Addiko Bank

Group Annual Report 2019

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

			EUR m
Selected items of the Profit or Loss statement	**YE19**	**YE18**	**(%)**
Net banking income	250.2	235.5	6.2%
Net interest income	183.0	173.2	5.7%
Net fee and commission income	67.2	62.4	7.8%
Net result on financial instruments	13.4	70.0	-80.8%
Other operating result	-39.3	-16.5	>100%
Operating expenses	-189.2	-188.1	0.6%
Operating result before change in credit loss expense	**35.2**	**100.9**	**-65.1%**
Credit loss expenses on financial assets	2.9	2.8	1.9%
Tax on income	-2.9	0.5	>100%
Result after tax	**35.1**	**104.2**	**-66.3%**
Performance ratios	**YE19**	**YE18**	**(pts)**
Net interest income/total average assets	3.0%	2.7%	0.25
Adjusted return on tangible equity	4.9%	3.7%	1.16
Adjusted return on tangible equity (@14.1% CET1 Ratio)	5.6%	4.2%	1.39
Cost/income ratio	75.6%	79.9%	-4.26
Cost of risk ratio	0.1%	0.1%	-0.01
Selected items of the Statement of financial position	**YE19**	**YE18**	**(%)**
Loans and advances to customers	3,871.9	3,787.3	2.2%
o/w gross performing loans	3,869.5	3,766.1	2.7%
Deposits of customers	4,831.2	4,836.7	-0.1%
Equity	861.3	859.5	0.2%
Total assets	6,083.6	6,152.1	-1.1%
Risk-weighted assets[1)]	4,571.5	4,545.0	0.6%
Balance sheet ratios	**YE19**	**YE18**	**(pts)**
Loan to deposit ratio	80.1%	78.3%	1.84
NPE ratio	3.9%	5.6%	-1.70
NPE coverage ratio	73.8%	75.4%	-1.60
Liquidity coverage ratio	175.4%	149.9%	25.50
Common equity tier 1 ratio[1)]	17.7%	17.7%	0.01
Total capital ratio[1)]	17.7%	17.7%	0.05

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

Letter from the CEO

2019 was a very special year for Addiko Group. Our listing on July 12 on the Vienna Stock Exchange and inclusion in the ATX prime market, marked a significant success for our Group. It confirms the demand for a specialist player, challenging the universal banks with a simpler and focused model, serving Consumers and SMEs by offering convenience and speed. The success of "going public" is a result of a business transformation that began in 2015 with a change of ownership, a new specialist business strategy and continued with a new brand launch and a significant turnaround of the bank, leading to today's stable foundations.

A lot remains to be done on our way to deliver "Straightforward banking", and the successes in 2019 give us the confidence that we are on the right track.

In 2019 Addiko Group reported a result after tax of EUR 35.1 million, and 40.7 million on an adjusted basis which represents a 32% improvement over 2018 (EUR 30.9 million), mainly driven by the execution of Addiko Group's focus strategy which reflected in a further increased share of the two focus segments Consumer and SME amounting to 62% of the gross performing loan book (2018: 56%) while the size of the overall gross performing loan book increased by 2.7%.

The growth of gross performing loans in the focus areas has continued and increased the volume by 13.4% (13% for Consumer and 14.1% for SME lending activities) compared to 2018. Despite a challenging interest environment and additional administrative measures and recommendations introduced by local regulators to limit the growth of the consumer lending market in the CSEE region, yields remained stable in the focus areas Consumer and SME during 2019.

We continued to reflect our simpler, specialist positioning in a simplified operating model, allowing us to maintain strict discipline on the cost side. The efforts on the cost front were supported by the increased focus on digital distribution.

The positive trend continued in the reduction of non-performing exposures, the NPE ratio reaching 3.9% in 2019 (2018: 5.6%), with an NPE coverage of 73.8% (2018: 75.4%).

Four years ago, we promised "Straightforward banking": focus on essentials, deliver on efficiency and communicate simplicity. We delivered by staying focused on our core segments – Consumer and SME - and on our value proposition – convenience and speed. We did so in a challenging environment, and the customers and markets rewarded us for our focus and consistency.

The environment will continue to test us: low interest rates, competitive pressure, market consolidation, regulatory changes, digital transformation, increased demands from our customers. It is as important as ever to remain consistent on what brought our success so far: focus on bringing straightforward banking to our target customers. We are uniquely positioned to support the continued convergence of the region we operate in towards EU standards through convenient and quick financial services relevant to our Consumer and SME customers.

We know the local markets, we understand customers and their needs, we have a modern operating model and distinctive strategy supported by a prudent risk approach - this way we generate value for our customers and shareholders.

The achievements listed above were made possible through the trust, dedication and respect of our employees, customers and shareholders. I thank all of them for their continued, unwavering support. In the name of the Management Board, I thank the Addiko team for the strong work ethic, the extraordinary commitment and the outstanding performance in building a sustainable business across our entire geography.

Sincerely,

Munteanu

Razvan Munteanu

Addiko Bank

Group Annual Report 2019

Group Management Report

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Any data is presented on the Addiko Group level (referred to as Addiko Bank or the Group throughout the document) unless stated otherwise.

The tables in this report may contain rounding differences.

Group Management Report

1. Overview of Addiko Bank

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2019 approximately 0.8 million customers in CSEE, using a well-dispersed network of 179 branches and modern digital banking channels.

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

Addiko Group delivers a modern customer experience in line with its strategy of providing straightforward banking – “focus on essentials, deliver on efficiency and communicate simplicity”. Banking products and services have been standardised, especially in the Consumer and the SME segment, to improve efficiency, reduce risks and maintain asset quality.

On 12 July 2019 Addiko Bank became a listed company on the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l., a company indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD), to 44.99%, with the remainder being free float. On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market. The IPO represents a turning point for the Bank from private to public ownership allowing the Group to continue growing as an independent public company.

2. General economic environment

2.1. Economic Development YE19

Growth momentum remains quite strong by post-crisis standards and has even picked up in Croatia recently. However, the growth rates in excess of 4% recorded in 2018 in three of the countries of operation (Slovenia, Serbia and Montenegro) could not be sustained in 2019, albeit for varying reasons. Using an unweighted average, the pace of expansion across the countries of operation slowed down from 4.0% in 2018 to an estimated 3.1% in 2019. Growth was strongest in Serbia (3.4%) and Montenegro (3.3%) and weakest in Bosnia & Herzegovina (2.7%), while the economies of Croatia and Slovenia grew by an estimated 3.0% and 2.9%, respectively.

Over the next two years, growth in the countries of operation (unweighted average) is projected to slow down further – albeit only marginally, to 2.8% in both 2020 and 2021. There are two key reasons for this: (i) the weakening external demand, not least reflecting protectionist risks, and (ii) in some cases domestic capacity constraints, such as skills and labour shortages. Although most Addiko countries of operation continue to have quite high unemployment rates, these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth. At the same time, in those countries where the labour shortages have been most pronounced, such as Slovenia and (to a lesser extent) Croatia, they started subsiding recently thanks to increased hiring of foreign labour.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and ultra-loose ECB policy. Supply side factors in particular, such as depressed energy prices, indicate that inflationary pressure will not emerge anytime soon. Across all countries of operation, inflation has picked up somewhat from 2014-2016 levels (when many countries experienced a period of deflation) but will remain at historically low levels. The main determining factor for credit growth in the next 2-3 years in Addiko countries will be the stance of the ECB. This makes sense, considering the very strong trade and investment integration between Addiko countries and the bloc and their fixed exchange rate regimes (except in Serbia). Slovenia is in fact part of the euro area, and Montenegro uses the euro as a legal tender. To this end, the signs for credit growth are quite positive. In September 2019, the ECB cut its deposit rate further to a record -0.5% and restarted its asset purchase programme in the volume of EUR 20 billion per month, while keeping its refinancing rate unchanged at 0%.

All countries of operation are at a positive point in the credit cycle: lending growth to the non-financial private sector was firmly positive in all countries of operation in 2019. The strongest growth was observed in Serbia (8.9% year-on-year), followed by Bosnia & Herzegovina (6.7%), Montenegro (6.6%), Slovenia (4.6%) and Croatia (3.2%). In all countries of operation, credit demand from households has been stronger than that from companies, which supported private consumption growth.

In Croatia, real GDP growth accelerated to an estimated 3% in 2019 (from 2.7% in 2018), not least thanks to tourism season surprising on the upside. However, for 2020-2021 Addiko projects a growth deceleration to 2.7% per year on account of the weakening external demand. The Croatian government aims to join the ERM 2 by January 2021 at the latest, paving the way for EUR accession two years later. To this end, the country committed itself to implement reforms in six policy areas, three of which are in the banking sector. The assessment of the country's progress in its application to join the ERM 2 (and the European Banking Union) by the ECB and the European Commission is expected in June-July 2020. Credit growth in Croatia has been sustained exclusively thanks to borrowing by households, whereas loans to the corporate sector have been declining slightly (by 1.7% as of November 2019, year-on-year).

In Slovenia, the very high real GDP growth from 2018 (4.1%) could not be repeated in 2019, but at an estimated 2.9% was still reasonably solid. However, Addiko expects growth to subside further going forward, to 2.6% in 2020 and 2.4% in 2021, mostly on account of the weakening external demand. The recent economic weakness in Germany has already affected Slovenian exports and the country's car production has suffered, but the performance of the important pharmaceuticals industry has remained strong. Following severe consumer loan restrictions imposed by the Central Bank in late 2019, household credit growth has started decelerating from the high growth rate of around 6% per year recorded in 2019.

In Serbia, growth slowdown has been not as pronounced as initially expected: real GDP still grew by an estimated 3.4% in 2019, partly thanks to the construction of the Serbian part of Turk Stream gas pipeline. For 2020 and 2021, the growth forecast has been revised upwards as well, to 3.4% and 3.2% respectively. This is partly due to the recent favourable international political developments, including improved Serbia-Kosovo relations and the related abolition of Kosovo's 100% import tariff on goods from Serbia and Bosnia & Herzegovina (which had been in place since late 2018). FDI inflows should continue to support investment, while rising wages and generous social policies will underpin private consumption growth. Credit growth picked up strongly in 2018 on the back of higher confidence, and although the current growth rate of around 9% per year may not be sustained, the outlook for the next two years is positive.

In Bosnia & Herzegovina, economic growth slowed down by nearly 1 pp in 2019 (to an estimated 2.7%), mainly because of the disappointing export performance, with the weakness in the euro area increasingly spilling over. Growth is projected to subside further this year, to 2.5%, but should rebound to 2.8% in 2021, with the economy benefitting from remittance inflows and increased tourism exports. After more than a year of political deadlock, the formation of the new government should facilitate economic reforms this year, although the country's prospects of obtaining EU candidate status in the near future remain questionable and would require a major constitutional reform. Credit growth has picked up pace somewhat recently and has approached nearly 8% year-on-year in the case of the household sector.

In Montenegro, growth slowdown has been particularly sharp, from 5.1% in 2018 to an estimated 3.3% in 2019, mainly on account of the fiscal consolidation in the face of high public (and foreign) debt, with spending cuts falling mostly on public investment projects. Growth is projected to subside further going forward, to 3.0% in 2020 and 2.9% in 2021, reflecting weakening investment activity as well as a slump in private and public consumption. The current government strategy is to ensure a fiscal surplus in 2020-2022, which should help bring down the public debt to 62% of GDP. Given the already high levels of corporate and private debt, the pace of credit expansion may weaken from its current rather high rate in excess of 6% per year.

2.2. Market reports on Consumer Lending in CSEE

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

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

3. Significant events in 2019

3.1. Addiko Group goes public

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

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

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

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

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

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

On 11 October 2019, Moody’s assigned a Ba3 long-term local currency rating to Addiko’s planned issuance of Subordinated Tier 2 notes, and placed the rating on review for upgrade. Concurrently, the rating agency placed on review for upgrade Addiko’s long- and short-term Ba3/NP deposits ratings, as well as the bank’s long- and short-term Ba2(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments) and Ba3/NP Counterparty Risk Ratings analysis.

On 6 December 2019 Moody’s confirmed Addiko Bank AG’s ratings (outlook stable) concluding the rating review for Addiko opened on 11 October 2019 to reflect Addiko Bank’s announcement on 19 November 2019 to postpone a planned issuance of subordinated debt.

3.3. Transformation towards out-of-branch sales and digital development

3.3.1. Great customer experience with efficient distribution transformation

Addiko Bank is dedicated to delivering the straightforward banking promise and ensuring great customer experience. An important part of this goal is further development and seamless integration of the Bank’s digital channels across all customer touchpoints.

Accordingly, Addiko Bank has started a process of transforming its distribution model to keep close to the market's continuously evolving needs.

A target mix of channels is currently being introduced to the market in line with the convenience and simplicity promises that Addiko Bank makes to its customers. The changes are visible on several levels: customers have more options in terms of cash handling by having access to more self-service machines, inside Addiko Bank’s branches or in stand-alone locations. The Bank's digital capabilities are being continuously developed with the mission to improve and enrich the user experience on the mobile app and the internet banking platform as well as end-to-end digital solutions for obtaining a loan.

The Group is also capitalizing on one of its best capabilities: transforming the classic branch employee role into a more complex one, empowering employees to go outside the branch and serve customers at their work place. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to thousands of customers every month, throughout the whole Addiko Group. Customers are receiving advice regarding their financial needs, they can open current accounts, order debit cards, apply for loans or credit cards and obtaining credit approval on the spot.

3.3.2. Digital transformation

Addiko Bank's successes over the past years were to a great extent made possible due to the digital strategy being an essential part of the business strategy and both driving and supporting the change to reflect the transformation in banking business and customer expectations.

Therefore, Addiko Bank is continuously working on modernizing, improving and digitally transforming its business on all levels-process, procedural, operational, production, service with these reflecting the Bank's dedication to providing the straightforward banking service.

In February 2019 Addiko Bank Croatia launched a unique and for the Croatian market the first ever 'Addiko Virtual Branch' which enabled a completely digital lending processes, from requests to approvals without any physical interaction. It enables current account opening as well, also without any need for the customer to visit a physical branch at any time. Addiko Virtual Branch is available for customers of all banks. With Addiko Virtual Branch the bank presented the future of banking - completely digital, simple, straightforward, fast and tailored to the needs of modern customers.

In November, Addiko Bank's Virtual branch was recognised as the "Best Product Innovation" in whole of Europe, and received the "Retail Banking Europe Award 2019". The Retail Banking Europe Awards are presented to the most innovative banking institutions and are considered recognition for the best retail banking practices.

Also, in 2019, the "mLoan" was made available on the Serbian market which allowed customers to get a loan via mobile phone and Addiko's mbanking application, without having to visit a physical branch. In this way Addiko Bank once again confirmed the role of a leader when it comes to introducing new services in digital banking in Serbia. This effort was recognised as "Best Project" by the Veracomp Top 100 CIOs forum in May 2019.

To provide the full range of digital services also for corporate clients, 'Addiko Business EBank' with new functionalities and a unique user experience specifically designed for corporate clients using ebanking was launched in Serbia and Montenegro, which means that the whole group is now operating on the same platform.

In addition, with the 1Q19 introduction of 'Addiko Chat Banking' in Slovenia the innovative Viber-based payments service has been made available in all markets.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of the Group. Addiko continues to invest in digital solutions as an essential foundation to delivering on the business boosting, convenience and speed-based value proposition. For the Consumer segment the share of consumer loans sold digitally improved to 9% in 2019 (3.8% for 2018) and the contribution of Bank@Work to 27% (17% for 2018).

3.3.3. Branches

At year end 2019 Addiko Group operates a total of 179 branches, whereas 46 are located in Croatia, 19 are located in Slovenia, 66 are located in Bosnia & Herzegovina, 37 are located in Serbia and 11 are located in Montenegro. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

3.4. Continuous cost optimisation and efficiency gains

With a continued focus on process optimisation towards a more efficient, lean and integrated organisation further initiatives have been initiated.

In the context of the cost optimisation measure related to the reduction of 180 FTEs and 8 branches as disclosed in 1H19, the ongoing execution so far resulted in the release of 229 FTEs and the closure of 17 branches between 30. June 2019 and 31. December 2019. This resulted in an FTE reduction of 6.6% compared to 2018.

3.5. Capital Requirement

In the beginning of October 2019, Addiko Bank AG received a draft decision as result of the yearly SREP process, based on which own funds are deemed adequate both at the consolidated and the Holding level. The draft decision prescribes a Pillar 2 requirement (P2R) of 4.3% (4.1% for 2019) and contains a Pillar 2 guidance (P2G) in the amount of 4%. Addiko Bank AG approached the supervisory authority to address technical aspects regarding the draft P2R and P2G decision.

The dialogue with the Austrian Regulator resulted so far in a P2R at the current level of 4.1% (20bp reduction from the draft SREP). Please refer to section 13.2 Dividend Policy and to note (75) Capital Management for further details on this topic.

4. Financial development of the Group

4.1. Analysis of the reported result

EUR m

	1.1.-31.12.2019	1.1.-31.12.2018	Change (%)
Net banking income	250.2	235.5	6.2%
Net interest income	183.0	173.2	5.7%
Net fee and commission income	67.2	62.4	7.8%
Net result on financial instruments	13.4	70.0	-80.8%
Other operating result	-39.3	-16.5	>100%
Operating income	**224.3**	**289.0**	**-22.4%**
Operating expenses	**-189.2**	**-188.1**	**0.6%**
Operating result before change in credit loss expense	**35.2**	**100.9**	**-65.1%**
Credit loss expenses on financial assets	2.9	2.8	1.9%
Operating result before tax	**38.0**	**103.7**	**-63.3%**
Tax on income	-2.9	0.5	>100%
Result after tax	**35.1**	**104.2**	**-66.3%**

The result after tax of EUR 40.7 million on an adjusted basis (2018: EUR 30.9 million) was mainly driven by the continued execution of Addiko's focus strategy reflected in a further increased share of the two focus segments Consumer and SME. The reconciliation to the reported result after tax of EUR 35.1 million at YE19 (YE18: EUR 104.2 million), is described in more detail in section 4.2.

Reported net interest income increased in 2019 from EUR 173.2 million at YE18, by EUR 9.8 million, or 5.7%, to EUR 183.0 million at YE19. This was primarily due to a decrease in interest expenses from EUR -40.7 million at YE18, by EUR -12.9 million, to EUR -27.8 million at YE19, predominantly resulting from lower interest expenses for customer deposit of EUR -11.2 million – mainly caused by a shift from higher yield term deposits to lower yield current deposits and avoided interest expenses from the waived Tier 2 capital, which amounted to EUR 3.6 million in the comparative period 2018. Interest income remained almost stable moving from EUR 213.8 million at YE18, by EUR -3.0 million, to EUR 210.8 million at YE19. This development is reflecting an increase of regular interest income within the focus areas Consumer and SME lending which over-compensated the decrease within the non-focus areas i.e. Mortgage and Public Finance. Moreover, interest income from NPEs reduced by EUR 2.8 million compared to YE18 given the successful reduction of NPEs during 2019. The **net interest margin** amounts to 299bp at YE19, compared to 274bp YE18.

Reported net fee and commission income increased from EUR 62.4 million in 2018, by EUR 4.8 million, or 7.8%, to EUR 67.2 million in 2019. This was primarily due to the increase of fee and commission income from EUR 76.5 million at YE18, by EUR 6.5 million, to EUR 83.0 million at YE19, which was mainly driven by stronger income from bancassurance, transactions, dynamic currency conversions as well as roll out of further functionalities for guarantee and trade finance products in the SME segment.

Reported net result on financial instruments is positive with EUR 13.4 million, mainly driven by the sale of debt instruments. The previous year result of EUR 70.0 million was strongly affected by the EUR 190 million waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018, which had an impact of EUR 61.0 million.

On a reported basis, the **other operating result** as sum of other operating income and other operating expense changed in 2019 from EUR -16.5 million at YE18, by EUR -22.8 million, to EUR -39.3 million at YE19. The development was mainly driven by the following significant items:

- Recognition of EUR -3.9 million restructuring costs as part of cost initiatives executed during the second half of 2019. The related impact, resulting from predominantly back office optimisation and branch closures.
- Net increase in EUR -10.3 million provision expenses mainly driven by the development in relation to legal matters on foreign currency loans and unilateral interest rate claims, which were partially compensated by the release of provisions in connection with the active settlement strategy for long-term lasting court cases. This compared with a net release of EUR 5.6 million in YE18.
- Impairment of intangible assets in the amount of EUR -6.7 million (YE18: EUR -5.6 million), which was driven by the decision to upgrade the version of the

core banking system in some of the countries where the group operates, which was triggering the impairment of capitalized change requests on the previous version of the software. In addition, this position includes also the outcome of a group wide project to assess future economic benefit of certain IT applications.

The deposit guarantee costs in the amount of EUR -9.1 essentially correspond to previous year figures; the full year impact of charges to the recovery and resolution fund decreased from EUR -2.4 million to EUR -1.3 million.

Reported operating expenses increased marginally from EUR -188.1 million in 2018, by EUR 1.1 million, or 0.6% to EUR -189.2 million at the current reporting date:

- Personnel expenses reduced compared to the previous period from EUR -99.4 million at YE18 to EUR -96.7 million at YE19. The number of employees expressed in full-time equivalent ('FTE') at 31 December 2019 was 2,738.8, which constitutes, as a result of efficiency and right sizing programs, a decrease of 193.7 FTEs from 31 December 2018.
- Other administrative expenses decreased from EUR -78.0 million at YE18, by EUR 4.7 million, or 6.0% to EUR -73.3 million at YE19. This development was mainly driven by the implementation of the new leasing standard (IFRS 16, starting from 1.1.2019) and the related decrease in rental expenses. This P&L line item included EUR -2.0 million legal and advisory expenses in connection with the IPO preparation process during 2019 (YE18: EUR -2.6 million). In addition, YE18 was positively influenced by a non-recurring release of EUR 1.5 million provision for onerous contracts. The residual increase of the administrative expenses is primarily reflecting investments to grow the business and enhance the digital capabilities of the Group. The impact of inflation was partially absorbed by the cost savings from the productivity programmes within the Group.
- Depreciation and amortisation increased from EUR -10.7 million at YE18, by EUR -8.4 million, to EUR -19.1 million at YE19. This development was predominantly driven by depreciation in the amount of EUR -7.1 million for the right of use assets recognised in the course of the first-time implementation of the new leasing standard IFRS 16 and the corresponding decrease in rental expenses.

Due to net releases, the **reported credit loss expenses on financial assets** amount to EUR 2.9 million (YE18: EUR 2.8 million). The allocation of provisions within the consumer and SME portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate. The result 2019 was significantly influenced by a conversion law regarding CHF mortgage loans, which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019, with a negative impact of EUR 8.1 million. The law obliged all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate was the CHF-EUR currency rate as of the day of the conversion and the Republic of Serbia covered 17% of the reduction. The reported expected credit loss expenses include EUR 2.1 million releases which were recorded in connection with legacy transactions with corporate clients, whereby these exposures would not have been granted under the current Addiko risk strategy introduced on the 1 January 2016.

Reported taxes on income amount at YE19 to EUR -2.9 million compared to EUR 0.5 million at YE18 and include the additional recognition of deferred tax assets on tax loss carried forward in the amount of EUR 9.0 million (YE18: EUR 15.0 million).

4.2. Reconciliation reported to adjusted result

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

EUR m

	1.1.-31.12.2019	1.1.-31.12.2018	Change (%)
Net banking income	250.2	239.1	4.6%
Net interest income	183.0	176.7	3.6%
Net fee and commission income	67.2	62.4	7.7%
Net result on financial instruments	9.2	9.0	1.9%
Other operating result	-27.1	-18.2	48.9%
Operating income	**232.3**	**229.9**	**1.0%**
Operating expenses	**-187.2**	**-186.9**	**0.2%**
Operating result before change in credit loss expense	**45.1**	**43.0**	**4.7%**
Credit loss expenses on financial assets	7.0	2.3	>100%
Operating result before tax	**52.1**	**45.4**	**14.7%**
Tax on income	-11.4	-14.5	-21.5%
Result after tax	**40.7**	**30.9**	**31.7%**

Adjusted result after tax increased from EUR 30.9 million at YE18, by EUR 9.8 million, or 31.7% to EUR 40.7 million at YE19. The adjusted result, does not include the following items:

- **Net interest income** in 2018 does not include interest expenses of EUR 3.6 million from the waived Tier 2 capital which ceased to exist in 2018.
- **Net result on financial instruments** was adjusted in 2018 by the impact of the Tier 2 waiver on profit and loss of EUR 61.0 million and in 2019 by the result of the sale of the financial instrument, which was held in connection with the restructuring proceedings of a large Croatian retailer (EUR 4.3 million).
- **Other operating result** was adjusted in 2019 by excluding costs for the restructuring program (EUR -3.9 million), which was initiated in the second half of 2019 as well as a net impact of EUR -8.8 million (thereof EUR -0.6 million deferred taxes) from the recognition of provisions for legal cases in connection with foreign currency loans (YE18: EUR 3.7 million).
- **Operating expense** were adjusted in 2019 by the costs for capital market readiness in the amount of EUR -2.0 million (YE18: EUR -2.6 million). For 2018 EUR 1.5 million, representing releases for onerous contracts, were deducted.
- **Credit loss expense on financial assets** were adjusted in 2019 by EUR -8.1 million from a conversion law regarding CHF mortgage loans which was enacted in Serbia in 2019 as well as EUR 2.1 million (YE18: EUR -0.3 million) in connection with legacy transactions with corporate clients, whereby these exposures would not have been granted under the current Addiko risk strategy. Furthermore, EUR 1.9 million (YE18: EUR 0.8 million) which refer to retail debt sales were excluded from the adjusted result.
- **Taxes on income were adjusted by excluding** the recognition of deferred tax assets on tax loss carried forward in the amount of EUR 9.0 million (YE18: EUR 15.0 million).

Overall adjusted income was growing faster than costs in 2019 compared to 2018; consequently, adjusted net banking income increased by 4.6% and adjusted operating expenses by 0.2%. Adjusted jaws was therefore positive by 4.4%.

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

EUR m

Reconciliation of reported to adjusted result after tax	YE19	YE18
Adjusted result after tax	**40.7**	**30.9**
- Tier 2 expenses	-	-3.6
- Tier 2 waiver	-	60.8
- sale financial instruments from restructuring proceedings	4.3	-
- restructuring costs	-3.9	-
- net provision on legal matters	-8.8	3.7
- onerous contracts	-	1.5
- costs for capital market readiness	-2.0	-2.6
- costs for risk strategy adjustment	2.1	-0.3
- costs on CHF conversion law	-8.1	-
- BIT claim	-	-2.0
- Retail debt sale	1.9	0.8
- deferred tax ramp up	9.0	15.0
Reported result after tax	**35.1**	**104.3**

4.3. Analysis of the consolidated statement of financial position

EUR m

	31.12.2019	31.12.2018	Change (%)
Cash reserves	899.4	1,002.9	-10.3%
Financial assets held for trading	38.5	24.3	58.2%
Loans and receivables	3,885.9	3,792.9	2.5%
Loans and advances to credit institutions	14.0	5.6	>100%
Loans and advances to customers	3,871.9	3,787.3	2.2%
Investment securities	1,096.6	1,184.6	-7.4%
Tangible assets	85.9	57.7	48.8%
Intangible assets	27.9	30.3	-7.8%
Tax assets	25.7	28.3	-9.2%
Current tax assets	1.8	1.7	4.5%
Deferred tax assets	23.9	26.6	-10.1%
Other assets	20.6	25.5	-19.1%
Non-current assets and disposal groups classified as held for sale	3.1	5.7	-44.9%
Total assets	**6,083.6**	**6,152.1**	**-1.1%**

The statement of financial position of Addiko Group shows the simple and solid interest-bearing asset structure: more than 63.6% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds. With regard to the statement of financial position, Addiko's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is shown by the increased share of these two segments of 62.0% of the gross performing loan book (YE18: 56.2%). The performance in new disbursements, which outperformed the market growth, in these focus segments over the last 12 months clearly highlights that Addiko is delivering on its business strategy, with an increase in the volumes of gross performing loans of +13.0% in Consumer and +14.1% in SME lending.

As of YE19 the **total assets** of Addiko Group in the amount of EUR 6,083.6 million fall slightly below the level as of YE18 of EUR 6,152.1 million, corresponding to a decrease of EUR -68.5 million or -1.1%. The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) increased to EUR 4,571.5 million (YE18: EUR 4,545.0 million) reflecting the increases of volumes in the focus segments.

Cash reserve decreased by EUR -103.5 million to EUR 899.4 million as of 31 December 2019 (YE18: EUR 1,002.9 million). This was primarily caused by a shift from cash to loans and receivables as well as the payment of the dividend for the financial year 2018 in the amount of EUR 50.0 million.

Overall **loans and receivables** increased to EUR 3,885.9 million from EUR 3,792.9 million at year end 2018:

- Loans and receivables to credit institutions (net) increased by EUR 8.4 million to EUR 14.0 million (YE18: EUR 5.6 million).
- Loans and receivables to customers (net) increased by EUR 84.6 million to EUR 3,871.9 million (YE18: EUR 3,787.3 million). In line with the Group's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending, which was partly offset by the decrease in the Mortgage Business.

The **investment securities** slightly decreased from EUR 1,184.6 million to EUR 1,096.6 million in YE19, they are largely invested in high rated government bonds and have a maturity of less than five years. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tangible assets increased to EUR 85.9 million compared to EUR 57.7 million at YE18, which can be traced back to the first-time implementation of IFRS 16, leading to the recognition of a right of use asset in the amount of EUR 29.5 million at the 1 January 2019.

Tax assets decreased to EUR 25.7 million (YE18: EUR 28.3 million), as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

Other assets decreased to EUR 20.6 million (YE18: EUR 25.5 million), this position includes mainly advance payments in relation to IT projects aimed to increase operational efficiency.

EUR m

	31.12.2019	31.12.2018	Change (%)
Financial liabilities held for trading	6.0	2.1	>100%
Financial liabilities measured at amortised cost	5,121.6	5,202.5	-1.6%
Deposits of credit institutions	233.9	324.4	-27.9%
Deposits of customers	4,831.2	4,836.7	-0.1%
Issued bonds, subordinated and supplementary capital	0.1	1.1	-94.8%
Other financial liabilities	56.4	40.3	39.9%
Provisions	66.9	62.0	7.9%
Tax liabilities	0.0	1.0	-100.0%
Current tax liabilities	0.0	0.9	-100.0%
Deferred tax liabilities	0.0	0.1	-100.0%
Other liabilities	27.9	25.1	11.2%
Equity	861.3	859.5	0.2%
Total equity and liabilities	**6,083.6**	**6,152.1**	**-1.1%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 5,121.6 million compared to EUR 5,202.5 million at year end 2018:

- Deposits of credit institutions decreased from EUR 324.4 million to EUR 233.9 million as of YE19.
- Deposits of customers decreased to EUR 4,831.2 million (YE18: EUR 4,836.7 million).
- Other financial liabilities increased from EUR 40.3 million at YE18 to EUR 56.4 million at YE19, which are a result of the first-time implementation of IFRS 16 regulations.

