

Disclosure Report 2018

pursuant to Part Eight
of the Capital Requirements Regulation (CRR)

Al Lake (Luxembourg) Holding S.à r.l.

Disclosure Report 2018

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1 Overview of non-applicable disclosures or covered in other published reports

The following table provides an overview of the Articles of the CRR not covered by the Disclosure Report or included in other Group reports with an explanation of reasons for non-disclosure in this report.

CRR article	Disclosures requested in the CRR article	Reasons for non-applicable disclosure
Art 437 (1) f CRR Own funds	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	AI Lake Group does not disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR.
Art 439 i CRR Exposure to counterparty credit risk	Estimate of α (alpha) if the institution has received the permission of the competent authorities to estimate α .	AI Lake Group does not apply any own estimates of the scaling factor.
Art 441 CRR Indicators of global systemic importance	Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	The Article 441 CRR is not applicable for the AI Lake Group, as it does not belong to the institutions of global systemic importance in accordance with Article 131 of 2013/36/EU.
Art 449 CRR Exposure to securitisation positions	Institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Article 337 or 338 shall disclose selected information, where relevant, separately for their trading and non-trading book.	The Article 449 CRR is not applicable for the AI Lake Group, as no securitisation transactions are currently in place.
Art 450 CRR Remuneration Policy	Institutions shall disclose information regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile.	Information on the remuneration policy and practices at AI Lake Group is disclosed in a separate document, which is published on Addiko Bank's website.
Art 452 CRR Use of the IRB Approach to credit risk	Institutions calculating the risk-weighted exposure amounts under the IRB Approach shall disclose selected information.	Only the Standardised Approach is used within the AI Lake Group.
Art 454 CRR Use of the Advanced Measurement Approaches to operational risk	The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of the use of insurances and other risk transfer mechanisms for the purpose of mitigation of this risk.	AI Lake Group does not apply the Advanced Measurement Approaches to operational risk.
Art 455 CRR Use of Internal Market Risk Models	Institutions calculating their capital requirements in accordance with Article 363 shall disclose certain information about the characteristics of the models used.	Article 455 CRR is not applicable, as the AI Lake Group does not use internal models for incremental default and migration risk and does not have a correlation trading portfolio.

2 Introduction

According to Article 13 of the Regulation No. 575/2013 of the European Parliament (hereinafter referred to as the Capital Requirements Regulation (CRR)), this Disclosure Report is published on Al Lake (Luxembourg) Holding S.à r. l. (hereinafter referred to as Al Lake) level. Al Lake is a financial holding company in form of a limited liability company with five managing directors. Its main business purpose is the management of the company's assets, which consists indirectly of Addiko Bank AG (hereinafter referred to as Addiko Bank) and its subsidiaries. From a risk perspective, the main bank-wide steering processes are performed by its subsidiary, Addiko Bank. These processes are disclosed in this report.

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro. All in all, Addiko Group provides services to about 860.000 clients. The Group's strategy is focused on these six markets in the CSEE region delivering core products and services relevant to Retail as well as Small and Medium Enterprises (SME) and Corporate customers, while also providing online deposit services in Austria and Germany. The areas of strategic focus are Consumer Lending, Payments and SME Banking.

The Group has adopted the EU's regulatory transitional arrangements for International Financial Reporting Standard ('IFRS') 9 Financial instruments. All exposure tables in this document have been prepared on an IFRS 9 transitional basis.

2.1 Disclosure policy and structure

Art 431, 433 and 434 CRR

The Disclosure Report of Al Lake Group meets the disclosure requirements of Part Eight of the CRR and is in accordance with Art 431 to 455 CRR, which took effect on 1 January 2014. In addition, report complies with the requirements set in Guidelines on disclosure requirements under Part Eight of the Regulation (EU) No 575/2013 (EBA/GL/2016/11, version 2, published on 9 June 2017) and other disclosure related guidelines. The main document is published once a year in English.

The preparation of the Disclosure Report and the formal review for completeness and compliance with the applicable requirements is carried out by a structured process within the relevant departments of the Addiko Bank.

Pursuant to Article 434 (1) CRR, Al Lake has opted for the internet as the medium of publication of the Disclosure Report. Details are available on the website of Addiko Bank at www.addiko.at and www.addiko.com.

2.2 Regulatory framework for disclosures

Implementation of Basel 3 in the European Union (EU)

On 16 April 2013, the European Parliament adopted the new capital and liquidity requirements for the implementation of Basel 3 in the EU. On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) and the final Capital Requirements Regulation (CRR) were published in the Official Journal of the EU. The application of the new regulatory requirements for credit institutions and investment firms became effective as of 1 January 2014. As of this time, Al Lake Group has been calculating regulatory capital and regulatory capital requirements according to Basel 3.

The Basel Committee's framework is structured around three "Pillars": The Pillar 1 minimum capital requirements and Pillar 2 Supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

Pillar 1 - Minimum requirements

As introduced by Basel 2, Pillar 1 covers the calculation of capital requirements for credit risk, market risk and operational risk. As such, it details the different methods available for calculating risk weighted assets for the three risk types and provides information on the eligibility criteria for the constituents of the capital base. Under Basel 3, a leverage

exposure requirement was introduced to complement the minimum risk-based capital requirements; however, the leverage ratio is not yet a binding requirement for EU institutions.

Basel 3 extended minimum requirements to also cover liquidity in addition to capital. In this regard, Pillar 1 specifies the requirements for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), with the latter not yet a binding requirement in the EU.

Pillar 2 - Supervisory review process

Pillar 2 requires banks to conduct an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate that they have implemented methods and procedures to safeguard capital adequacy with due attention to all material risks. The ICAAP supplements the minimum regulatory requirements of Pillar 1. It considers a broader range of risk types as well as Al Lake Group's risk and capital management capabilities.

In parallel to the introduction of Pillar 1 requirements for liquidity through the Basel 3 framework, the ICAAP was complemented with an Internal Liquidity Adequacy Assessment Process (ILAAP) to ensure that banks have implemented processes and tools to safeguard the adequacy of their funding and liquidity.

Furthermore, Pillar 2 requires supervisors to conduct a Supervisory Review and Evaluation Process (SREP) to assess the soundness of banks' ICAAP and ILAAP and take any appropriate actions that may be required.

Pillar 3 - Market discipline

Taking account of Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review Process), Pillar 3 aims to increase market transparency by providing information on the scope of application, regulatory capital, risk positions, risk measurement approaches and therefore, the capital adequacy of a bank.

2.3 Governance arrangements

Art 435 (2) a CRR

The table below provides information about the number of directorships held by members of the Management Board of Addiko Bank per 31 December 2018:

Name of Member of the Management Board	Function in Addiko Bank AG	Number of directorships			
		Internal functions		External functions	
		Management	Supervisory	Management	Supervisory
Johannes Proksch	Member of the Management Board	1	2	1	0
Markus Krause	Member of the Management Board	1	1	0	0
Csongor Bulcsu Németh	Member of the Management Board	1	1	0	0
Razvan Munteanu	Chairman of the Executive Board	1	2	0	0

Art 435 (2) b CRR

The selection and the process for the evaluation of the suitability of the members of the Management and Supervisory Board as well as the key function holders are defined in the Addiko Bank Fit & Proper Policy.

Assessment criteria for the selection of members of the Management Board (Professional Competences) are:

- Education: Completion of relevant studies or courses (studies at a university or a university of applied sciences in economics, law or sciences) or external or internal training or relevant training and continuing education measures

- Sufficient work experience, in particular managerial experience as an executive or expert, which can be assumed if it is proved that the management function has been held with an organization of a similar or larger size and line of business for at least three years
- Knowledge of financial markets; regulatory framework conditions (European Banking Supervision Law, the Austrian Banking Act, FMA Circular Letters and Minimum Standards, etc.); strategic planning and business management; risk management; business organization, governance and control knowing the articles of association; accounting for banking operations; interpretation of banking ratios; basic knowledge of corporate law and the law of business organizations; depending on the business model and the responsibilities foreign language skills

In this regard the Management Board needs to be sufficiently suitable as a whole. Specific members possessing distinct skills may compensate less distinct skills of other members in such areas, in particular in view of the schedule of responsibilities. Skills and expertise of each member of the Management Body of Addiko Bank AG are presented on the website of Addiko Bank.

Art 435 (2) c CRR

All external communications and employer branding activities shall attract the most talented potential employees and shall be free of any discrimination that might detain from business activities with Addiko Group. The selection and recruitment process of candidates is transparent and promotes equal opportunities and equal treatment with all candidates. While recruiting, the selection criteria must not be based on any of the diversity dimensions, it is necessary to create an environment that allows employing candidates of different backgrounds, experiences and perspectives to contribute to united achievements without limitation.

Art 435 (2) d CRR

The Risk Committee is one of the committees set up by the Supervisory Board (SB) of the Addiko Group. Its purpose is to advise the management body with regard to the current and future risk appetite and the risk strategy of the bank. To monitor the implementation of this risk strategy in connection with the management, monitoring and limitation of risks pursuant to section 39 (2b) points 1 to 14, capital adequacy and liquidity, is a key responsibility.

As the central risk control body, the Risk Committee takes place on a frequently basis. In 2018 it was held five times.

Art 435 (2) e CRR

The Management Board is informed on a monthly basis via the Group Risk Report on the current risk situation which includes the ICAAP figures. Additionally, MB members who are also part of the Group Risk Executive Committee Meetings (GREC) are informed in more detail on the risk situation including methodological decisions and parameters changes as well as setting measures based on stress test results and limit breaches.

The Group Risk Report is also part of the Supervisory Board Meetings in which quarterly figures are shown. In the Risk Committee the invited SB members get beside the GRR an overview of the developments in the risk area since the last Risk Committee Meeting and a deep dive in focus topics like e.g. the portfolio quality development, a migration analysis and a rating report.

Additional reports for the Management Body are Market and Liquidity Risk Reports as well as Operational Risk, Compliance and Audit Reports.

2.4 Scope of application

2.4.1 Consolidation for accounting and regulatory purposes

Article 436 a-b CRR

Consolidation for regulatory purposes is carried out in accordance with Article 18 and 19 of Regulation No 575/2013 (CRR), with the financial statements of the individual companies and the consolidated financial statements being

prepared in accordance with the principles of the IFRS (International Financial Reporting Standards). The criteria used to determine the scope of consolidation are total assets and off-balance sheet items. The scope of consolidation for regulatory purposes is identical to the scope of consolidation for accounting purposes.

Name of the institution, for which this Disclosure Report is published:

AI Lake (Luxembourg) Holding S.à r.l.

