0
5a	Independently reviewed profits net of any foreseeable charge or dividend	0.0	54.2
6	**CET1 capital before regulatory adjustments**	**828.2**	**809.5**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.2	-1.2
8	Intangible assets (net of related tax liability)	-30.5	-30.3
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-15.5	-19.0
[#]	IFRS 9 transitional rules	34.0	43.8
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-13.1**	**-6.7**
29	**Common Equity Tier 1 (CET1) capital**	**815.1**	**802.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**815.1**	**802.8**
60	Total risk weighted assets	4,624.6	4,545.0
	Capital ratios and buffers %		
61	CET1 ratio	17.6%	17.7%
63	TC ratio	17.6%	17.7%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

Total capital increased by EUR 12.3 million during the reporting period, reflecting the net impact of the following components:

- an increase by EUR 18.7 million of the other comprehensive income mainly due to the positive development of market values of debt instruments in amount of EUR 17.5 million and by the EUR 1.2 million increase of the foreign currency reserves;
- a negative impact of EUR -9.7 million in connection with the application of the IFRS 9 transitional capital rules, which prescribe that, starting with the 1 January 2019, the portion of the initial ECL which could be added back decreases from 95% to 85% (EUR -4.7 million). In addition, the IFRS 9 amount which could be added back to capital decreased compared with the beginning of the year following the dynamic component and the related development of Stage 1 and Stage 2 ECL in the first half of 2019 (EUR -5.0 million);
- a decrease in regulatory deduction items in the amount of EUR 3.3 million as net impact of increase in investments in intangible assets (EUR -0.2 million) and decrease in deferred tax assets on existing taxable losses (EUR 3.5 million);
- in accordance with CRR requirements Art. 26 (2) the 1H19 interim profit in the amount of EUR 20.2 million was not included in the 1H19 calculation.

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

RWAs increased by EUR 79.6 million at the level of the Addiko Group during the reporting period. The development was primarily due to increase of the customer loan portfolio in connection with new business.

EUR m

Ref*		30.06.2019	31.12.2018
1	Credit risk pursuant to Standardised Approach	4,050.0	3,958.5
6	Counterparty credit risk	5.7	5.4
19	Market risk	161.0	173.2
23	Operational risk	407.9	407.9
Total risk exposure amount		**4,624.6**	**4,545.0**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Leverage ratio on a transitional basis

The leverage ratio for Addiko Group, calculated in accordance with the CRD IV, was 12.4% at 30 June 2019, up from 12.2% at 31 December 2018. The development was mainly driven by growth in Tier 1 capital.

EUR m

Ref*		30.06.2019	31.12.2018
20	Tier 1 capital	815.1	802.8
21	Total leverage ratio exposure	6,598.1	6,559.0
22	**Leverage ratio %**	**12.4%**	**12.2%**

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

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 Regulation (EU) No. 575/2013

EUR m

Ref*		30.06.2019	31.12.2018
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	815.1	802.8
2	CET1 capital as if IFRS 9 had not been applied	781.0	759.0
5	Total capital (TC)	815.1	802.8
6	TC as if IFRS 9 transitional rules had not been applied	781.0	759.0
	Risk-weighted assets (amounts) (RWAs)		
7	Total RWAs	4,624.6	4,545.0
8	Total RWAs as if IFRS 9 transitional rules had not been applied	4,589.8	4,501.3
	Capital ratios %		
9	CET1	17.6%	17.7%
10	CET1 as if IFRS 9 transitional rules had not been applied	17.0%	16.9%
13	TC	17.6%	17.7%
14	TC as if IFRS 9 transitional rules had not been applied	17.0%	16.9%
	Leverage ratio (LR)		
15	Total LR exposure (transitional definition)	6,598.1	6,559.0
16	LR	12.4%	12.2%
17	LR as if IFRS 9 transitional rules had not been applied	11.9%	11.7%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.

Addiko has opted at the level of the Addiko Group to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; plus
- any subsequent increase in expected credit losses in the non-credit-impaired (stage 1 and stage 2) booked thereafter.

Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs. While the adoption of these transitional capital rules has a negligible impact on CET1 capital, they would mitigate the impact on capital in adverse economic conditions.