Provisions increased from EUR 62.0 million at YE18 to EUR 66.9 million at YE19. The development was primarily influenced by the allocation of provisions for legal matters on CHF currency clauses in Croatia. This development was offset by a reduction of provisions for loan commitments and guarantees granted.

Other liabilities increased slightly from EUR 25.1 million to EUR 27.9 million and include accruals for services received but not yet invoiced as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 859.5 million to EUR 861.3 million is reflecting the net impact from the dividend payment in the amount of EUR 50.0 million for the year 2018 and the 2019 total comprehensive income, which includes the profit and loss for the reporting period in the amount of EUR 35.1 million as well as changes in other comprehensive income in the amount of EUR 16.7 million. This change is mainly due to favourable market related movements from debt instruments measured at FVTOCI.

The **capital base** of Addiko Group is solely made up of CET1 following the Tier 2 waiver in 2018 and stands at 17.7% (YE18: 17.7%) on a IFRS 9 transitional basis and at 17.1% without applying IFRS 9 transitional rules (YE18: 16.9%), well above the Overall Capital Requirements of 14.6% based on the currently valid SREP 2019 decision received in June 2019.

The **return on tangible equity** on adjusted basis with 4.9% for 2019 compared to 3.7% for YE18 is reflecting the positive development of Addiko's performance. The return on tangible equity (@14.1% CET1 Ratio) on adjusted basis increased to 5.6% for 2019 compared to 4.2% at YE18.

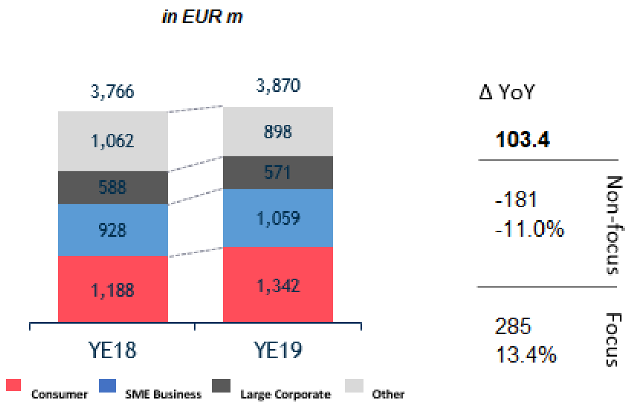
5. Segment reporting

EUR m

31.12.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	169.8	22.7	147.1	41.7	16.6	7.9	14.1	250.2
Net interest income	127.5	22.7	104.8	23.8	10.7	6.6	14.4	183.0
o/w regular interest income	124.6	30.6	94.0	29.2	14.3	4.7	21.3	194.2
Net fee and commission income	42.3	0.0	42.3	17.9	5.9	1.4	-0.3	67.2
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	13.4	13.4
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-39.3	-39.3
Operating income	**169.8**	**22.7**	**147.1**	**41.7**	**16.6**	**7.9**	**-11.7**	**224.3**
Operating expenses	**-87.5**			**-22.9**	**-4.1**	**-2.1**	**-72.6**	**-189.2**
Operating result	**82.4**			**18.9**	**12.4**	**5.9**	**-84.4**	**35.2**
Change in CL	-7.5	12.8	-20.3	-3.2	6.9	1.3	5.3	2.9
Operating result before tax	**74.9**			**15.7**	**19.4**	**7.1**	**-79.0**	**38.0**
Business volume								
Net loans and receivables	2,063.1	758.8	1,304.2	1,065.2	583.6	154.8	19.3	3,885.9
o/w gross performing loans customers	2,086.2	744.5	1,341.7	1,059.0	570.7	153.6		3,869.5
Gross disbursements	646.1	9.5	636.5	626.7	280.5	5.9		1,559.2
Financial liabilities at AC [1]	2,691.6		2,691.6	723.5	402.3	538.5	765.8	5,121.6
RWA [2]	1,441.7	459.1	982.6	961.7	610.6	90.4	816.7	3,921.0
Key ratios								
Net interest margin (NIM)[3]	4.7%	1.7%	6.0%	2.3%	1.5%	1.2%		3.0%
Cost/Income Ratio	51.5%			54.8%	24.9%	26.1%		75.6%
Cost of risk ratio	-0.3%	1.5%	-1.3%	-0.2%	0.9%	0.7%		0.1%
Loan to deposit ratio	76.6%			147.2%	145.1%	28.7%		80.1%
NPE ratio (CRB based)	7.6%	11.3%	5.5%	3.9%	2.8%	2.9%		5.3%
NPE coverage ratio	80.7%	70.7%	91.9%	66.1%	47.5%	54.2%		73.8%
NPE collateral coverage	43.7%	70.1%	14.2%	63.5%	65.1%	84.2%		51.2%
Change CL/GPL (simply Ø)	-0.4%	1.6%	-1.6%	-0.3%	1.2%	0.7%		0.1%
Yield GPL (simply Ø)	6.0%	3.8%	7.4%	2.9%	2.5%	2.8%		4.5%

[1]Financial liabilities at AC at YE19 include the Direct deposits (Austria/Germany) amounting to EUR 413 million, EUR 234 million Deposits of credit institutions, EUR 119 million Other. [2]Includes only credit risk (without application of IFRS 9 transitional rules). [3]Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

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



Segment definition in brief:

Retail: including Mortgage and Consumer as product based segments.

Consumer: this segment includes both the consumer finance as well as the micro subsegment including private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue.

Mortgage: relating to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.

SME: within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.

Large Corporates: includes corporate clients with an annual gross revenue above EUR 40 million.

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

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

5.1. Retail

EUR m

Retail			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income	127.5	118.6	7.5%
o/w regular interest income	124.6	121.4	2.6%
Net fee and commission income	42.3	41.0	3.1%
Operating income	**169.8**	**159.7**	**6.4%**
Operating expenses	**-87.5**	**-86.9**	**0.7%**
Operating result	**82.4**	**72.8**	**13.1%**
Change in CL	-7.5	0.0	>100%
Operating result before tax	**74.9**	**72.8**	**2.9%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	2,063.1	2,048.2	0.7%
o/w gross performing loans customers	2,086.2	2,060.5	1.2%
Gross disbursements	646.1	589.6	9.6%
Financial liabilities at AC	2,691.6	2,756.9	-2.4%
Key ratios	**YE19**	**YE18**	**(pts)**
NIM	4.7%	4.4%	0.21
Cost/Income Ratio	51.5%	54.4%	-2.91
Cost of risk ratio	-0.3%	0.0%	-0.32
Loan to deposit ratio	76.6%	74.3%	2.36
NPE ratio (CRB based)	7.6%	10.2%	-2.7
NPE coverage ratio	80.7%	80.9%	-0.20
NPE collateral coverage	43.7%	42.2%	1.50
Change CL/GPL (simply Ø)	-0.4%	0.0%	-0.36
Yield GPL (simply Ø)	6.0%	5.9%	0.07

EUR m

Consumer			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income [1]	104.8	92.2	13.8%
o/w regular interest income	94.0	84.9	10.7%
Net fee and commission income	42.3	41.0	3.1%
Operating income	**147.1**	**133.2**	**10.5%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	1,304.2	1,164.6	12.0%
o/w gross performing loans customers	1,341.7	1,187.8	13.0%
Gross disbursements	636.5	579.1	9.9%
Key ratios	**YE19**	**YE18**	**(pts)**
Net interest margin (NIM) [2]	6.0%	6.1%	-0.10
Cost of risk ratio	-1.3%	-0.7%	-0.65
NPE ratio (CRB based)	5.5%	7.3%	-1.82
NPE coverage ratio	91.9%	91.1%	0.82
Change CL/GPL (simply Ø)	-1.6%	-0.9%	-0.75
Yield GPL (simply Ø)	7.4%	7.7%	-0.23

EUR m

Mortgage			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income [1]	22.7	26.5	-14.3%
o/w regular interest income	30.6	36.5	-16.2%
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	758.8	883.6	-14.1%
o/w gross performing loans customers	744.5	872.7	-14.7%
Gross disbursements	9.5	10.5	-9.1%
Key ratios	**YE19**	**YE18**	**(pts)**
Net interest margin (NIM) [2]	1.7%	1.8%	-0.10
Cost of risk ratio	1.5%	0.9%	0.59
NPE ratio (CRB based)	11.3%	14.3%	-3.00
NPE coverage ratio	70.7%	73.6%	-2.92
NPE collateral coverage	70.1%	59.8%	10.25
Change CL/GPL (simply Ø)	1.6%	1.0%	0.57

[1] To assure comparability, for 2018 interest income on NPE was reallocated between Mortgages and Consumer segment [2] Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

Retail strategy

Addiko Bank's Retail segment serves 724 thousand customers through a network of 179 branches and state of the art digital channels. Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner.
During the last period the number of customers has been reduced through the clean-up of inactive customer and pricing adjustment of high interest deposit products to optimise the structure of liabilities. The number of consumers collecting their regular income in an Addiko account utilised for regular payments amounts to 244 thousand in 2019.

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

The Mortgage lending is not part of the "focus area" and consequently primarily targets the retention of existing, profitable customers. However, for retention purposes private individuals, holding an account package for payments or an existing mortgage loan, are granted mortgage loans upon demand. Given the gradual wind-down strategy, mortgage lending products are not actively marketed.

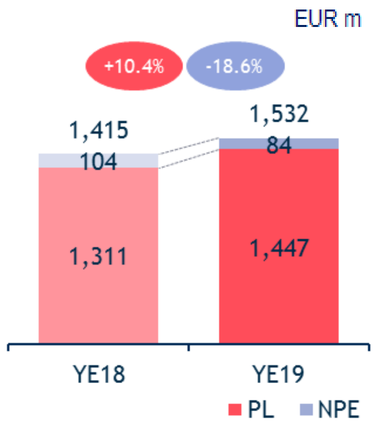
Retail YE19 Business review

The business strategy to focus on growing the Consumer business and payments, while gradually reducing the Mortgage portfolio is reflected in the segment result. The increase of operating income by 6.4% was driven by higher net interest income resulting from an increase in regular interest income of EUR 3.2 million, as well as a decrease in interest expenses of EUR 7.7 million, which can be traced back to further deposit re-pricing and a shift of higher-yield term deposits to lower-yield a-vista deposits. The net fee and commission income increased by EUR 1.3 million to EUR 42.3 million in 2019, due to a major increase in bancassurance improving sales of account & packages. The operating result before change in credit loss amounts to EUR 82.4 million as of YE19, 13.1% higher compared to YE18. Increased income led to an improved Cost/Income ratio of 51.5% and higher NIM by 21bps. On balance the operating result before tax amounts to EUR 74.9 million, which translates to a 2.9% increase vs YE18.

The development of the credit risk bearing exposure in YE19 for Consumer lending, shows an increase of 10.4% of the performing loans and a decrease of 18.6% of the non-performing loans demonstrating a sound portfolio quality, contributing to the overall Retail NPE ratio (CRB based) of 7.6%, 268bps lower than as of YE18.

The YE19 Retail gross performing loans increased by 1.2%, as the significant growth in unsecured consumer loans (originating EUR 637 million of new loans in YE19) is impacted by the mortgage loan book run-down.

Development Consumer gross credit risk bearing exposure:



Simplifying product portfolio and exploiting Group synergies

Addiko Bank delivers on its brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers. Account packages are a cornerstone of this strategy. In the last year Addiko has launched new account packages in Croatia, Slovenia and Bosnia & Herzegovina and during 2019 the Group has sold 43 thousand account packages.

Standardising products and processes, and consolidating partners and vendors is another critical element of the Group's strategy. Addiko Group has started a strategic partnership with Uniqa Group and during 2018 successfully rolled out new Bancassurance products in all its subsidiaries. Consequently, Bancassurance net fee and commission income has increased to EUR 4.2 million, compared to EUR 2.5 million in YE18.

5.2. SME Business

EUR m

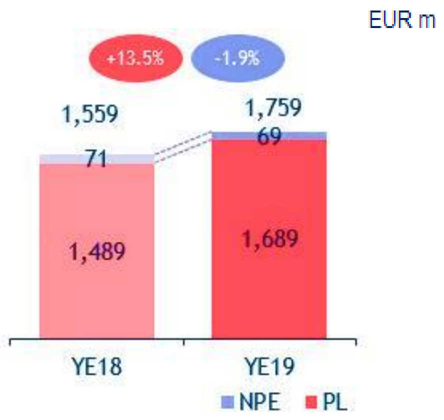
SME Business			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income	23.8	23.0	3.8%
o/w regular interest income	29.2	27.6	6.0%
Net fee and commission income	17.9	15.1	18.4%
Operating income	**41.7**	**38.1**	**9.6%**
Operating expenses	**-22.9**	**-21.9**	**4.2%**
Operating result	**18.9**	**16.2**	**16.8%**
Change in CL	-3.2	-7.4	-56.8%
Operating result before tax	**15.7**	**8.8**	**78.7%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	1,065.2	931.3	14.4%
o/w gross performing loans customers	1,059.0	928.4	14.1%
Gross disbursements	626.7	557.7	12.4%
Financial liabilities at AC	723.5	605.4	19.5%
Key ratios	**YE19**	**YE18**	**(pts)**
NIM [1)]	2.3%	2.7%	-0.45
Cost/Income Ratio	54.8%	57.6%	-2.81
Cost of risk ratio	-0.2%	-0.5%	0.29
Loan to deposit ratio	147.2%	153.8%	-6.60
NPE ratio (CRB based)	3.9%	4.5%	-0.59
NPE coverage ratio	66.1%	63.7%	2.40
NPE collateral coverage	63.5%	68.3%	-4.85
Change CL/GPL (simply Ø)	-0.3%	-0.9%	0.54
Yield GPL (simply Ø)	2.9%	3.2%	-0.27

[1)] Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

SME Strategy

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

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



SME YE19 Business review

In 2019, the bank continued to grow the SME loan book by originating EUR 626.7 million of new loans, which translates into gross performing loan growth of 14.1% compared to the YE18 period. These results were delivered while adhering to disciplined underwriting standards, which is reflected at a lower change in credit loss of 56.8%. Net interest income amounts to EUR 23.8 million and increased in comparison with YE18 by 3.8%. NIM decreased by 45bps compared to YE18 driven by ongoing margin pressure. The net fee and commission income increased by 18.4% compared to YE18, mainly arising from FX and DCC activities, payments and trade finance. The operating expenses increased by EUR -0.9 million resulting from slightly higher costs on total bank level in Slovenia and Croatia. In total, the SME segment has generated EUR 18.9 million operating result, 16.8% higher than in 2018, while the result before tax improved to EUR 15.7 million (+78.7% compared to YE18) also driven by lower credit loss expenses. The credit risk bearing exposure increased by EUR 199.3 million from YE18 to YE19, while the NPE decreased by EUR 1.4 million compared to YE18. Consequently, the NPE ratio remained at a remarkable low level of 3.9% with an increased provisions coverage, showing the overall excellent quality of the SME as focus portfolio.

5.3. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income	10.7	11.7	-8.6%
o/w regular interest income	14.3	14.2	1.0%
Net fee and commission income	5.9	6.1	-3.5%
Operating income	**16.6**	**17.8**	**-6.8%**
Operating expenses	**-4.1**	**-4.1**	**0.4%**
Operating result	**12.4**	**13.7**	**-9.0%**
Change in CL	6.9	3.6	91.4%
Operating result before tax	**19.4**	**17.3**	**12.0%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	583.6	611.6	-4.6%
o/w gross performing loans customers	570.7	588.4	-3.0%
Gross disbursements	280.5	291.8	-3.9%
Financial liabilities at AC	402.3	426.6	-5.7%
Key ratios	**YE19**	**YE18**	**(pts)**
NIM [1)]	1.5%	1.4%	0.01
Cost/Income Ratio	24.9%	23.2%	1.79
Cost of risk ratio	0.9%	0.4%	0.46
Loan to deposit ratio	145.1%	143.4%	1.69
NPE ratio (CRB based)	2.8%	8.9%	-6.11
NPE coverage ratio	47.5%	70.1%	-22.63
NPE collateral coverage	65.1%	34.5%	30.54
Change CL/GPL (simply Ø)	1.2%	0.7%	0.51
Yield GPL (simply Ø)	2.5%	2.7%	-0.21

[1)] Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances.

Large Corporates Strategy

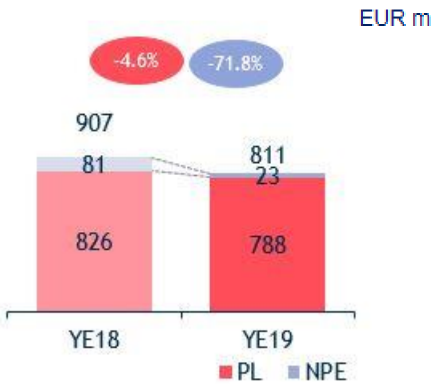
The Large Corporates segment comprises Addiko Group's business activities relating to offering a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large corporate customers, i.e. companies with annual turnover of over EUR 40 million.

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

Large Corporates YE19 Business review

The net interest income reduced by EUR -1.0 million driven by a drop in interest income from NPE due to the reduction of the non-performing portfolio by 71.8%. The net fee and commission income, amounting to EUR 5.9 million, decreased mainly due to lower FX activities while all other categories are in line or show progress. The operating result before tax increased to EUR 19.4 million due to lower credit loss expenses on financial assets by EUR 3.3 million compared to YE18. Operating expenses in line with 2018 with Cost/Income ratio of 24.9%. The non-performing exposure decreased from EUR 81.0 million to EUR 22.8 million proving the Groups focus on a de-risked asset base. With that said, within the extraordinary administration procedures for a large Croatian retailer, a material amount of NPE was exchanged for equity shares and convertible bonds and subsequently sold due to which NPE ratio decreased from 8.9% to 2.8%.

Development gross credit risk bearing exposure:



5.4. Public Finance

EUR m

Public Finance			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income	6.6	8.6	-23.6%
o/w regular interest income	4.7	6.3	-24.3%
Net fee and commission income	1.4	1.1	28.1%
Operating income	**7.9**	**9.7**	**-17.8%**
Operating expenses	**-2.1**	**-2.3**	**-11.1%**
Operating result	**5.9**	**7.3**	**-19.9%**
Change in CL	1.3	2.4	-46.9%
Operating result before tax	**7.1**	**9.7**	**-26.6%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	154.8	189.6	-18.3%
o/w gross performing loans customers	153.6	188.8	-18.7%
Gross disbursements	5.9	19.8	-70.1%
Financial liabilities at AC	538.5	616.0	-12.6%
Key ratios	**YE19**	**YE18**	**(pts)**
NIM [1)]	1.2%	1.7%	-0.5
Cost/Income Ratio	26.1%	24.1%	2.0
Cost of risk ratio	0.7%	1.1%	-0.4
Loan to deposit ratio	28.7%	30.8%	-2.0
NPE ratio (CRB based)	2.9%	1.5%	1.4
NPE coverage ratio	54.2%	42.0%	12.2
NPE collateral coverage	84.2%	66.4%	17.8
Change CL/GPL (simply Ø)	0.7%	1.0%	-0.3
Yield GPL (simply Ø)	2.8%	2.7%	0.1

[1)]Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

Public Finance Strategy

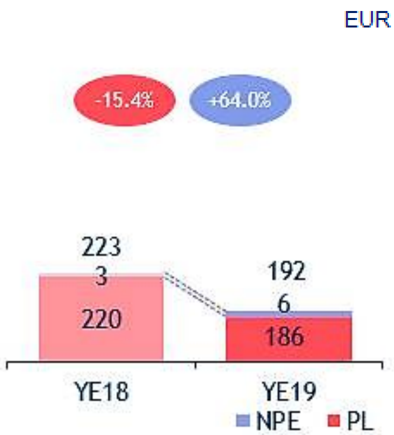
The Public Finance segment comprises Addiko Group's business with key public institutions in CSEE countries, such as ministries of finance, state enterprises and local governments. Addiko Group offers those public institutions a full suite of products, comprising deposit products (current accounts, savings accounts and term deposits), lending products (term loans, operating financing loans and leasing products) and other complementary products such as domestic and foreign payments, insurance, treasury and trade finance products. Public Finance lending is not an area that Addiko Group is aiming to grow. It rather focuses on maintaining the existing deposits and provide account keeping services while lending on a selected basis only.

Public Finance YE19 Business review

Net interest income in 2019 amounts to EUR 6.6 million, with a NIM of 1.2%. The decrease in net interest income results from the strategic run-down of the portfolio and breakage fee received in 2018 related to early repayment of a public client in Croatia. Net fee and commission income increased to EUR 1.4 million mainly driven by transaction payments and tariff increases in that NCI category. The Public Finance segment has generated EUR 5.9 million operating result and EUR 7.1 million operating result before tax in 2019.

Due to the strategy to decrease the lending activity in this segment, credit risk bearing exposure of the segment further decreased, and amounts to EUR 192.0 million as of YE19. The increase of the NPE ratio in 2019 is caused by a re-segmentation of a state-owned Serbian company, which was previously segmented as Large Corporate. Nevertheless, the NPE coverage ratio is showing high provisions coverage of 54.2% as well as collateral coverage of 84.2%.

Development gross credit risk bearing exposure:



5.5. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**YE19**	**YE18**	**(%)**
Net interest income [1]	14.4	11.3	27.4%
Net fee and commission income	-0.3	-1.0	-71.5%
Net result from financial instruments	13.4	70.0	-80.8%
Other operating result	-39.3	-16.5	>100%
Operating income	**-11.7**	**63.9**	**>100%**
Operating expenses	**-72.6**	**-72.9**	**-0.3%**
Operating result	**-84.4**	**-9.0**	**>100%**
Change in CL	5.3	4.1	28.1%
Operating result before tax	**-79.0**	**-4.9**	**>100%**
Business volume	**YE19**	**YE18**	**(%)**
Net loans and receivables	19.3	12.2	58.1%
Financial liabilities at AC [2]	765.8	797.7	-4.0%

[1]Net interest income = Customer Margin Assets plus Liabilities, including total interest income and expense as well as Fund Transfer Pricing. The Corporate Center segment include Treasury. Therefore, the Net Interest income the CMA and CML as well as the Interest and Liquidity gap contribution and asset contribution (see explanation below) are included. To assure comparability, the 2018 figures were reclassified to show no reallocation of deposit insurance costs from other operating result [2]Financial liabilities at AC at YE19 include Direct deposits (Austria/Germany) amounting to EUR 413 million, EUR 234 million Deposits of credit institutions, EUR 119 million Other

Corporate Center Strategy

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

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

Corporate Center YE19 Business review

The segment reporting is showing combined numbers for treasury and central functions related positions.
The net interest income in the Corporate Center covers the following aspects: 1) the customer margin assets and liabilities of the treasury segment, 2) the interest and liquidity gap contribution (IGC) reduced by the distribution of the IGC to the market segments (see explanation in following point), 3) interest income and expense related to Tier 2 capital (valid for 2018) and 4) the consolidation.

The positive development of the net interest income in 2019 compared to 2018 primarily stems from the cancellation of the Tier 2 instrument in 2018, which was waived in March 2018. The expansion of the group wide bond portfolio, mainly invested in government bonds of western and eastern European countries, additionally contributed to the positive development of the net interest income. The residual part of the bond portfolios consists of securities of global operating financial institutions and highly rated corporate issuers.

The steep drop of net result from financial instruments is a result of the one-off effect in March 2018 from the EUR 190.0 million debt waiver from the shareholder Al Lake (Luxembourg) S.à r.l. with a EUR 61.0 million income. In addition, this line item includes the result from selling bond positions and financial instruments related to a large Croatian retailer. The other operating result mainly includes incurred deposit insurance costs and the full year impact of charges to the Single Recovery and Resolution Fund, whereby legal provisions/expenses mostly related to CHF claims in Croatia have the highest impact on the divergence between YE19 and YE18. In addition, this position contains restructuring expenses in the amount of EUR 3.9 million related to planned back-office optimisation and branch closure initiatives.

Operating expenses include all headquarter and back-office costs for the countries as well as the holding entity which have not been allocated to the business segments.

Asset Contribution

The net interest income in YE19 in the Corporate Center includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 41.8 million. The majority of the IGC in the amount of EUR 30.1

million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extend of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC would be zero.
In reality a certain percentage of longer-term assets is funded by shorter term liabilities. Within the funds transfer pricing (FTP) methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from segment Corporate Center to the originator of the IGC, i.e. the respective market segment.

6. Capital-, share-, voting and control rights

The following information complies with the regulations of Section 243a (1) UGB:

1. The share capital of the Company amounts to EUR 195,000,000.00 as at 31 December 2019 and is divided into 19,500,000 voting no-par value bearer shares. As at the balance sheet date, all 19,500,000 shares were in circulation.
2. The Company's statutes do not contain any restrictions relating to voting rights or the transfer of shares, and neither is the Management Board aware of any other such provisions.
3. Pursuant to the most recent voting rights notification dated 13 August 2019, Al Lake S.à r.l. holds approx. 45 per cent of the Company's share capital. The remaining shares of Addiko Bank AG are in free float. On 21 February 2020 DDM INVEST III AG announced that it has made a strategic investment by entering into an agreement to acquire a 9.9% stake in Addiko Bank AG. The investment also includes a call option to acquire an additional 10.1% stake in Addiko Bank AG for the same price per share as the initial investment, which is subject to regulatory approval. The Management Board is not aware of any further direct or indirect shareholdings in the Company's capital amounting to at least 10 per cent.
4. The Company's statutes do not contain any particular control rights of shareholders, and neither is the Management Board aware of any other such provisions.
5. There is no control of voting rights for employees who own shares.
6. There are no provisions other than those required by law relating to the appointment and removal of the members of the Management Board and Supervisory Board. The Supervisory Board may resolve on amendments relating only to the wording of the Company's statutes. The Supervisory Board is authorised to resolve on the requirements of the Company's statues relating to the issue of shares in the course of an approved capital increase or a conditional capital increase. There are no further provisions other than those required by law relating to the amendment of the Company's statutes
7. Since the General Assembly dated 6 June 2019, the Management Board – pursuant to Section 169 Austrian Stock Corporation Act (AktG) – has been authorised to increase the share capital subject to approval of the Supervisory Board, if necessary in several tranches, by up to EUR 97,500,000 by issuing up to 9,750,000 new voting no-par value bearer shares against cash and/or non-cash contributions (also indirectly through a credit institution pursuant to Section 153 (6) AktG) within five years after entering the corresponding amendment to the Company's statutes into the Austrian Commercial Register, and to determine the issue price and terms of issue in agreement with the Supervisory Board. Subject to approval of the Supervisory Board, the Management Board is authorised to exclude the shareholders' statutory subscription right if (i) the capital increase is made against a non-cash contribution, (ii) the capital increase is made against a cash contribution and the shares issued under exclusion of the shareholders' subscription right do not, in total, exceed 10% (ten per cent) of the Company's share capital or (iii) shares are issued to employees, executives or members of the Management Board of the Company in the course of an employee stock participation program or stock option program. The Supervisory Board is authorised to resolve on amendments to these statues

relating to the issue of shares in the course of an approved capital increase. In the General Assembly dated 6 June 2019 and pursuant to Section 159 (2) No. 1 AktG, the share capital was conditionally increased (conditional capital) by up to EUR 19,500,000 by issuing up to 1,950,000 no-par value bearer shares. The conditional capital increase shall only be implemented to the extent that a conversion or subscription right, which the Company has granted to the creditors of convertible bonds or other instruments that provide their holders with a conversion of subscription right, is exercised. The issuing price and the conversion rate are to be determined on the basis of accepted simplified actuarial methods and the price of the Company's shares using a generally accepted pricing procedure (basis for the calculation of the issue amount); the issue amount is to be at least EUR 10 (ten euros) per share. Subject to approval of the Supervisory Board, the Management Board is authorised to determine the further details of the conditional capital increase. The Supervisory Board is authorised to resolve on amendments to these statues relating to the issue of shares in the course of a conditional capital increase. Within the meaning of Section 65 Austrian Stock Corporation Act, the Management Board is authorised to acquire own shares of the Company in the amount of up to ten per cent of the Company's share capital and to sell the acquired shares on the Vienna Stock Exchange pursuant to Section 65 (1) No. 8, (1a) and (1b) Austrian Stock Corporation Act, provided that the Company is a listed company.
Within a period of five years from the date of the General Assembly dated 6 June 2019 and subject to approval of the Supervisory Board, the Management Board is authorised to issue - in one or several tranches against a cash and/or non-cash contribution even with a total or partial exclusion of subscription rights - financial instruments within the meaning of Section 174 Austrian Stock Corporation Act, including instruments within the meaning of Section 26 Austrian Banking Act, particularly convertible bonds and/or profit participation bonds, which grant subscription rights for up to 1,950,000 new, voting no-par value bearer shares, as well as to resolve on any and all conditions with regard to the issue of such instruments.

8. There are no significant agreements in place to which Addiko Bank AG is a party and which take effect, are altered or terminated upon a change of control of Addiko Bank AG resulting from a takeover bid.
9. No compensation agreements have been concluded between Addiko Bank AG and its Management Board and Supervisory Board members or employees in case of a public takeover bid.

7. Analysis of non-financial key performance indicators

Regarding the non-finanical key performance indicators, please refer to the separately published consolidated non-financial report.

8. Internal Control System for accounting procedures

Addiko Bank has an internal control system (ICS) for accounting procedures, in which suitable structures and processes are defined and implemented throughout the organisation.

The aim of the internal control system of Addiko Group is to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, reliability of financial and non-financial information reported, both internally and externally, and compliance with laws, regulations, supervisory requirements and the institution's internal rules and decisions.

The Internal Control System (ICS) consists of a set of rules, procedures and organisational structures which aim to:

- ensure that corporate strategy is implemented,
- achieve effective and efficient corporate processes,
- safeguard the value of corporate assets,
- ensure the reliability and integrity of accounting and management data,
- ensure that operations comply with all relevant rules and regulations.

The particular objectives with regard to Addiko Group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

The internal control system of Addiko Group is built on a process-oriented approach. Addiko Group deploys control activities through process documentation which incorporates the tracking and documentation of each process, including the information about process flow according to the internally set up guidelines for process management. The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of daily activities of Addiko Group as well as periodic evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

Regular internal control system monitoring and promptly reporting on internal control deficiency and escalation to relevant stakeholders (e.g. committees) is established. Internal control deficiencies, whether identified by business line, internal audit, or other control functions are reported in a timely manner to the appropriate management level for further decision and addressed promptly.

Internal Audit performs independent and regular reviews of compliance with legal provisions and internal rules.