As of 31 December 2018, the scope of consolidation included 12 fully consolidated companies. The following table shows an overview of the consolidated companies:

Name of the entity	City	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
AI Lake (Luxembourg) Holding S.à r.l.	Luxembourg	Full consolidation	Full consolidation	Financial institution
AI Lake (Luxembourg) Management S.à r.l.	Luxembourg	Full consolidation	Full consolidation	Financial institution
AI Lake (Luxembourg) S.à r.l.	Luxembourg	Full consolidation	Full consolidation	Financial institution
AI Lake S.à r.l.	Luxembourg	Full consolidation	Full consolidation	Financial institution
AI Lake & Cy S.C.A.	Luxembourg	Full consolidation	Full consolidation	Financial institution
Addiko Bank AG	Vienna	Full consolidation	Full consolidation	Credit institution
Addiko Bank d.d.	Ljubljana	Full consolidation	Full consolidation	Credit institution
Addiko Bank d.d.	Zagreb	Full consolidation	Full consolidation	Credit institution
Addiko Bank d.d.	Sarajevo	Full consolidation	Full consolidation	Credit institution
Addiko Bank a.d. Banja Luka	Banja Luka	Full consolidation	Full consolidation	Credit institution
Addiko Bank a.d. BEOGRAD	Beograd	Full consolidation	Full consolidation	Credit institution
ADDIKO BANK A.D. PODGORICA	Podgorica	Full consolidation	Full consolidation	Credit institution

2.4.2 Impediments to the transfer of own funds

Art 436 c CRR

Currently there are no restrictions or other significant impediments to the transfer of own funds or regulatory capital known within AI Lake. Generally, a transfer of own funds would be possible only under the precondition of fulfilling existing capital minimum ratios.

2.4.3 Total shortfall in own funds of all subsidiaries not included in the scope of consolidation and the circumstance of making use of the provisions laid down in Articles 7 and 9

Art 436 d-e CRR

As of 31 December 2018, there was no capital shortfall at any of the companies included in AI Lake Group's consolidation.

3 Risk management objectives and policies

Art 435 (1) CRR

3.1 Risk control and monitoring

AI Lake steers and monitors its risks across all business segments, with the aim of optimizing the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this 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 AI Lake to the Bank's overall controlling:

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

Within the yearly risk inventory process the following risks have been identified as material:

Risk Type	Sub Type	Managing Unit
Credit Risk	Single Name Credit Risk	Corporate Credit Risk & Retail Risk Mgmt
	FX-induced Credit Risk	Corporate Credit Risk & Retail Risk Mgmt
	Concentration Risk	Corporate Credit Risk & Retail Risk Mgmt
Market Risk	Interest Rate Risk	Group Market and Liquidity Risk
	Credit Spread Risk	Group Market and Liquidity Risk
	FX Risk	Group Market and Liquidity Risk
	CVA	Group Market and Liquidity Risk
Liquidity Risk	Market Liquidity risk	Group Market and Liquidity Risk
	Funding Spread Risk	Group Market and Liquidity Risk
Operational Risk	Overall including Legal Risk	Group Operational Risk
	ICT Risk	Group IT
	Outsourcing Risk	Group BCM/Outsourcing Management
	Conduct Risk	Group Operational Risk
	Model Risk	Group Model & Credit Portfolio Management
	Laundry Risk/Risk of financing terrorism	Group Compliance (incl AML)
Object Risk		Group Operational Excellence
Reputational Risk		Corporate Communications
Macroeconomic Risk		Group Finance Control
Systemic Risk		Group Finance Control
Business Risk / Strategic Risk		Group Finance Control

3.2 Risk strategy & Risk Appetite Framework (RAF)

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

Al Lake's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives which will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities. In 2018, the risk strategy was adopted to be in line with the update of the business strategy.

Al Lake has also established a Risk Appetite Framework (RAF) which sets the bank's risk profile and forms part of the process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The Risk Dimensions cluster the measures with a clear statement of risks covered within and guiding principles for monitoring and steering. The framework of risk appetite measures defines the risk level the bank is willing to accept. Measures are split in primary measures giving calibrated numerical limits and secondary measures giving additional support. The calibration of measures takes into consideration the Budget 2019 and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

3.3 Risk organisation

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

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganization of problem loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and managing the Pillar 2 risk capital that is required from an economic point of view.

In 2018, the following organizational units were operative:

Corporate Credit has the responsibility for credit risk management for all non-Retail customer segments i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns) and Corporate Center. That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management, as well as a governance role over units covering operative credit risk management for SME/Large Corporates in Addiko subsidiaries.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings with all entities of the Addiko Group ensures that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This enables that the risk appetite of the lending products are in line with the risk appetite of the Group.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing and coordination of national bank examinations, represents a regulatory SPOC function, and coordinates Risk Management units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects across the entire Addiko Group.

Model and Credit Risk Portfolio Management oversees the credit risk model landscape from a portfolio management perspective. It makes sure that applied models fulfil expected quality standards, while fitting within the model architecture also in terms of budget and strategy. This allows for an early strategic repositioning of future lending activities.

Risk Validation provides the validation of the credit risk models to all the subsidiaries across the Addiko Group, which are used for the steering of the economic capital, risk provisions and business underwriting. The function is a fully independent GSS unit that monitors model performance and stability; reviews model relationships and tests model outputs against outcomes.

Risk Quantification & Reporting was established in 2018. It provides services which are connected with the automated creation of standardised and regulatory risk reports and supports other group risk stakeholders with regards to preparing and maintaining risk databases and setting up technical solutions jointly with the IT units. The function is situated in Austria and works closely with local Credit Risk functions across the Addiko network.

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

Operational Risk provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

Fraud Management coordinates the activities of the fraud managers in Addiko subsidiaries with the goal of guaranteeing a linear approach to the entire process of Fraud Management. Addiko fraud managers are risk managers in that they operate by means of risk management assessment, they identify the possible criticalities in business processes and products that can be exploited to commit frauds, and they propose and monitor the necessary anti-fraud controls.

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

3.4 Internal risk management guidelines

AI Lake defines Group wide standard risk management guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing guidelines are reviewed yearly to determine whether an update is required. This ensures that the actual and documented processes match.

AI Lake has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

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

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

The AI Lake has emergency liquidity planning in place which defines processes, control and hedging instruments required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

The Liquidity Coverage Ratio (LCR) measures the coverage of net liquidity outflows with the adequate liquidity buffer under severe conditions over a period of 30 days. For the monitoring purposes were defined warning triggers set above the regulatory requirement of 100%.

In 2018, the Liquidity Coverage Ratio (LCR) was optimized from its highest level of 210% in the first quarter to 157% during second quarter, whereupon it was kept stable on that level (above all monitoring triggers) during second half of the year.

Scope of consolidation (consolidated) Currency and units (EUR million)	Total weighted			
	Quarter ending on: 31.03.2018	30.06.2018	30.09.2018	31.12.2018
Number of data points used for calculation of averages	3	3	3	3
21 Liquidity Buffer	1,348.5	1,248.2	1,231.5	1,110.1
22 Total Net Cash Outflows	643.0	797.5	803.8	728.9
23 Liquidity Ratio (%)	209.7%	156.5%	153.2%	152.3%

4 Capital and RWAs

4.1 Own funds

Art. 437 (1) a CRR

EUR m

	Regulation (EU) No 573/2013 Article Reference	31.12.2018
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	26 (1), 27, 28, 29,	42.0
- ordinary shares	acc. to Art 26 (3) EBA	39.2
Retained earnings	26 (1) (c)	725.9
Accumulated other comprehensive income (and other reserves)	26 (1)	11.2
Minority interests (amount allowed in consolidated CET1)	84, 479, 480	0.0
Independently reviewed profits net of any foreseeable charge or dividend	26 (2)	-12.3
Common Equity Tier 1 (CET1) capital before regulatory adjustments		766.9
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	34, 105	-1.2
Intangible assets (net of related deferred tax liability)	36 (1) (b), 37, 472 (4)	-30.3
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	36 (1) (c), 38, 472 (5)	-19.0
IFRS 9 transitional arrangement	473a	44.6
Total regulatory adjustments to Common Equity Tier 1		-5.9
Common Equity Tier 1 capital		761.0
Tier 1 capital (T1 = CET1 + AT1)		761.0
Total capital (TC = T1 + T2)		761.0
Total risk-weighted assets		4,604.9
Capital ratios and buffers		
CET1 Capital ratio	92 (2) (a), 465	16.53%
CET1 Capital ratio as if IFRS 9 transitional rules had not been applied		15.71%
T1 Capital ratio	92 (2) (b), 465	16.53%
T1 Capital ratio as if IFRS 9 transitional rules had not been applied		15.71%
Total capital ratio	92 (2) (c)	16.53%
Total capital ratio as if IFRS 9 transitional rules had not been applied		15.71%
Institution specific buffer requirement	CRD 128, 129, 130	1.88%
Of which: capital conservation buffer requirement		1.88%
Of which: counter-cyclical buffer requirement (Buffer = 0,002%)		0.00%
Of which: Global Systemically Important Institution ('G-SII') buffer		0.00%
Common Equity Tier 1 available to meet buffers	CRD 128	1.88%
Amounts below the threshold for deduction (before risk weighting)		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	31.9
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (i), 45, 48, 470, 472 (11)	0.0
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	36 (1) (c), 38, 48, 470, 472 (5)	8.6

The deductible item "intangible assets" consists of banking software solutions and other intangible assets. The simplified approach is applied for additional value adjustments (prudent valuation). The calculation of the deductible item "deferred tax assets" is done according to Art. 38 paragraph 5 of CRR.

The following table presents the changes in the consolidated equity of Al Lake during 2018:

EUR m

Sources of equity changes	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	50.4	3.9	12.2	10.1	937.4	1,013.8	47.6	1,061.4
Impact of adopting IFRS 9	0.0	0.0	3.5	0.0	-43.0	-39.4	-1.6	-41.0
Equity as at 01.01.2018	50.4	3.9	15.7	10.1	894.2	974.4	46.0	1,020.3
Profit or loss after tax	0.0	0.0	0.0	0.0	34.9	34.9	1.4	36.3
Other comprehensive income	0.0	0.0	-16.3	1.8	1.6	-12.9	-0.5	-13.5
Total comprehensive income	0.0	0.0	-16.3	1.8	36.5	22.0	0.8	22.8
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital decrease	-11.2	-1.4	0.0	0.0	-170.0	-182.6	-7.4	-190.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.1	0.1	2.0	2.1	-2.1	0.0
Equity as at 31.12.2018	39.2	2.5	-0.5	11.9	762.7	815.8	37.3	853.0

The following table presents the capital structure according to EU regulation 573/2013 (CRR). Regulatory own funds consist of Tier 1 and Tier 2 capital. Apart from the adjustments presented in the table no further deductions were made. All regulatory adjustments are in accordance with Art. 47, 48, 56, 66 and 79 CRR.