Based on these transitional arrangements EUR 34.0 million (YE18: EUR 43.8 million) have been added back to Addiko Group CET1. This comprises EUR 34.6 million (YE18: EUR 45.5 million) in impairment allowances, less EUR 0.6 million (YE18: EUR 1.7 million) in deferred tax. The corresponding impact on RWAs is an increase of EUR 34.7 million (YE18: EUR 43.7 million).

(36) Events after the reporting date

36.1. Change in shareholder structure

Effective 15 July 2019, AI Lake (Luxembourg) Holding S.à r.l. has ceased to be a financial holding company within the meaning of Art. 4 (1) point (20) CRR, a parent financial holding company in a Member State within the meaning of Art. 4 (1) point (30) CRR as well as the EU parent financial holding company of Addiko Bank AG within the meaning of Art. 4 (1) point (31) CRR. Accordingly, AI Lake (Luxembourg) Holding S.à r.l. is no longer the super-ordinated financial holding company (übergeordnete Finanzholdinggesellschaft) of Addiko Bank AG within the meaning of Sec. 73 (3) of the Austrian Banking Act (Bankwesengesetz – "BWG").

36.2. IPO of Addiko Bank AG on the Vienna Stock Exchange

On 12 July 2019, the shares of Addiko Bank AG were admitted to the Official Market of the Vienna Stock Exchange and started trading in the prime market segment.

Based on the total number of 19,500,000 shares and the initial price of EUR 16.0 per share, the initial market capitalization of Addiko Bank AG amounted to EUR 312.0 million. The free float is around 55%. This IPO was the third and largest listing in the top segment of the Vienna Stock Exchange this year and was the largest listing in the European financial sector in 2019.

On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index).

Vienna, 19 August 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Statement of all legal representatives

We confirm to the best of our knowledge that the condensed consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards during the first half of 2019 and that the Group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the Group faces.

Vienna, 19 August 2019
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Review opinion

To the Members of Management Board of Addiko Bank AG

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Addiko Bank AG, Vienna, for the period from January 1, 2019 to June 30, 2019. These condensed consolidated interim financial statements comprise the consolidated statement of financial position as of June 30, 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the period January 1, 2019 to June 30, 2019, and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of Addiko Bank AG is responsible for the preparation of the condensed consolidated interim financial statements in accordance with IFRS's for Interim Reporting as adopted by the EU.

Practitioner's Responsibility

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements.

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements", and with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim financial statements consists of making inquiries, primarily of persons, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IFRS's for interim reporting as adopted by the EU.

Statement on the condensed group management report and on management's statement in accordance with § 125 Austrian Stock Exchange Act 2018

We have read the condensed group management report and evaluated whether it does not contain any apparent inconsistencies with the condensed consolidated interim financial statements. Based on our evaluation, the condensed group management report does not contain any apparent inconsistencies with the condensed consolidated interim financial statements.

The consolidated interim report half year 2019 contains the statement by management in accordance with § 125 par. 1. subpar. 3 Austrian Stock Exchange Act 2018.

Vienna, August 19, 2019

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits set within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures (not annualised)
CRB	Credit Risk Bearing
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR ("undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account") and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
GCCR	Group Corporate Credit Risk
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under "credit institutions",

	“other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest but including gross amount of provisions of performing loans
GRRM	Group Retail Risk Management
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk
Jaws	Measures the difference between the rates of change in net banking income and operating expenses; positive jaws occur when the figures for the percentage change in income is higher than, or less negative than, the corresponding rate for operating expense
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank

NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where re-payment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as annualised adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
Return on tangible equity (@14.1% CET1 Ratio)	Calculated as adjusted result after tax (pre-tax result adjusted for non-recurring items, assuming a theoretical tax rate and costs for T2) over average tangible equity (i.e. shareholder equity reduced by intangible assets) excluding excess capital over 14.1% CET1 ratio.
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to Large Corporates subsegment
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR

Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 means instruments or subordinated loans with an original maturity of at least five years and do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet

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Publisher of the Financial Report
and responsible for the content:
Addiko Bank AG
Wipplingerstraße 34/4 OG
1010 Wien
Tel. +43 (0) 50 232-0
Fax +43 (0) 50 232-3000
www.addiko.com

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