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical behavior of the employees. The Management Board and the leadership team actively and consciously embrace their role of leading by example by promoting high ethical and integrity standards and establishing a risk and control culture within the organisation that emphasizes and demonstrates to all levels of personnel the importance of internal controls.

9. Consolidated non-financial report

Pursuant to the Austrian Sustainability and Diversity Improvement Act (NaDiVeG), the consolidated non-financial statement, which has to be prepared in accordance with Section 267a Austrian Commercial Code (UGB), is issued as an independent non-financial report. The Report will be published online – at www.addiko.com - and also contains the disclosure for the parent company in accordance with Section 243b UGB.

10. Austrian code of Corporate Governance

Addiko Bank AG is committed to adhering to the Austrian Corporate Governance Code (http://www.corporate-governance.at). The Code contains rules based on compulsory legal requirements (L rules), rules that should be complied with, rules where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain) and rules that are recommendations, where noncompliance must not be disclosed or justified (R rules).

The Consolidated Corporate Governance Report of Addiko Bank AG will be published on the Addiko Group website under https://www.addiko.com/corporate-governance-reports/

11. Other disclosures

In relation to the required information in accordance with Section 267 Austrian Commercial Code (UGB) on events after the reporting date please refer to note (85). With respect to the explanations on substantial financial and non-financial risk as well as the goals and methods of risk management please refer to the risk report. In addition, information on the use of financial instruments are presented in the note (71) Fair value disclosure.

12. Research & Development

Addiko Bank does not conduct any research and development activities pursuant to section 267 Austrian Commercial Code (UGB).

13. Mid-Term Targets and Outlook

13.1. Mid-Term Targets

Addiko Group was able in 2019 to successfully continue its progress towards achieving mid-term target levels and is convinced that the continuous focus on Consumer and SME lending activities as well as payment services ("focus areas") in the CSEE region and a rigorous commitment to digital transformation, will enable a continuation of the established track record and a visible result of this strategy.

While the macroeconomic environment in the CSEE region has remained benign the interest rate outlook has changed significantly since the bank set the mid term targets beginning of 2019. In addition, further restrictions curbing consumer lending growth have been introduced in the region.
Addiko has tempered the revenue growth expectations and adjusted its business plan accordingly with the prudent assumption that interest level would not change from current levels and that lower revenues related to restrictions can be compensated over time supported by additional cost optimisation measures.

This has led to the review of the mid term targets to be achieved one year later compared with previous year target setting:

- the continuous shift of the loan book from the “non-focus” to the “focus areas” in line with the mid-term target of >85% (prev. 80%),
- net interest margin ca. 3.8% (prev. ca. 4.0%),
- net fee and commission income growth ca. 10% (prev. low-teens CAGR),
- the cost income ratio <50% (prev. <45%),
- cost of risk (net loans) ca. -1.5% (prev. -1.6%),
- return on tangible equity (14.1% CET1 Ratio) ca. 9.5% (prev. >12% which included 2% of Euribor increase),
- total capital ratio (incl. management buffer) >16.1% (unchanged),
- loan/deposit ratio ca. 100% (unchanged).

13.2. Dividend policy

In view of a return on tangible equity (ROTE) on adjusted basis of 5.6% in 2019 and a common equity tier 1 ratio (CET1 ratio; Basel III phased in) of 17.7%, the Management Board will propose to the annual general meeting to distribute a dividend for the financial year 2019 of EUR 2.05 per share (EUR 40 million).

In terms of capital dividends guidance and following the dividend proposal for 2019, Addiko reconfirms its initial guidance to distribute another EUR 40.0 million for the year 2020 and in the following years an annual dividend payout of 60% of net profit attributable to shareholders.

During the dialogue with the Austrian Regulator the Bank was able to clarify the P2R to stay at the current level of 4.1% (20bp reduction from the draft SREP letter received on the 4 October 2019). During the year 2020 a trackable action plan should allow for further reductions. In relation to the annual P2G review (draft expected to be issued in autumn 2020) it is expected that the annual SREP decisions will reflect the continuous progress in financial and risk parameters as reached in 2019 and the specifics of the countries where Addiko is present.

The distribution of any excess capital will follow the annual SREP decision and will be included in the dividend proposal to the annual General Meeting for the respective financial year.

Addiko continues to pursue its capital optimisation by issuing eligible capital instruments (AT1, Tier 2) reflecting the development of future capital requirements.

13.3. Outlook 2020

The benign macroeconomic environment in the countries of operations of Addiko Group is expected to continue in the coming years. While on a global scale a slowdown of growth and continuing deflationary impulses are anticipated, the growth in CSEE economies remains resilient. Nevertheless, it seems unlikely that the growth rates of the countries of operation will reach the levels recorded in 2018. Based on an unweighted average, it is estimated that growth in the 5 countries of operations will remain comparably steady at approximately 2.8% for 2020 after a slowdown from 2018 to 2019. This growth expectation is driven by the estimation for Serbia (3.4%) and Montenegro (3.0%), while the expected rates of the remaining countries are also well above more developed European economies.

At the same time, developments in the European banking sector are expected to continue. On the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the markets, and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. Furthermore, these activities of regulatory authorities, such as the implementation of consumer protection mechanisms limiting loan growth in the consumer sector, will in turn also have a negative influence on private consumption, further affecting the profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments.

In view of these challenges, but also these opportunities, the Addiko Group has continued to push ahead with its digital transformation and was thus able to take further significant steps towards achieving its medium-term goals. The locally operating banks have successfully positioned themselves as innovative and targeted specialist lenders in the areas of unsecured consumer loans and loans for small and medium-sized enterprises.

The potential impact of recently reported COVID-19 cases in Europe on the macroeconomic environment remains unclear and will largely depend on further developments.

On the back of this Addiko remains with the expectation of a moderately slower growth outlook on the back of very loose monetary condition, increased complexity of regulations and overall geopolitical uncertainties. The main risk factors influencing the banking industry include worsened interest rate outlooks, political or regulatory measures against banks as well as geopolitical and global economic uncertainties. Addiko Group will continue to execute its focused strategy as a consumer and SME specialist lender in the CSEE region, and further drive digital transformation along the value proposition convenience and speed. Rigorously managed risk-return profile and self-funding principle in each entity will remain strong anchors in the strategy.

Against this backdrop Addiko Group expects for 2020 to show continuous progress in the shift from non-focus to focus segments thereby increasing the share of focus business by another 5pp, to defend the margins and resulting in a growing net banking income. The net fee and commission income growth is expected to be comparable to 2019, accelerating towards the end of the year 2020 following the full implementation of the new cards platform.

Addiko Group further expects its operating expenses for 2020 to continue the developments in 2019, while cost reductions resulting from optimisation in 2019 are widely offset by increases in IT related depreciation.
Amid a stable low interest rate environment, cost of risk is expected to increase along a growing focus loan book and significantly less releases from the non focus areas.

Vienna, 26 February 2020
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

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I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 31.12.2019	01.01. - 31.12.2018
Interest income calculated using the effective interest method		207.4	209.6
Other interest income		3.4	4.2
Interest expenses		-27.8	-40.7
Net interest income	**(27)**	**183.0**	**173.2**
Fee and commission income		83.0	76.5
Fee and commission expenses		-15.8	-14.1
Net fee and commission income	**(28)**	**67.2**	**62.4**
Net result on financial instruments	(29)	13.4	70.0
Other operating income	(30)	8.9	19.1
Other operating expenses	(30)	-48.2	-35.7
Operating income		**224.3**	**289.0**
Personnel expenses	(31)	-96.7	-99.4
Other administrative expenses	(32)	-73.3	-78.0
Depreciation and amortisation	(33)	-19.1	-10.7
Operating expenses		**-189.2**	**-188.1**
Operating result before change in credit loss expense		**35.2**	**100.9**
Credit loss expenses on financial assets	(34)	2.9	2.8
Operating result before tax		**38.0**	**103.7**
Tax on income	(35)	-2.9	0.5
Result after tax		**35.1**	**104.2**
thereof attributable to equity holders of parent		35.1	104.2

	31.12.2019	31.12.2018
Result after tax attributable to ordinary shareholders (in EUR m)	35.1	104.2
Weighted-average number of ordinary shares at 31 December (in units of shares)	19,500,000.0	19,500,000.0
Earnings per share (in EUR)	**1.80**	**5.34**
Weighted-average diluted number of ordinary shares at 31 December (in units of shares)	19,500,000.0	19,500,000.0
Diluted earnings per share (in EUR)	**1.80**	**5.34**

Statement of other comprehensive income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Result after tax	**35.1**	**104.2**
Other comprehensive income	**16.7**	**-15.0**
Items that will not be reclassified to profit or loss	**1.4**	**0.3**
Fair value reserve - equity instruments	1.3	0.3
Net change in fair value	1.6	0.3
Income Tax	-0.3	-0.1
Items that may be reclassified to profit or loss	**15.3**	**-15.3**
Foreign currency translation	-0.5	1.8
Gains/losses of the current period	-0.5	1.8
Reclassification amounts	0.0	0.0
Fair value reserve - debt instruments	15.8	-17.0
Net change in fair value	26.6	-12.9
Net amount transferred to profit or loss	-8.8	-6.6
Income tax	-2.0	2.5
Total comprehensive income for the year	**51.8**	**89.2**
thereof attributable to equity holders of parent	51.8	89.2

II. Consolidated statement of financial position

EUR m

	Note	31.12.2019	31.12.2018
Assets			
Cash reserves	(36)	899.4	1,002.9
Financial assets held for trading	(37)	38.5	24.3
Loans and receivables	(38)	3,885.9	3,792.9
Loans and advances to credit institutions		14.0	5.6
Loans and advances to customers		3,871.9	3,787.3
Investment securities	(39)	1,096.6	1,184.6
Tangible assets	(40)	85.9	57.7
Property, plant and equipment		81.8	55.7
Investment property		4.1	2.0
Intangible assets		27.9	30.3
Tax assets		25.7	28.3
Current tax assets		1.8	1.7
Deferred tax assets		23.9	26.6
Other assets	(43)	20.6	25.5
Non-current assets and disposal groups classified as held for sale	(44)	3.1	5.7
Total assets		**6,083.6**	**6,152.1**
Equity and liabilities			
Financial liabilities held for trading	(45)	6.0	2.1
Financial liabilities measured at amortised cost	(46)	5,121.6	5,202.5
Deposits of credit institutions		233.9	324.4
Deposits of customers		4,831.2	4,836.7
Issued bonds, subordinated and supplementary capital		0.1	1.1
Other financial liabilities		56.4	40.3
Provisions	(47)	66.9	62.0
Tax liabilities		0.0	1.0
Current tax liabilities		0.0	0.9
Deferred tax liabilities		0.0	0.1
Other liabilities	(48)	27.9	25.1
Equity		861.3	859.5
thereof attributable to equity holders of parent		861.3	859.5
Total equity and liabilities		**6,083.6**	**6,152.1**

III. Consolidated statement of changes in equity

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Impact of adopting IFRS 16	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Result after tax	0.0	0.0	0.0	0.0	35.1	35.1	0.0	35.1
Other comprehensive income	0.0	0.0	17.2	-0.5	0.0	16.7	0.0	16.7
Total comprehensive income	0.0	0.0	17.2	-0.5	35.1	51.7	0.0	51.7
Dividends paid	0.0	0.0	0.0	0.0	-50.0	-50.0	0.0	-50.0
Other changes	0.0	-177.8	0.0	0.0	177.8	0.0	0.0	0.0
Equity as at 31.12.2019	**195.0**	**298.7**	**22.5**	**-6.6**	**351.7**	**861.3**	**0.0**	**861.3**

In 2019 EUR 177.8 million were rebooked from the capital reserve to the position “Cumulative results and other reserves” and presented in the line item “Other changes”.

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2018	**5.0**	**537.8**	**12.5**	**-7.9**	**296.6**	**844.0**	**0.0**	**844.0**
Impact of adopting IFRS 9	**0.0**	**0.0**	**9.7**	**0.0**	**-42.1**	**-32.4**	**0.0**	**-32.4**
Equity as at 01.01.2018	**5.0**	**537.8**	**22.2**	**-7.9**	**254.5**	**811.6**	**0.0**	**811.6**
Result after tax	0.0	0.0	0.0	0.0	104.2	104.2	0.0	104.2
Other comprehensive income	0.0	0.0	-16.7	1.8	0.0	-15.0	0.0	-15.0
Total comprehensive income	0.0	0.0	-16.7	1.8	104.2	89.2	0.0	89.2
Capital increases	190.0	-190.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	-170.0	-170.0	0.0	-170.0
Other changes	0.0	128.7	0.0	0.0	0.0	128.7	0.0	128.7
Equity as at 31.12.2018	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**

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

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

IV. Consolidated statement of cash flows

EUR m

	2019	2018
Cash reserves at the end of previous period (01.01.)	**1,002.9**	**1,285.9**
Result after tax	**35.1**	**104.2**
Depreciation and amortisation of intangible assets, tangible assets and financial investments	25.5	14.3
Change in risk provisions on financial instruments	-2.9	-2.8
Change in provision	20.8	-2.6
Gains (losses) from disposals of intangible assets, tangible assets and investment securities	-10.1	-10.3
Investment securities	-8.8	-9.0
Intangible and tangible assets	-1.3	-1.3
Issued bonds, subordinated and supplementary capital	0.0	-61.0
Subtotal	**68.5**	**41.8**
Loans and advances to credit institutions and customers	-315.6	-282.4
Investment securities	115.0	92.6
Financial assets held for trading	-14.1	-4.5
Other assets	13.4	-3.6
Financial liabilities measured at amortised cost	-77.1	-88.7
Financial liabilities held for trading	3.9	0.3
Provisions	-14.4	-20.3
Other liabilities from operating activities	-3.7	-8.0
Payments for taxes on income	-3.4	-2.6
Interests received	222.9	222.0
Interests paid	-29.9	-40.3
Dividends received	0.1	0.0
Cash flows from operating activities	**-34.5**	**-93.6**
Proceeds from the sale of:	3.1	2.2
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	3.1	2.2
Payments for purchases of:	-19.5	-23.9
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	-19.5	-23.9
Other changes	-2.1	0.6
Cash flows from investing activities	**-18.6**	**-21.1**
Dividends paid	-50.0	-170.0
Cash flows from financing activities	**-50.0**	**-170.0**
Effect of exchange rate changes	-0.5	1.6
Cash reserves at end of period (31.12.)	**899.3**	**1,002.9**

The cash flows from operating activities include the principle portion of lease payments in the amount of EUR -6.5 million. Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. The 2018 capital increase in the amount of EUR 128.7 million granted by Al Lake (Luxembourg) S.à r.l. to Addiko Bank AG is the result of a waiver of its entire provided Tier 2 capital and is therefore not presented as cash capital contribution. Non-cash investing and financing activities are arising from application of IFRS 16 Leases and they are disclosed in the notes (2) Application of new standards and amendments and (42) Development of tangible and intangible assets.

V. Notes to the consolidated financial statements

Company

Addiko Group is a network of six banks with its core business in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro under the umbrella of the joint holding company, Addiko Bank AG. AI Lake (Luxembourg) S.à r.l., indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD) was until the listing the direct parent company of the Addiko Group. On 12 July 2019 Addiko Bank was listed on the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l. to 44.99%, with the remainder being free float. Addiko Bank AG is registered in the commercial register (Firmenbuch) of the Commercial Court of Vienna under company registration number FN 350921k. The Groups headquarter is located at Wipplingerstraße 34, 1010 Vienna, Austria.

The Group is focusing its business primarily on retail as well as small and medium-sized companies while also benefiting from its foothold in local corporations. Starting in 2017, Addiko Group also provides online deposit services in Austria and Germany.

The consolidated financial statements are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position. Disclosure is made on the Addiko Bank AG website at www.addiko.com.

Group accounting policies

(1) Accounting principles

The consolidated financial statements of Addiko Group were prepared in accordance with the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union (EU) as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), and in compliance with the requirements of Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (64) Analysis of remaining maturities.

The consolidated financial statements of Addiko Group are based on the reporting packages of all fully consolidated subsidiaries prepared according to uniform Group-wide standards and IFRS provisions. All subsidiaries prepare their financial statements as at 31 December. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 1, please refer to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

The provisions of the new accounting standard for leases (IFRS 16) took effect on 1 January 2019. The adoption of IFRS 16 has resulted in changes of accounting policies for lease contracts. Further details of the specific IFRS 16 accounting policies, estimates and judgments applied in the current period and its quantitative and qualitative impact are described in more detail in note (2) Application of new standards and amendments. Apart from adoption and impact of IFRS 16, the same estimates, judgments, accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements.

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

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

On 26 February 2020, the Management Board of Addiko Bank AG approved the consolidated financial statements as at 31 December 2019 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it approves the consolidated financial statements as at 31 December 2019.

(2) Application of new standards and amendments

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

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

Standard	Name	Description	Effective for financial year
IFRS 16	Leases (New Standard)	Replacing IAS 17	2019
IFRS 9	Financial Instruments (Amendments)	Prepayment Features with Negative Compensation	2019
IFRIC 23	Uncertainty over Income Tax Treatments	Accounting for uncertainties in income taxes	2019
IAS 28	Amendments to IAS 28 Investments in Associates and Joint Ventures	Long-term Interests in Associates and Joint Ventures	2019
IAS 19	Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement	2019
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs	2019

2.1. IFRS 16 Leases

IFRS 16 "Leases" was published by the IASB in January 2016. IFRS 16 took effect on 1 January 2019, superseding the previous guidance IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces significant changes to lessee accounting and requires new disclosures of information on lease contracts.

2.1.1. Accounting policies

2.1.1.1. Leases in which Addiko Group is a lessee

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

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Addiko Group also assess the right of use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the “right-of-use” approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases Addiko Group elected to recognise such lease contracts off the statement of financial position and lease expenses are accounted on straight-line basis over the remaining lease term.
IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Addiko Group has not used this practical expedient.
Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (4) “Use of estimates and assumptions/material uncertainties in relation to estimates”).

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

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

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

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

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

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

2.1.1.2. Leases in which Addiko Group is a lessor

With regard to lessors, the provisions of IAS 17 were largely adopted into the new IFRS 16. Lessor accounting thus still depends on which party bears the material opportunities and risks in the lease asset.

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

Addiko Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

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

2.1.1.3. Presentation in the financial statements

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

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

2.1.2. Impact of application of IFRS 16 Leases

The standard specifies the basic principles regarding recognition, presentation and disclosure of lease contracts for both contractual parties, i.e. the lessee and the lessor. The central idea of this new standard is that the lessee generally recognises all leases and the respective rights and obligations in the statement of financial position. The main objective of IFRS 16 is thus to avoid a presentation of leases off the statement of financial position. Under IFRS 16, leases are no longer classified as either “operating” or “finance” by lessees. Instead, a right of use asset and a lease liability are recognised for all leases henceforth.

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

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

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

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

The Addiko Group sustained only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total capital impact of -11 basis points due to an increase of the total assets in the amount of EUR 29.5 million (including prepayments) and an increase of lease liabilities in the amount of EUR 27.6 million.

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

The combination of a straight-line depreciation of the right of use assets and the effective interest rate method applied to the lease liabilities results in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

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

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

2.1.3. Transition and transitional disclosures

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

The Addiko Group applied the following practical expedients and exemptions:

- option which allows to adjust the right of use asset by the amount of provision for onerous leases recognised in the statement of financial position immediately before the date of initial application was applied
- practical expedients not to recognise right of use assets but to account for the lease expenses on straight-line basis over the remaining lease term for short-term leases (12 month) and for leases for which the underlying asset is of low value were applied
- initial direct costs from the measurement of the right of use asset at the date of initial application were excluded
- the Addiko Group used a hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease
- contracts which were not classified as leases under IAS 17 in conjunction with IFRIC 4 were not reviewed under the definition of a lease in IFRS 16
- instead of performing an impairment review on the right of use assets at the date of initial application, the Addiko Group has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16

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

EUR m

	Carrying amount
Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018	35.5
(-) Discounting (using incremental borrowing rate as at 1 January 2019)	-1.6
Off-balance operating lease obligations (IAS 17) discounted	33.9
(+) Minimum lease payments on finance lease as at 31 December 2018	0.0
(-) Exemption for short-term leases	-0.8
(-) Exemption for leases of low-value assets	-3.1
(+/-) Extension and termination options reasonably certain to be exercised	-0.2
(+) Variable lease payments based on an index or a rate	0.2
(-) Residual value guarantees	-0.3
(+/-) Other	-2.1
Lease liabilities recognised as a result of the initial application of IFRS 16 as at 1 January 2019	27.6

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

EUR m

	Carrying amount
Right of use assets unadjusted as at 1 January 2019	27.6
(+) Prepayments and accruals	2.1
(-) Onerous contracts (IAS 37)	-0.2
Right of use assets recognised as a result of the initial application of IFRS 16 as at 1 January 2019	29.5

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

EUR m

	Carrying amount
Land and buildings	25.2
Property, plant and equipment	4.2
Total	**29.5**

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

2.2. IFRS 9 Financial instruments

Based on the amendments of IFRS 9 introduced in 2017 financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a “held to collect” business model. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.3. IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretation **IFRIC 23** Uncertainty over Income Tax Treatments clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over whether the tax treatment will be accepted by the tax authority. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty (either the most likely amount method or the expected value method) and accounting for circumstances change or when there is new information that affects the judgements. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. This interpretation does not result in any significant changes within the Addiko Group.

2.4. IAS 28 Investments in Associates and Joint Ventures

The **IAS 28** amendments clarify that companies should account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. This includes the impairment requirements in IFRS 9. The amendments to IAS 28 are effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.5. IAS 19 Employee benefits

The **IAS 19** amendments have been issued in February 2018 and clarify how companies determine pension expenses when changes to a defined pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan (amendment, settlement or curtailment). An entity has to recognise any reduction in a surplus (even if that surplus was not previously recognised because of the impact of the asset ceiling which is recognised in other comprehensive income) in profit or loss as part of past service costs, or a gain or loss on settlement. The amendments to IAS 19 are effective for accounting periods beginning on or after 1 January 2019. This amendment does not result in any significant changes within the Addiko Group.

2.6. Annual improvements to IFRS Standards 2015-2017 Cycle

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

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU were not yet effective and were not early adopted by the Addiko Group:

Standard	Name	Description	Effective for financial year
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework	2020
IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	New definition of materiality	2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures	Interest rate benchmark reform	2020

The amendments to references to the **Conceptual Framework** in IFRS Standards have been issued in March 2018. Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document *Updating References to the Conceptual Framework* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not have any significant impact on the Addiko Group.

The **IAS 1 and IAS 8** amendments introduce the new consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements as a whole. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The new definition of material and the accompanying explanatory paragraphs helps reporting entities to decide whether information should be included in their financial statements. This amendment will not result in any significant changes within the Addiko Group.

The amendments to **IFRS 9, IAS 39 and IFRS 7** deal with issues affecting financial reporting in the period before the replacement of existing interest reference rates (interbank offered rates) with alternative risk free rates and address the implications for specific hedge accounting requirements in IFRS 9 and IAS 39. An entity will apply these hedging requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. These amendments will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not result in any significant changes within the Addiko Group.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU:

Standard	Name	Description
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of business
Amendments to IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current

The **IFRS 3** amendments provide application guidance to help distinguish between an acquisition of business and a purchase of group of assets that does not constitute a business. This amendment will not result in any significant changes within the Addiko Group.

The amendments to **IAS 1** clarify the requirements for classifying liabilities as current or non-current. These amendments will not result in any significant changes within the Addiko Group.

(3) Standards used for comparative periods

Until 31 December 2018 IAS 17 Leases was the applicable standard for lease contracts. On the 1 January 2019 it was superseded by IFRS 16 Leases. As IFRS 16 is not applied fully retrospectively the comparative period is still under the regime of IAS 17.

In the comparative period, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet) at lease inception. Leases that transferred substantially all the risks and rewards of ownership were classified as finance lease and the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset. Other leases were classified as operating leases and were not recognised in the Group´s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the lease term.

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

The lease contracts concluded by the Addiko Group as a lessor are mainly classified as finance leases. They are reported under loans and receivables in the statement of financial position at the net investment value (present value); see note (38) Loans and receivables. The lease payments received are split into an interest portion with an impact on profit or loss, as well as debt repayments without an impact on profit or loss.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating leases concluded by the Addiko Group as a lessor when lease payments were agreed in a currency other than the functional currency of the lessor, an embedded foreign currency derivative is not separated when the currency in which lease payments are denominated is the functional currency of a lessee who is substantial counterparty to the lease contract, or when the currency in which lease payments are denominated is a currency that is commonly used in lease contracts in the economic environment in which the transaction takes place.

With the exception of real estate, leased assets are reported under the item “property, plant and equipment” in tangible assets. Ongoing lease payments, gains and losses on disposal as well as impairment, if any, are reported under the item “other operating income” or "other operating expense" and scheduled depreciation under “depreciation and amortisation”.

Real estate leased under an operating lease is reported in the statement of financial position under the item “investment properties” in tangible assets.

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

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

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

For further information on credit risk provisioning methodology, reference is made to financial assets in note (14) Financial instruments as well as to the Risk Report under note (56) Development of risk provisions.

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

Generally, the fair value of a financial instrument to be included in the statement of financial position is determined based on quoted prices in the main market. The main market is deemed to be the market that is most active with regard to the financial instrument. If no market price is available, however, the market price of similar assets or liabilities is used, or the fair value is determined on the basis of accepted measurement models. The input parameters used are based – whenever available – on observable market data. If no market parameters are available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in measuring the instrument based on a model typically used in the market. In doing so, conditions such as similar credit standing, similar terms, similar payment structures or closely-linked markets are taken into account in order to arrive at the best possible market benchmark. To determine the fair value, the Addiko Group uses the comparison to the current fair value of other largely identical financial instruments, the analysis of discounted cash flows and option pricing models.

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

For further details regarding the measurement of financial instruments, see note (14) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (71) 71.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (38) Loans and receivables as well as note (39) Investment securities.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans. For further details regarding tax loss carried forward please refer to note (35) Taxes on income.

Addiko Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. Addiko Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. However, due to the fact that Addiko Group is subject to a large number of tax regulations that in some cases have only been in effect for a short period of time, are frequently amended and enforced by various political subdivisions, there is a risk that tax audits could, on account of diverging interpretations, result in assessments of tax deficiencies, which could require Addiko Group to pay additional taxes not previously expected.

In relation to existing taxable losses, although Addiko Group currently has no information or indications of a change of the relevant tax regulations, this may be revised in the future, with the imposition of a time limit or reduction for carry forward losses.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details on provisions are presented in note (47) Provisions.

Lease contracts
The application of IFRS 16 requires the Addiko Group to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Addiko Group comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Addiko Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Addiko Group is reasonably certain not to exercise that option. Addiko Group reassesses lease terms whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.
For lease contracts with indefinite term the Addiko Group estimates the length of the contract using the planning models.

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

For further details regarding lease contracts please refer to note (2) 2.1. IFRS 16 Leases and for the comparative period to note (3) Standards used for comparative periods.

(5) Scope of consolidation

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

	31.12.2019 Fully consolidated	31.12.2018 Fully consolidated
Start of period (01.01.)	**7**	**7**
Newly included in period under review	0	0
Excluded in period under review	0	0
End of period (31.12.)	**7**	**7**
thereof Austrian companies	1	1
thereof foreign companies	6	6

(6) Basis of consolidation and business combinations

Business combinations are accounted for following the consolidation principles pursuant to IFRS 3 "Business Combinations", using the acquisition method when control is transferred to the Group. According to this method, all assets and liabilities of the respective subsidiary are to be measured at fair value at the acquisition date. The cost of a business acquisition is calculated as the total of consideration transferred, measured at fair value at the acquisition date, and non-controlling interests in the entity acquired. Goodwill, if any, is initially measured at cost, calculated as the excess of the total consideration transferred as well as the amount of non-controlling interests in the identifiable assets and assumed liabilities acquired by the Group. If a negative difference remains after reassessment, it is recognised immediately in profit or loss.
IFRS 10 Consolidated Financial Statements defines the investor's control over an investee in terms of the investor having all of the following:

- Power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns,
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use the power over the investee to affect the amount of the investor's returns.

Assessing the existence of control requires judgements, assumptions and estimates on power stemming from voting rights, contractual agreements and rights arising from the lending transactions which could lead to the Addiko Group having power over an investee.

The date of initial consolidation corresponds to the date when the Group acquires control over the entity in question. Subsidiaries acquired during the year are included in the Group statement of comprehensive income from the date of acquisition. The results of subsidiaries disposed of during the year are included in the statement of comprehensive income until the date of disposal.

If further investments are acquired in an already fully consolidated but not yet wholly-owned entity, any resulting differences are reported directly in equity as transaction with non-controlling interests.

Intra-group balances and transactions between consolidated subsidiaries are fully eliminated. In the same way, intragroup income and expenses are offset within the framework of expense and income consolidation.

The share of equity and results of the consolidated subsidiaries allocated to non-Group third parties is reported separately in equity and in profit or loss under non-controlling interests. A subsidiary's comprehensive income is attributed to non-controlling interests even if this results in a negative balance.

When Addiko Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss.

(7) Foreign currency translation

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

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

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

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

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

Foreign currency translation Rates in units per EUR	Closing date 31.12.2019	Average 2019	Closing date 31.12.2018	Average 2018
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.43950	7.41980	7.41250	7.42030
Serbian dinar (RSD)	117.59280	117.87450	118.19460	118.28070

(8) Revenue from contract with customers

Under the core principle of **IFRS 15** "Revenue from Contracts with Customers" model, Addiko Group recognises revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognised at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to leases within the scope of IFRS 16, insurance contracts within the scope of IFRS 4, financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Consequently, interest income as well as dividend income are not within the scope of the revenue recognition standard. Addiko Group primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15.

Addiko Group derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

(9) Earnings per share

The Addiko Group presents basic and diluted earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the bank by weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares and increasing the weighted average number of ordinary shares outstanding by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(10) Net interest income

For all financial instruments measured at amortised cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (with the exception of purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).

Interest income from assets held for trading, as well as interest components of derivatives are presented in “net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “net result on financial instruments”.

Negative interest from financial assets and financial liabilities is presented in “net interest income”.

Dividend income is recognised at the time that a legal right to payment arises.

(11) Net fee and commission income

Fee and commission income and expense (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “net fee and commission income”.

In accordance with IFRS 15, income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

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

Other fee and commission expenses relate mainly to transaction and service fees which are expensed as the services are received.

(12) Net result on financial instruments

Net result on financial instruments held for trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realized gains and losses from derecognition, the result from trading in securities and derivatives, any ineffective portions recorded in fair value and cash flow hedge transactions and foreign exchange gains and losses on monetary assets and liabilities. The Group has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income, expense and dividends, which are presented in “net interest income”.