Common Equity Tier 1 according to Art. 26 et seq. and 51 et seq. of CRR mainly consists of subscribed capital, reserves and comprehensive income. Regulatory adjustments of Tier 1 capital are considered according to Art. 36 and 56 of CRR.

4.1.1 Main features, full terms and conditions of capital instruments

Art. 437 (1) b-c CRR

Capital instruments and main features		31.12.2018
1	Issuer	Al Lake (Luxembourg) Holding S.à.r.l.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Grand Duchy of Luxembourg
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo & sub-consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 42.0m
9	Nominal amount of instrument	EUR 39.2m
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Additional Tier 1
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Art. 437 (1) d-e CRR

Apart from the mentioned adjustments no further deductions were made. All regulatory adjustments are in accordance with Art. 47, 48, 56, 66 and 79 CRR.

Common Equity Tier 1 according to Art. 26 et seq. and 51 et seq. of CRR mainly consists of subscribed capital, reserves and comprehensive income. Regulatory adjustments of Tier 1 capital are considered according to Art. 36 and 56 of CRR.

There are no restrictions applied to the calculation of own funds in accordance with the Regulation (EU) 575/2013.

4.1.2 Impact on own funds of the introduction of IFRS 9

Art. 473a CRR

On 1 January 2018, IFRS 9, the new accounting standard for financial instruments, took effect. This replaces IAS 39, which was the previous accounting standard for measurements and classification of financial instruments.

Addiko has elected 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. As at 31 December 2018, by taking into consideration the above described transitional rules, the total capital ratio (Basel III) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 16.5% (YE17: 17.3%), well above the legal minimum requirement (8.0%). The total capital ratio calculated without applying IFRS 9 transitional rules would amount to 15.7%. While the adoption of the IFRS 9 transitional capital rules has a negligible impact on CET1 capital in 2018, it would mitigate the impact on capital in adverse economic conditions.

The table below presents impact of the introduction of IFRS 9 on own funds:

	EUR m	
	31.12.2018	31.12.2017
Available capital (amounts)	31.12.2018	31.12.2017
1 Common Equity Tier 1 (CET1) capital	761.0	807.5
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	716.4	807.5
3 Tier 1 capital	761.0	807.5
4 Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	716.4	807.5
5 Total capital	761.0	807.5
6 Total capital as if IFRS 9 transitional arrangements had not been applied	716.4	807.5
Risk-weighted assets (amounts)	31.12.2018	31.12.2017
7 Total risk-weighted assets	4,604.9	4,671.0
8 Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	4,561.2	4,671.0
Capital ratios (as percentage of Risk exposure amount)	31.12.2018	31.12.2017
9 Common Equity Tier 1 ratio	16.5%	17.3%
10 Common Equity Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	15.7%	17.3%
11 Tier 1 ratio	16.5%	17.3%
12 Tier 1 (ratio as if IFRS 9 transitional arrangements had not been applied)	15.7%	17.3%
13 Total capital ratio	16.5%	17.3%
14 Total capital ratio as if IFRS 9 transitional arrangements had not been applied	15.7%	17.3%
Leverage ratio	31.12.2018	31.12.2017
15 Leverage ratio total exposure measure	6,567.0	6,723.9
16 Leverage ratio	11.6%	12.0%
17 Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.0%	12.0%

4.2 Capital requirements

4.2.1 Summary of the approach to assessing the adequacy of internal capital and result of the institution's internal capital adequacy assessment process

Art. 438 a-b CRR

For AI Lake and its subsidiaries, the capital requirements are calculated for the Pillar 1 risk types credit, market and operational risk. Within the meaning of Article 92 (3) (a) and (f) CRR for the determination of risk-weighted assets and the capital requirement the Credit Risk Standardized Approach (CRSA) was used. For the ICAAP internal models are applied and the additional risk types (like concentration risk, FX induced credit risk, interest rate risk in the banking book, foreign exchange risk, credit spread risk, funding spread risk, object risk and other risks) are considered in the capital requirement calculation. At YE 2018 the risk bearing capacity was utilized with 67.6% and is well below the internally set limit of 85%.

	EUR m
	Dec 2018
Total economic capital amount	516.0
Total risk coverage capital amount	758.3
Excess capital	242.3

4.2.2 Risk-weighted exposure amounts and minimum capital requirements

Art. 438 c-d CRR

Based on the business activities of AI Lake, capital requirements are derived for the Pillar 1 risk types credit risk, market risk and operational risk. The capital requirements were complied with at all times during the reporting period.

The table below gives an overview of the RWA and capital requirements calculated in accordance with the Article 92 of the CRR (EU OV1- EBA/GL/2016/11):

	EUR m			
Risk Weighted Assets and minimum capital requirements	RWA with IFRS 9 transitional rule 31.12.2018	RWA w/o IFRS 9 transitional rule 31.12.2018	RWA 31.12.2017	Minimum capital requirements (*) 31.12.2018
CREDIT RISK (excluding Counterparty Credit Risk)	3,965.2	3,921.9	4,092.6	317.2
Of which standardised approach	3,965.2	3,921.9	4,092.6	317.2
COUNTERPARTY CREDIT RISK	5.4	5.4	8.7	0.4
Of which CVA	5.4	5.4	8.7	0.4
MARKET RISK	173.2	173.2	176.3	13.9
Of which standardised approach	173.2	173.2	176.3	13.9
OPERATIONAL RISK	461.0	461.0	393.4	36.9
Of which standardised approach	461.0	461.0	393.4	36.9
TOTAL	4,604.8	4,561.5	4,671.0	368.4

*Minimum capital requirements under consideration of IFRS 9 transitional rules

Within the AI Lake Group the risk positions are covered by the Standardised Approach.

Art. 438 e-f CRR

The table below shows an overview of capital requirements to cover credit risk and counterparty credit risk. The capital requirements are broken down into the relevant exposure classes:

	EUR m		
	RWA with IFRS 9 transitional rule	RWA w/o IFRS 9 transitional rule	Minimum capital requirements (*)
Risk Weighted Assets and minimum capital requirements	31.12.2018	31.12.2018	31.12.2018
Exposures to central governments or central banks	459.0	460.5	36.7
Exposures to regional governments or local authorities	18.2	18.2	1.5
Exposures to public sector entities	34.8	34.7	2.8
Exposures to multilateral development banks	0.0	0.0	0.0
Exposures to International Organisations	0.0	0.0	0.0
Exposures to institutions	153.5	153.5	12.3
Exposures to corporates	1,214.1	1,212.5	97.1
Retail exposures	1,555.0	1,550.6	124.4
Exposures secured by mortgages on immovable property	217.9	217.4	17.4
Exposures in default	147.7	110.8	11.8
Exposures associated with particularly high risk	27.2	27.2	2.2
Exposures in the form of covered bonds	0.0	0.0	0.0
Securitisation positions SA	0.0	0.0	0.0
Exposures to Collective investments undertakings (CIU)	16.0	16.0	1.3
Equity exposures	4.2	4.2	0.3
Other items	117.9	116.5	9.4
TOTAL	3,965.2	3,921.9	317.2

*Minimum capital requirements under consideration of IFRS 9 transitional rules

4.3 Capital buffers

Art 440 (1) a-b CRR

AI Lake Group calculates countercyclical buffer requirements at consolidated level in accordance with Title VII, Chapter 4 of Directive 2013/36/EU (CRD IV). As of 31 December 2018, a small number of jurisdictions (e.g. Great Britain) applied countercyclical buffer rates of more than 0%, resulting in an overall countercyclical buffer rate for the Group of 0.002%.

The table below sets out the geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institution-specific countercyclical buffer rate for the Group as of 31 December 2018. The disclosure follows templates prescribed by Commission Delegated Regulation (EU) 2015/1555 with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer.

The table detailing the distribution of credit exposures has been simplified by listing individually only those relevant countries which either represent core markets for the Group or have communicated countercyclical buffer rates other than zero.

EUR m

31.12.2018	Relevant credit exposures - Standardised Approach	Own funds requirements o/w for CCB	Own funds requirements o/w for credit risk	Own funds requirements weights (%)	Countercyclical capital buffer rate	Institution-specific countercyclical capital buffer rate
Austria	18.5	0.9	0.9	0.34%	0.00%	0.00%
Australia	0.1	0.0	0.0	0.00%	0.00%	0.00%
Belgium	0.3	0.0	0.0	0.01%	0.00%	0.00%
Bosnia	652.0	39.9	39.9	15.12%	0.00%	0.00%
Croatia	1,524.0	93.9	93.9	35.57%	0.00%	0.00%
France	2.9	0.2	0.2	0.07%	0.00%	0.00%
Germany	0.4	0.0	0.0	0.01%	0.00%	0.00%
Great Britain	6.7	0.5	0.5	0.20%	1.00%	0.00%
Luxembourg	0.1	0.0	0.0	0.00%	0.00%	0.00%
Marshall islands	1.1	0.1	0.1	0.03%	0.00%	0.00%
Montenegro	226.6	13.1	13.1	4.95%	0.00%	0.00%
Netherlands	26.4	1.1	1.1	0.40%	0.00%	0.00%
Serbia	708.4	42.9	42.9	16.67%	0.00%	0.00%
Slovenia	1,162.5	69.6	69.6	26.38%	0.00%	0.00%
Switzerland	8.7	0.4	0.4	0.14%	0.00%	0.00%
United States	29.4	1.3	1.3	0.50%	0.00%	0.00%

5 Credit risk

5.1 Definition of past due, substandard, defaulted and impaired

Art 442 a CRR

Al Lake is applying a Basel III compliant default definition according to Pillar 2.

A non-performing loan (default) exists if at least one of the following criteria applies:

- A material delay of the debtor in fulfilling the obligation towards the Bank, which is overdue for more than 90 days (Internal Ratings Based Counter)
- The bank significantly doubts the customer's credit standing
- Risk-oriented restructuring measures (forbearance) of the customer
- Booked specific risk provision (IFRS)
- Write-offs of liabilities
- Risk-driven sale of assets
- Insolvency/bankruptcy

Past due performing loans are exposures to borrowers where past-due amounts at the reporting data are between 1 and 90 days overdue.