Net result on financial instruments at fair value through other comprehensive income and financial liabilities at amortised cost includes all gains and losses from derecognition. In the comparative period, gains and losses from derecognition as well as impairment from financial instruments available for sale and held to maturity were presented in “net result on financial instruments”.

(13) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property, release and allocation for legal cases and income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the Single Resolution Fund).

In addition, this line item includes impairment losses or reversals of impairment losses of property and equipment and other intangible assets as well as impairment losses on goodwill (if any) and non-consolidated equity investments.

(14) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with **IFRS 9** Financial Instruments.

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

14.1. Classification and measurement

Business models

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition, if it belongs to the following category:

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above. In Addiko Group, two subsidiaries have classified part of their bond portfolios under Other business model, as such instruments are connected with the trading activities of the Group, especially in connection with customer business.

In the infrequent case that the entity changes its business model for managing certain financial assets, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model.

Contractual cash flow characteristics

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

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

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features. The SPPI compliance is assessed as follows:

- The assessment of unilateral changes of margins and interest concluded that passing on costs related to the basic lending agreement, clauses designed to maintain a stable profit margin, and changes of the interest rate reflect the worsening of the credit rating, but are not SPPI harmful.

- The prepayment clauses are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features are typically side business clauses. The penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event.
- Project financing was assessed whether there is a reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates can contain interest mismatch features (fixation date is before the start of the period, reference rate's tenor is different to the rate reset frequency, etc.). To assess whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), a quantitative benchmark test has to be performed.

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

During 2018 and 2019, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

Based on the entity’s business model and the contractual cash flow characteristics Addiko Group classifies financial assets in the following categories:

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

A financial asset is recognised when Addiko becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.
On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method ". Impairment is presented in the line "Credit loss expenses on financial assets". The major volume of financial assets of the Addiko Group are measured at amortised cost.

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

Interest income is presented in the line "Interest income calculated using the effective interest rate method". Impairment is presented in the line "Credit loss expense on financial assets". The difference between fair value and amortised cost is presented in "Fair value reserve" in the consolidated statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

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

Addiko Group has designated at FVTOCI investments a small portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

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

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, Addiko Group may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in Addiko Group.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

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

When modification or exchange of financial liability measured at amortised cost that does not result in the derecognition is performed, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.

Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss.

There were no changes to Addiko´s business model during 2019 and 2018.

The Addiko Group has not designated any hedge accounting relationships in the current or in the previous year.

14.2. Impairment

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

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

Overview ECL calculation

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

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

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

Addiko Group uses the definition of default according to CRR Article 178, as this is the industry standard and it allows consistency between entities and risk management processes. The determination that a financial asset is credit-impaired is achieved through the tracking of default criteria defined in the Default detection and recovery policy.
For the ECL calculation Addiko Bank classifies transactions in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken across countries and portfolios types. The staging indicators are classified as follows:

Qualitative staging criteria:

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

Further qualitative criteria in connection with the watchlist/early warning systems are reflected in the PD via the automatic downgrade of the client (as incorporated within the rating models and processes) or as a specific stage trigger depending on the portfolio.

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

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

Forward-looking information

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

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from both internal and external data source. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect Addiko’s view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

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

The following tables provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate YE19 ECL. The amounts shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

	Baseline case		Optimistic case	Pessimistic case
	First 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices)				
Croatia	2.7	2.1	4.5	0.9
Slovenia	2.8	2.6	5.2	1.3
Bosnia & Herzegovina	2.7	3.0	4.9	1.5
Serbia	3.5	2.8	5.4	1.7
Montenegro	3.0	2.9	5.4	1.4
EMU	1.2	1.3	2.5	0.5
Unemployment Rate (ILO, average %)				
Croatia	6.0	5.5	4.3	7.3
Slovenia	4.0	4.1	3.2	5.4
Bosnia & Herzegovina	15.0	13.6	12.7	15.4
Serbia	10.8	10.0	8.8	11.5
Montenegro	14.0	13.5	12.3	15.0
EMU	7.5	7.4	6.5	8.3
Real-Estate (% of change)				
Croatia	4.5	2.4	4.7	0.1
Slovenia	6.2	2.8	5.6	0.2
EMU	3.0	2.3	4.2	-1.2
CPI Inflation (average % YoY)				
Croatia	1.5	1.6	2.3	0.8
Slovenia	1.7	1.8	2.5	1.0
Bosnia & Herzegovina	1.6	1.7	2.4	0.9
Serbia	1.8	2.2	3.0	1.5
Montenegro	1.8	2.0	2.7	1.2
EMU	1.0	1.5	1.8	0.9

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

Baseline Scenario is designed considering global slowdown and continuing deflationary impulses, but still resilient growth in CSEE economies. Despite growing fears of a recession in key economies such as Germany and the US, a great deal of negative momentum appears to have been confined to the manufacturing sector. Services and construction activity have provided important relief, while the main source of demand is proving to be robust domestic consumption. This pattern is even more pronounced in CSEE countries where Addiko concentrates its operations. The main driver of growth remains domestic demand, reflecting a combination of labor shortage-induced wage increases, rapid credit growth and robust investment. Real income is also being supported by inflation that remains at subdued levels. This reflects lower energy prices, as well as structural factors such as negative demographic trends. In general, one can expect regional growth differential in relation to euro area economic activity to remain a medium-run feature. Exchange rates should not be volatile, especially after Croatia has formally sent the letter of intent to enter ERM II.

Optimistic scenario assumes successful major trade negotiations, although relations between the US and China remain difficult throughout the simulation horizon, but with less negative spill-overs for the global economy. Growth in the euro area picks up amid higher global trade volumes and a moderate fiscal stimulus, coordinated between Germany and other surplus countries, which certainly provides external demand push for regional Addiko markets. In addition, the EU speeds up accession momentum and allocates extra funding for Non-EU economies. Consequently, these developments are reflected in slightly lower unemployment rates, with inflation gaining momentum again.

Pessimistic scenario naturally follows from considerations accentuated in positive scenarios, when risks and hidden vulnerabilities are to some extent materialized and uncovered, damaging growth and putting strain on Addiko´s portfolio developments. This scenario reflects further deterioration of international trade and manufacturing crisis spill-over to other sectors, bringing down consumption and short-run confidence. The euro area experiences poor growth performance, and technical recessions in some major European economies are to be expected. Monetary policy responses provide adequate liquidity, but the effects are weak due to zero lower bound constraints and absent fiscal stimulus. Regional markets follow similar pattern, while keep exploiting benefits of previously reduced macro imbalances and intra-regional trade. Amid deficient demand and a rise in unemployment, inflation falls below the baseline and stays low throughout the simulation horizon. Real-estate markets are affected, but remain vibrant due to protracted construction cycles, with prices almost cut in half in relation to baseline.

Validation

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

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

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

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

Write-offs

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

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

In addition to the general derecognition criteria (see chapter "Derecognition and contract modification") the following specific criteria fulfilment would lead to the derecognition of financial assets:
- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings,

- Unsecured financial asset if no repayment occurred within a period of one year on observed financial asset,
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral:
  a. Real estate collateral, if no repayment occurred within a period of 5 years
  b. By movables, if no repayment occurred within a period of 2 years
  c. Other (i.e. not “a” or “b”), if no repayment occurred within a period of 1 year,
- Financial assets which have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations,
- Financial asset for which the bank´s right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement,
- Other triggers were defined for financial assets that are treated as non-recoverable.

14.3. Derecognition and contract modification

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

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

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in stage 1. If the borrower is in default or the modification leads to the derecognition of the original financial asset and to the origination of a new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favorable changes in lifetime ECLs have to be recognised as an impairment gain.

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

Insignificant modifications not leading to derecognition of financial assets
If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in the derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the

basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

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

(15) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.

(16) Fiduciary transactions

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

(17) Financial guarantees

Financial guarantees are contracts that oblige the Addiko Group to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value including transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount of ECL provision and the amortised balance of initially recognised premium.

(18) Cash reserves

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

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

Land and buildings used by the Addiko Group in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (2) 2.1. IFRS 16 Leases and for the comparative period note (3) Standards used for comparative periods. Real estate acquired to generate returns is reported under investment properties.

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

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

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

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

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

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

(20) Intangible assets

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

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

Amortisation rate or useful life	in percent	in years
for software	14 -50%	2 -7 yrs

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

(21) Tax assets and tax liabilities

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be available against which losses can be utilised. This assessment is made on tax plans which are based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

The Group maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of the tax positions under discussion, audit, dispute or appeal with tax authorities. These provisions are made using the Group's best estimate of the amount expected to be paid based on an assessment of all relevant factors, which are reviewed at the end of each reporting period.

(22) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.

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

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

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell. Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (44) Non-current assets and disposal groups classified as held for sale.

(24) Provisions

24.1. Provisions for retirement benefits and similar obligations

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

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

Non-current personnel provisions are determined according to IAS 19 – Employee Benefits – using the projected unit credit method. The valuation of future obligations is based on actuarial opinions prepared by independent actuaries. The present value of the defined benefit obligation is reported in the statement of financial position. According to the provisions of IAS 19, the resulting actuarial gains and losses are recorded under equity in other comprehensive income without affecting profit or loss. The key parameters underlying the actuarial calculations for staff members in Austria are an actuarial interest rate of 0.9% as at 31 December 2019 (2018: 1.97%) and a salary increase of 3.2 % p.a. (2018: 3.0% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2018 P generation mortality tables for salaried employees (2018: AVÖ 2018 P generation mortality tables for salaried employees). Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

For staff members employed abroad, calculations are based on local parameters. Serbia is calculating with an actuarial interest rate of 3.0% (2018: 5.25%) while Slovenia is using 0.75% (2018: 1.15%). The fluctuation discounts amount to 0.0%-4.5% (2018: 2.5%-6.0%) in Serbia and Slovenia.

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

24.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “Credit loss expenses on financial assets”.

24.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected. For disclosure of restructuring expenses, see note (30) Other operating income and other operating expenses.

24.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Group. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(25) Other liabilities

This item includes deferred income and non-financial liabilities. They are recognised at their nominal value.

(26) Equity (including non-controlling interests)

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

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

Capital reserve includes share premium which is the amount by which the issue price of the shares exceeded their nominal value. In addition, direct capital contributions are presented in this position.

Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Foreign currency reserve includes the translation of financial statements of Addiko Group subsidiaries (for further detail, see note (7) Foreign currency translation).

The cumulative result includes the cumulated profits generated by the Group with the exception of the share of profit to which external parties are entitled. The other reserves include the statutory reserves and the risk reserve.

Notes to the profit or loss statement

(27) Net interest income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Interest income calculated using the effective interest method	**207.4**	**209.6**
Financial assets at fair value through other comprehensive income	16.9	17.7
Financial assets at amortised cost	189.8	190.2
Negative interest from financial liabilities	0.7	1.7
Other interest income	**3.4**	**4.2**
Financial assets held for trading	3.0	3.9
Other assets	0.4	0.3
Total interest income	**210.8**	**213.8**
Financial liabilities measured at amortised cost	-25.3	-38.1
o/w lease liabilities	-0.5	-
Financial liabilities held for trading	-1.3	-0.9
Negative interest from financial assets	-1.2	-1.7
Total interest expense	**-27.8**	**-40.7**
Net interest income	**183.0**	**173.2**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -25.3 million (YE18: EUR -38.1 million) includes expenses of EUR -16.3 million (YE18: EUR -24.2 million) related to customer deposits. In addition, this position also included the interest expense in the amount of EUR -3.6 million for Tier 2 capital (EUR 190.0 million) which was waived entirely in the first quarter 2018.

Interest income break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives - Trading	**2.7**	**3.6**
Debt securities	**17.2**	**17.9**
Governments	14.1	15.4
Credit institutions	1.7	1.6
Other financial corporations	0.2	0.0
Non-financial corporations	1.2	0.9
Loans and advances	**189.8**	**190.2**
Central banks	0.5	0.5
Governments	4.0	5.9
Credit institutions	0.3	0.4
Other financial corporations	0.9	0.9
Non-financial corporations	47.3	48.8
Households	136.9	133.6
Other assets	**0.4**	**0.3**
Negative interest from financial liabilities	**0.6**	**1.7**
Central banks	0.6	1.7
Total	**210.8**	**213.8**

Interest expenses break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives - Trading	**-1.3**	**-0.9**
Deposits	**-24.7**	**-34.4**
Governments	-1.6	-2.3
Credit institutions	-1.6	-1.0
Other financial corporations	-0.9	-1.3
Non-financial corporations	-4.3	-5.7
Households	-16.3	-24.2
Issued bonds, subordinated and supplementary capital	**0.0**	**-3.7**
Other liabilities	**-0.6**	**0.0**
Negative interest from financial assets	**-1.1**	**-1.7**
Debt securities	**-0.3**	**-0.4**
Central banks	-0.3	-0.4
Loans and advances	**-0.8**	**-1.3**
Central banks	-0.6	-0.7
Credit institutions	-0.2	-0.6
Other assets	0.0	-0.1
Total	**-27.8**	**-40.7**

(28) Net fee and commission income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018[1)]
Transactions	22.4	21.1
Accounts and Packages	19.1	17.0
Cards	12.4	13.3
FX & DCC	11.9	11.0
Securities	2.7	2.5
Bankassurance	4.6	2.7
Loans	3.5	2.9
Trade finance	5.0	4.2
Other	1.3	1.7
Fee and commission income	**83.0**	**76.5**
Cards	-7.0	-6.3
Transactions	-4.4	-4.3
Client incentives	-0.4	-0.6
Securities	-0.5	-0.5
Accounts and Packages	-1.1	-0.2
Bancassurance	-0.4	-0.2
Other	-2.0	-1.9
Fee and commission expenses	**-15.8**	**-14.1**
Net fee and commission income	**67.2**	**62.4**

[1)]In 2018 EUR 0.5 million were reclassified from bankassurance income to securities income

The fees and commission presented in this note include income of EUR 35.0 million (YE18: EUR 33.2 million) and expenses of EUR -8.1 million (YE18: EUR -6.1 million) relating to financial assets and liabilities not measured at FVTPL.

(29) Net result on financial instruments

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Held for trading financial instruments	0.2	0.0
o/w exchange difference	8.8	11.8
o/w gain or losses on financial instruments	-8.6	-11.8
Non trading financial assets	4.5	0.0
Financial assets at fair value through other comprehensive income	8.8	9.0
Financial liabilities measured at amortised cost	0.0	61.0
Total	**13.4**	**70.0**

29.1. Gains or losses on financial instruments held for trading, net - by instrument

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives	-9.4	-13.9
Debt securities	0.8	0.3
Other financial liabilities	0.0	1.8
Total	**-8.6**	**-11.8**

29.2. Gains or losses on financial assets and liabilities held for trading, net - by risk

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Interest rate instruments and related derivatives	-1.6	-1.4
Foreign exchange trading and derivatives related to foreign exchange and gold	-7.3	-10.4
Credit risk instruments and related derivatives	-0.1	-0.1
Other	0.4	0.1
Total	**-8.6**	**-11.8**

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Gains or losses on financial assets and liabilities, measured at fair value through other comprehensive income	8.8	9.0
Gains or losses on financial assets and liabilities, measured at amortised cost	-0.1	61.0
Total	**8.7**	**70.0**

With the purpose of strengthening the capital position of the bank, its shareholder agreed to perform a waiver of its entire provided Tier 2 capital in March 2018 in the amount of EUR 190.0 million, with the fair value of the instruments being recognised as a direct capital contribution and thus increasing the Common Equity Tier 1. The difference between the carrying amount and the fair value of the instruments is recognised in the income statement, generating a positive income of EUR 61.0 million.

29.4. Gains or losses on financial assets and liabilities, not measured at fair value through profit or loss - by instrument

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Equity instruments	0.0	0.0
Debt securities	8.8	9.0
Issued bonds, subordinated and supplementary capital	0.0	61.0
Total	**8.7**	**70.0**

(30) Other operating income and other operating expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Other operating income	**8.9**	**19.1**
Release of provisions for legal cases	5.0	11.2
Gain from sale of non financial assets	1.3	1.4
Income from operating lease assets	0.1	0.0
Income from assets classified as held for sale and disposal groups	0.1	0.2
Reversal of impairment on non-financial assets	0.4	0.6
Other income	2.0	5.7
Other operating expenses	**-48.2**	**-35.7**
Restructuring expenses	-3.9	-2.8
Allocation of provisions for legal cases	-15.3	-5.6
Losses from sale of non financial assets	-0.3	0.0
Impairment on non-financial assets	-6.7	-5.6
Recovery and resolution fund	-1.3	-2.4
Deposit guarantee	-9.1	-8.8
Banking levies and other taxes	-4.3	-3.8
Other expenses	-7.3	-6.8
Total	**-39.3**	**-16.5**

The net amount of EUR -10.3 million provisions for legal cases mainly relate to legal matters on foreign currency loans, which are partly compensated by the release of provisions in connection with the active settlement strategy for long-term lasting court cases. Furthermore, this position includes the positive impact from the updated assessment of risks in connection with customer protection claims in the countries in which the Group operates. For further details concerning legal risk, please refer to note (63) Legal risk.

The line item “Impairment on non-financial assets” includes impairment of intangible assets, which was driven by the decision to upgrade the version of the core banking system in some of the countries where the group operates, which was triggering the impairment of capitalized change requests on the previous version of the software. In addition, this position includes also the outcome of a group wide project to assess future economic benefit of certain IT applications. Given the fact that the assets under consideration are specific assets, for which no transactions on the market are existing, the determination of the fair value is extremely subjective and thus classified into level III.

The line item “Restructuring expenses” in the amount of EUR 3.9 million (YE18: EUR 2.8 million) includes the restructuring costs, which are part of cost initiatives executed during the second half of 2019. The related impact, resulting from predominantly back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.

(31) Personnel expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018[1)]
Wages and salaries	-67.1	-67.3
Social security	-15.8	-15.7
Variable payments	-8.7	-9.9
Other personal tax expenses	-3.5	-3.6
Voluntary social expenses	-1.1	-1.1
Expenses for retirement benefits	-0.4	-0.4
Expenses for severance payments	-0.8	-0.5
Income from release of other employee provisions	0.9	0.4
Other personnel expenses	-0.3	-1.4
Total	**-96.7**	**-99.4**

[1)]To show a common presentation throughout the whole group in 2018 EUR 2.9 million were reclassified from Wages and salaries to Social Security (EUR 1.8 million) and other personal tax expense (EUR 1.1 million)

(32) Other administrative expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
IT expense	-33.4	-29.9
Premises expenses (rent and other building expenses)	-13.4	-17.8
Legal and advisory costs	-8.7	-10.7
Advertising costs	-7.7	-8.3
Other administrative expenses	-10.2	-11.3
Total	**-73.3**	**-78.0**

(33) Depreciation and amortisation

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Property, plant and equipment	-12.4	-5.1
Investment properties	-0.1	-0.1
Intangible assets	-6.6	-5.5
Total	**-19.1**	**-10.7**

The increase in depreciation and amortisation for Property, plant and equipment is due the first-time application of IFRS 16 and the corresponding depreciation of the "Right of use asset". For further details, please refer to note (42) Development of tangible and intangible assets.

(34) Credit loss expenses on financial assets

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Change in CL on financial instruments at FVTOCI	**1.1**	**0.5**
Change in CL on financial instruments at amortised cost	**0.3**	**3.8**
Net allocation to risk provision	-5.3	-1.0
Proceeds from loans and receivables previously impaired	7.3	6.0
Directly recognised impairment losses	-1.7	-2.1
Other changes	0.0	1.1
Net allocation of provisions for commitments and guarantees given	**1.5**	**-1.5**
Total	**2.9**	**2.8**

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

(35) Taxes on income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Current tax	-2.7	-4.2
Deferred tax	-0.3	4.7
Total	**-2.9**	**0.5**

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

EUR m

	31.12.2019	31.12.2018
Operating result before tax	**38.0**	**103.7**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	-9.5	-25.9
Tax effects		
from divergent foreign tax rates	7.0	6.4
from previous year	0.0	0.0
from foreign income and other tax-exempt income	0.4	1.1
from investment related tax relief and other reducing the tax burden	2.2	1.0
from non-tax deductible expenses	-1.7	-1.7
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-10.6	14.1
from the change of deferred taxes on loss carry-forwards and temporary differences	9.0	13.7
from non-recognition of deferred taxes because temporary differences	0.0	0.0
from other tax effects	0.3	-8.1
Actual income tax (effective tax rate: -7.6% (2018: 0.5%)	**-2.9**	**0.5**

35.1. Deferred tax assets/liabilities

In the financial year 2019, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

EUR m

	2019 Deferred Tax (netted)	2019 Income statement	2019 Other comprehensive income (OCI)	2018 Deferred Tax (netted)	2018 Income statement	2018 Other comprehensive income (OCI)
Allowance for financial assets	-1.2	-0.4	0.0	-0.7	-0.2	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	1.2	0.0	0.0	1.2	0.2	0.0
Impairment on debt instruments at FVTOCI	-3.3	0.0	-2.4	-0.9	0.2	1.0
Hedge Accounting	0.0	0.0	0.0	0.1	0.0	0.0
Deferred revenue fee income	-0.4	-0.1	0.0	-0.3	0.6	0.0
Other	11.2	2.9	0.1	8.1	-2.1	1.4
Tax losses carried forward	16.4	-2.6	0.0	19.0	6.0	0.0
Total deferred Tax	**23.9**	**-0.2**	**-2.3**	**26.5**	**4.7**	**2.4**

The total change in deferred taxes in the consolidated financial statements is EUR 2.6 million. Of this, EUR -0.2 million is reflected in the current income statement as deferred tax expense, and an amount of EUR -2.3 million is shown in other comprehensive income in equity.

The development of deferred taxes in net terms is as follows:

EUR m

	2019	2018
Balance at start of period (01.01.)	**26.5**	**20.2**
Impact of adopting IFRS 9	**0.0**	**-1.0**
Tax income/expense recognised in profit or loss	-0.2	4.7
Tax income/expense recognised in OCI	-2.3	2.4
Fx-difference	-0.1	0.1
Balance at end of period (31.12.)	**23.9**	**26.5**

EUR m

	2019	2018
Deferred tax assets	23.9	26.6
Deferred tax liabilities	0.0	-0.1
Total	**23.9**	**26.5**

The utilisation of the unused tax losses from previous years and their possibility to be carried forward can be seen in the table below:

EUR m

Tax losses per country as of 31.12.2019	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate - current year	**18.0%**	**19.0%**	**10.0%**	**10.0%**	**15.0%**	**9.0%**	**25.0%**	
Total tax losses carried forward	**285.2**	**187.8**	**0.1**	**43.2**	**73.3**	**20.4**	**165.4**	**775.4**
thereof fully/ unlimited utilisable	0.0	187.8	0.0	0.0	0.0	0.0	165.4	353.2
thereof restricted utilisable	285.2	0.0	0.1	43.2	73.3	20.4	0.0	422.2
1st following year	285.2	0.0	0.1	40.4	61.2	12.0	0.0	398.9
2nd following year	0.0	0.0	0.0	2.8	12.1	8.4	0.0	23.3

EUR m

Tax losses per country as of 31.12.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate - current year	**18.0%**	**19.0%**	**10.0%**	**10.0%**	**15.0%**	**9.0%**	**25.0%**	
Total tax losses carried forward	**326.9**	**200.5**	**3.8**	**44.4**	**89.8**	**23.9**	**132.6**	**821.8**
thereof fully/ unlimited utilisable	0.0	200.5	0.0	0.0	0.0	0.0	132.6	333.1
thereof restricted utilisable	326.9	0.0	3.8	44.4	89.8	23.9	0.0	488.8
1st following year	19.0	0.0	0.0	0.0	16.9	1.2	0.0	37.1
2nd following year	307.9	0.0	0.0	41.6	60.7	14.4	0.0	424.6
3rd following year	0.0	0.0	3.8	2.8	12.2	8.3	0.0	27.1

In 2019, deferred tax assets on existing tax loss carryforwards in the amount of EUR 9.0 million (2018: EUR 13.6 million) were recognised and a utilisation of tax loss carried forward of EUR 11.6 million (2018: EUR 7.6) million was recognised in the Group.

Notes to the consolidated statement of financial position

(36) Cash reserves

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	120.9	0.0	120.9
Cash balances at central banks	671.1	0.0	671.1
Other demand deposits	107.8	-0.4	107.4
Total	**899.8**	**-0.4**	**899.4**

EUR m

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

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 266.3 million (YE18: EUR 316.5 million).

36.1. Cash reserves at central banks and other demand deposits - development of gross carrying amount

EUR m

	Stage 1
Gross carrying amount at 01.01.2019	**901.7**
Changes in the gross carrying amount	-121.5
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	-1.3
Gross carrying amount at 31.12.2019	**778.9**

EUR m

	Stage 1
Gross carrying amount at 01.01.2018	**1,187.3**
Changes in the gross carrying amount	-292.6
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	6.9
Gross carrying amount at 31.12.2018	**901.7**

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

EUR m

	Stage 1
ECL allowance as at 01.01.2019	**-4.0**
Changes in the loss allowance	3.6
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	-0.1
ECL allowance as at 31.12.2019	**-0.4**

EUR m

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

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

(37) Financial assets held for trading

EUR m

	31.12.2019	31.12.2018
Derivatives	**2.5**	**5.0**
Debt securities	**36.0**	**19.3**
Governments	36.0	19.3
Total	**38.5**	**24.3**

(38) Loans and receivables

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

38.1. Loans and advances to credit institutions

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	14.1	0.0	14.0
Credit institutions	14.1	0.0	14.0
Total	**14.1**	**0.0**	**14.0**

EUR m

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**5.6**	**0.0**	**0.0**	**0.0**	**5.6**
Changes in the gross carrying amount	8.4	0.0	0.0	0.0	8.4
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
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
Gross carrying amount at 31.12.2019	**14.1**	**0.0**	**0.0**	**0.0**	**14.1**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**65.5**	**0.0**	**0.0**	**0.0**	**65.5**
Changes in the gross carrying amount	-60.3	0.0	0.0	0.0	-60.3
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
Foreign exchange and other movements	0.4	0.0	0.0	0.0	0.4
Gross carrying amount at 31.12.2018	**5.6**	**0.0**	**0.0**	**0.0**	**5.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Changes in the loss allowance	0.0	0.0	0.0	0.0	0.0
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

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

38.2. Loans and advances to customers

EUR m

31.12.2019	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,278.4	-20.3	-32.7	-135.4	-1.1	2,088.9
Non-financial corporations	1,731.2	-10.1	-3.5	-59.6	0.0	1,658.0
Governments	94.8	-0.3	0.0	-0.7	0.0	93.9
Other financial corporations	31.6	-0.2	0.0	-0.4	0.0	31.1
Total	**4,136.1**	**-30.9**	**-36.2**	**-196.0**	**-1.1**	**3,871.9**

EUR m

31.12.2018	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,311.0	-19.3	-40.3	-171.5	-14.4	2,065.5
Non-financial corporations	1.688.9	-13.1	-7.1	-110.1	0.0	1,558.5
Governments	127.8	-0.9	0.0	-0.9	0.0	126.0
Other financial corporations	38.0	-0.4	0.0	-0.4	0.0	37.2
Total	**4,165.7**	**-33.8**	**-47.4**	**-282.8**	**-14.4**	**3,787.3**

38.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**1,780.5**	**296.6**	**212.3**	**21.6**	**2,311.0**
Changes in the gross carrying amount	160.1	-99.8	-13.2	-3.8	43.4
Transfer between stages	-15.3	0.1	19.1	-3.9	0.0
Write-offs	-3.5	-12.7	-56.2	-9.6	-82.0
Foreign exchange and other movements	-1.8	-2.5	3.6	6.8	6.1
Gross carrying amount at 31.12.2019	**1,920.0**	**181.8**	**165.7**	**11.0**	**2,278.4**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,898.3**	**130.0**	**307.1**	**26.1**	**2,361.5**
Changes in the gross carrying amount	90.3	-31.1	5.5	-3.3	61.4
Transfer between stages	-197.8	190.4	7.4	0.0	0.0
Write-offs	-0.7	-0.3	-110.1	-1.1	-112.2
Foreign exchange and other movements	-9.6	7.7	2.4	-0.2	0.3
Gross carrying amount at 31.12.2018	**1,780.5**	**296.6**	**212.3**	**21.6**	**2,311.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**
Changes in the loss allowance	29.5	-32.3	-10.6	-1.5	-14.9
Transfer between stages	-30.2	29.5	-4.8	5.5	0.0
Write-offs	0.0	10.6	55.6	9.5	75.8
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	-0.3	-0.3	-4.1	-0.2	-4.9
ECL allowance as at 31.12.2019	**-20.3**	**-32.7**	**-135.4**	**-1.1**	**-189.5**

EUR m

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

Overall gross carrying amount slightly decreased during 2019, where stage 3 decrease was mainly through write-offs as a result of debts sales and debt settlements from the regular collection and workout, further strengthened by mandatory write-offs in Serbia related to regulation on partial write-off of CHF loans. This was accompanied by decrease of loss allowance. The same event in Serbia resulted in reduction in loss allowances in stage 2, as the loans previously denominated in CHF and showing higher amount of risk started showing lower amount of risk after partial write-offs and conversion to EUR, therefore migrating from stage 2 (lifetime ECL) to stage 1 (12-month ECL).

38.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**1,474.4**	**62.6**	**151.8**	**0.0**	**1,688.9**
Changes in the gross carrying amount	166.5	-40.3	-27.9	0.0	98.3
Transfer between stages	-46.4	21.4	25.1	0.0	0.0
Write-offs	0.0	0.0	-48.6	0.0	-48.7
Foreign exchange and other movements	7.8	-4.5	-10.6	0.0	-7.3
Gross carrying amount at 31.12.2019	**1,602.3**	**39.2**	**89.7**	**0.0**	**1,731.2**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,297.3**	**62.4**	**243.6**	**0.0**	**1,603.3**
Changes in the gross carrying amount	211.9	-29.8	-28.9	0.0	153.3
Transfer between stages	-32.6	30.7	1.9	0.0	0.0
Write-offs	0.0	0.0	-35.1	0.0	-35.2
Foreign exchange and other movements	-2.1	-0.7	-29.7	0.0	-32.5
Gross carrying amount at 31.12.2018	**1,474.4**	**62.6**	**151.8**	**0.0**	**1,688.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**
Changes in the loss allowance	-2.6	3.6	4.9	0.0	6.0
Transfer between stages	5.5	0.2	-5.8	0.0	0.0
Write-offs	0.0	0.0	47.4	0.0	47.4
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	-0.1	3.9	0.0	3.8
ECL allowance as at 31.12.2019	**-10.1**	**-3.5**	**-59.6**	**0.0**	**-73.2**

EUR m

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

The overall gross carrying amount of loans and advances to non-financial corporations in stage 1 slightly increased in 2019, while stage 2 and 3 decreased significantly through debt settlements and collections for a smaller number of big tickets in Addiko Bank Croatia and Addiko Bank Serbia. This was accompanied by decrease of the stock of stage 2 and 3 loss allowance reflecting the improved quality of the portfolio per rating class.

38.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**125.0**	**0.3**	**2.5**	**0.0**	**127.8**
Changes in the gross carrying amount	-32.7	-0.1	-0.3	0.0	-33.1
Transfer between stages	-0.1	0.1	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.0	0.0	0.0	0.1
Gross carrying amount at 31.12.2019	**92.2**	**0.4**	**2.2**	**0.0**	**94.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**132.6**	**3.2**	**2.7**	**0.0**	**138.5**
Changes in the gross carrying amount	-10.6	-0.1	-0.2	0.0	-10.9
Transfer between stages	2.8	-2.8	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.2	0.0	0.0	0.0	0.2
Gross carrying amount at 31.12.2018	**125.0**	**0.3**	**2.5**	**0.0**	**127.8**

The overall gross carrying amount of loans and advances to general governments slightly decreased in 2019, accompanied by the decrease of ECL which reflects also the improved quality of the portfolio per rating class.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**
Changes in the loss allowance	0.6	0.0	0.2	0.0	0.9
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.3**	**0.0**	**-0.7**	**0.0**	**-1.0**

EUR m

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

38.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**37.6**	**0.0**	**0.4**	**0.0**	**38.0**
Changes in the gross carrying amount	-6.3	0.0	0.0	0.0	-6.3
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
Foreign exchange and other movements	-0.1	0.0	0.0	0.0	-0.1
Gross carrying amount at 31.12.2019	**31.3**	**0.0**	**0.4**	**0.0**	**31.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**31.9**	**7.7**	**8.3**	**0.0**	**47.9**
Changes in the gross carrying amount	4.2	-7.5	-16.0	0.0	-19.3
Transfer between stages	-0.1	-0.1	0.2	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	1.7	-0.1	7.8	0.0	9.4
Gross carrying amount at 31.12.2018	**37.6**	**0.0**	**0.4**	**0.0**	**38.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**
Changes in the loss allowance	0.2	0.0	0.0	0.0	0.3
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.2**	**0.0**	**-0.4**	**0.0**	**-0.6**

EUR m

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

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

(39) Investment securities

EUR m

	31.12.2019	31.12.2018
Fair value through other comprehensive income (FVTOCI)	1,079.9	1,168.0
Mandatorily at fair value through profit or loss (FVTPL)	16.7	16.7
Total	**1,096.6**	**1,184.6**

Investment securities - development of gross carrying amount (Debt Securities)

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**1,152.6**	**0.0**	**0.0**	**0.0**	**1,152.6**
Changes in the gross carrying amount	-89.2	0.0	0.0	0.0	-89.2
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
Foreign exchange and other movements	-1.4	0.0	0.0	0.0	-1.4
Gross carrying amount at 31.12.2019	**1,062.0**	**0.0**	**0.0**	**0.0**	**1,062.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**1,247.7**	**0.0**	**0.0**	**0.0**	**1,247.7**
Changes in the gross carrying amount	-98.5	0.0	0.0	0.0	-98.5
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	3.4	0.0	0.0	0.0	3.4
Gross carrying amount at 31.12.2018	**1,152.6**	**0.0**	**0.0**	**0.0**	**1,152.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**
Changes in the loss allowance	1.1	0.0	0.0	0.0	1.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.7**	**0.0**	**0.0**	**0.0**	**-0.7**

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**

39.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.12.2019	31.12.2018
Debt securities	**1,061.3**	**1,150.9**
Governments	743.3	799.7
Credit institutions	221.6	264.0
Other financial corporations	34.4	27.1
Non-financial corporations	62.0	60.1
Equity instruments	**18.6**	**17.1**
Governments	13.2	13.1
Other financial corporations	5.1	3.6
Non-financial corporations	0.3	0.3
Total	**1,079.9**	**1,168.0**

The following table shows equity investment securities designated to be measured at FVTOCI and their fair values:

EUR m

	31.12.2019	31.12.2018
Slovenian Bank Resolution Fund	13.2	13.1
VISA Inc	4.8	3.3
Other equity instruments	0.6	0.6
Total	**18.6**	**17.1**

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

EUR m

	31.12.2019	31.12.2018
Debt securities	**16.4**	**16.4**
Other financial corporations	16.4	16.4
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**16.7**	**16.7**

(40) Tangible assets

EUR m

	31.12.2019	31.12.2018
Owned property, plant and equipment	**55.2**	**55.7**
Land and buildings	43.8	43.9
Plant and equipment	11.4	11.8
Right of use assets	**26.6**	**-**
Land and buildings	23.3	-
Plant and equipment	3.2	-
Investment property	**4.1**	**2.0**
Total	**85.9**	**57.7**

(41) Intangible assets

EUR m

	31.12.2019	31.12.2018
Goodwill	0.0	0.0
Purchased software	27.2	29.5
Other intangible assets	0.7	0.7
Total	**27.9**	**30.3**

(42) Development of tangible and intangible assets

42.1. Development of cost and carrying amounts

EUR m

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2019	**98.6**	**87.2**	**0.0**	**0.0**	**4.3**	**120.7**	**310.8**
Initial IFRS 16	0.0	0.0	25.2	4.2	0.0	0.0	29.5
Foreign exchange differences	-0.2	-0.1	0.0	0.0	0.0	-0.1	-0.3
Additions	1.0	5.2	1.5	0.3	0.6	11.1	19.5
Disposals	-0.8	-8.8	0.0	-0.1	-0.1	-8.7	-18.6
Other changes	1.6	-1.9	2.7	0.0	1.6	0.0	4.0
Acquisition cost 31.12.2019	**100.3**	**81.5**	**29.4**	**4.4**	**6.3**	**123.1**	**345.0**
Cumulative depreciation and amortisation 31.12.2019	-56.4	-70.1	-6.1	-1.2	-2.2	-95.1	-231.2
Carrying amount 31.12.2019	**43.9**	**11.4**	**23.3**	**3.2**	**4.1**	**27.9**	**113.8**

EUR m

	Land and buildings	Plant and equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Acquisition cost 01.01.2018	**96.9**	**90.2**	**4.3**	**103.5**	**294.9**
Foreign exchange differences	0.2	0.2	0.0	0.2	0.6
Additions	2.4	4.2	0.0	17.2	23.9
Disposals	-0.9	-6.9	-0.1	-0.7	-8.5
Other changes	0.0	-0.6	0.0	0.6	0.0
Acquisition cost 31.12.2018	**98.6**	**87.2**	**4.3**	**120.7**	**310.8**
Cumulative depreciation and amortisation 31.12.2018	-54.8	-75.3	-2.2	-90.4	-222.8
Carrying amount 31.12.2018	**43.9**	**11.9**	**2.1**	**30.3**	**88.0**

42.2. Development of depreciation and amortisation

EUR m

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation and amortisation 01.01.2019	**-54.8**	**-75.3**	**0.0**	**0.0**	**-2.2**	**-90.4**	**-222.8**
Foreign exchange differences	0.1	0.1	0.0	0.0	0.0	0.1	0.2
Disposals	0.7	8.7	0.0	0.0	0.1	7.3	16.8
Scheduled depreciation and amortisation	-2.4	-2.9	-6.0	-1.2	-0.1	-6.6	-19.1
Impairment	-0.5	-0.6	-0.1	0.0	-0.1	-5.5	-6.8
Other changes	0.2	-0.1	0.0	0.0	0.0	0.0	0.1
Write-ups	0.3	0.0	0.0	0.0	0.1	0.0	0.4
Cumulative depreciation and amortisation 31.12.2019	**-56.4**	**-70.1**	**-6.1**	**-1.2**	**-2.2**	**-95.1**	**-231.2**

EUR m

	Land and buildings	Plant and equipment - internally used	Investment properties	Intangible assets	TOTAL FIXED ASSETS
Cumulative depreciation and amortisation 01.01.2018	**-52.5**	**-79.2**	**-2.3**	**-81.6**	**-215.7**
Foreign exchange differences	-0.1	-0.2	0.0	-0.1	-0.4
Disposals	0.2	6.8	0.0	0.7	7.7
Scheduled depreciation and amortisation	-2.0	-3.1	-0.1	-5.5	-10.7
Impairment	-0.4	-0.1	0.0	-4.3	-4.8
Other changes	0.0	0.1	0.0	-0.1	0.0
Write-ups	0.0	0.4	0.1	0.6	1.2
Cumulative depreciation and amortisation 31.12.2018	**-54.8**	**-75.3**	**-2.2**	**-90.4**	**-222.8**

(43) Other assets

EUR m

	31.12.2019	31.12.2018
Prepayments and accrued income	11.4	13.8
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4.4	5.4
Other remaining assets	4.8	6.3
Total	**20.6**	**25.5**

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

In the current reporting period, this position mainly includes real estate assets in Croatia and Bosnia & Herzegovina, which are part of a Group project to dispose non-core assets and are already actively marketed. The sale is expected by the end of the year 2020.

EUR m

	31.12.2019	31.12.2018
Loans and receivables	0.0	0.1
Property plant and equipment	3.1	5.2
Other assets	0.0	0.5
Total	**3.1**	**5.7**

(45) Financial liabilities held for trading

EUR m

	31.12.2019	31.12.2018
Derivatives	6.0	2.1
Total	**6.0**	**2.1**

(46) Financial liabilities measured at amortised cost

EUR m

	31.12.2019	31.12.2018
Deposits	**5,065.1**	**5,161.1**
Deposits of credit institutions	233.9	324.4
Deposits of customers	4,831.2	4,836.7
Issued bonds, subordinated and supplementary capital	**0.1**	**1.1**
Debt securities issued	0.1	1.1
Other financial liabilities	**56.4**	**40.3**
o/w lease liabilities	26.0	-
Total	**5,121.6**	**5,202.5**

46.1. Deposits of credit institutions

EUR m

	31.12.2019	31.12.2018
Current accounts / overnight deposits	6.2	51.4
Deposits with agreed terms	217.3	255.7
Repurchase agreements	10.3	17.4
Total	**233.9**	**324.4**

46.2. Deposits of customers

EUR m

	31.12.2019	31.12.2018
Current accounts / overnight deposits	**2,660.4**	**2,430.8**
Governments	81.0	86.4
Other financial corporations	98.0	112.9
Non-financial corporations	752.8	677.3
Households	1,728.7	1,554.2
Deposits with agreed terms	**2,130.5**	**2,350.4**
Governments	181.0	199.8
Other financial corporations	206.5	169.7
Non-financial corporations	448.9	500.3
Households	1,294.1	1,480.6
Deposits redeemable at notice	**40.3**	**55.6**
Governments	3.3	4.1
Other financial corporations	10.8	18.6
Non-financial corporations	26.2	32.8
Total	**4,831.2**	**4,836.7**

46.3. Debt securities issued

EUR m

	31.12.2019	31.12.2018
Certificates of deposit	0.1	1.1
Total	**0.1**	**1.1**

(47) Provisions

EUR m

	31.12.2019	31.12.2018
Pending legal disputes and tax litigation	35.8	30.1
Commitments and guarantees granted	10.0	11.7
Provisions for variable payments	14.0	13.1
Pensions and other post employment defined benefit obligations	1.8	1.8
Restructuring measures	2.1	1.7
Other long-term employee benefits	0.4	0.4
Other provisions	2.8	3.2
Total	**66.9**	**62.0**

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

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

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason final timing could significantly deviate from original estimate.

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2019	**923.3**	**26.1**	**15.2**	**0.0**	**964.7**
Changes in the nominal value	60.5	-5.7	-1.5	0.0	53.3
Transfer between stages	8.3	-9.0	0.7	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	-8.7	-1.1	-0.9	0.0	-10.7
Gross carrying amount at 31.12.2019	**983.4**	**10.4**	**13.5**	**0.0**	**1,007.3**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2018	**779.5**	**19.0**	**21.5**	**0.0**	**819.9**
Changes in the nominal value	159.2	-7.3	-7.7	0.0	144.2
Transfer between stages	-16.0	14.5	1.5	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.5	0.0	0.0	0.0	0.5
Nominal value at 31.12.2018	**923.3**	**26.1**	**15.2**	**0.0**	**964.7**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**
Changes in the loss allowance	1.1	0.3	0.2	0.0	1.5
Transfer between stages	-1.0	0.9	0.1	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.0	0.0	0.0	0.1
ECL allowance as at 31.12.2019	**-2.8**	**-0.7**	**-6.6**	**0.0**	**-10.0**

EUR m

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

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly decreased in 2019, reflecting the improvement in credit quality of portfolio visible in the decrease of gross carrying amount within stage 2 and stage 3 (life-time ECL), while at the same time the gross carrying amount in stage 1 (12-month ECL) increased.

47.2. Provisions - development of other provisions

EUR m

	Carrying amount 01.01.2019	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2019
Pensions and other post employment defined benefit obligations	1.8	0.0	0.1	0.0	-0.1	0.0	1.8
Other long-term employee benefits	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Restructuring measures	1.7	0.0	2.3	-2.0	0.0	0.1	2.1
Pending legal disputes and tax litigation	30.1	-0.1	15.3	-4.5	-5.0	0.0	35.8
Provision for variable payments	13.1	0.0	8.3	-7.2	-0.2	0.0	14.0
Other provisions	3.2	0.0	0.3	-0.3	-0.2	-0.2	2.8
Total	**50.3**	**-0.1**	**26.3**	**-14.1**	**-5.5**	**0.0**	**56.9**

EUR m

	Carrying amount 01.01.2018	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2018
Pensions and other post employment defined benefit obligations	1.9	0.0	0.2	-0.2	-0.1	0.0	1.8
Other long-term employee benefits	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Restructuring measures	3.4	0.0	1.0	-2.5	-0.2	0.0	1.7
Pending legal disputes and tax litigation	45.5	0.0	5.6	-11.2	-11.2	1.3	30.1
Provision for variable payments	11.2	0.0	9.3	-6.9	-0.4	0.0	13.1
Other provisions	9.6	0.0	2.0	-3.5	-3.6	-1.3	3.2
Total	**72.0**	**0.1**	**18.1**	**-24.4**	**-15.5**	**0.0**	**50.3**

47.3. Provisions – development of provisions for retirement benefits and severance payments

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

EUR m

	2019	2018
Present value of the defined benefit obligations as of 01.01	**1.8**	1.9
+ Current service cost	0.1	0.2
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	0.0	0.0
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.2	0.0
+/- Actuarial gains/losses arising from changes from experience assumptions	-0.1	0.0
- Payments from the plan	-0.1	-0.2
+ Past service cost	-0.1	0.0
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	0.0	-0.1
Present value of the defined benefit obligations as of 31.12	**1.8**	**1.8**

Due to the low amount of personnel provisions for the Addiko Group as at 31 December 2019, further disclosures according to IAS 19 are omitted.

(48) Other liabilities

EUR m

	31.12.2019	31.12.2018
Deferred income	0.9	0.7
Accruals and other liabilities	27.0	24.3
Total	**27.9**	**25.1**

Accruals and other liabilities include liabilities for services provided and not yet paid as well as salaries and salary compensations not yet paid.

(49) Equity

EUR m

	31.12.2019	31.12.2018
Equity holders of parent	**861.3**	**859.5**
Subscribed capital	195.0	195.0
Capital reserves	298.7	476.5
Fair value reserve	22.5	5.4
Foreign currency reserve	-6.6	-6.1
Cumulated result and other reserves	351.7	188.7
Non-controlling interest	**0.0**	**0.0**
Total	**861.3**	**859.5**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at 31 December 2019. The total amount of EUR 195.0 million (2018: EUR 195.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 19,500,000 (2018: 1,000) no-par registered shares. Therefore, the calculation of earnings per share and diluted earnings per share was retrospectively adjusted in accordance with IAS 33.64. The proportionate amount of the share capital per share amounts EUR 10.0 (2018: EUR 195.0 thousand). In 2018, the Company's share capital was increased in amount of EUR 190.0 million, which was performed as result of a conversion of parts of the existing capital reserve. Since the General Assembly dated 6 June 2019, the Management Board – pursuant to Section 169 Austrian Stock Corporation Act (AktG) – has been authorised to increase the share capital subject to approval of the Supervisory Board, if necessary in several tranches, by up to EUR 97,500,000 by issuing up to 9,750,000 new voting no-par value bearer shares against cash and/or non-cash contributions (also indirectly through a credit institution pursuant to Section 153 (6) AktG) within five years after entering the corresponding amendment to the Company's statutes into the Austrian Commercial Register, and to determine the issue price and terms of issue in agreement with the Supervisory Board.

The capital reserves include contributions from shareholders that do not represent subscribed capital. In 2017 a capital contribution by AI Lake (Luxembourg) S.à r.l. in the amount of EUR 219.7 million resulted from a settlement of warranty claims of AI Lake (Luxembourg) S.à r.l. against the former parent company, whereby in the same year EUR 18.1 million were rebooked from the capital reserve to the position "Cumulative results and other reserves". In 2018 AI Lake (Luxembourg) S.à r.l. agreed to perform a waiver of its entire provided Tier 2 capital in amount of EUR 190 million, with the fair value of the instruments, net of direct attributable costs, EUR 128.7 million being recognised as well as a direct capital contribution.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

Cumulated results and other reserves represent accumulated net profit brought forward as well as income and expenses recognised in other comprehensive income. This position also includes the liability reserve that credit institutions are required to set up according to Section 57 (5) BWG. A certain percentage of the profit for the year (depending on local law) is required to be allocated to the legal reserve, which is part of other reserves.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 40.0 million in the financial year 2019. In the next General Assembly, a proposal will be made to distribute an amount of EUR 40.0 million by the Company. The dividend per share will be EUR 2.05 (2018: EUR 50.0 thousand). The dividends have not been recognised as liability and there are not tax consequences.

(50) Statement of cash flows

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

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

The cash flow from investing activities includes cash inflows and outflows arising from financial investments and participations, intangible assets and property, plant and equipment as well as proceeds from the sale of subsidiaries and for the acquisition of subsidiaries.

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

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Segment Reporting

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

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

Net interest income in Corporate Center includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 41.8 million. The majority of the IGC in the amount of EUR 30.1 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

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

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

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank's Retail segment serves just under 0.8 million customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million, through a network of 179 branches and state of the art digital channels.

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

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

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

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

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

Segments overview

EUR m

31.12.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	169.8	22.7	147.1	41.7	16.6	7.9	14.1	250.2
Net interest income	127.5	22.7	104.8	23.8	10.7	6.6	14.4	183.0
o/w regular interest income	124.6	30.6	94.0	29.2	14.3	4.7	21.3	194.2
Net fee and commission income	42.3	0.0	42.3	17.9	5.9	1.4	-0.3	67.2
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	13.4	13.4
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-39.3	-39.3
Operating income	**169.8**	**22.7**	**147.1**	**41.7**	**16.6**	**7.9**	**-11.7**	**224.3**
Operating expenses	**-87.5**			**-22.9**	**-4.1**	**-2.1**	**-72.6**	**-189.2**
Operating result	**82.4**			**18.9**	**12.4**	**5.9**	**-84.4**	**35.2**
Change in CL	-7.5	12.8	-20.3	-3.2	6.9	1.3	5.3	2.9
Operating result before tax	**74.9**			**15.7**	**19.4**	**7.1**	**-79.0**	**38.0**
Business volume								
Net loans and receivables	2,063.1	758.8	1,304.2	1,065.2	583.6	154.8	19.3	3,885.9
o/w gross performing loans customers	2,086.2	744.5	1,341.7	1,059.0	570.7	153.6		3,869.5
Gross disbursements	646.1	9.5	636.5	626.7	280.5	5.9		1,559.2
Financial liabilities at AC [1]	2,691.6		2,691.6	723.5	402.3	538.5	765.8	5,121.6
RWA [2]	1,441.7	459.1	982.6	961.7	610.6	90.4	816.7	3,921.0
Key ratios								
Net interest margin (NIM) [3]	4.7%	1.7%	6.0%	2.3%	1.5%	1.2%		3.0%
Cost/Income Ratio	51.5%			54.8%	24.9%	26.1%		75.6%
Cost of risk ratio	-0.3%	1.5%	-1.3%	-0.2%	0.9%	0.7%		0.1%
Loan to deposit ratio	76.6%			147.2%	145.1%	28.7%		80.1%
NPE ratio (CRB based)	7.6%	11.3%	5.5%	3.9%	2.8%	2.9%		5.3%
NPE coverage ratio	80.7%	70.7%	91.9%	66.1%	47.5%	54.2%		73.8%
NPE collateral coverage	43.7%	70.1%	14.2%	63.5%	65.1%	84.2%		51.2%
Change CL/GPL (simply Ø)	-0.4%	1.6%	-1.6%	-0.3%	1.2%	0.7%		0.1%
Yield GPL (simply Ø)	6.0%	3.8%	7.4%	2.9%	2.5%	2.8%		4.5%

[1] Financial liabilities at AC at YE19 include the Direct deposits (Austria/Germany) amounting to EUR 413 million, EUR 234 million Deposits of credit institutions, EUR 119 million Other [2] Includes only credit risk (without application of IFRS 9 transitional rules) [3] Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

EUR m

31.12.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	159.7	26.5	133.2	38.1	17.8	9.7	10.4	235.5
Net interest income [1]	118.6	26.5	92.2	23.0	11.7	8.6	11.3	173.2
o/w regular interest income	121.4	36.5	84.9	27.6	14.2	6.3	24.3	193.7
Net fee and commission income	41.0	0.0	41.0	15.1	6.1	1.1	-1.0	62.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.0	70.0
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-16.5	-16.5
Operating income	**159.7**	**26.5**	**133.2**	**38.1**	**17.8**	**9.7**	**63.8**	**289.0**
Operating expenses	**-86.9**			**-21.9**	**-4.1**	**-2.3**	**-72.9**	**-188.1**
Operating result	**72.8**			**16.2**	**13.7**	**7.3**	**-9.0**	**100.9**
Change in CL	0.0	9.5	-9.5	-7.4	3.6	2.4	4.1	2.8
Operating result before tax	**72.8**			**8.8**	**17.3**	**9.7**	**-4.9**	**103.7**
Business volume								
Net loans and receivables	2,048.2	883.6	1,164.6	931.3	611.6	189.6	12.2	3,792.9
o/w gross performing loans customers	2,060.5	872.7	1,187.8	928.4	588.4	188.8		3,766.1
Gross disbursements	589.6	10.5	579.1	557.7	291.8	19.8		1,458.9
Financial liabilities at AC [2]	2,756.9		2,756.9	605.4	426.6	616.0	797.7	5,202.5
RWA [3]	1,445.8	561.5	884.2	883.4	652.3	113.9	819.5	3,914.8
Key ratios								
Net interest margin (NIM) [4]	4.4%	1.8%	6.1%	2.7%	1.4%	1.7%		2.7%
Cost/Income Ratio	54.4%			57.6%	23.2%	24.1%		79.9%
Cost of risk ratio	0.0%	0.9%	-0.7%	-0.5%	0.4%	1.1%		0.1%
Loan to deposit ratio [5]	74.3%			153.8%	143.4%	30.8%		72.9%
NPE ratio (CRB based)	10.2%	14.3%	7.3%	4.5%	8.9%	1.5%		7.7%
NPE coverage ratio	80.9%	73.6%	91.1%	63.7%	70.1%	42.0%		75.4%
NPE collateral coverage	42.2%	59.8%	17.6%	68.3%	34.5%	66.4%		45.5%
Change CL/GPL (simply Ø)	0.0%	1.0%	-0.9%	-0.9%	0.7%	1.0%		0.1%
Yield GPL (simply Ø)	5.9%	3.9%	7.7%	3.2%	2.7%	2.7%		4.6%

[1] Compared to the 2018 report, the following reclassifications took place to assure comparability: No reallocation of deposit insurance costs from other operating result to net interest income. // effect from interest income on NPE reallocated between Mortgages and Consumer segments // regular interest income including also Corporate Center. [2] Financial liabilities at AC at YE18 include the Direct deposits (Austria/Germany) amounting to EUR 360 million, EUR 324 million Deposits of credit institutions, EUR 113 million Other. [3] Includes only credit risk (without application of IFRS 9 transitional rules). [4] Net interest margin on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances. [5] Financial asset at amortised cost/ Financial liabilities at amortised cost on segment and total bank level

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

EUR m

31.12.2019	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**127.5**	**22.7**	**104.8**	**23.8**	**10.7**	**6.6**	**14.4**	**183.0**
o/w Interest income	**136.2**	**34.0**	**102.3**	**32.6**	**15.7**	**4.9**	**21.3**	**210.8**
o/w Regular interest income	124.6	30.6	94.0	29.2	14.3	4.7	21.3	194.2
o/w Interest income on NPE	2.7	1.8	0.9	1.2	0.6	0.1	0.0	4.6
o/w Interest like income	8.9	1.5	7.4	2.1	0.7	0.1	0.0	11.9
o/w Interest expenses	**-13.4**	**0.0**	**-13.4**	**-2.3**	**-1.5**	**-3.2**	**-7.5**	**-27.8**
o/w FTP (asset & liabilities)	**-18.5**	**-18.5**	**0.0**	**-9.4**	**-6.2**	**3.5**	**-11.1**	**-41.8**
o/w Interest gap contribution	**23.1**	**7.3**	**15.9**	**2.9**	**2.8**	**1.4**	**11.6**	**41.8**
o/w Asset contribution	23.1	7.3	15.9	2.9	2.8	1.4	-30.1	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	41.8	41.8

EUR m

31.12.2018	Retail	o/w Mortgages	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net interest income	**118.6**	**26.5**	**92.2**	**23.0**	**11.7**	**8.6**	**11.3**	**173.2**
o/w Interest income	**133.6**	**40.3**	**93.4**	**31.2**	**17.5**	**7.1**	**24.3**	**213.8**
o/w Regular interest income	121.4	36.5	84.9	27.6	14.2	6.3	24.3	193.7
o/w Interest income on NPE	3.2	2.4	0.8	1.5	2.7	0.1	0.0	7.4
o/w Interest like income	9.0	1.3	7.7	2.1	0.7	0.8	0.1	12.7
o/w Interest expenses	**-21.0**	**0.0**	**-21.0**	**-1.8**	**-1.5**	**-5.5**	**-10.9**	**-40.7**
o/w FTP (asset & liabilities)	**-14.4**	**-21.3**	**6.9**	**-7.7**	**-6.1**	**6.5**	**-16.2**	**-37.9**
o/w Interest gap contribution	**20.4**	**7.5**	**13.0**	**1.3**	**1.6**	**0.5**	**14.1**	**37.9**
o/w Asset contribution	20.4	7.5	13.0	1.3	1.6	0.5	-23.8	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	0.0	37.9	37.9

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

EUR m

31.12.2019	Retail[1]	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	9.7	9.0	1.9	1.2	0.7	22.4
Accounts and Packages	18.3	0.7	0.1	0.1	0.0	19.1
Cards	11.3	1.0	0.1	0.0	0.0	12.4
FX & DCC	7.2	3.8	0.5	0.1	0.3	11.9
Securities	0.5	0.0	2.2	0.0	0.0	2.7
Bancassurance	4.6	0.0	0.0	0.0	0.0	4.6
Loans	1.5	1.4	0.4	0.1	0.0	3.5
Trade finance	0.0	3.5	1.3	0.1	0.0	5.0
Other	1.0	0.1	0.2	0.0	0.0	1.3
Fee and commission income	**54.1**	**19.6**	**6.8**	**1.5**	**1.0**	**83.0**
Cards	-6.5	-0.4	-0.1	0.0	0.0	-7.0
Transactions	-2.7	-1.1	-0.3	-0.1	-0.3	-4.4
Client incentives	-0.4	0.0	0.0	0.0	0.0	-0.4
Securities	0.0	0.0	-0.3	0.0	-0.1	-0.5
Accounts and Packages	-0.8	0.0	0.0	0.0	-0.2	-1.1
Bancassurance	-0.4	0.0	0.0	0.0	0.0	-0.4
Other	-1.0	-0.1	-0.2	0.0	-0.7	-2.0
Fee and commission expenses	**-11.8**	**-1.7**	**-0.9**	**-0.2**	**-1.2**	**-15.8**
Net fee and commission income	**42.3**	**17.9**	**5.9**	**1.4**	**-0.3**	**67.2**

[1]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

EUR m

31.12.2018	Retail[1]	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Transactions	9.6	8.1	1.9	0.9	0.6	21.1
Accounts and Packages	16.2	0.7	0.1	0.0	0.0	17.0
Cards	11.7	1.5	0.3	0.0	-0.2	13.3
FX & DCC	6.9	2.4	1.1	0.1	0.5	11.0
Securities	0.4	0.0	2.0	0.0	0.0	2.5
Bancassurance[2]	2.7	0.0	0.0	0.0	0.0	2.7
Loans	1.2	1.3	0.4	0.1	0.0	2.9
Trade finance	0.1	2.9	1.1	0.2	0.0	4.2
Other	1.4	0.2	0.1	0.0	0.0	1.7
Fee and commission income	**50.2**	**17.1**	**7.1**	**1.2**	**1.0**	**76.5**
Cards	-5.1	-0.7	-0.2	0.0	-0.3	-6.3
Transactions	-2.6	-1.1	-0.3	-0.1	-0.2	-4.3
Client incentives	-0.6	0.0	0.0	0.0	0.0	-0.6
Securities	0.0	0.0	-0.3	0.0	-0.1	-0.5
Accounts and Packages	0.0	0.0	0.0	0.0	-0.2	-0.2
Bancassurance	-0.2	0.0	0.0	0.0	0.0	-0.2
Other	-0.6	-0.1	-0.2	0.0	-1.1	-1.9
Fee and commission expenses	**-9.2**	**-2.0**	**-0.9**	**-0.2**	**-1.9**	**-14.1**
Net fee and commission income	**41.0**	**15.1**	**6.1**	**1.1**	**-1.0**	**62.4**

[1]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

[2]In 2018 EUR 0.5 million were reclassified from bankassurance income to security income