As "Overdue > 90 Days" are considered Non Performing Loans that are past due for over 90 days and the overdue amount exceeds EUR 250 or 2,5% of the total exposure.

Defined as "non-performing" are exposures / receivables where it is expected that a contracting party will be unable to meet its obligations to perform the debt service on a sustainable basis (specific risk provisions, risk orientated restructuring, insolvency or sale of assets). If a customer is in default, an impairment process is triggered. Depending on the outcome of the discounted cash flow analysis, the financial asset of the defaulted customer is regarded as impaired or not.

5.2 Credit risk adjustments

Art 442 b CRR

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

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures. Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

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

individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

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

Art 442 c CRR

In the following table total and average credit risk exposure over the period by significant exposure classes is provided. Table comprises all asset positions and off-balance items relevant for credit risk framework and based on the accounting values reported in financial statements.

Exposure in all the following tables is reported net of the credit risk adjustments, which are calculated taking into account the IFRS 9 transitional rules. Counterparty credit risk is not subject of this chapter.

The total and average credit risk exposure reported in the following tables present the exposure subject to the Credit Risk Framework in accordance with Part One, Chapter II of the Regulation (EU) No 575/2013. In order to reconcile these figures with the credit risk tables presented in the AI Lake Consolidated Financial Statements, the following positions need to be considered: cash in hand, equities (at fair value through profit or loss), property and equipment, investment properties, current taxes, deferred taxes not subject to deduction, assets held for sale and other assets.

EUR m

Asset Class (Standard Approach)	Net exposure as of 31.12.2018	Average exposures over the period
Central governments or central banks	1,659.9	1,744.1
Regional governments or local authorities	54.7	60.2
Public sector entities	72.0	86.0
Multilateral development banks	0.0	2.8
International Organisations	0.0	0.0
Institutions	386.0	410.4
Corporates	1,516.5	1,536.9
Of which: SMEs	535.2	505.2
Retail	2,547.5	2,393.1
Of which: SMEs	629.9	489.8
Secured by mortgages on immovable property	516.1	490.5
Of which: SMEs	116.2	88.2
Exposures in default	144.7	180.0
Items associated with particularly high risk	18.2	13.7
Covered bonds	0.0	0.0
Collective investments undertakings (CIU)	27.5	28.5
Equity exposures	4.2	4.1
Other items	240.3	250.5
Total standardised approach	7,187.5	7,200.8

Art 442 d CRR

Table below presents net credit risk exposure (net value of the on-balance and off-balance sheet exposure corresponding to accounting values) by significant geographical areas based on country of residence of the counterparty.

EUR m

Asset Class (Standard Approach)	Geographical Areas					
	Asia	Middle and Eastern Europe	Near and middle east	North America	West and Central Europe	Others
Exposures to central governments or central banks	0.0	1,470.6	0.0	0.0	189.3	0.0
Exposures to regional governments or local authorities	0.0	54.7	0.0	0.0	0.0	0.0
Exposures to public sector entities	0.0	72.0	0.0	0.0	0.0	0.0
Exposures to institutions	0.0	13.8	0.0	107.1	261.5	3.5
Exposures to corporates	0.0	1,435.7	0.0	26.0	54.9	0.0
Retail exposures	0.0	2,546.2	0.0	0.2	1.1	0.0
Exposures secured by mortgages on immovable property	0.0	515.5	0.0	0.0	0.5	0.1
Exposures in default	0.0	143.3	0.0	0.0	0.3	1.1
Exposures associated with particularly high risk	0.0	18.2	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	27.5	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.8	0.0	3.3	0.1	0.0
Other items	0.0	232.6	0.0	0.0	7.7	0.0
Total Exposure Net	0.0	6,530.9	0.0	136.6	515.4	4.7

Table below presents net exposure for Middle and Eastern Europe:

EUR m

Asset Class (Standard Approach)	Geographical Areas					
	Croatia	Slovenia	Serbia	Bosnia & Herzegovina	Montenegro	Romania
Exposures to central governments or central banks	682.0	185.2	188.3	101.3	37.1	75.1
Exposures to regional governments or local authorities	16.9	28.5	3.5	3.1	2.6	0.0
Exposures to public sector entities	1.9	35.1	18.8	15.2	1.7	0.0
Exposures to institutions	8.6	5.3	0.0	0.0	0.0	0.0
Exposures to corporates	494.8	435.9	268.6	184.6	52.6	0.0
Retail exposures	991.8	703.1	361.8	362.7	128.1	0.0
Exposures secured by mortgages on immovable property	101.8	178.3	115.7	80.7	39.0	0.0
Exposures in default	67.9	13.9	22.2	29.9	9.5	0.0
Exposures associated with particularly high risk	2.0	16.1	0.0	0.1	0.0	0.0
Exposures in the form of units or shares in collective	14.4	13.1	0.0	0.0	0.0	0.0
Equity exposures	0.4	0.3	0.0	0.1	0.0	0.0
Other items	94.7	19.0	38.4	69.8	10.7	0.0
Total Exposure Net	2,477.0	1,633.7	1,017.4	847.5	281.3	75.1

EUR m

Asset Class (Standard Approach)	Poland	Bulgaria	Hungary	Czech	Slovakia	Other
Exposures to central governments or central banks	73.7	52.9	47.8	14.4	9.9	0.0
Exposures to regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to public sector entities	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to institutions	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to corporates	0.0	0.0	0.0	0.0	0.0	0.0
Retail exposures	0.0	0.0	0.0	0.0	0.0	0.1
Exposures secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.1
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	73.7	52.9	47.8	14.4	10.0	0.2

Table below presents net exposure for West and Central Europe:

EUR m

Asset Class (Standard Approach)	Austria	Germany	France	Spain	Italy	Great Britain
Exposures to central governments or central banks	117.1	0.0	0.0	43.8	28.5	0.0
Exposures to regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to public sector entities	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to institutions	7.8	83.7	68.9	14.8	29.1	36.0
Exposures to corporates	10.7	0.2	2.7	0.0	0.0	6.3
Retail exposures	0.4	0.2	0.1	0.0	0.2	0.0
Exposures secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.2
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0
Other items	7.5	0.0	0.0	0.0	0.0	0.1
Total Exposure Net	143.5	84.2	71.7	58.6	57.8	42.7

EUR m

Asset Class (Standard Approach)	Nether-lands	Switzer-land	Belgium	Sweden	Norway	Den-mark	Luxem-bourg	Other
Exposures to central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to institutions	3.4	1.0	7.2	4.8	0.6	0.5	3.9	0.0
Exposures to corporates	26.3	8.5	0.1	0.0	0.0	0.0	0.0	0.0
Retail exposures	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Exposures in default	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	29.8	9.7	7.5	4.8	0.6	0.5	4.0	0.1

Art 442 e CRR

Table below provides the breakdown of the net credit risk exposure by significant industries:

EUR m

Asset Class (Standard Approach)	A	B	C	D	E	F	G	H	I	J
Central governments or banks	0.0	731.7	757.0	0.0	133.1	0.0	0.0	0.0	0.0	0.0
Regional governments or local authorities	0.0	0.0	54.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	4.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8
Institutions	0.0	239.4	0.0	0.0	146.7	0.0	0.0	0.0	0.0	0.0
Corporates	9.2	84.4	0.4	245.2	30.2	115.8	84.9	78.8	55.0	32.0
Retail	1,791.2	1.5	0.0	146.2	0.0	60.5	37.1	29.5	31.6	43.6
Secured by mortgages on property	303.1	5.0	2.5	39.4	0.0	3.8	21.5	16.2	4.4	6.5
Exposures in default	68.9	1.8	1.8	7.5	0.0	4.5	13.7	1.3	1.4	2.5
Exposures associated with high risk	0.0	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.0	10.6	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	2,173.8	1,093.4	814.4	439.2	310.2	184.7	157.2	125.8	92.4	88.4

A - Activities of households as employers of domestic personnel, B - Financial service activities, except insurance and pension funding, C - Public administration and defence; compulsory social security, D - Wholesale trade, except of motor vehicles and motorcycles, E - Activities of extraterritorial organisations and bodies, F - Construction of buildings, G - Retail trade, except of motor vehicles and motorcycles, H - Manufacture of food products, I - Manufacture of fabricated metal products, except machinery and equipment, J -Civil engineering

EUR m

Asset Class (Standard Approach)	K	L	M	N	O	P	Q	R	S	T
Central governments or banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.1	33.4	0.0	0.0	0.0	1.3	19.4	0.0	0.9
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	44.6	57.7	9.7	38.1	49.6	37.4	17.1	37.8	30.2	27.4
Retail	34.0	5.6	17.1	33.0	6.9	17.5	42.3	3.5	0.5	29.6
Secured by mortgages on property	4.0	8.3	19.7	6.1	14.5	12.3	3.5	0.1	0.1	1.2
Exposures in default	0.6	10.4	0.6	3.6	1.5	1.7	0.8	0.6	0.0	1.0
Exposures associated with high risk	0.1	0.8	0.7	0.0	0.0	0.0	0.0	0.0	2.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.5	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0
Other items	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	83.3	82.8	81.8	80.8	72.5	68.9	65.2	61.8	60.7	60.2

K - Land transport and transport via pipelines, L - Real estate activities, M - Warehousing and support activities for transportation, N - Wholesale and retail trade and repair of motor vehicles and motorcycles, O - Accommodation, P - Manufacture of beverages, Q - Specialised construction activities, R - Electricity, gas, steam and air conditioning supply, S - Activities auxiliary to financial services and insurance activities, T - Architectural and engineering activities; technical testing and analysis

EUR m

Asset Class (Standard Approach)	U	V	W	X	Y	Z	AA	AB	AC	AD
Central governments or banks	0.0	0.0	0.0	38.1	0.0	0.0	0.0	0.0	0.0	0.0
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.3	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	21.8	42.7	27.5	0.3	27.5	30.4	20.1	19.3	25.0	8.1
Retail	25.7	1.8	7.0	1.8	5.2	0.8	5.2	12.0	5.0	16.2
Secured by mortgages on property	2.0	0.0	3.7	0.1	2.3	0.0	7.4	0.7	1.5	0.3
Exposures in default	0.0	0.0	0.4	0.0	0.4	2.3	0.1	0.4	0.1	0.0
Exposures associated with high risk	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	49.5	45.0	41.6	40.6	35.4	33.6	32.9	32.5	31.5	24.6

U - Manufacture of machinery and equipment n.e.c., V - Telecommunications, W - Activities of head offices; management consultancy activities, X - Education, Y - Manufacture of electrical equipment, Z - Manufacture of basic metals, AA - Manufacture of other non-metallic mineral products, AB - Manufacture of rubber and plastic products, AC - Manufacture of computer, electronic and optical products, AD - Computer programming, consultancy and related activities