Geographical Segmentation

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

EUR m

31.12.2019	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	95.4	51.9	19.2	20.8	41.7	13.3	33.4	-25.5	250.2
Net interest income	64.7	41.1	12.8	14.1	30.9	11.2	33.7	-25.5	183.0
o/w regular interest income [1]	71.8	41.2	15.1	14.8	37.0	12.6	39.2	-37.4	194.2
Net fee and commission income	30.6	10.9	6.4	6.7	10.8	2.1	-0.3	0.0	67.2
Net result on financial instruments	10.4	1.4	0.2	0.6	0.8	0.1	-130.9	130.9	13.4
Other operating result	-24.9	-3.4	-1.0	-0.9	-2.2	-1.4	-3.3	-2.3	-39.3
Operating income	**80.9**	**49.9**	**18.4**	**20.5**	**40.4**	**12.0**	**-100.9**	**103.1**	**224.3**
Operating expenses	**-54.8**	**-26.7**	**-14.2**	**-15.9**	**-28.7**	**-8.1**	**-40.5**	**-0.4**	**-189.2**
Operating result	**26.1**	**23.2**	**4.2**	**4.5**	**11.7**	**3.9**	**-141.3**	**102.8**	**35.2**
Change in CL	-0.9	2.0	0.4	0.3	-1.3	-0.2	0.4	2.1	2.9
Operating result before tax	**25.2**	**25.2**	**4.6**	**4.8**	**10.4**	**3.7**	**-140.9**	**104.9**	**38.0**
Total assets	**2,412.8**	**1,606.7**	**430.7**	**505.0**	**805.8**	**228.1**	**1,206.4**	**-1,111.8**	**6,083.6**
Business volume									
Net loans and receivables	1,382.0	1,311.3	294.0	277.4	578.4	184.5	209.2	-351.0	3,885.9
o/w gross performing loans customers	1,340.4	1,196.5	289.8	275.4	580.1	187.4	0.0		3,869.5
Gross disbursements	547.7	336.1	119.8	145.3	324.1	86.3	0.0		1,559.2
Financial liabilities at AC [2]	1,965.7	1,424.6	343.9	385.0	608.5	201.2	599.0	-406.2	5,121.6
RWA [3]	1,383.0	925.6	319.1	370.6	686.6	170.6	63.6	2.1	3,921.0
Key ratios									
Net interest margin (NIM)	2.7%	2.6%	3.1%	2.9%	3.7%	4.8%	2.7%		3.0%
Cost/Income Ratio	57.4%	51.4%	73.8%	76.8%	68.7%	60.5%	121.2%		75.6%
Cost of risk ratio	-0.1%	0.1%	0.1%	0.1%	-0.2%	-0.1%	3.4%		0.1%
Loan to deposit ratio	76.7%	96.5%	91.4%	74.5%	108.9%	98.5%			80.1%
NPE ratio (CRB based)	6.4%	1.9%	10.7%	10.2%	3.2%	7.3%			5.3%
NPE coverage ratio	67.7%	64.3%	86.5%	86.1%	67.2%	65.8%			73.8%
NPE collateral coverage	55.6%	60.0%	37.6%	53.8%	41.8%	49.1%			51.2%
Change CL/GPL (simply Ø)	-0.1%	0.2%	0.1%	0.1%	-0.2%	-0.1%			0.1%
Yield GPL (simply Ø)	4.7%	3.3%	5.4%	5.2%	5.2%	6.7%			4.5%

[1] Regular interest income is related to booked interests excluding interest like income, interest income on NPE and funds transfer pricing [2] Direct deposits (Austria/Germany) amounting to EUR 413 million presented in ABH [3] Includes only credit risk (without application of IFRS 9 transitional rules)

EUR m

31.12.2018	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	90.3	48.9	19.2	18.9	38.6	12.3	34.2	-26.7	235.5
Net interest income [1]	62.3	39.0	12.9	12.4	28.7	10.4	34.3	-26.9	173.2
o/w regular interest income [2]	76.0	38.9	15.1	13.9	34.2	12.9	44.9	-42.1	193.7
Net fee and commission income	28.0	9.9	6.3	6.4	9.8	1.9	-0.1	0.2	62.4
Net result on financial instruments	2.0	5.4	0.0	0.2	1.4	0.0	94.2	-33.3	70.0
Other operating result	-6.8	-2.3	-0.5	-1.6	-1.7	-1.1	-7.9	5.3	-16.5
Operating income	**85.5**	**52.0**	**18.7**	**17.5**	**38.2**	**11.2**	**120.4**	**-54.7**	**289.0**
Operating expenses	**-54.5**	**-25.1**	**-14.3**	**-15.9**	**-27.8**	**-8.2**	**-41.4**	**-0.8**	**-188.1**
Operating result	**31.0**	**26.9**	**4.4**	**1.5**	**10.5**	**3.1**	**79.0**	**-55.5**	**100.9**
Change in CL	-4.1	2.4	-1.2	6.1	1.9	-0.9	-1.1	-0.2	2.8
Operating result before tax	**26.9**	**29.3**	**3.2**	**7.7**	**12.3**	**2.2**	**77.9**	**-55.7**	**103.7**
Total assets	**2,470.6**	**1,603.7**	**405.3**	**455.4**	**846.8**	**237.9**	**1,306.2**	**-1,173.7**	**6,152.1**
Business volume									
Net loans and receivables	1,363.6	1,240.2	264.7	253.2	620.7	185.7	191.5	-326.7	3,792.9
o/w gross performing loans customers	1,312.9	1,128.8	259.1	248.7	631.2	185.5			3,766.1
Gross disbursements	523.4	315.8	89.9	114.7	330.5	84.6			1,458.9
Financial liabilities at AC [3]	2,064.0	1,431.9	323.5	340.1	660.0	213.8	505.4	-336.3	5,202.5
RWA [4]	1,374.4	920.2	320.7	344.3	719.6	187.3	48.6	-0.4	3,914.8
Key ratios									
Net interest margin (NIM)	2.3%	2.5%	3.4%	2.7%	3.5%	4.1%			2.7%
Cost/Income Ratio	60.4%	51.3%	74.6%	84.4%	72.0%	66.7%			79.9%
Cost of risk ratio	-0.2%	0.2%	-0.3%	1.5%	0.2%	-0.4%			0.1%
Loan to deposit ratio [5]	66.1%	86.6%	81.8%	74.5%	94.0%	86.8%			72.9%
NPE ratio (CRB based)	10.1%	2.4%	11.7%	14.8%	6.0%	8.7%			7.7%
NPE coverage ratio	73.0%	70.4%	84.7%	86.8%	67.3%	62.3%			75.4%
NPE collateral coverage	42.9%	58.6%	41.0%	32.8%	59.3%	58.2%			45.5%
Change CL/GPL (simply Ø)	-0.3%	0.2%	-0.4%	2.6%	0.3%	-0.5%			0.1%
Yield GPL (simply Ø)	5.0%	3.2%	5.7%	5.4%	4.8%	6.9%			4.6%

[1]Net interest income according to the reported. No reallocation of deposit insurance costs from other operating result [2]Regular interest income is related to booked interests excluding interest like income, interest income on NPE and funds transfer pricing // regular interest income for each country and Group level including Corporate Center to assure comparability with 2019 [3]Direct deposits (Austria/Germany) amounting to EUR 360 million presented in ABH [4]Includes only credit risk [5]Financial asset at amortised cost/ Financial liabilities at amortised cost

Risk Report

(51) Risk control and monitoring

The Addiko Group steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the 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 the Addiko Group to the bank’s overall controlling:
- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- The Group implements appropriate, mutually compatible procedures for identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

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

The Addiko Group’s risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. 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.

The Addiko Group’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.

The Addiko Group has established a Risk Appetite Framework (RAF) which sets the bank’s risk appetite 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 framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the budget, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(53) 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 AG Management 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 reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2019, the following organisational units were operative:

Corporate Credit Risk 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 ensures 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.
Integrated Risk Management includes a **Market & Liquidity Risk** team, which defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of the Addiko Group within the defined risk appetite, and regulatory limitations.

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.
Model and Credit Risk Portfolio Management includes **Risk Validation** team, which provides the validation of the credit and market risk models to all the subsidiaries across the Addiko Group. The function is a fully independent GSS unit that monitors model performance and stability; reviews model relationships and tests model outputs against outcomes.

Group Data Office 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.

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.

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

(54) Internal risk management guidelines

The Addiko Group 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.

The Addiko Group 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.

(55) Credit risk

55.1. Definition

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

55.2. General requirements

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

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

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

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Management Board is required.

55.3. Risk measurement

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

55.4. Risk limitation

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

In the Addiko Group, limits within financial institutions segment are set and monitored independently by a responsible unit. If limits are exceeded, this is communicated immediately to operative risk unit as well as front office and reported to the Group Risk Executive Committee. In all other segments, limit control is carried out through a Group wide authorisation level policy ("Pouvoir-Ordnung"). At portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

Another important instrument in limiting risk is the acceptance and crediting of common banking collateral. The measurement and processing is carried out in line with the collateral policy, which defines in particular the measurement procedures as well as measurement discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place with certain business partners which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded. The methods used to accept collateral (formal requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

55.5. Reconciliation between Financial instruments classes and Credit risk exposure

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

All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

Breakdown of net exposure within the Group in accordance with IFRS 7.36 as at 31 December 2019:

EUR m

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	778.9	-0.4	778.4	0.0	0.0	0.0	778.9	778.4
Financial assets held for trading	38.5		38.5	0.0		0.0	38.5	38.5
Loans and receivables	3,887.4	-67.1	3,820.3	262.7	-197.1	65.6	4,150.2	3,885.9
of which credit institutions	14.1	0.0	14.0	0.0	0.0	0.0	14.1	14.0
of which customer loans [2]	3,873.4	-67.1	3,806.3	262.7	-197.1	65.6	4,136.1	3,871.9
Investment securities [3]	1,091.5	-0.7	1,090.9	0.0	0.0	0.0	1,091.5	1,090.9
Other Assets - IFRS 5	0.0	0.0	0.0	0.2	-0.2	0.0	0.2	0.0
On balance total	**5,796.3**	**-68.3**	**5,728.1**	**263.0**	**-197.4**	**65.6**	**6,059.3**	**5,793.7**
Off balance	993.7	-3.4	990.3	13.5	-6.6	6.9	1,007.3	997.3
ECL on FVTOCI debt securities [4]	-0.7	0.7	0.0	0.0	0.0	0.0	-0.7	0.0
Total	**6,789.4**	**-71.0**	**6,718.4**	**276.5**	**-204.0**	**72.6**	**7,065.9**	**6,791.0**
Adjustments [5]	-7.4		-7.4			0.0	-7.4	-7.4
Total credit risk exposure	**6,782.0**	**-71.0**	**6,711.0**	**276.5**	**-204.0**	**72.6**	**7,058.5**	**6,783.6**

[1]The position does not include cash on hand in amount of EUR 120.9 million [2]Including accrued interest [3]Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia [4]The loss allowance on debt securities at FVTOCI is not presented for credit risk purposes as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments [5]Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2018:

EUR m

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

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

55.6. Allocation of credit risk exposure within the Group

During 2019, the overall gross exposure within the Group decreased by EUR 177.1 million or 2.4%. Reductions in the exposures are recognised at Addiko Bank Croatia, Addiko Bank Serbia, Addiko Bank Slovenia and Addiko Bank Montenegro which are partially offset by increased exposure in Addiko Holding, Addiko Bank Sarajevo and Addiko Bank Banja Luka. The increase of the exposure in the core segments Consumer Lending and SME was compensated by the volume reduction in the non-core segments Large Corporate, Public Finance, Mortgages and Corporate Center. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	31.12.2019	31.12.2018
Addiko Croatia	2,702.8	2,850.1
Addiko Slovenia	1,773.4	1,795.8
Addiko Serbia	1,001.4	1,044.0
Addiko in Bosnia & Herzegovina	1,076.5	1,026.4
Addiko Montenegro	252.4	271.2
Addiko Holding	252.0	248.3
Total	**7,058.5**	**7,235.7**

55.7. Credit risk exposure by rating class

At 31 December 2019 roughly 24.9% (YE18: 27.0%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2019 is mainly influenced by repayments, settlements and portfolio sales, as well as impacted by a mandatory write-off in ABSE related to exposures in CHF and collection effects in all countries. Taking all these effects into consideration the overall non-performing exposure decreased during 2019 by EUR 127.3 million.

The following table shows the exposure by rating classes and market segment as at 31 December 2019:

EUR m

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	193.9	858.5	251.1	130.5	84.3	13.2	1,531.5
SME	156.9	909.2	571.9	50.8	69.3	0.6	1,758.6
Non-Focus	461.7	874.7	330.7	45.6	122.9	3.6	1,839.1
o/w Large Corporate	83.6	453.7	247.8	2.6	22.8	0.1	810.6
o/w Mortgage	336.9	325.7	42.2	34.2	94.6	3.4	837.0
o/w Public Finance	41.2	95.3	40.7	8.8	5.5	0.0	191.5
Corporate Center[1)]	944.1	847.9	136.4	0.0	0.0	0.9	1,929.3
Total	**1,756.7**	**3,490.2**	**1,290.0**	**226.8**	**276.5**	**18.3**	**7,058.5**

[1)]Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

EUR m

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

[1)]Corporate Center includes financial institutions considering national bank exposure, deposits as well as securities

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

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

The Addiko Group applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	639.8	17.1	18.7	0.8	676.4
2A-2E	2,074.8	13.7	0.0	1.3	2,089.8
3A-3E	877.0	16.3	0.1	0.1	893.5
Watch	43.8	174.2	0.5	0.0	218.5
NPE	0.2	0.0	238.7	8.7	247.6
No rating	10.2	0.1	0.0	0.0	10.3
Total gross carrying amount	**3,645.8**	**221.4**	**257.9**	**11.0**	**4,136.1**
Loss allowance	-30.9	-36.2	-196.0	-1.1	-264.2
Carrying amount	**3,614.9**	**185.2**	**61.9**	**9.8**	**3,871.9**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	734.9	44.8	0.0	0.7	780.4
2A-2E	1,783.5	92.9	0.0	1.6	1,878.0
3A-3E	824.8	62.1	0.0	0.1	887.1
Watch	64.3	159.1	0.5	0.0	223.9
NPE	0.0	0.0	366.4	19.1	385.5
No rating	10.0	0.7	0.1	0.0	10.8
Total gross carrying amount	**3,417.5**	**359.6**	**367.0**	**21.6**	**4,165.7**
Loss allowance	-33.8	-47.4	-282.8	-14.4	-378.4
Carrying amount	**3,383.8**	**312.2**	**84.2**	**7.1**	**3,787.3**

Loans and advances to banks at amortised cost:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	11.1	0.0	0.0	0.0	11.1
2A-2E	3.0	0.0	0.0	0.0	3.0
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**14.1**	**0.0**	**0.0**	**0.0**	**14.1**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**14.0**	**0.0**	**0.0**	**0.0**	**14.0**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	4.0	0.0	0.0	0.0	4.0
2A-2E	1.7	0.0	0.0	0.0	1.7
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**5.6**	**0.0**	**0.0**	**0.0**	**5.6**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**5.6**	**0.0**	**0.0**	**0.0**	**5.6**

Debt instruments measured at FVTOCI:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	644.9	0.0	0.0	0.0	644.9
2A-2E	402.3	0.0	0.0	0.0	402.3
3A-3E	7.8	0.0	0.0	0.0	7.8
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	7.1	0.0	0.0	0.0	7.1
Total gross carrying amount	**1,062.0**	**0.0**	**0.0**	**0.0**	**1,062.0**
Loss allowance	-0.7	0.0	0.0	0.0	-0.7
Carrying amount	**1,061.3**	**0.0**	**0.0**	**0.0**	**1,061.3**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	748.0	0.0	0.0	0.0	748.0
2A-2E	400.7	0.0	0.0	0.0	400.7
3A-3E	3.9	0.0	0.0	0.0	3.9
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**1,152.6**	**0.0**	**0.0**	**0.0**	**1,152.6**
Loss allowance	-1.7	0.0	0.0	0.0	-1.7
Carrying amount	**1,150.9**	**0.0**	**0.0**	**0.0**	**1,150.9**

Commitments and financial guarantees given:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	155.9	0.0	0.0	0.0	155.9
2A-2E	557.9	0.3	0.0	0.0	558.2
3A-3E	265.4	0.1	0.0	0.0	265.5
Watch	3.3	9.9	0.0	0.0	13.2
NPE	0.0	0.0	13.0	0.0	13.0
No rating	0.8	0.0	0.5	0.0	1.3
Total gross carrying amount	**983.4**	**10.4**	**13.5**	**0.0**	**1,007.3**
Loss allowance	-2.8	-0.6	-6.6	0.0	-10.0
Carrying amount	**980.5**	**9.8**	**6.9**	**0.0**	**997.3**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	163.4	0.5	0.0	0.0	163.8
2A-2E	521.3	1.1	0.0	0.0	522.4
3A-3E	231.0	1.7	0.0	0.0	232.6
Watch	6.9	22.8	0.0	0.0	29.7
NPE	0.0	0.0	15.2	0.0	15.2
No rating	0.8	0.1	0.0	0.0	0.9
Total gross carrying amount	**923.3**	**26.1**	**15.2**	**0.0**	**964.7**
Loss allowance	-3.0	-1.8	-6.9	0.0	-11.7
Carrying amount	**920.3**	**24.3**	**8.4**	**0.0**	**953.0**

55.8. Credit risk exposure by region

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

EUR m

	31.12.2019	31.12.2018
CSEE	6,257.4	6,346.5
Europe (excl. CEE/CSEE)	501.2	506.5
CEE	229.6	274.4
Other	70.4	108.2
Total	**7,058.5**	**7,235.7**

55.9. Exposure by business sector and region

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

The lower-risk business sector groups – financial institutions and the public sector – account for a share of 29.8% at YE19 (YE18: 32.1%). The well-diversified private customers sector accounts for a share of 25.6% (YE18: 25.6%).

EUR m

31.12.2019 Business sector	Europe (excl. CEE/CSEE)	CSEE	CEE	Other	Total
Private	1.5	1,802.2	0.0	0.1	1,803.8
Financial services	375.8	751.6	0.0	56.0	1,183.4
Public sector	99.8	591.0	229.5	0.0	920.4
Industry	17.4	1,057.3	0.0	5.3	1,080.0
Trade and commerce	0.0	717.9	0.0	4.7	722.6
Services	6.3	535.6	0.0	2.6	544.6
Real estate business	0.0	90.3	0.0	0.0	90.3
Tourism	0.0	118.1	0.0	0.0	118.1
Agriculture	0.0	59.4	0.0	0.0	59.4
Other	0.3	533.9	0.0	1.8	536.0
Total	**501.2**	**6,257.4**	**229.6**	**70.4**	**7,058.5**

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

EUR m

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

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

55.10. Presentation of exposure by overdue days

EUR m

31.12.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,424.6	28.6	5.3	4.1	68.9	1,531.5
SME	1,648.1	62.9	4.1	0.3	43.2	1,758.6
Non-Focus	1,679.4	64.7	3.2	1.7	90.1	1,839.1
o/w Large Corporate	764.2	34.6	0.1	0.0	11.7	810.6
o/w Mortgage	737.4	19.4	3.1	1.6	75.4	837.0
o/w Public Finance	177.9	10.7	0.0	0.1	2.9	191.5
Corporate Center	1,929.3	0.0	0.0	0.0	0.0	1,929.3
Total	**6,681.4**	**156.1**	**12.6**	**6.1**	**202.3**	**7,058.5**

EUR m

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

55.11. Presentation of exposure by size classes

As 31 December 2019 around 42.4% (YE18: 41.3%) of the exposure is found in the size range < EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1,053.0 million (YE18: EUR 1,227.8 million) of exposure in the range > EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

Size classes	Exposure EUR m	31.12.2019 GoBs	Exposure EUR m	31.12.2018 GoBs
< 10,000	570.4	294,723	554.3	302,969
10,000-50,000	1,266.2	60,479	1,194.7	56,123
50,000-100,000	353.7	5,137	417.1	6,058
100,000-250,000	324.8	2,221	356.2	2,469
250,000-500,000	202.6	592	196.4	575
500,000-1,000,000	278.5	398	270.0	400
1,000,000-10,000,000	1,620.1	579	1,646.2	576
10,000,000-50,000,000	1,136.2	57	1,007.6	48
50,000,000-100,000,000	253.1	3	365.4	5
> 100,000,000	1,053.0	5	1,227.8	6
Total	**7,058.5**	**364,194**	**7,235.7**	**369,229**

55.12. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2019 Collateral	Exposure	31.12.2018 Collateral
1A-1E	1,751.8	401.3	1,953.9	463.8
2A-2E	3,445.0	770.1	3,274.2	716.3
3A-3E	1,215.7	348.6	1,242.8	332.5
Watch	190.0	58.4	212.3	87.1
NPE	1.1	0.9	0.5	0.3
No rating	18.0	2.9	9.4	0.0
Total	**6,621.5**	**1,582.1**	**6,693.2**	**1,600.1**

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

Overdue but not impaired financial assets:

EUR m

	Exposure	31.12.2019 Collateral	Exposure	31.12.2018 Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	151.7	67.9	125.8	48.5
- overdue 31 to 60 days	6.9	1.9	9.3	4.7
- overdue 61 to 90 days	3.0	0.5	4.3	1.5
- overdue 91 to 180 days	0.1	0.1	0.0	0.0
- overdue 181 to 365 days	0.1	0.1	0.0	0.0
- overdue over 1 year	0.6	0.6	0.0	0.0
Total	**162.4**	**70.9**	**139.4**	**54.7**

The primary reason for not taking into account ECL stage 3 for the exposures over 90 days is that, after performing an impairment test, there is no need for an ECL stage 3 for impairment losses through primary and secondary cash flows.

Impaired financial instruments:

EUR m

Loans and advances to customers (on- and off-balance)	31.12.2019	31.12.2018
Exposure	274.7	403.1
Provisions	204.0	304.4
Collateral	140.0	183.1

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation according to note (56) 56.1 “Method of calculating provisions” is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

55.12.1. FORBEARANCE

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments (“financial difficulties”). Forbearance measures and risks are monitored by the operative risk units responsible for Corporate center and Retail. Additionally, forbearance measures represent a trigger event in order to perform impairment tests in accordance with IFRS requirements.

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2019. The off-balance positions only include loan commitments:

EUR m

	OPENING balance 01.01.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2019
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	2.0	0.0	-0.2	0.0	0.0	0.0	1.8
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	74.3	39.9	-21.6	-10.1	0.0	-32.6	49.9
Households	41.1	12.8	-5.2	0.0	0.0	-13.8	34.8
Loans and advances	**117.6**	**52.7**	**-27.0**	**-10.1**	**0.0**	**-46.4**	**86.8**
Loan commitments given	0.3	0.1	-0.2	0.0	0.0	0.1	0.2

The following table shows the forbearance status in the course of the year 2018:

EUR m

	OPENING balance 01.01.2018	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2018
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	5.0	0.0	-3.0	0.0	0.0	0.0	2.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.3	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	115.4	30.4	-43.5	-18.4	0.0	-9.6	74.3
Households	43.0	12.7	-11.2	0.0	0.1	-3.5	41.1
Loans and advances	**163.4**	**43.4**	**-57.7**	**-18.4**	**0.1**	**-13.1**	**117.6**
Loan commitments given	0.4	0.2	-0.1	0.0	0.0	-0.2	0.3

The forbearance exposure was as follows in 2019:

EUR m

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	1.8	0.0	0.0	1.8	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.3	0.0
Non-financial corporations	49.9	9.7	2.2	38.0	0.5
Households	34.8	16.2	1.8	16.8	0.5
Loans and advances	**86.8**	**25.8**	**4.0**	**56.9**	**1.0**

The forbearance exposure was as follows in 2018:

EUR m

	Closing Balance 31.12.2018	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	2.0	0.0	0.0	2.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.2	0.0
Non-financial corporations	74.3	10.4	1.1	62.8	2.1
Households	41.1	13.1	0.7	27.2	0.4
Loans and advances	**117.6**	**23.6**	**1.8**	**92.3**	**2.6**

The following table shows the collateral allocation for the forbearance exposure at the YE19:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	4.6	2.1	0.0	0.0	0.0	2.6
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	10.7	9.5	0.0	0.0	0.0	1.2
Medium and Small Corporate	22.4	16.4	1.3	0.1	1.7	2.8
Retail	20.7	4.3	15.8	0.0	0.6	0.0
Total	**58.5**	**32.3**	**17.1**	**0.1**	**2.4**	**6.6**

Following table shows the collateral allocation for the forbearance exposure at the YE18:

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.2	2.2	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporates	20.3	19.0	0.3	0.0	0.0	1.0
Medium and Small Corporate	32.7	23.9	1.8	0.2	1.0	5.8
Retail	26.1	4.4	20.9	0.2	0.6	0.0
Total	**81.3**	**49.5**	**23.0**	**0.4**	**1.6**	**6.8**

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

In the financial year 2019, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of EUR 4.4 million (2018: EUR 5.9 million). Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Addiko Group due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

(56) Development of risk provisions

56.1. Method of calculating risk provisions

Provisions are calculated in line with the international accounting standard for financial instruments (IFRS 9). 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. 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).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 guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, 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 potential repossession of available collaterals (primarily real-estates), the Addiko Group bases its assumptions on the collateral's market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

56.2. Development of risk provisions

The positive development of the risk provisions (releases) primarily happened due to one-off effects from individual medium and large non-performing clients within the Corporate segment, resulting from successful debt settlements, other banks refinancing and restructuring measures, as well as to settlement agreements, debt sales and repayments within the Retail segment. This resulted in a reduced NPE portfolio in 2019, and the release of risk provisions at the same time.

Besides the mentioned debt sale and settlement agreements (especially in Croatia and Serbia), the release of the holding period of CHF converted loans in Croatia resulted in further risk provision releases primarily within the Retail segment. Further positive effects were achieved by process improvements.
Transfer of responsibility for monitoring on Risk stream, new/adequate rules for monitoring, Early warning system and pre-workout function in Corporate segment, as well as daily monitoring supported by clear performance goals regarding early collections, together with an incentive program in Retail segment, leads to considerable results in the early collections and a significant reduction of the NPE portfolio. The positive, decreasing trend in terms of the NPE ratio was continuous throughout 2019. The decrease was also experienced in absolute figures. One of the largest contributions came from Croatia through a debt sale initiative and through upgrading of Mortgage loans from NPE to PE status. Additional significant effects came from individual clients in Large Corporate in Croatia and Serbia, based on adequate restructuring and debt settlement.

56.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Addiko Group, updates are performed regularly to make sure that the latest available information is considered. In 2019 a refinement/recalibration of all segments and subsidiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, therefore impacting the average PD value. In addition, macro models were adapted in line with validation findings and new macro economic forecasts were used to reflect the latest available economic outlooks throughout all segments, affecting PD values. As a result of the calibration positive development (releases) of provisions were observed reflecting current asset quality and macro economic outlook. Furthermore, stage triggers on group and country level were assessed and adjusted where needed.

56.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) remains on approximately the same level (73.8%) compared to the YE18 (75.4%).

The following table shows the NPE and coverage ratio (coverage ratio 1 considers stage 3 allowances, while coverage ratio 2 additionally considers collaterals):

EUR m

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	1,531.5	84.3	77.5	12.0	5.5%	91.9%	106.1%
SME	1,758.6	69.3	45.8	44.0	3.9%	66.1%	129.6%
Non-Focus	1,839.1	122.9	80.7	85.7	6.7%	65.6%	135.4%
o/w Large Corporate	810.6	22.8	10.8	14.9	2.8%	47.5%	112.5%
o/w Mortgage	837.0	94.6	66.8	66.2	11.3%	70.7%	140.7%
o/w Public Finance	191.5	5.5	3.0	4.6	2.9%	54.2%	138.4%
Corporate Center	1,929.3	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,058.5**	**276.5**	**204.0**	**141.7**	**3.9%**	**73.8%**	**125.0%**
o/w Credit Risk Bearing	**5,250.7**	**276.5**	**204.0**	**141.7**	**5.3%**	**73.8%**	**125.0%**

The Credit Risk Bearing exposure does not include exposure towards national bank as well as securities and derivatives.

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

EUR m

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

(57) Measurement of real estate collateral and other collateral

Pursuant to the Addiko Group Collateral Management Policy and also the Addiko Group Real Estate Valuation Policy, all real estate is regularly monitored and its value regularly re-assessed, annually for all commercial real-estate, and at least once in three years for residential real estate and real estates which are collateral for NPE. The valuation of all commercial real estate is performed on an individual level if the market value is above EUR 1.0 million, pursuant to the Addiko Group Real Estate Valuation Policy. The market value of the ones with smaller value is re-assessed using certain statistical methods and tools.

Thresholds for individual market value reassessments for residential real estate are smaller, and those amount to EUR 700,000 if the RRE is located inside capital cities and to EUR 400,000 if the residential real estate is located elsewhere. The market value of residential real estate above those values is also individually reassessed.

The internal collateral values (ICV) are shown in the following table for 31 December 2019 as well as 31 December 2018:

EUR m

Collateral Distribution	31.12.2019	31.12.2018
Exposure	7,058.5	7,235.7
Internal Collateral Value (ICV)	1,793.1	1,837.9
thereof CRE	703.8	681.0
thereof RRE	635.6	730.6
thereof financial collateral	27.3	23.6
thereof guarantees	293.4	282.6
thereof other	133.0	120.0
ICV coverage rate	**25.4%**	**25.4%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estates given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail. Collateral coverage did not change.

The table below provides an analysis of the current fair value of collateral held and credit enhancements for stage 3 assets in accordance with IFRS 7R35K(c).

Dependent on the value of collateral, some stage 3 exposures may not have individual ECLs assigned, if the expected discounted cash flows from realisation of collateral is greater that the outstanding amount, even if the expected discounted cash flows from realisation of collateral is forecasted using multiple economic scenarios. However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

EUR m

	Gross	Fair value of collateral held under the base case scenario							Net	ECL
31.12.2019	Carrying amount	Securities	Guaran tees	Property	Other	Offsetting	Surplus collateral	Total collateral	exposure	
Loans and advances	**178.7**	**0.0**	**0.0**	**49.3**	**2.6**	**0.1**	**0.0**	**51.9**	**126.8**	**196.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Governments	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	0.7
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Non-financial corporations	89.7	0.0	0.0	30.0	2.6	0.1	0.0	32.6	57.0	59.6
Households	86.5	0.0	0.0	19.3	0.0	0.0	0.0	19.3	67.2	135.4
Commitments and financial guarantees	**13.5**	**0.0**	**0.0**	**1.9**	**1.0**	**2.7**	**0.0**	**5.7**	**7.8**	**6.6**
Loan commitments given	1.8	0.0	0.0	0.8	0.0	0.0	0.0	0.8	1.1	1.0
Financial guarantees given	3.8	0.0	0.0	0.8	0.2	0.2	0.0	1.2	2.6	2.5
Other commitments given	7.8	0.0	0.0	0.4	0.8	2.5	0.0	3.7	4.2	3.1

EUR m

31.12.2018	Gross Carrying amount	Fair value of collateral held under the base case scenario Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	**388.6**	**51.8**	**0.4**	**67.8**	**3.8**	**0.0**	**-3.5**	**120.3**	**268.3**	**297.2**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.9
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Non-financial corporations	151.8	23.1	0.4	23.9	3.7	0.0	-0.3	50.9	100.9	110.1
Households	233.9	28.6	0.0	43.9	0.0	0.0	-3.2	69.4	164.5	185.9
Commitments and financial guarantees	**15.2**	**0.0**	**0.0**	**1.7**	**1.3**	**2.8**	**0.0**	**5.8**	**9.5**	**6.9**
Loan commitments given	2.3	0.0	0.0	0.3	0.0	0.0	0.0	0.3	1.9	1.1
Financial guarantees given	5.0	0.0	0.0	0.8	1.2	0.2	0.0	2.2	2.7	2.9
Other commitments given	8.0	0.0	0.0	0.6	0.1	2.5	0.0	3.3	4.8	2.8

The expected discounted cash flows from realisation of collateral presented in the above table are determined - for the not individually impaired loans - as difference between the outstanding amount and the ECL calculated on the portfolio principle and for this reason do not correspond to the collateral values presented in the previous tables.