EUR m

Asset Class (Standard Approach)	AE	AF	AG	AH	AI	AJ	AK	AL	AM	AN
Central governments or banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	5.0	17.5	4.5	13.8	19.4	11.7	13.7	2.5	12.9	3.1
Retail	12.4	3.0	14.8	5.9	0.0	6.5	3.9	9.8	1.3	9.6
Secured by mortgages on property	3.3	0.8	0.5	0.1	0.0	0.2	0.6	2.8	2.4	0.0
Exposures in default	1.3	0.3	0.2	0.1	0.0	0.1	0.0	1.8	0.0	1.5
Exposures associated with high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposure Net	21.9	21.6	20.0	19.7	19.4	18.5	18.3	18.3	16.7	14.3

AE - Food and beverage service activities, AF - Printing and reproduction of recorded media, AG - Manufacture of furniture, AH - Travel agency, tour operator and other reservation service and related activities, AI - Sewerage, AJ - Manufacture of chemicals and chemical products, AK - Manufacture of motor vehicles, trailers and semi-trailers, AL - Crop and animal production, hunting and related service activities, AM - Other mining and quarrying, AN - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials

EUR m

Asset Class (Standard Approach)	AO	AP	AQ	TOTAL
Central governments or banks	0.0	0.0	0.0	1,659.9
Regional governments or local authorities	0.0	0.0	0.0	54.7
Public sector entities	0.0	2.3	3.7	72.0
Institutions	0.0	0.0	0.0	386.0
Corporates	8.5	4.3	91.5	1,516.5
Retail	3.9	1.4	62.8	2,547.5
Secured by mortgages on property	0.3	3.1	11.7	516.1
Exposures in default	0.6	0.3	10.6	144.7
Exposures associated with high risk	0.0	0.0	0.0	18.2
Exposures in the form of units or shares in collective	0.0	0.0	0.0	27.5
Equity exposures	0.0	0.0	0.0	4.2
Other items	0.0	0.0	229.3	240.3
Total Exposure Net	13.3	11.5	409.7	7,187.5

AO - Waste collection, treatment and disposal activities; materials recovery, AP - Human health activities, AQ - Other

Art 442 f CRR

Table below provides information on the breakdown of the net credit risk exposure to residual maturity by significant exposure classes.

EUR m

Asset Class (Standard Approach)	On demand	<= 1 year	> 1 year <= 5 Years	> 5 years	No stated maturity	Total
Exposures to central governments or central banks	662.8	0.3	196.9	715.0	84.8	1,659.9
Exposures to regional governments or local authorities	1.4	2.3	0.6	50.3	0.0	54.7
Exposures to public sector entities	3.3	6.5	6.5	55.5	0.1	72.0
Exposures to institutions	53.9	9.7	97.3	162.9	62.2	386.0
Exposures to corporates	254.5	257.8	392.0	595.1	17.2	1,516.5
Retail exposures	375.5	190.7	445.7	1,496.1	39.5	2,547.5
Exposures secured by mortgages on immovable property	13.3	5.9	59.7	437.1	0.0	516.1
Exposures in default	5.1	22.9	23.4	92.5	0.9	144.7
Exposures associated with particularly high risk	0.0	0.0	0.1	18.1	0.0	18.2
Exposures in the form of units or shares in collective	0.0	0.0	0.0	27.5	0.0	27.5
Equity exposures	0.0	0.0	0.0	0.0	4.2	4.2
Other items	99.2	0.0	0.0	0.7	140.4	240.3
Net exposure	1,469.1	496.2	1,222.2	3,650.8	349.3	7,187.5

Art 442 g-i CRR

In order to present the clear view of the credit risk in the following tables, loans and receivables and debt securities are presented. On top of the asset relevant positions, off-balance items are included.

												EUR m	
	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral received and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposure		On non- performing exposure		On non-performing exposure	Of which forborne exposures
				Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne	Of which forborne				
Debt securities	1.188,3	1.188,3	0,0	0,0	0,0	0,0	0,0	-1,7	0,0	0,0	0,0	0,0	0,0
Central banks	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General governments	819,4	819,4	0,0	0,0	0,0	0,0	0,0	-0,4	0,0	0,0	0,0	0,0	0,0
Credit institutions	265,1	265,1	0,0	0,0	0,0	0,0	0,0	-1,1	0,0	0,0	0,0	0,0	0,0
Other financial corporations	43,6	43,6	0,0	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0
Non-financial corporations	60,3	60,3	0,0	0,0	0,0	0,0	0,0	-0,2	0,0	0,0	0,0	0,0	0,0
Loans and advances	5.077,5	4.688,9	31,0	388,6	381,4	388,2	86,7	-85,2	-2,9	-297,6	-50,5	84,7	53,3
Central banks	790,9	790,9	0,0	0,0	0,0	0,0	0,0	-3,7	0,0	0,0	0,0	0,0	0,0
General governments	127,8	125,3	0,0	2,5	0,0	2,5	2,0	-0,9	0,0	-0,9	-0,8	1,1	1,1
Credit institutions	120,4	120,4	0,0	0,0	0,0	0,0	0,0	-0,3	0,0	0,0	0,0	0,0	0,0
Other financial corporations	38,0	37,6	0,0	0,4	0,3	0,4	0,2	-0,4	0,0	-0,4	-0,2	0,0	0,0
Non-financial corporations	1.689,3	1.537,1	12,9	152,2	150,0	151,8	61,4	-20,3	-1,4	-110,5	-34,6	40,1	32,1
Households	2.311,0	2.077,5	18,1	233,5	231,1	233,5	23,0	-59,6	-1,5	-185,9	-14,9	43,5	20,1
OFF-BALANCE SHEET EXPOSURES	964,7	949,4	0,2	15,2	14,1	0,0	0,1	-4,8	-0,1	-6,9	0,0	6,8	0,0
Central banks	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General governments	1,5	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Credit institutions	1,4	1,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other financial corporations	13,3	8,8	0,0	4,5	4,5	0,0	0,0	-0,1	0,0	-1,0	0,0	2,5	0,0
Non-financial corporations	822,7	813,2	0,2	9,5	8,5	0,0	0,1	-4,3	-0,1	-4,9	0,0	3,8	0,0
Households	125,7	124,4	0,0	1,2	1,1	0,0	0,0	-0,4	0,0	-0,9	0,0	0,5	0,0
Total	7.230,4	6.826,6	31,2	403,8	395,5	388,2	86,8	-91,7	-2,9	-304,5	-50,5	91,5	53,3

Al Lake (Luxembourg) Holding S.à r.l.

Credit risk

EUR m

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral received and financial guarantees received	
	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non performing				On performing exposure		On non- performing exposure		On non-performing exposure	Of which forborne exposures	
			Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne	Of which forborne					
Croatia	2.848,6	2.660,6	16,3	188,0	188,0	184,9	36,9	-24,9	-1,2	-137,7	-24,0	47,9	26,3
Slovenia	1.781,9	1.746,2	6,9	35,7	35,7	25,4	11,7	-9,8	-0,3	-25,6	-9,0	11,1	7,3
Serbia	1.044,8	992,3	3,5	52,4	51,4	51,4	24,8	-28,9	-0,8	-35,4	-10,3	14,8	17,2
B&H	1.033,9	926,8	3,0	107,1	99,8	106,8	9,6	-19,3	-0,5	-93,0	-5,0	11,2	2,6
Montenegro	272,2	251,6	1,4	20,6	20,6	19,7	3,7	-8,4	-0,2	-12,9	-2,2	6,4	0,0
Other EU countries	249,1	249,1	0,0	0,0	0,0	0,0	0,0	-0,4	0,0	0,0	0,0	0,0	0,0
Luxembourg	4,0	4,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Austria	245,0	245,0	0,0	0,0	0,0	0,0	0,0	-0,4	0,0	0,0	0,0	0,0	0,0
Total	7.230,4	6.826,6	31,2	403,8	395,5	388,2	86,8	-91,7	-2,9	-304,5	-50,5	91,5	53,3

Development of ECL allowance

Cash reserves at central banks and other demand deposits

EUR m

	Stage 1
ECL allowance 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

Loans and advances to credit institutions

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance 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

Loans and advances to customers

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance at 01.01.2018	-41,7	-33,2	-255,0	-167,5	-497,4
Changes in the loss allowance	3,2	-9,5	1,2	2,3	-2,9
Transfer between stages	-9,6	4,7	4,9	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	1,9	-2,5	0,0	0,0	-0,6
Changes in models/risk parameters	3,9	0,1	88,4	35,1	127,6
Foreign exchange and other movements	8,5	-7,0	-6,1	-0,5	-5,1
ECL allowance as at 31.12.2018	-33,8	-47,4	-166,6	-130,6	-378,4

Investment securities

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

Provisions - development of loan commitments, financial guarantee and other commitments given

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance 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

The first table in accordance with Article 442 g-i CRR includes also risk provisions of loans to customers held for sale in the amount of EUR 0.4 million, which are not included in the tables presenting the development of ECL allowances.

5.3 Use of ECAs

5.3.1 Scope of application and use of external ratings

Art 444 a-d CRR

Pursuant to Article 4 (98) CRR, External Credit Assessment Institution (ECAI) means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009. AI Lake Group uses the Standardised Approach for determining the minimum capital requirements pursuant to Basel 3.

Two ECAs have been selected: Moody's Investor Service ("Moody's") and Standard and Poor's rating agency ("S&P"). AI Lake Group has not nominated any ECAs. The assignment of the rating grades to credit quality steps is undertaken according to Article 136 CRR. ECAI risk assessments are used for all exposure classes.

The mapping of the external credit assessment institutions to the credit quality steps is done in line with the published EBA Mapping Part 3 title 2 chapter 2.

5.3.2 Exposure values associated with credit quality steps

Art 444 e CRR

AI Lake Group generally uses Moody's Investor Service ("Moody's") ratings. The assignment of the rating grades to credit quality steps is undertaken according to Article 136 CRR.

External ratings are used to a limited extent in some exposure classes to calculate the RWA in the Standardised Approach:

- in case of institutions, if an external rating by an ECAI of the counterparty is available, the risk weight (RW) has to be determined pursuant to Article 120 CRR;
- in case an external rating by an ECAI of the counterparty is not available, the RW has to be determined pursuant to Article 121 CRR;
- in case of central governments and central banks, the RW has to be determined pursuant to Article 114 CRR

The allocation of the external ratings to credit quality steps and risk weights is as follows:

Moody's Investor Service	Credit Quality Step
Aaa to Aa3	1
A1 to A3	2
Baa1 to Baa3	3
Ba1 to Ba3	4
B1 to B3	5
Caa1 and below	6

Table below provides information about regulatory exposure by exposure classes and credit quality steps for the 31 December 2018:

EUR m			
Asset Class (Standardised Approach)	Credit Quality Step	Net exposure	Exposure Value
Exposures to central governments or central banks	unrated	1,388.8	1,424.7
	2	66.7	66.7
	3	204.4	204.4
Exposures to regional governments or local authorities	unrated	54.7	53.9
Exposures to public sector entities	unrated	72.0	34.7
Exposures to institutions	unrated	199.7	195.2
	2	163.4	145.5
	3	23.0	23.0
Exposures to corporates	unrated	1,507.8	1,259.2
	2	8.7	8.7
Retail exposures	unrated	2,547.5	2,165.6
Exposures secured by mortgages on immovable property	unrated	516.1	507.0
Exposures in default	unrated	144.7	137.7
Exposures associated with particularly high risk	unrated	18.2	18.1
Exposures in the form of units or shares in collective	unrated	27.5	27.5
Equity exposures	unrated	4.2	4.2
Other items	unrated	240.3	240.3
Total		7,187.5	6,516.5

Risk weights by asset class are stated in chapter 5.5.6.

5.4 Leverage

5.4.1 Leverage ratio

Art 451 (1) a CRR

The leverage ratio represents the relationship between Tier 1 capital and the leverage exposure pursuant to Article 429 CRR, more specifically the Delegated Regulation (EU) 2015/62 with regard to leverage ratio (Delegated Act) of 10 October 2014, which was published in the Official Journal of the European Union on 17 January 2015. Essentially, the leverage exposure represents the sum of unweighted on-balance sheet and off-balance sheet positions considering valuation and risk adjustments as defined in the Delegated Act.

As of 31 December 2018, the leverage ratio for Al Lake Group at consolidated level amounted to 11.52% (according to IFRS 9 transitional rules) and 10.98% (as if IFRS 9 or analogous ECL transitional arrangements had not been applied), comfortably above the 3.0% minimum requirement expected to apply from 2019. The ratio is calculated on period-end values as of 31 December 2018 for both leverage exposure and Tier 1 capital, while the Tier 1 capital is determined based on fully-fledged CRR definitions, i.e. not including any transitional provisions.

The IFRS 9 transitional rules are presented in chapter 4.1.2.

5.4.2 Leverage exposure breakdown and reconciliation

Art 451 (1) a-c CRR

The table below provides a reconciliation of AI Lake Group's published financial statements to the total leverage ratio exposure as of 31 December 2018:

		EUR m
Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amount
1	Total assets as per published financial statements	6,171.8
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0.0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0.0
4	Adjustments for derivative financial instruments	0.0
5	Adjustment for securities financing transactions (SFTs)	16.0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	355.2
EU-6a	Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0.0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0.0
7	Other adjustments	-17.9
8	Leverage ratio total exposure measure	6,525.1

The following table provides a breakdown of the total leverage exposure measure into its main constituent parts as well as the calculation of the period-end leverage ratio as of 31 December 2018:

EUR m

Leverage ratio common disclosure		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,189.9
2	(Asset amounts deducted in determining Tier 1 capital)	-50.5
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	6,139.5
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	5.0
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	9.5
EU-5a	Exposure determined under Original Exposure Method	0.0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0.0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0.0
8	(Exempted CCP leg of client-cleared trade exposures)	0.0
9	Adjusted effective notional amount of written credit derivatives	0.0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0.0
11	Total derivatives exposures (sum of lines 4 to 10)	14.5
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	16.0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.0
14	Counterparty credit risk exposure for SFT assets	0.0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0.0
15	Agent transaction exposures	0.0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0.0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	16.0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	957.3
18	(Adjustments for conversion to credit equivalent amounts)	-602.1
19	Other off-balance sheet exposures (sum of lines 17 and 18)	355.2
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0.0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0.0
Capital and total exposure measure		
20	Tier 1 capital - fully phased-in definition	716.4
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) using a fully phased-in definition of Tier 1 capital	6,525.1
Leverage ratio		
22	Leverage ratio - using a fully phased-in definition of Tier 1 capital	10.98%
Leverage ratio		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0.0

The following table provides a breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by exposure class as of 31 December 2018:

EUR m

	CRR leverage ratio exposures
EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	6,189.9
EU-2 Trading book exposures	22.6
EU-3 Banking book exposures, of which:	6,167.3
EU-4 Covered bonds	0.0
EU-5 Exposures treated as sovereigns	1,640.2
EU-6 Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	113.8
EU-7 Institutions	345.6
EU-8 Secured by mortgages of immovable properties	499.1
EU-9 Retail exposures	2,031.2
EU-10 Corporate	1,112.6
EU-11 Exposures in default	134.8
EU-12 Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	290.1

5.4.3 Management of the risk of excessive leverage

Art 451 (1) d CRR

The risk of excessive leverage (debt) is calculated on a quarterly basis. Key input factors for the calculation are the CET1 and the risk position value. The monitoring takes place in the area of Integrated Risk Management and is forwarded to the Management Board as part of the regular reporting and is discussed in the responsible committees (such as the Group Risk Executive Meeting).

5.4.4 Factors influencing the development of leverage exposure

Art 451 (1) e CRR

The leverage ratio of AI Lake was calculated for the first time in September 2015. As of 31 December 2018, the leverage ratio amounts to 11.52% (according to IFRS 9 transitional rules) and 10.98% (as if IFRS 9 or analogous ECL transitional arrangements had not been applied).

5.5 Credit risk mitigation techniques

5.5.1 Policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting

Art 453 a CRR

Netting is not used at AI Lake.

5.5.2 Policies and processes for collateral valuation and management

Art 453 b CRR

Collateral valuation of properties and other types of collateral

Overall collateral management is covered under Group Collateral Management Policy. The regulation of this policy is obligatory for all subsidiaries. Country-specific adaptations must be defined in local policies, whereby discrepancies regarding minimum standard and maximum lending values are only allowed in cases of stricter interpretation, whereby the principle follows that collateral security take precedence over debt obligations.

For each guarantee or collateral type, eligibility (if collateral is eligible to be treated as mitigation factor, with respective internal value) and valuation criteria (criteria for determination of internal value) are defined in Group Collateral Management Policy. Legal feasibility is the main eligibility criteria, but there are others precisely defined for each guarantee and collateral type.

The ongoing legal monitoring is ensured and in cases which are based on foreign legal systems, foreign lawyers, respectively the subsidiaries are involved.

The internal collateral valuation is calculated in such a way that a haircut is deducted from the market value, whereby the amount of the haircut depends on the type of collateral.

ICV = Market value * haircut in % (according "Group Collateral Management Policy")

The haircut is a percentage applied on given appraised value (presumably market value) in order to calculate potential liquidation value. The main reason for application of predefined haircuts is to reflect time (which might be very long) and costs necessary for the collateral realization, fluctuations present due to recessions and general market values fluctuations in long term period, as well as limited quantity and quality of market data for the purpose of adequate market value calculation, using comparison methodology. Very often it happens that market data are either not present/not present in acceptable number or not available for the adequate comparison purpose and market value obtaining.

5.5.3 Main types of collateral taken by the institution

Art 453 c CRR

Collateral is accepted at Al Lake Group only to back up loans and does not serve as a substitute for the borrower's ability to meet his obligations. Therefore, collateral can only be evaluated in the credit application along with the assessment of the borrower's creditworthiness and capacity for repayment.

The main importance is given to the group-wide management of real estates pledged as collateral, as this type of collateral presents the majority of all obtained and internally valued collaterals. These collaterals are divided into Commercial Real Estates (CRE) and Residential Real Estates (RRE). For all commercial real estates with a market value higher than EUR 1 million, and residential real-estates with a market value higher than EUR 400 thousand, individual (case by case) regular periodical monitoring is performed, with the aim to assess the validity of the market value. If not, new appraisal is ordered according to the Real Estate Valuation Standard.

Information about real-estates for which monitoring is to become due is available in advance, on basis of report which provides info on all the real estates for which valuation matures within the next four months, so that needed monitoring and revaluations can be performed in due time.

For all commercial real estates with market value lower than EUR 1 million, and residential real-estates with market value lower than EUR 400 thousand, regular monitoring is based on a statistically validated electronic valuation tool (Marktwertfortschreibungsmethode), whereby the initial calculation is always an individual evaluation based on the assessment of a qualified appraiser. In addition, following deductions must be considered:

- Land registry inscription and potential issues (CRE / RRE), primarily prior ranked mortgages
- Deduction for financial collaterals in cases of currency mismatch
- Deduction for guarantees, depending on segment and rating of the guarantor

Other valuable credit risk mitigation types within the Group are for sure different types of guarantees (primarily bank and corporate guarantees), as well as following collateral types: financial collaterals (deposits, securities), movables and receivables.

5.5.4 Main types of guarantor and credit derivative counterparty and their creditworthiness

Art 453 d CRR

EUR m

Guarantors by Credit quality step and asset class	Central governments or central banks	Regional governments or local authorities	Public sector entities	Institutions	Corporates	Total
unrated	0.0	0.0	0.0	0.0	0.0	0.0
Credit quality step 1	29.7	0.0	0.0	0.0	0.0	29.7
Credit quality step 2	0.0	0.0	0.0	0.0	0.0	0.0
Credit quality step 3	0.0	0.0	0.0	0.0	8.7	8.7
Credit quality step 4	0.0	0.0	0.0	0.0	0.0	0.0
Credit quality step 5	0.0	0.0	0.0	0.0	0.0	0.0
Credit quality step 6	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	29.7	0.0	0.0	0.0	8.7	38.5

The allocation of the credit quality steps to the external ratings can be seen under chapter 5.3.2.

5.5.5 Risk concentrations within credit risk mitigation

Art 453 e CRR

Concentration risk exists when significant portions of the group-wide collateral values (on portfolio level) are concentrated in a small number of types of collateral, instruments, sectors or specific guarantors.

Al Lake has no concentration risk related to collaterals, as the risk is reduced by diversifying the portfolio in terms of size/volume, client segment, countries and different collateral instruments (including different real-estates, movables, guarantees, bonds, receivables etc.). Furthermore, collateral correlates with the level of exposure. In Al Lake there are no significant concentrations in term of exposure.