(58) Market risk

58.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Addiko Group places a special emphasis on identifying, measuring, analysing 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.

58.2. Risk measurement

The Addiko Group calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99.0% VaR number used by the bank reflects the 99% probability that the daily loss should not exceed the reported VaR. VaR methodology employed to calculate daily risk numbers is a Monte Carlo simulation used in order to determine potential future exposure to risk. The bank uses VaR to capture: exposure to Bank Book (99% confidence; 1 day holding horizon), exposure to Trading Book (99.0% confidence; 1 day horizon) and portfolios and exposure to daily open FX position of the bank. Methodology used is a structured Monte Carlo simulation with 10,000 runs and a 99.0% confidence interval based on exponentially weighted volatilities and correlations of the bank´s own time series (250 days). The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

58.3. Overview – market price risk

58.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Addiko Group per 31.12.2019 is EUR 1.5 million (comparable VaR figure as at 31 December 2018: EUR 0.8 million).
The interest rate gap profile for the Addiko Group contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures, as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

The trading items of the Addiko Group were relatively stable in 2019. 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 EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02) and specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics.

The regulatory limit of 20.0% of the total own funds were not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 8.7% on average in 2019 as compared to 5.5% on average in 2018).

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20.0% and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital.

The change in present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2019 amounts to EUR -0.3 million (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2018 was EUR -0.3 million.

58.3.2. FOREIGN EXCHANGE RISK

The database for determining the value at risk for foreign exchange risks at the Group level of the Addiko Group is based on the figures in the regulatory report and participations and contains operational business activities. Foreign exchange risk thereby covers the entire FX risk of the Addiko Group. The main foreign exchange risk drivers are the HRK and RSD currencies. The total volume of open currency positions as at 31 December 2019 is roughly EUR 626.5 million (volume per 31 December 2018 of approx. EUR 603.7 million), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign exchange risk was approximately EUR 0.6 million per day as at 31 December 2019 (value at risk as at 31 December 2018: EUR 0.8 million), at a confidence interval of 99.0%. The limit of EUR 2.0 million was adhered to as at 31 December 2019.

Aside from foreign exchange risk from operating activities, the Addiko Group 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 191.4 million) and Addiko d.d. Zagreb (volume of approx. EUR 406.0 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 the Addiko Group. In addition to monitoring VaR in respect of foreign currency, the Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on monthly basis within the Group Asset Liability Committee.

58.3.3. EQUITY 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. The Addiko Group makes a distinction between equity risks which arise from utilising collateral related to credit risk transactions where utilisation is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default), and equity risks from an investment point of view (investments). The value at risk for the equity risk (customer default) at the Addiko Group amounted to EUR 2,898.0 as at 31 December 2019 (value at risk as at 31 December 2018: EUR 4,701.0) with a one-day holding period and a confidence level of 99.0% and EUR 1,071.0 (value at risk as at 31 December 2018: EUR 775.0) for the equity 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 the Addiko Group – which is why the Addiko Group is only exposed to an extremely low level of risk from share items as at 31 December 2019 and therefore also no major concentration risk exists here.

58.3.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.7 million at 31 December 2019 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2018: EUR 0.5 million). The limit of EUR 2.4 million was adhered to as at 31 December 2019. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Addiko Group. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, the Addiko Group 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 Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

(59) Liquidity risk

59.1. Definition

The Addiko Group 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.

59.2. General requirements

At the Addiko Group, 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 CS Market & Liquidity Risk. At a local level, the respective risk control units are in charge. Risk measurement and mitigation as well as timely and consistent reporting are carried out there.

The Addiko Group has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank's reputation.

59.3. Risk control

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

In 2019, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 147.9 % in April 2019 and its peak of 179.7 % in November 2019.

In December 2019, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for central bank	382.5
Securities eligible for repo	410.1
Credit claims eligible for central bank or repo	0.0
Obligatory reserves (countable)	0.0
Cash reserves at central bank (locked)	158.4
Counterbalancing Measures	
Other liquefiable assets (short-, medium-term)	0.0
Committed/required credit lines	0.0
New issuance and securitization	0.0
Total Counterbalancing Capacity	**951.0**

In December 2018, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for central bank	424.7
Securities eligible for repo	451.2
Credit claims eligible for central bank or repo	0.0
Obligatory reserves (countable)	0.0
Cash reserves at central bank (locked)	142.9
Counterbalancing Measures	
Other liquefiable assets (short-, medium-term)	0.0
Committed/required credit lines	0.0
New issuance and securitization	0.0
Total Counterbalancing Capacity	**1,018.8**

Liquidity Controlling for the Addiko Group is carried out at a local level on the one hand (in particular for HRK, RSD and BAM) as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

Any occurring gaps in pre-defined time buckets are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for the proper liquidity management. The liquidity reserves are subjected to a regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured that general regulatory requirements in the legal entities countries are adhered as well.

59.4. Overview - liquidity situation

The liquidity situation of the Addiko Group in 2019 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

During the financial year, the Addiko Group recorded a stable level of deposits around EUR 5.1 billion. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2020.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding (almost 71 %) is EUR, followed by HRK and BAM. Both, products and currencies are tracked through different time buckets and time frames.
In addition, the Group is monitoring the impact of customers with high volume business: the biggest ten counterparties which are compared with the volume of total financial liabilities.

Collateral exchanges as part of the relevant margining procedures underlying the derivatives business is taken into account in all the relevant liquidity risk calculations and as such form the relevant input used in both regulatory reporting as well as internal management.

Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Addiko Group:

EUR m

31.12.2019	Carrying amount	Contractual cash flows	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	5,121.6	5,151.7	2,665.5	828.4	1,129.0	429.4	99.5
Deposits of customers	4,831.2	4,856.2	2,644.5	797.3	975.9	399.0	39.4
Deposits of credit institutions	233.9	235.0	4.9	16.6	143.7	15.4	54.4
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Other financial liabilities	56.4	60.4	16.0	14.5	9.4	14.9	5.6
Derivatives	6.0	5.8	0.7	0.5	2.8	1.7	0.0
Loan commitments	0.0	593.0	593.0	0.0	0.0	0.0	0.0
Financial guarantees	0.0	189.5	189.5	0.0	0.0	0.0	0.0
Other commitments	0.0	224.7	224.7	0.0	0.0	0.0	0.0
Total	**5,127.6**	**6,164.7**	**3,673.4**	**828.9**	**1,131.9**	**431.1**	**99.5**

EUR m

31.12.2018	Carrying amount	Contractual cash flows	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	5,202.5	5,226.5	2,305.7	767.2	986.0	723.7	444.0
Deposits of customers	4,836.7	4,855.3	2,275.5	717.0	956.2	527.1	379.4
Deposits of credit institutions	324.4	325.0	12.4	29.9	24.7	193.4	64.6
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	1.0	0.1	0.0
Other financial liabilities	40.3	45.3	17.8	20.3	4.1	3.1	0.0
Derivatives	2.1	2.1	0.3	0.5	0.0	0.7	0.6
Loan commitments	0.0	600.6	600.6	0.0	0.0	0.0	0.0
Financial guarantees	0.0	192.5	192.5	0.0	0.0	0.0	0.0
Other commitments	0.0	171.5	171.5	0.0	0.0	0.0	0.0
Total	**5,204.6**	**6,193.3**	**3,270.6**	**767.7**	**986.0**	**724.3**	**444.6**

(60) Operational risk

60.1. Definition

The Addiko Group defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

60.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture. As a pro-active partner to senior management, ORM's value lies in supporting and challenging senior management to align the business control environment with the bank's strategy by measuring and mitigating risk loss exposure, contributing to optimal return for stakeholders.

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

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored risk mitigation actions.

Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

60.3. Risk monitoring

Operational Risk Management reports on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Board Audit Committee in order to provide an overview of the operational risk situation to the management to enable the related risk steering and to integrate the operational risk management into the bank processes.

60.4. Exposure & capital overview

Operational risk, in its cyclical process, shows changes in loss realisation thus impacting operational risk management which is visible through the loss collection and risk and control self-assessment processes, the two most important tools in operational risk management.

The operational risk with regard to the Pillar 1 capital requirement is calculated using the Standardised Approach based on operating income (using relevant indicator and multiplier for relevant business lines). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes operational risk sub-types which the Bank considers material under Pillar 2.

(61) Object risk

Object risk at the Addiko Group covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

The capital requirements for object risk are calculated according to the methodology of the Standardised Approach and included in the ICAAP evaluation. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(62) Other risks

The following risk types are backed up with capital under “Other risks”:

- Reputational risk,
- Macro-economic risks,
- Systemic risks,
- Business risk/Strategic risk.

For material “Other risks”, economic capital is considered in the risk bearing capacity calculation.

(63) Legal Risk

Historical unilateral interest change clause risk

As at 31 December 2019 the total amount in dispute related to retail cases (F/X, unilateral interest change disputes or claims for payment) in which the Group are respondent was EUR 73 million.

Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions

Particularly in the past ten years, numerous private customers in Central and South Eastern Europe have taken out foreign currency loans (especially CHF loans). As in the previous years, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, the latter being a course of action initiated in particular by consumer protection organisations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and/or that the foreign currency and/or interest rate adjustment clauses applied ran contrary to the terms of the agreement. This is an attempt to renegotiate the terms and conditions of foreign currency loans.

At the time of writing, several first and second-instance verdicts have been issued on the subject in Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro; some of the verdicts went against the defendant subsidiary banks, but other cases were ruled in their favour.

As for the subsidiary bank in Serbia in May 2019 the parliament of Serbia enacted a conversion law which entered into force on 7 May 2019. Under the conversion law banks had to convert the CHF loans applying the current exchange rate into EUR loans. From that amount banks had to write-off 38% of which the Republic of Serbia participated with 15% of banks' total losses via state bonds with an interest rate of 4% p.a. on five years term. The majority of Addiko Serbia's CHF borrowers (89%) accepted the offers and withdrew their previous claims.

The subsidiary bank in Slovenia has 42 ongoing legal disputes in connection with CHF loans, whereby a positive outcome is expected for the Group. So far, regulatory authority and legislator have largely represented the interests of the banks. Whether this will change as a result of the pending legal disputes and media coverage remains to be seen. Recently the Slovenian "Efektiva" tried to introduce a Conversion Law via the National Council of Slovenia. This attempt failed since the legal services of the parliament provided a legal opinion which states that the draft of the Conversion Law contains parts which violate the Slovenian constitution. Thus, the draft was not turned down in October 2019. Nevertheless, the government in November 2019 announced that if the Slovenian Banking Association and the Slovenian "Efektiva" will not find a solution on this matter it will not block again a Conversion Law draft to be introduced with the parliament.

In Bosnia & Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was not only confirmed by further final verdicts but also by a supreme court statement of the Republic of Bosnia & Herzegovina, which has a binding effect for lower-instance courts. In its statement, the supreme court confirmed the lawfulness of the foreign currency clauses used and therefore de facto put an end to the option for CHF borrowers (who had not filed a complaint yet or who had not prevailed at first instance) to file a new complaint claiming the CHF loan agreement to be invalid. Both Bosnian subsidiary banks have implemented a voluntary CHF loan settlement project. The projects aim to conclude supplementary agreements with borrowers (partially cancelling receivables) as regards the conversion of CHF into the national currency BAM. Since then numbers of new claims in this regard significantly decreased and requests for conversion and/or restructuring of loans increased. Until 30 November 2019, 87% of the customers requested a conversion, of which 79% were converted and 8% were closed with-out conversion. The number of claims in this respect has therefore decreased considerably. In Bosnia & Herzegovina, only regulatory recommendations have been issued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighbouring countries, there are currently also tendencies in Bosnia & Herzegovina to legally regulate this area. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia & Herzegovina entity, which was emphasised by the Bosnian government besides the danger of BIT proceedings costs as in Croatia and Montenegro. In November 2017, the national parliament rejected a revised draft for the proposal for a law on the forced conversion of CHF loans into the national currency in its first reading.

In Croatia, the association "Franak" initiated consumer protection proceedings against 8 banks for the protection of its collective interests and rights in April 2012, claiming nullity of the unilateral interest change provisions and the CHF currency clause provisions in CHF loan agreements.

The most relevant decisions that preceded the considerable increase of the number of individual CHF court's proceedings against the Bank during 2019 are the following (i) May 2015 – the Supreme Court of the Republic of Croatia has fully confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the unilateral interest change provision in CHF loan agreements, and (ii) September 2019 - the Supreme Court of the Republic of Croatia has confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the currency clause provision in CHF loan agreements. Borrowers whether participating in the class action or not cannot exert any direct claims from the verdict but have to file individual complaints regarding any potential overpayment claims due to the FX clause. Since this verdict is not directly binding to all lower courts each borrower has to claim individually and prove the preconditions. Currently the Addiko Group assumes that cases concerning converted loans are not open to annulment.

On 12 December 2019 the Supreme Court announced that it accepted the request from a first instance court to rule in a sample case procedure whether converted loans can still be annulled. Is is expected that the Supreme Court will render its ruling until mid April 2020.

No significant developments are to be reported with regard to Addiko Bank a.d. in Montenegro. In the class action the first instance verdict was successfully appealed by plaintiffs and the second instance referred the case for retrial to the first instance.

In September 2017, the Group filed two Requests for Arbitration with the ICSID in Washington, DC against Montenegro and the Republic of Croatia regarding the Conversion Laws claiming EUR 10 million and EUR 165 million, respectively. The Group claims that the Bilateral Investment Treaties (BIT) with the respective country regarding the fair and equivalent treatment under the respective BIT was violated. Counter memorials by the respondents have been submitted to the tribunals denying any damages and liability in relation to these proceedings.

EUR m

	31.12.2019		31.12.2018	
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Bank Croatia	2,702.8	47.0	2,850.1	45.8
Addiko Bank Slovenia	1,773.4	68.8	1,795.8	79.5
Addiko Bank Serbia	1,001.4	3.9	1,044.0	91.9
Addiko Bank Sarajevo	596.6	9.3	553.1	14.2
Addiko Bank Banja Luka	479.8	4.6	473.3	6.9
Addiko Bank Montenegro	252.4	4.4	271.2	5.6
Addiko Holding	252.0	0.0	248.3	0.0
Total	**7,058.5**	**137.9**	**7,235.7**	**243.9**

During the business year 2019, CHF portfolio decreased from EUR 243.9 million at the end of 2018 to EUR 137.9 million at YE19. The reduction was mainly driven by the CHF conversion law for mortgage loans, which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019. The law obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The Republic of Serbia participates in the amount of 15% of the reduction.

Passive legal disputes

The overall number of passive legal disputes increased in 2019. In 2019 the last case exceeding MEUR 15 amounts in dispute was closed. In addition, two bigger cases with an amount in dispute each exceeding EUR 5 million were closed as well. Some of these cases were settled by exercising the active settlement strategy, for others final verdicts in favor of Addiko Bank AG's subsidiaries could be obtained, which is a result of joint efforts and collaboration by Addiko Bank AG and its respective subsidiaries. The majority of pending proceedings relate to the Croatian subsidiary. In the Republic of Serbia again loan processing fees disputes increased significantly in 2019.

The majority of pending proceedings are related to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries which are described in more detail under the paragraph "Historical unilateral interest change clause risks".

The significant increase in the numbers of pending cases due to the Croatian F/X ruling and expiry of statute of limitation for unilateral interest rate change clauses claims the amount in dispute overall decreased by EUR 18 million slightly due to solving bigger cases. Nevertheless, there is a future risk of further increasing numbers of proceedings and amounts in dispute due to changed court practice, binding sample proceedings decision and new laws (e.g. conversion laws, amendments to consumer credit acts, consumer protection acts).

Across the Addiko Group, a centralised legal data base has been established, which enables monitoring and steering by Addiko Bank AG, i.e. the holding company, as well as early perception of possible new developments and reasonings in the jurisdictions the Addiko Group is doing business in. Besides, other monitoring and steering tools have been implemented to establish and secure reliable data quality and dispute handling quality, and to monitor daily litigation work and the development of court cases.

Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the case and having to bear the associated costs, are generally calculated in accordance with international accounting principles applicable across the entire Addiko Group. Accordingly, no legal provision is required to be set up if the Addiko Group is very likely to prevail in the proceedings. If the probability of success is below 50%, legal provisions must be recorded. Local legal divisions familiar with the respective case and/or external appraisers are responsible for assessing the chances of success. The latter especially applies in the case of particularly complex cases or particularly high amounts in dispute. In addition to these general requirements, legal provisions are also formed for particularly complex and/or high-profile legal disputes, which of course carry a greater inherent legal risk. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to foreign currency loans, with two significant additions: Firstly, chances of success in the proceedings concerned are not just assessed by internal legal departments, but increasingly also by external lawyers. Secondly, Group wide monitoring of such legal disputes has been intensified as a consequence of the increasing number of regulations on handling foreign currency loans in the Central and South Eastern European countries (e.g. “forced conversion”).

Besides the legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively requested from Addiko subsidiary banks. The resulting stocktaking allows, at any time, for an overview of the total number of pending legal proceedings the Group is involved in as well as the legal risk inherent in these proceedings (as measured by the chances of success), the recording of risk-adequate legal provisions at an appropriate amount, an effective monitoring of changes and the adopting of measures, if necessary.

Supplementary information required by IFRS

(64) Analysis of remaining maturities

EUR m

31.12.2019	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	633.1	257.0	5.2	4.0	0.1	895.2	4.2	899.4
Financial assets held for trading	21.3	0.2	0.3	16.2	0.4	21.8	16.6	38.5
Financial assets mandatorily at fair value through profit or loss	0.3	16.4	0.0	0.0	0.0	16.7	0.0	16.7
Financial assets at fair value through other comprehensive income	50.3	67.6	45.6	726.6	189.9	163.4	916.5	1,079.9
Financial assets at amortised cost	59.2	350.6	683.5	1,558.0	1,234.6	1,093.3	2,792.6	3,885.9
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	85.9	85.9
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	27.9	27.9
Tax assets	0.0	0.0	0.0	0.0	0.0	5.9	19.8	25.7
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.9	0.9	1.8
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	5.0	18.9	23.9
Other assets	0.0	0.0	0.0	0.0	0.0	15.1	5.5	20.6
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	3.1	0.0	3.1
Total	**764.2**	**691.7**	**734.6**	**2,304.8**	**1,425.0**	**2,214.6**	**3,869.0**	**6,083.6**
Financial liabilities held for trading	0.7	0.3	2.6	1.9	0.5	3.6	2.4	6.0
Financial liabilities measured at amortised cost	2,622.9	829.1	1,154.7	413.7	101.2	4,606.7	514.9	5,121.6
Provisions	0.0	0.0	0.0	0.0	0.0	47.7	19.2	66.9
Other liabilities	0.0	0.0	0.0	0.0	0.0	27.1	0.7	27.9
Total	**2,623.6**	**829.4**	**1,157.3**	**415.5**	**101.7**	**4,685.1**	**537.2**	**5,222.4**

EUR m

31.12.2018	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	686.3	301.1	8.5	6.7	0.1	996.0	6.9	1,002.9
Financial assets held for trading	0.0	0.8	3.6	19.2	0.7	4.4	19.9	24.3
Financial assets mandatorily at fair value through profit or loss	0.0	16.4	0.0	0.0	0.3	16.4	0.3	16.7
Financial assets at fair value through other comprehensive income	27.3	33.5	46.6	851.8	208.8	107.4	1,060.6	1,168.0
Financial assets at amortised cost	167.0	156.7	511.6	1,243.4	1,714.2	835.3	2,957.6	3,792.9
Tangible assets	0.0	0.0	0.0	0.0	0.0	7.5	50.2	57.7
Intangible assets	0.0	0.0	0.0	0.0	0.0	2.4	27.9	30.3
Tax assets	0.0	0.0	0.0	0.0	0.0	4.0	24.3	28.3
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.8	0.9	1.7
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	3.2	23.4	26.6
Other assets	0.0	0.0	0.0	0.0	0.0	19.9	5.6	25.5
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	5.7	0.0	5.7
Total	**880.6**	**508.4**	**570.4**	**2,121.1**	**1,924.2**	**1,998.9**	**4,153.2**	**6,152.1**
Financial liabilities held for trading	0.0	0.5	0.0	0.7	0.8	0.6	1.5	2.1
Financial liabilities measured at amortised cost	2,258.7	769.2	1,006.9	724.8	442.9	4,034.8	1,167.7	5,202.5
Provisions	0.0	0.0	0.0	0.0	0.0	34.8	27.1	62.0
Tax liabilities	0.0	0.0	0.0	0.0	0.0	0.9	0.1	1.0
Current tax liabilities	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.9
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	23.5	1.5	25.1
Total	**2,258.8**	**769.7**	**1,006.9**	**725.5**	**443.7**	**4,094.6**	**1,198.1**	**5,292.7**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. An analysis regarding recovery or settlement up to 1 year after the reporting date and over 1 year after the reporting date, as requested in IAS 1, is presented. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(65) Leases from the view of Addiko Group as lessor

65.1. Finance leases

As at 31 December 2019 the receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2019
Minimum lease payments (agreed instalments + guaranteed residual value)	9.7
Unguaranteed Residual Value (+)	0.0
Gross investment value (=)	9.7
up to 1 year	2.6
from 1 year to 2 years	2.8
from 2 year to 3 years	2.8
from 3 year to 4 years	1.6
from 4 year to 5 years	0.0
over 5 years	0.0
Unrealized financial income (interest) (-)	-0,6
Net investment value (=)	9,1
Present value of non-guaranteed residual values	0,0
Present value of the minimum lease payments	9,1
up to 1 year	2,3
from 1 year to 2 years	2,6
from 2 year to 3 years	2,7
from 3 year to 4 years	1,6
from 4 year to 5 years	0,0
over 5 years	0,0

As at 31 December 2018 the receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2018
Minimum lease payments (agreed instalments + guaranteed residual value)	0.7
Unguaranteed Residual Value (+)	0.0
Gross investment value (=)	0.7
up to 1 year	0.4
from 1 to 5 years	0.3
over 5 years	0.0
Unrealized financial income (interest) (-)	0.0
Net investment value (=)	0.7
Present value of non-guaranteed residual values	0.0
Present value of the minimum lease payments	0.7
up to 1 year	0.4
from 1 to 5 years	0.3
over 5 years	0.0

During the year, the net investment in finance lease increased as the Addiko Group leases vehicles to other parties under finance lease arrangements.

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

EUR m

	31.12.2019	31.12.2018
Movable Assets	9.1	0.7
Total	**9.1**	**0.7**

65.2. Operating leases

As at 31 December 2019 the undiscounted minimum lease payments to be received after the reporting date from operating leases are as follows for each of the years shown below:

EUR m

	31.12.2019
up to 1 year	0.6
from 1 year to 2 years	0.5
from 2 year to 3 years	0.5
from 3 year to 4 years	0.4
from 4 year to 5 years	0.3
over 5 years	0.0
Total	**2.3**

As at 31 December 2018 the future minimum lease payments from non-cancellable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2018
up to 1 year	0.2
from 1 year to 5 years	0.0
more than 5 years	0.0
Total	**0.2**

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

EUR m

	31.12.2019	31.12.2018
Investment properties	1.8	0.2
Land and buildings	0.4	0.0
Total	**2.3**	**0.2**

Rental income recognised by the Group during the year 2019 is EUR 0.3 million (2018: EUR 0.5 million).

(66) Leases from the view of Addiko Group as lessee

The Group leases the majority of its offices and branches under various rental agreements. The Group leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods up to 10 years. Extension and termination options are included in a number of property and equipment leases across the Group. Several lease contracts have indefinite lease term and several contracts contain insignificant residual value guarantees. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate. For further details regarding lease contracts please refer to note (2) 2.1. IFRS 16 Leases and for the comparative period to note (3) Standards used for comparative periods, and to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

The lease agreements do not include any clauses that impose any restrictions on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The Group had total cash outflows for leases of EUR -8.3 million in 2019.

As at 31 December 2019 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

EUR m

Maturity analysis - contractual undiscounted cashflow	31.12.2019
up to 1 year	6.8
from 1 year to 5 years	14.9
more than 5 years	5.6
Total undiscounted lease liabilities	27.4

As at 31 December 2019 the expense relating to payments not included in the measurement of the lease liability is as follows:

EUR m

	31.12.2019
Short-term leases	0.3
Leases of low value assets	0.6
Variable lease payments	0.4
Total	**1.3**

As at 31 December 2018 the future undiscounted minimum lease payments from non-cancellable operating leases (presented off-balance) under IAS 17 were as follows for each of the years shown below:

EUR m

	31.12.2018
up to 1 year	8.2
from 1 year to 5 years	21.0
more than 5 years	6.4
Total	**35.5**

(67) Assets/liabilities denominated in foreign currencies

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

EUR m

	31.12.2019	31.12.2018
Assets	2,188.4	2,198.4
Liabilities	1,379.5	1,510.2

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency. The majority of the differences between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(68) Return on total assets

As at 31 December 2019, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 0.6% (2018: 1.7%). The ratio is calculated by dividing the result after tax for the year by total assets at the reporting date.

(69) Transfer of financial assets - repurchase agreements

The following financial assets included in the statement of financial position have been transferred under repurchase agreements:

EUR m

31.12.2019	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilities	Of which: repurchase agreements
Financial assets at fair value through other comprehensive income	11.4	11.4	10.3	10.3
Debt securities	11.4	11.4	10.3	10.3
Total	**11.4**	**11.4**	**10.3**	**10.3**

EUR m

31.12.2018	Carrying amount of transferred assets	Of which: repurchase agreements	Carrying amount of associated liabilities	Of which: repurchase agreements
Financial assets at fair value through other comprehensive income	23.7	23.7	17.4	17.4
Debt securities	23.7	23.7	17.4	17.4
Total	**23.7**	**23.7**	**17.4**	**17.4**

(70) Contingent liabilities and other liabilities not included in the statement of financial position

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

EUR m

	31.12.2019	31.12.2018
Loan commitments, given	593.0	600.6
Financial guarantees, given	189.5	192.5
Other commitments, given	224.7	171.5
Total	**1,007.3**	**964.7**

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

Contingent liabilities in relation to legal cases

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

(71) Fair value disclosures

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

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

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

Value determined using non-observable parameters (level III)
This category includes financial instruments for which there are no observable market rates or prices.
The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

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

Addiko Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the financial instrument does no longer meet the criteria for the categorisation in the respective level.

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

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

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

71.1. Fair value of financial instruments carried at fair value

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

EUR m

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	5.6	32.8	0.0	38.5
Derivatives	0.0	2.5	0.0	2.5
Debt securities	5.6	30.4	0.0	36.0
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.4	0.0	0.0	16.4
Investment securities at FVTOCI	861.0	216.3	2.7	1,079.9
Equity instruments	13.2	4.8	0.7	18.6
Debt securities	847.8	211.5	2.0	1,061.3
Total	**883.0**	**249.1**	**3.0**	**1,135.1**
Liabilities				
Financial liabilities held for trading	0.0	6.0	0.0	6.0
Derivatives	0.0	6.0	0.0	6.0
Total	**0.1**	**6.0**	**0.0**	**6.0**

Transfers between level I and level II
Debt securities at FVTOCI with a book value of EUR 16.9 million (2018: EUR 86.8 million) and debt securities held for trading with a book value of EUR 10.8 million were transferred from level I to level II due to subsequent illiquid markets. Debt securities at FVTOCI with a book value of EUR 109.3 million (2018: EUR 63.9 million) and debt securities held for trading with a book value of EUR 2.1 million (2018: EUR 2.1 million) were moved from level II to level I due to a more liquid market.

EUR m

31.12.2018	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	13.4	10.9	0.0	24.3
Derivatives	0.0	5.0	0.0	5.0
Debt securities	13.4	6.0	0.0	19.3
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Debt securities	16.4	0.0	0.0	16.4
Equity instruments	0.0	0.0	0.3	0.3
Investment securities at FVTOCI	946.0	221.5	0.5	1,168.0
Equity instruments	13.2	3.3	0.5	17.1
Debt securities	932.7	218.1	0.0	1,150.9
Total	**975.7**	**232.4**	**0.9**	**1,208.9**
Liabilities				
Financial liabilities held for trading	0.0	2.1	0.0	2.1
Derivatives	0.0	2.1	0.0	2.1
Total	**0.1**	**2.1**	**0.0**	**2.1**

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

The reconciliation of the assets reported under level III as at 31 December 2019 was as follows:

EUR m

31.12.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3
Equity instruments	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3
Investment securities at FVTOCI	0,6	0,0	0,0	2,0	0,0	0,1	0,0	0,0	2,7
Equity instruments	0,6	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,7
Debt securities	0,0	0,0	0,0	2,0	0,0	0,0	0,0	0,0	2,0
Total	**0,9**	**0,0**	**0,0**	**2,0**	**0,0**	**0,1**	**0,0**	**0,0**	**3,0**

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

EUR m

31.12.2018	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Equity instruments	3.2	0.0	0.7	0.0	0.0	0.0	-3.3	-0.1	0.6
Total	**3.5**	**0.0**	**0.7**	**0.0**	**0.0**	**0.0**	**-3.3**	**-0.1**	**0.9**

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

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

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

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

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

Present value of the future cash flows (discounted cash flow method)

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

Option measurement models

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

Non-observable input factors for level III items

Volatilities and correlations

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

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

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

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

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

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

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

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

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

EUR m

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves[1]	899.4	899.4	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,885.9	4,218.2	332.3	0.0	0.0	4,218.2
Loans and receivables	3,885.9	4,218.2	332.3	0.0	0.0	4,218.2
Total	**4,785.3**	**5,117.5**	**332.3**	**0.0**	**0.0**	**4,218.2**
Liabilities						
Financial liabilities measured at amortised cost	5,121.6	5,137.4	-15.8	0.0	0.0	5,137.4
Deposits	5,065.1	5,080.9	-15.8	0.0	0.0	5,080.9
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1
Other financial liabilities	56.4	56.4	0.0	0.0	0.0	56.4
Total	**5,121.6**	**5,137.4**	**-15.8**	**0.0**	**0.0**	**5,137.4**

[1]Cash reserves have not been assigned to a level as the carrying amount always approximates their fair value due to their short-term nature

EUR m

31.12.2018	Carrying amount	Fair Value[1]	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	1,002.9	1,002.9	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Loans and receivables	3,792.9	3,933.5	140.6	0.0	0.0	3,933.5
Total	**4,795.7**	**4,936.4**	**140.6**	**0.0**	**0.0**	**3,933.5**
Liabilities						
Financial liabilities measured at amortised cost	5,202.5	5,238.2	-35.7	0.0	0.0	5,238.2
Deposits	5,161.1	5,197.0	-35.9	0.0	0.0	5,197.0
Issued bonds, subordinated and supplementary capital	1.1	1.1	0.0	0.0	0.0	1.1
Other financial liabilities	40.3	40.2	0.2	0.0	0.0	40.2
Total	**5,202.5**	**5,238.2**	**-35.7**	**0.0**	**0.0**	**5,238.2**

[1]Cash reserves have not been assigned to a level as the carrying amount always approximates their fair value due to their short-term nature

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

The management assessed that the fair value of cash positions approximately corresponds to their carrying amounts largely due to the short-term maturities of these instruments.