Fact is that Al Lake depends on two types of collateral, commercial and residential real estates. However, it can be said that these collaterals are distributed among different countries, without concentration in terms of size, value or a specific country. Furthermore, Al Lake implemented in the countries the limit monitoring system in order to achieve that the country exposures are properly controlled / monitored.

5.5.6 Information of the value of exposure separately for each single exposure class, which are secured by financial security, mortgage security and guarantees

Art 453 f-g CRR

The values in the table below represent the collateralized exposure values of AI Lake:

EUR m

	Exposures unsecured	Exposures secured	Guarantees	Life Insurances	Commercial real estate	Other funded credit protection o/w residential real estate	Other funded credit protection o/w residential real estate	Financial collaterals
Exposures to central governments or central banks	1,654.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to regional governments or local authorities	54.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures to public sector entities	42.9	29.8	29.7	0.0	0.0	0.0	0.0	0.0
Exposures to institutions	360.5	21.5	0.0	0.0	0.0	0.0	0.0	21.5
Exposures to corporates	1,501.6	15.8	3.4	0.0	0.0	0.0	0.0	12.4
Retail exposures	2,525.9	23.0	4.6	0.2	0.0	0.0	0.0	18.2
Exposures secured by mortgages on immovable property	0.0	516.1	0.0	0.0	204.3	311.7	0.0	0.0
Exposures in default	136.7	8.1	0.7	0.0	3.2	2.3	0.0	1.8
Exposures associated with particularly high risk	18.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposures in the form of units or shares in collective investments	27.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	240.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	6,566.8	614.2	38.5	0.2	207.5	314.1	0.0	54.0

Art 444 e CRR

The table below provides a breakdown of CCR exposure calculated in accordance with Part Three, Title II, Chapter 6 of the CRR and risk-weighted according to Chapter 3 of the same title: by portfolio (type of counterparties) and by risk weight (riskiness attribute according to the Standardised Approach).

EUR m

Asset Class	Risk weight										Of which unrated
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	
Exposures to central governments or central banks	871.5	219.3	126.7	0.0	57.3	0.0	385.1	0.0	0.0	1,659.9	1,388.8
Exposures to regional governments or local authorities	0.0	0.0	45.4	0.0	0.0	0.0	9.3	0.0	0.0	54.7	54.7
Exposures to public sector entities	29.7	0.0	0.0	0.0	0.0	0.0	42.3	0.0	0.0	72.0	72.0
Exposures to institutions	0.3	14.9	119.9	5.2	232.9	0.0	12.8	0.0	0.0	386.0	199.7
Exposures to corporates	0.0	0.0	16.1	0.0	52.8	0.0	1,446.4	1.2	0.0	1,516.5	1,507.8
Retail exposures	1.7	0.0	0.0	0.0	0.0	2,462.1	83.6	0.0	0.0	2,547.5	2,547.5
Exposures secured by mortgages on immovable property	0.0	0.0	0.0	276.8	193.4	45.8	0.0	0.0	0.0	516.1	516.1
Exposures in default	0.6	0.0	0.0	0.0	0.0	0.0	119.1	25.0	0.1	144.7	144.7
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.1	0.0	18.2	18.2
Exposures in the form of units or shares in collective	0.0	0.0	13.1	0.0	0.0	0.0	14.4	0.0	0.0	27.5	27.5
Other items	133.2	0.0	0.0	0.0	0.0	0.0	99.9	0.0	7.2	240.3	240.3
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	4.2	0.0	0.0	4.2	4.2
Total Exposure Net	1,037.0	234.1	321.3	282.1	536.5	2,508.0	2,217.1	44.2	7.2	7,187.5	6,721.4

Credit quality steps by asset class are stated under chapter 5.3.2.

6 Counterparty credit risk

Art 439 a-e and g-h CRR

In the trading business with derivatives there are basically Master Agreements and amending valid Credit Support Annexes for the charging of mutual risks (Close-out-Netting) in use and which therefore reduce the counterparty risk.

The actual collateral value is calculated based on daily netted market valuation of the underlying derivatives which the external counterparts and with one subsidiary. For the other subsidiaries the collateral is calculated based on weekly netted market valuation of the underlying derivatives. Basis for the market valuation are Close of Business market data. Actually only EUR cash is accepted within AI Lake as collateral.

The actual economic risk is reduced to a not reached Minimum Transfer Amount. The Minimum Transfer Amount specifies the amount which triggers the exchange of collateral. All received or paid collaterals are also documented in the respective systems. The evaluated collateral amount is also included in the daily steering.

AI Lake uses derivative instruments to be able to reduce the market price risk as well as the counterparty risk. For the end of the year 2018 there are also single name CDS in the amount of USD 10 million in the portfolio which were bought for protection purposes.

Basis for the Collateral Management is an individual agreement between the counterpart and AI Lake. This comprises a valid Master Agreement for derivatives business (ISDA Master Agreement, German/ Austrian Master Agreement) and an amending valid Credit Support Annex (CSA) with the counterparts. The content of the CSA regulates the operative handling of the Collateral Management. It includes also the frameworks like threshold amount, independent amount, minimum transfer amount, rounding rules for the transfer amount, type of collateral, valuation agent and period of collateral valuations.

The steering of the risk mitigation techniques is situated in the department Central Steering Unit Group Market & Liquidity Risk.

The table below represents an overview of counterparty credit risk exposure by approach of AI Lake:

EUR m

Analysis of CCR exposure by approach	Notional	Replacement cost / current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market	-	374.2	30.0	-	-	13.1	5.4
TOTAL	0.0	374.2	30.0	0.0	0.0	13.1	5.4

6.1 Exposure to counterparty credit risk

Art 439 f CRR

The table below provides an overview of the exposures subject to CVA capital charges in accordance with Part three, Title VI, Article 382 in the CRR. Al Lake Group applies the standardized method to compute CVA capital charges exclusively.

EUR m		
CVA capital charge 31.12.2018	Exposure value	RWAs
Total portfolios subject to the advanced method		
(i) VaR component (including the 3x multiplier)		
(ii) VaR component (including the 3x multiplier)		
All portfolios subject to the standardised method Based on the original exposure method	13.1	5.4
Total subject to the CVA capital charge	13.1	5.4

7 Market risk

Art 445 CRR

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

7.1 Risk measurement

The AI Lake calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

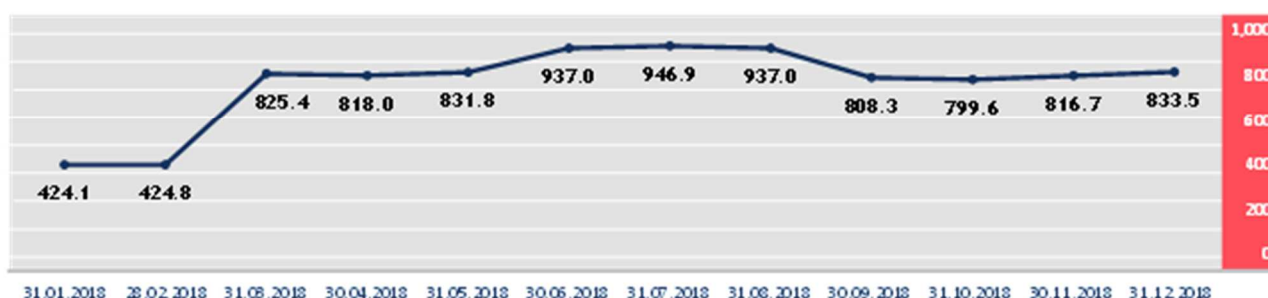
7.2 Overview market risk

Interest Rate Risk

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the AI Lake in 2018 (comparable VaR figure as at 31 December 2017: EUR 0.4 million). The interest rate gap profile for the AI Lake contains all interest rate-relevant items (whether included in the statement of financial position or not) with their next interest rate fixing date and/or their replicated interest sensitivity. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest rate gap profiles of local banks are consolidated at Group level and combined into the Group interest rate gap profile. All interest-bearing items in the statement of financial position are taken as the basis for calculating interest-rate risk and thus limited risks. Any non-interest-bearing items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

Development in interest risk for the AI Lake in 2018:

Interest Rate Risk (Trading Book + Banking Book) – VaR (99,0 %, 1 day)
EUR thousand



The trading items of AI Lake were relatively stable in 2018. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are

determined on the basis of the Group interest rate gap profile; a second step calculates the risk/equity ratio as a percentage of own capital funds.

The regulatory limit of 20.0% and the internal limit of 15.0% were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.5% on average in 2018 as compared to 3.2% on average in 2017).

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

The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2018 amounts to EUR -0.3 million (entire aggregated effect of this interest rate simulation) - the aggregated effect in 2017 was EUR -0.1 million.

Foreign Currency Risk

The database for determining the value at risk for foreign currency risks at the Group level of AI Lake is based on the figures in the regulatory report and participations and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of AI Lake. The main foreign currency risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at 31 December 2018 is roughly EUR 603.7 million (volume per 31 December 2017 of approx. EUR 640.0 million), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign exchange risk was approximately EUR 0.8 million per day as at 31 December 2018 (value at risk as at 31 December 2017: EUR 1.6 million), at a confidence interval of 99.0%. The limit of EUR 2.0 million was adhered to as at 31 December 2018.

Development in foreign exchange risk of AI Lake in 2018:

Open Foreign Currency Position Risk – VaR (99 %, 1 day)
EUR thousand



Aside from foreign exchange risk from operating activities, AI Lake is also exposed to an additional foreign exchange risk from the consolidation of Addiko Bank AG's strategic investment in Addiko a.d. Beograd (volume of approx. EUR 182.3 million) and Addiko d.d. Zagreb (volume of approx. EUR 385.2 million) as recorded in the statement of financial position. The strategic currency risk thus represents the majority of the risk in open currency items at AI Lake. In addition to monitoring VaR in respect of foreign currency, AI Lake also monitors any concentration of relevant single foreign exchange positions on single currency level - this is reported on a monthly basis within the Group Asset Liability Committee.

Equity Price Risk

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. Al Lake makes a distinction between equity risks, which arise from utilizing collateral related to credit risk transactions, where utilization is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity price risks from an investment point of view (investments). The value at risk for the equity risk (customer default) at Al Lake amounted to EUR 4,701.0 as at 31 December 2018 (value at risk as at 31 December 2017: EUR 4,272.0) with a one-day holding period and a confidence level of 99.0% and EUR 775.0 (value at risk as at 31 December 2017: EUR 2,488.0) for the equity price risk from an investment point of view. Under the risk strategy, no further share positions from an investment point of view are scheduled to be established at Al Lake - which is why Al Lake is only exposed to an extremely low level of risk from share items as at 31 December 2018 and therefore also no major concentration risk exists here.

Credit Spread Risk

The credit spread risk within Al Lake stood at EUR 0.5 million at 31 December 2018 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2017: EUR 0.3 million). The limit of EUR 2.5 million was adhered to as at 31 December 2018. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at Al Lake. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, Al Lake also monitors concentration risks within the bond portfolio - within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Al Lake are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

Development in credit spread risk at Al Lake in 2018:

Credit-Spread-Risk – VaR (99 %, 1 day)
EUR thousand



7.3 Exposure to market risk

The table below provides an overview of the capital requirements of AI Lake Group for market risk covered by the Standardised Approach, broken down by risk type:

		EUR m	
31.12.2018		RWAs	Capital requirements
Outright products			
Interest rate risk (general and specific)		71.1	5.7
Equity risk (general and specific)		0.0	0.0
Foreign exchange risk		102.0	8.2
Commodity risk		0.0	0.0
Options			
Simplified approach		0.0	0.0
Delta-plus method		0.0	0.0
Scenario approach		0.0	0.0
Securitisation (Specific risk)		0.0	0.0
Total		173.2	13.9

8 Operational risk

8.1 Principles of operational risk management

Art 446 CRR

Al Lake uses the basis indicator approach for the operational risk capital requirements. More information is stated in Art. 438 of this disclosure.

In accordance to Article 4 (52) of 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 Al Lake 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.

8.1.1 Organisation

With the aim of active management of operational risk Al Lake Group defines the comprehensive system of operational risk monitoring and management. As the operational risk, in accordance to its definition, is not centralised in one organisational or hierarchical level, the system for its management also encompasses in general all activities.

Appropriate responsibility for the management of operational risk is essential, therefore clear accountability and ownership for operational risk management is recognized in different levels of the organisation, that encompasses day-to-day management of operational risk, oversight and analysis of results of operational risk management and strategic risk management.

Group Operational Risk is responsible for setting the strategic direction for managing all operational risk related activities, proposing policies and tools for managing, measuring and controlling operational risks according to defined Group standards. Also ensuring and monitoring a harmonized approach to all operational risk activities based on the same standards and regular reporting on operational risk and issues to relevant stakeholders.

8.1.2 Risk measurement and reporting

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 are set up at the Board (Supervisory and Management) and senior management levels with the results and proposal for risk control derived from both quantitative and qualitative processes that support proactive management of operational risk.

8.1.3 Calculation of own fund requirements

The operational risk measurement model is set to meet the Standardised Approach (TSA) requirements as defined in Regulation (EU) 575/2013 articles 315, 316, 317, 318 and 320. The Al Lake Group on a consolidated level is using Basic Indicator Approach (BIA) measurement model for calculating own fund requirements for operational risk, while Banks in the Group may use TSA or BIA.

The gross income data source for calculating relevant indicator is accounting data.

9 Interest rate risk

9.1 Exposure to interest rate risk on positions not included in the trading book

Art 448 CRR

The methodology of regulatory interest risk calculation is based on the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. The measurement of the group wide interest rate risk within the Bank Book is done from Central Steering Unit Group Market & Liquidity Risk. For the interest rate sensitive steering portfolios in the bank and trading books (Treasury Books) a daily interest rate risk measurement is done on portfolio level. Beside the interest risk measures based on the regulatory demands and the interest rate risk sensitive steering treasury books, there is for internal steering and limitation aspects the variance / covariance approach based of JPMorgan Risk Metrics used and regularly calculated.

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

In AI Lake there are also deposits and loans with undefined fixed interest rates and maturities. This business is modelled in the subsidiaries with historical data on the basis of the elasticity concept. In case of not enough or available data history also the concept is used, but on the basis of subjective probabilities, which are evaluated with the help of a structured expert based questionnaire. This type of business - also driven through the new established consumerism in the markets of the SEE region - trends to result in decrease. The major focus is set in business with clearly defined interest rate conventions as e.g. Euribor or Libor interest rates.

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

	EUR m
	31.12.2018
Weighted interest rate risk/ EUR	33.1
Weighted interest rate risk/ USD	3.6
Weighted interest rate risk/ CHF	3.0
Weighted interest rate risk/ JPY	0.0
Weighted interest rate risk/ GBP	0.1
Weighted interest rate risk/ CAD	0.1
Weighted interest rate risk/ HRK	4.9
Weighted interest rate risk/ BAM	8.0
Weighted interest rate risk/ RSD	8.5
Weighted interest rate risk/ MISC.	0.1
Total adjusted interest rate risk	61.4

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

10 Other risks

10.1 Encumbered and unencumbered assets

Art 443 CRR

AI Lake is obliged to report encumbered and unencumbered assets at Group level based on the CRR scope of consolidation in the manner set out in the EBA guidelines on disclosure of encumbered and unencumbered assets.

Per 31 December 2018 EUR 464.2 million of assets have been identified as encumbered assets within AI Lake. The major part of encumbered assets have been debt securities.

EUR m

Encumbered and unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered asset	Fair value of unencumbered assets
Loans on demand	73.0	-	828.8	-
Equity instruments	0.0	0.0	17.4	17.1
Debt securities	198.9	157.2	987.7	664.5
Loans and advances (other than loans on demand)	186.7	-	3,606.1	-
Other assets	5.6	-	267.6	-
Total	464.2	-	5,707.5	-

EUR m

Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Loans on demand	0.0	0.0
Equity instruments	0.0	3.7
Debt securities	0.0	7.7
Loans and advances (other than loans on demand)	0.0	303.2
Other assets	0.0	0.1

EUR m

Encumbered assets/collateral received and associated liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	616.1	199.5

The actual Group level of asset encumbrance is reviewed quarterly, where material changes are discussed in the respective committees and potential steering measures are approved. It is worth mentioning that the levels of individual asset encumbrance vary on single entity level mainly due to heterogeneous business models within the Group. Any risk arising from such discrepancies is sufficiently monitored and managed at both Group and individual entity level. In addition, an internal governance framework is in place, which includes a group-wide policy on reporting, steering and limiting the level of asset encumbrance on Group and individual entity level.

10.2 Exposures in equities not included in the trading book

Art 447 a-c CRR

At 31 December 2018, Al Lake Group had equity investments in the nontrading book of EUR 17.4 million. These consist of investments held for the purposes shown in the below tables.

These investments are held at fair value in line with estimated market prices and the main investment is the Slovenian Bank Resolution Fund, which is prescribed by local regulation.

The implementation of IFRS 9 resulted in the removal of the available-for-sale category; the majority of equity exposures (EUR 17.1 million) therein have been classified as at fair value through other comprehensive income (FVTOCI). Few instruments for an exposure of EUR 0.3 million have been classified as mandatory at fair value through profit and loss (FVTPL).

Unrealised gains on FVTOCI equities of EUR 0.3 million at 31 December 2018 were fully recognised in CET1.

Details of our accounting policy for equity investments measured at FVTOCI and the valuation of financial instruments may be found on page 21 of the Group Annual Report 2018. A detailed description of the valuation techniques applied to private equity may be found on page 88 of the Group Annual Report 2018.

The following tables present an overview of the equity instruments not included in the trading book as of 31 December 2018:

	EUR m		
Participations and objectives	FVTOCI	FVTPL	31.12.2018
Slovenian Bank Resolution Fund	13.1	0.0	13.1
VISA Inc	3.3	0.0	3.3
Other strategic investments	0.6	0.0	0.6
Other equity investments	0.0	0.3	0.3
Total	17.1	0.3	17.4

	EUR m		
Participations and objectives	FVTOCI	FVTPL	31.12.2018
Governments	13.1	0.0	13.1
Other financial corporations	3.6	0.0	3.6
Non-financial corporations	0.3	0.3	0.6
Total	17.1	0.3	17.4

None of the above instruments are traded on the stock exchange.

Art 447 d-e CRR

There were no gains or losses during 2018 from the sale of equity instruments in the Al Lake Group.

As of 31 December 2018, there were total unrealised gains in the amount of EUR 1.0 million.

11 Glossary

AI Lake	AI Lake (Luxembourg) Holding S.à r.l.
ALCO	Asset Liability Committee
AT1	Additional Tier 1
BIA	Basic Indicator Approach
BPV	Basis Point Value
BWG	Austrian Banking Act
CCB	Countercyclical Buffer
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CHF	Swiss Francs
CIU	Collective Investments Undertakings
CQS	Credit Quality Step
CRD	Capital Requirements Directive
CRE	Commercial Real Estate
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CRSA	Credit Risk Standard Approach
CSA	Credit Support Annex
CSEE	Central and South-Eastern Europe
CVA	Credit Value Adjustment
DVA	Debit Value Adjustment
EBA	European Banking Authority
EC	European Commission
ECA	Export Credit Agency
ECAI	External Credit Assessment Institution
ECL	Expected credit loss
EMU	European Monetary Union
EU	European Union
FMA	Financial Market Authority
FMA-MSK	Austrian Minimum Standards for Credit Business
GHR	Group Human Resources
GL	Guidelines
GREC	Group Risk Executive Committee
GRR	Group Risk Report
G-SII	Global Systemically Important Institution
HHI	Herfindahl Hirschman Index
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICV	Internal Collateral Value

IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Assessment Process
IMM	Internal Model Method
IR	Interest Rate
IR Gap	Interest Rate Gap
IRB	Internal-Ratings-Based approach
IRRBB	Interest Rate Risk of the Banking Book
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LLSFR	Local Loan Stable Funding Ratio
LR	Leverage Ratio
LVaR	Liquidity value at risk
MREL	Minimum Requirement for own funds and Eligible Liabilities
n/a	not applicable
NIB	Non-Interest-Bearing positions
NII sensitivity	Net interest income (NII) sensitivity
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OeNB	Oesterreichische Nationalbank
OIS	Overnight Index Swap
PD	Probability of Default
PFD	Provisioning, Forbearance, Default methodology
PFE	Potential Future Exposure
PMS	Portfolio Management System
POCI	Purchased or originated credit impaired assets
PSE	Public Sector Entity
RAF	Risk Appetite Framework
RCSA	Risk and Control Self Assessment
RRE	Residential Real Estate
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Securities financing transactions
SME	Small and medium-sized enterprises according to Commission Recommendation (2003/361/EC)
SPOC	Single Point of Contact
SREP	Supervisory Review Evaluation Process
SRP CI	Specific Risk Provision Collective Impaired method
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
T1	Tier 1 Capital
TC	Total Capital
UFN	Until Further Notice
VaR	Value at Risk

12 Imprint

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