71.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At YE19 the carrying amount of investment properties amounts to EUR 4.1 million (2018: EUR 2.0 million), whereas the fair value amounts to EUR 4.2 million (2018: EUR 2.1 million). All investment properties were classified in level III (2018: level III).

(72) Offsetting financial assets and financial liabilities

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

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position where Addiko has currently an enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The impact of offsetting is presented in the line “Amounts that are set off for financial instruments I”. The impact of potential offsetting if all set-off rights would be exercised is presented in the line “Net amounts of financial instruments I and II (c-d)”.

EUR m

31.12.2019	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II[1])	**0.1**	**7.7**	**7.8**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.1**	**7.7**	**7.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.1	0.0	0.1
Amounts related to financial collateral (including cash collateral);	0.0	0.0	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**7.7**	**7.7**

[1]Financial instruments I: Financial assets that are already offset in the statement of financial position
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position

EUR m

31.12.2018	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II[1])	**3.4**	**9.7**	**13.2**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**3.4**	**9.7**	**13.2**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	1.7	0.0	1.7
Amounts related to financial collateral (including cash collateral)	0.5	0.0	0.5
Amounts related to non-cash financial collateral received (excluding cash collateral)	0.0	9.7	9.7
e) Net amounts of financial instruments I and II (c-d)	**1.2**	**0.0**	**1.2**

[1]Financial instruments I: Financial assets that are already offset in the statement of financial position
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position

EUR m

31.12.2019	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II[1])	**5.2**	**10.3**	**15.5**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**5.2**	**10.3**	**15.5**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.1	0.0	0.1
Amounts related to financial collateral (including cash collateral);	5.0	0.0	5.0
Amounts related to non-cash financial collateral pledged (excluding cash collateral)	0.0	10.3	10.3
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1]Financial instruments I: financial liabilities that are already offset in the statement of financial position
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position

EUR m

31.12.2018	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II[1])	**1.7**	**17.4**	**19.1**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**1.7**	**17.4**	**19.1**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	1.7	0.0	1.7
Amounts related to financial collateral (including cash collateral)	0.0	0.0	0.0
Amounts related to non-cash financial collateral pledged (excluding cash collateral)	0.0	17.4	17.4
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1]Financial instruments I: financial liabilities that are already offset in the statement of financial position
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other.

Repurchase agreements qualify as potential offsetting agreements.
Since such offsetting cannot be performed in the ordinary course of business but only in case following an event of default, insolvency or bankruptcy or following other predetermined events, the positions are not offset in the statement of financial position.

(73) Derivative financial instruments

73.1. Derivatives held for trading

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

EUR m

	31.12.2019			31.12.2018		
			Fair values			Fair values
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**417.8**	**2.2**	**2.9**	**374.2**	**1.8**	**0.5**
OTC options	38.8	0.1	0.1	46.6	0.1	0.1
OTC other	379.0	2.1	2.8	327.6	1.7	0.4
b) Foreign exchange and gold						
OTC-products	**205.4**	**0.3**	**3.0**	**295.3**	**10.0**	**0.4**
OTC other	205.4	0.3	3.0	295.3	10.0	0.4
c) Credit derivatives	**8.9**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**
Credit default swap	8.9	0.0	0.2	0.0	0.0	0.0

(74) Related party disclosures

On 12 July 2019, the shares of Addiko Bank AG were admitted to the Official Market of the Vienna Stock Exchange. At the reporting date the former sole shareholder of the Addiko Group, the Luxembourg-based finance holding company AI Lake (Luxembourg) S.à r.l. represents a share of 44.99%, with the remainder being free float. 96.9% of AI Lake (Luxembourg) S.à r.l. is owned by AI Lake (Luxembourg) Holding S.à r.l. (former ultimate controlling party of Addiko Bank). AI Lake (Luxembourg) Holding S.à r.l. is owned by funds advised by Advent International (a globally active private equity investor) and the European Bank for Reconstruction and Development (EBRD). Until the date of listing, transactions with AI Lake (Luxembourg) Holding S.à r.l. as well as its subsidiaries are presented in the column parent company, from the date of listing transactions with AI Lake (Luxembourg) Holding S.à r.l.as well as its subsidiaries are presented in the column entities with significant influence.

During 2019 the following service level agreements between Addiko Bank AG or its subsidiaries and AI Lake (Luxembourg) S.à r.l. existed:
- Real Estate Sales Program,
- Business Continuity Management,
- Corporate Communication / Marketing,

Related parties as defined by the Addiko Group are subsidiaries, associates, other entities excluded from consolidation as well as key personnel of the institution. Key personnel of the Company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the management boards and supervisory boards of the subsidiaries including their close family members. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated financial statements, as they are eliminated in the course of consolidation.

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

EUR m

31.12.2019	Parent company	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.1	0.0
Loan and advances	0.0	0.0	0.1	0.0
Financial liabilities	0.0	0.0	1.3	0.0
Deposits	0.0	0.2	1.3	0.0
Other liabilities	0.0	0.2	0.0	0.0

EUR m

31.12.2018	Parent company	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.3	3.4
Debt securities	0.0	0.0	0.0	3.4
Loan and advances	0.0	0.0	0.3	0.0
Financial liabilities	0.0	0.0	0.9	39.0
Deposits	0.0	0.0	0.9	39.0
Other liabilities	0.2	0.0	0.0	0.0

EUR m

31.12.2019	Parent company	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.1
Interest expenses	0.0	0.0	0.0	-0.3
Fee and commission income	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0
Other administrative expenses	-0.4	-0.4	0.0	0.0
Total	**-0.4**	**-0.4**	**0.0**	**-0.3**

EUR m

31.12.2018	Parent company	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Interest and similar income	0.0	0.0	0.0	0.1
Interest expenses	-3.6	0.0	0.0	-0.4
Fee and commission income	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	-0.1
Other administrative expenses	-0.8	0.0	0.0	0.0
Total	**-4.4**	**0.0**	**0.0**	**-0.3**

Remuneration received by key members of management within the Addiko Group are presented as follows:

EUR m

	31.12.2019	31.12.2018
Short-term employee benefits	7.9	8.7
Other long-term benefits	1.1	1.4
Termination benefits	1.5	0.7
Total	**10.5**	**10.9**

The figures presented in the table above are based on the amounts paid or payable in the respective reporting period. The termination benefits reported for the 31 December 2018 do not include EUR 0.6 million contractually agreed compensations, which will be paid out in the following year.

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (82) Relationships with members of the Company's Boards.

(75) Capital management

75.1. Own funds and capital management

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

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

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

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

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

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

75.2. ICAAP – Internal Capital Adequacy Assessment Process

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

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

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

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

75.3. Own funds and capital requirements

Own funds according to the CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk. The determination of eligible total capital in accordance with the applicable regulations is based on international accounting standards.

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

	31.12.2019			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	4.10%	4.10%	4.10%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.003%	0.003%	0.003%	0.002%	0.002%	0.002%
Combined Buffer Requirements (CBR)	**2.503%**	**2.503%**	**2.503%**	**1.877%**	**1.877%**	**1.877%**
Overall Capital Requirement (OCR)	**11.103%**	**12.603%**	**14.603%**	**11.077%**	**12.577%**	**14.577%**

In addition to Pillar I minimum capital ratios, institutions also have to fulfil other capital requirements that are being imposed by the supervisory institution or by the legislation:

- Pillar II requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the Supervisory Review and Evaluation Process (SREP) (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR). As a result of the 2018 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group additional 4.1% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. At the beginning of January 2020, Addiko Bank AG received an updated SREP letter as result of the 2019 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. The new requirement, which will become applicable starting from the date the corresponding decision is issued by the FMA, is confirming the previous Pillar II requirement of 4.1%.
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in the payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR). According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. The increase of the requirement in comparison to the 2018 level is due to the phasing-in of

the capital conservation buffer. As prescribed by CRD IV and the Banking Act (BWG), CCB was linearly increasing and has reached the fully loaded level of 2.5% in 2019.

- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital. At the beginning of January 2020, Addiko Bank AG received as part of the 2019 SREP decision a Pillar 2 guidance (P2G) in the amount of 4%. The starting date of application of the P2G has still to be communicated by the FMA.

Regulatory reporting on a consolidated basis is performed on the level of Addiko Bank AG as the EU parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 31 December 2019 and 31 December 2018 pursuant to CRR applying IFRS figures. The capital figures of AI Lake (Luxembourg) Holding S.à r.l. have also been presented in recent periods. Effective 15 July 2019, AI Lake (Luxembourg) Holding S.à r.l. is no longer the EU parent financial holding company of the group of credit institutions.

EUR m

Ref[1]		31.12.2019	31.12.2018
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	195.0	195.0
2	Retained earnings	615.3	561.0
3	Accumulated other comprehensive income (and other reserves)	15.9	-0.8
5a	Independently reviewed profits net of any foreseeable charge or dividend	-4.9	54.2
6	**CET1 capital before regulatory adjustments**	**821.3**	**809.5**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.1	-1.2
8	Intangible assets (net of related tax liability)	-27.9	-30.3
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-16.4	-19.0
[#]	IFRS 9 transitional rules	34.0	43.8
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-11.4**	**-6.7**
29	**Common Equity Tier 1 (CET1) capital**	**809.8**	**802.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**809.8**	**802.8**
60	Total risk weighted assets	4,571.5	4,545.0
	Capital ratios and buffers %		
61	CET1 ratio	17.7%	17.7%
63	TC ratio	17.7%	17.7%

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

Total capital increased by EUR 7.1 million during the reporting period, reflecting the net impact of the following components:

- An increase by EUR 16.7 million of the other comprehensive income as net impact of the positive development of market values of debt instruments in amount of EUR 15.8 million, positive development of market values of equity instruments in amount of EUR 1.4 million and the EUR 0.5 million decrease of the foreign currency reserves;

- A negative impact of EUR -9.7 million in connection with the application of the IFRS 9 transitional capital rules, which prescribe that, starting with the 1 January 2019, the portion of the initial ECL which could be added back decreases from 95% to 85% (EUR -4.7 million). In addition, the IFRS 9 amount which could be added back to capital decreased compared with the beginning of the year following the dynamic component and the related development of stage 1 and stage 2 ECL during 2019 (EUR -5.0 million);
- A decrease in regulatory deduction items in the amount of EUR 5.0 million due to the decrease of the carrying amount of intangible assets (EUR -2.4 million), the decrease in deferred tax assets on existing taxable losses (EUR 2.6 million) and the change of EUR 0.1 million in prudential valuation adjustments;
- The inclusion of the audited result of EUR 35.1 million, net of the EUR 40.0 million foreseeable dividends.

The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

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

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, Addiko Group uses the standardised approach in the calculation of all 3 types of risk. RWAs increased by EUR 26.5 million at the level of the Addiko Group during the reporting period. The increase of RWAs for market risk by EUR 28,8 million is mainly the result of more open positions in domestic currencies of non-euro subsidiaries banks. The RWA for credit risk and operating risks remained stable in line with previous year.

EUR m

Ref[1)]		31.12.2019	31.12.2018
1	Credit risk pursuant to Standardised Approach	3,958.0	3,958.5
6	Counterparty credit risk	3.8	5.4
19	Market risk	204.2	173.2
23	Operational risk	405.5	407.9
Total risk exposure amount		**4,571.5**	**4,545.0**

[1)]The references identify the lines prescribed in the EBA template, which are applicable and where there is a value

Leverage ratio on a transitional basis

The leverage ratio for Addiko Group, calculated in accordance with the CRD IV, was 12.5% at 31 December 2019, up from 12.2% at 31 December 2018. The development was driven by growth in Tier 1 capital and reduction in the total leverage exposure.

EUR m

Ref[1)]		31.12.2019	31.12.2018
20	Tier 1 capital	809.8	802.8
21	Total leverage ratio exposure	6,475.8	6,559.0
22	**Leverage ratio %**	**12.5%**	**12.2%**

[1)]The references identify the lines prescribed in the EBA template, which are applicable and where there is a value

MREL

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, Austrian banks are required by the BaSAG (and potentially also the SRM Regulation) to meet MREL at all times. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, which is the

SRB in the case of Addiko Group. Under the currently applicable legal regime, MREL targets are expressed as a percentage of Total Liabilities and Own Funds (“TLOF”) of the relevant institution. ADDIKO Bank AG received on 17 December 2019 from the FMA the formal decision of SRB relating to MREL requirement (minimum requirement for own funds and eligible liabilities), which amounts to 20.58% of Total Liabilities and Own Funds (TLOF) on consolidated level. The MREL requirement shall be reached by 31 December 2023 and from that date shall be met at all times. The decision for the MREL requirement is based on the Single Point of Entry (SPE) approach, while ADDIKO Bank AG is on preparation to meet all requirements for a Multiple Point of Entry (MPE).

Disclosures as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of Regulation (EU) No. 575/2013

EUR m

Ref[1)]	31.12.2019	31.12.2018
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	809.8	802.8
2 CET1 capital as if IFRS 9 had not been applied	775.8	759.0
5 Total capital (TC)	809.8	802.8
6 TC as if IFRS 9 transitional rules had not been applied	775.8	759.0
Risk-weighted assets		
7 Total RWAs	4,571.5	4,545.0
Total RWAs as if IFRS 9 transitional rules had not been applied	4,534.5	4,501.3
Capital ratios %		
9 CET1	17.7%	17.7%
10 CET1 as if IFRS 9 transitional rules had not been applied	17.1%	16.9%
13 TC	17.7%	17.7%
14 TC as if IFRS 9 transitional rules had not been applied	17.1%	16.9%
Leverage ratio (LR)		
15 LR total exposure measure	6,475.8	6,559.0
16 LR	12.5%	12.2%
17 LR as if IFRS 9 transitional rules had not been applied	12.0%	11.7%

[1)]The references identify the lines prescribed in the EBA template, which are applicable and where there is a value

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

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

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

Based on these transitional arrangements EUR 34.0 million (YE18: EUR 43.8 million) have been added back to Addiko Group CET1. This comprises EUR 34.6 million (YE18: EUR 45.5 million) in impairment allowances, less EUR 0.6 million (YE18: EUR 1.7 million) in deferred tax. The corresponding impact on RWAs is an increase of EUR 37.0 million (YE18: EUR 43.7 million).

Supplementary information required by Austrian Law

(76) Assets pledged as collateral

All assets were pledged as collateral for own debts to third parties at terms which are usual and customary for such activities. Assets in the amount of EUR 9.6 million (YE18: EUR 5.0 million) were pledged, as cash collaterals in relation to derivatives. Collaterals (debt securities) in the amount of EUR 11.4 million (YE18: EUR 23.7 million) were pledged in connection with repurchase agreements.

The fair value of debt securities received as collateral, that Addiko Group is permitted to sell or repledge irrespective of the default of the owner of the collateral, amounts to EUR 5.5 million as of YE19 (YE18: EUR 6.9 million) and primarily relates to reverse repurchase agreements. All transactions were conducted under terms which are usual and customary to standard repurchase agreements.

(77) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2019			31.12.2018		
	thereof listed	thereof unlisted	Total	thereof listed	thereof unlisted	Total
Financial assets held for trading						
Debt securities	16.5	19.5	36.0	13.4	6.0	19.3
Financial assets mandatorily at fair value through profit or loss						
Equity instruments	0.0	0.3	0.3	0.0	0.3	0.3
Debt securities	0.0	16.4	16.4	0.0	16.4	16.4
Financial assets at fair value through other comprehensive income						
Equity instruments	0.0	18.6	18.6	0.1	17.0	17.1
Debt securities	934.0	127.3	1,061.3	941.3	209.6	1,150.9
Financial assets at amortised cost						
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0

(78) Expenses for the auditor

The following expenses for the group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna were incurred in the reporting period:

EUR m

	31.12.2019	31.12.2018
Audit fees for the annual financial statements	**-0.2**	**-0.2**
Expenses for the current year	-0.2	-0.2
Expenses relating to the previous year	0.0	0.0
Fees for other services	**-0.3**	**-0.5**
Other assurance services	-0.3	-0.5
Other services	0.0	0.0
Total services	**-0.5**	**-0.7**

The audit expenses incurred in the financial year include the audit fee (including VAT) as well as the related cash expenditure. The expenses for the audit of the annual financial statements relate to costs for auditing the (local) financial statements of Addiko Bank AG as well as the consolidated financial statements.

(79) Trading book

The volume of the trading book of Addiko Group breaks down as follows:

EUR m

	31.12.2019	31.12.2018
Derivatives in trading book (nominal)	623.2	363.0
Debt securities (carrying amount)	36.0	19.3
Trading book volume	**659.2**	**382.3**

(80) Employee data

	31.12.2019	31.12.2018
Employees at closing date (Full Time Equivalent - FTE)	2.739	2.933
Employees average (FTE)	2.904	2.944

(81) Expenses for severance payments and pensions

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

in TEUR

	31.12.2019		31.12.2018	
	Severance payments	Pensions	Severance payments	Pensions
Members of Management Board	31.0	0.0	48.2	0.0
Key management personnel	37.9	8.3	51.6	8.3
Other employees	488.0	55.6	221.7	51.4
Total	**556.9**	**63.9**	**321.5**	**59.7**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 448 thousand (2018: EUR 221.7 thousand).

(82) Relationship with members of the Company’s Boards

82.1. Advances, loans and liabilities with regard to Board members

As at 31 December 2019, the Addiko Bank AG Boards had not received any advances or loans, nor had any liabilities been assumed on their behalf. As at year-end, the persons serving on the Supervisory Board during the financial year had not received, be it for themselves or on behalf of the companies for which they are personally liable, any loans from Addiko Bank AG, nor did Addiko Bank AG assume any liabilities on their behalf.

82.2. Breakdown of remuneration received by Board members of the ultimate Group parent institution

in TEUR

	31.12.2019	31.12.2018
Management Board	2,953.0	5,278.8
Supervisory Board	261.1	153.0
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	1,490.5	401.2
Total	**4,704.6**	**5,833.0**

The members of the Management Board and Supervisory Board are stated in note (83) Boards and Officers of the Company.

(83) Boards and Officers of the Company

1 January to 31 December 2019

Supervisory Board

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Dragica Pilipović-Chaffey
Sebastian Prinz Schoenaich-Carolath (since 06.06.2019)

Delegated by the Works Council:
Christian Lobner
Thomas Wieser (since 29.07.2019)
Horst Floriantschitz (until 29.07.2019)

Federal Supervisory Authorities

State Commissioner:
Judith Schmidl (until 31.12.2018)
Vanessa Koch (since 01.03.2019)

Deputy State Commissioner:
Vanessa Koch (until 01.03.2019)
Lisa-Maria Pölzer (since 01.03.2019)

Management Board

Razvan Munteanu, Chairman of the Management Board
Johannes Proksch, Member of the Management Board
Markus Krause, Member of the Management Board
Csongor Bulcsu Németh, Member of the Management Board

(84) Scope of consolidation

The consolidated group of companies as defined under IFRS as at 31 December 2019 includes the following direct and indirect subsidiaries of Addiko Bank AG, using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Closing date	Type
Addiko Bank d.d.	Ljubljana	100.0	31.12.2019	CI
Addiko Bank d.d.	Zagreb	100.0	31.12.2019	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	31.12.2019	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	31.12.2019	CI
Addiko Bank d.d.	Sarajevo	100.0	31.12.2019	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.9	31.12.2019	CI

(85) Events after the reporting date

There are no significant events after the reporting date.

Vienna, 26 February 2020
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Statement of all legal representatives

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

Vienna, 26 February 2020
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
Chief Executive Officer

Markus Krause	Johannes Proksch	Csongor Bulcsu Németh
Member of the Management Board	Member of the Management Board	Member of the Management Board

Auditor’s report

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Addiko Bank AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

- **Determination of Expected Credit Losses**

Description and Issue

Loss allowances represent management’s best estimate of the expected credit losses from the loan portfolios at the reporting date.

At 31 December 2019, gross loans and advances (to customers and credit institutions) before impairments amounted to EUR 4,150 mn, for which loan loss provisions of EUR 264 mn were recorded.

For the purpose of calculating expected credit losses, Addiko Group has implemented processes to identify loss events and significant increases in credit risk.

The expected credit losses are determined uniformly within the Addiko Group as follows:

- Expected credit losses on loans in default that are deemed to be material on a customer lever are determined individually. The expected cash flows from the operating business and the expected recoveries from collateral are estimated based on all available information.
- Expected credit losses on loans in default that have comparable risk profiles and that are not deemed to be material on an individual level are collectively determined. The expected cash flows from are estimated using statistical methods.
- Expected credit losses on loans that have not defaulted are calculated by using model-based estimates of default probabilities and loss rates. If, at the reporting date, the credit risk has not been increased significantly, the loss allowance is measured at an amount equal to 12-months expected credit losses. If credit risk has increased significantly, the loss allowance is measured at an amount equal to the lifetime expected credit losses.

We refer to the notes of the consolidated financial statements, section "14 Financial instruments", "56 Development of risk provisions" as well as detailed amounts in section "55.5 Reconciliation between Financial instruments classes and Credit risk exposure"

The calculation of loss allowances in all described forms is based on significant management judgement and includes uncertainties. These exist especially in the identification of loss events or significant increases in credit risk as well as in the estimation of expected cash flows and the determination of parameters depicting the latter. Hence, we considered the measurement of expected credit losses to be a key audit matter.

Our response
To assess the adequacy of loss allowances, we evaluated the calculation methodology for expected credit losses and its compliance with the requirements of IFRS 9.

We obtained understanding of the key processes and internal controls in credit risk management. We evaluated design and implementation of key controls in the credit process, especially in the monitoring and in the early warning process, and tested identified relevant controls for operating effectiveness.

In the case on non-defaulted loans, we assessed on the basis of the bank's internal validations, the models and their parameters to determine whether they provide a suitable basis for calculating reasonable impairments based on current data and reasonable and reliable forecasts. We evaluated the reasonableness of the probabilities of default and assessed the statistical model, parameters and mathematical principles. Based on the criteria defined by the Addiko Group, we assessed on a sample basis whether there was a significant increase in a credit risk. Furthermore, we evaluated on the sample basis the arithmetical correctness of impairment.

With regard to defaulted loans to customers, we critically assessed on a sample basis the bank's estimates regarding the amount and timing of future cash flows, including those resulting from realization of collateral. Furthermore, we evaluated on the sample basis the arithmetical correctness of impairment.

- **Determination of provisions in connection with existing and potential legal risks in Croatia**

Description and Issue

On 3 September 2019, the Croatian Supreme Court ruled against the defendant banks with regard to the lawfulness of the foreign currency clauses in loan agreements. Eight Croatian banks are affected by this decision, including Addiko Bank d.d. in Zagreb. The latter brought an extraordinary appeal against the decision via constitutional claim to the Constitutional Court, which is still pending. The highest court decision stated clearly that the borrowers involved in the class action cannot exert any direct claims from the verdict and were referred to the lawsuit. Hence, affected borrowers have to file the claims individually and bear the burden of proof. The issue of foreign currency clauses is closely related to proceedings already pending in court concerning unilateral interest change clauses, as these are usually also part of foreign currency loan agreements.

The risks arising from this situation should be assessed as to whether and to what extent a provision under IAS 37 should be recognized. The complexity of the legal situation and the early state of the proceedings entail a high degree of uncertainty regarding the assessment regarding the determination of the requirement of provisioning, especially with regard to the assessment of the extent of the lawsuits still to be expected. Depending on future development of litigations, these assessments may also be subject to major changes and may therefore lead to significantly different provisioning requirements in the future.

We refer to the notes of the consolidated financial statements, section “63 Legal risk”.

Given the importance for the consolidated financial statements and the significant uncertainty of estimations as well as complexity involved in assessing the provision requirement, we identified the determination of provisions for legal risks in Croatia as a key audit matter.

Our response

In order to assess the adequacy of determination of the provision requirement for Croatian legal risks in connection with foreign currency clauses and unilateral interest change clauses according to IAS 37, we obtained an understanding of the assumptions used in the relevant model. Furthermore, we critically assessed the provisioning model for consistency with the assumptions made by external legal advisers in the requested attorney's letter. We checked plausibility of the assumptions used in the model on the basis of comparable historical data, if available. In addition, we traced back the determination of the population of potentially affected borrowers and also determination of the loss potential. Furthermore, we have checked the accuracy of the calculations.

Other Information

Management is responsible for the other information. The other information comprises all information in the consolidated non-financial report and in the annual report, but does not include the consolidated financial statements, the consolidated management report and our auditor's report thereon. The annual report (without Report of the supervisory board) and the consolidated non-financial report we obtained prior to the date of this auditor's report, Report of the supervisory board is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and we will not express any form of assurance conclusion thereon. With respect to the information in the consolidated management report beyond the consolidated non-financial statement, we refer to the section “Report on the Audit of the Consolidated Management Report”.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The consolidated non-financial statement included in the consolidated management report is not subject to our audit; our respective responsibilities are described in the section "Other Information".

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion
In our opinion, the consolidated management report are prepared in accordance with the applicable legal requirements includes appropriate disclosures according to section 243a UGB and is consistent with the financial statements.

Statement
In the light of the knowledge and understanding of the Group and its environment, obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on July 31, 2018 and commissioned by the supervisory board on August 23, 2018 to audit the consolidated financial statements for the financial year then ending December 31, 2019. Furthermore we were appointed by the general meeting on June 6, 2019 and commissioned by the supervisory board on June 19, 2019 to audit the following financial year. We have been auditing the Group uninterrupted since the financial year ending December 31, 2014.

We confirm that our opinion expressed in the section "Report on the Audit of the Consolidated Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

Engagement Partner
The engagement partner responsible for the audit is Mag. Thomas Becker.

Vienna, March 2, 2020

Deloitte Audit Wirtschaftsprüfungs GmbH

Thomas Becker m.p.	Mag. Wolfgang Wurm m.p.
Certified public accountant	Certified public accountant

The consolidated financial statements baring our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German-language consolidated financial statements, and operational and financial review. The provisions of section 281 para. 2 Austrian Business Code apply to other version

Report of the Supervisory Board

Dear Shareholders,

Following the economic turnaround in the financial year 2017 and the specification of the business strategy in the financial year 2018, the financial year 2019 was characterised by a continuous and consistent implementation of the planned measures in the strategic focus segments. As a result of the Company's successful development, Addiko Bank AG went public and was admitted to the Vienna Stock Exchange in July 2019.

In line with its business strategy, the Addiko Group placed the focus of its activities on Consumer and SME financing in Central and South-Eastern Europe and, moreover, on providing payment services. The Addiko Group offers convenient and quick banking services to its customers and puts a particular emphasis on innovative digital solutions in its business activities. Online & mobile banking services for the aforementioned focus segments were further improved in the course of the ongoing digitisation of business processes. The so-called strategic non-focus segments such as mortgage financing or loans to public institutions or large corporates was further reduced in the financial year 2019.

Sustainable cost efficiency and maintaining a balanced risk profile remain the pillars of Addiko's strategy. A prudent risk management on the back of a robust risk strategy contributes to an appropriate balance between risk and return. In this way, the Addiko Group is able to actively manage and optimally monitor all risks.

Since 12 July 2019, Addiko Bank AG has been listed on the prime market of the Vienna Stock Exchange. As per 15 July 2019, the share was included into the ATX Prime Index which comprises approx. 40 values. In addition to BAWAG Group AG, Erste Group Bank AG and Raiffeisen Bank International AG, Addiko Bank AG is the fourth banking institution in this market segment. Holding approx. 45% of the share capital in Addiko Bank AG, Al Lake (Luxembourg) S.à r.l. remains the core shareholder of the Company, with 55% of the shares being in free float.

Activities of the Supervisory Board
During the reporting year, the Supervisory Board performed all of the duties incumbent upon it in a highly conscientious manner and in accordance with the law, the Company's statutes and its own rules of procedure.

It held six meetings in total in the financial year 2019 and assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the meetings of the Supervisory Board and its Committees, the Management Board reported in depth on the Addiko Group's financial situation and business performance. The Management Board discussed in detail strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, the Supervisory Board undertook the measures necessary to assure that the governance of the Addiko Group's affairs was lawful, compliant and appropriate.

The Supervisory Board had formed the following five standing Committees:

- the Audit and Compliance Committee (which held six meetings in 2019),
- the Credit Committee (which held six meetings in 2019),
- the Risk Committee (which held five meetings in 2019),
- the Nomination & Remuneration Committee (which held one meeting in 2019) and
- the Committee for Management Board Matters (which held one meeting in 2019).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committees of Addiko Bank AG's Supervisory Board were in regular contact with the Management Board.

Within meetings taking place at least once every quarter, the Supervisory Board regularly received information on the following topics: business performance in the previous quarter, financial performance, risk development and significant matters, as well as major legal disputes. Between the quarterly reports, the Management Board also informed the Supervisory Board of current economic developments. In addition, the Supervisory Board received regular reports of key executives, especially of the Compliance Officer and Internal Audit Officer.

Changes to the Management Board and the Supervisory Board
The Management Board of Addiko Bank AG remained unchanged during the financial year 2019 and continues to consist of four members.

In 2019, the Supervisory Board of Addiko Bank AG changed in such a way that Sebastian Prinz Schoenaich-Carolath was appointed to the Supervisory Board as an additional member by the General Assembly on 6 June 2019. As per 29 July 2019, Mr. Thomas Wieser was delegated by the Workers Council, replacing Mr. Horst Floriantschitz. Accordingly, the Supervisory Board consists of seven members, thereof two delegated by the Workers Council.

Consolidated Corporate Governance Report, Austrian Code of Corporate Governance
Deloitte Audit Wirtschaftsprüfungs GmbH (with regard to Rules 1 to 76 of the Austrian Code of Corporate Governance) and CMS Reich-Rohrwig Heinz Rechtsanwälte GmbH (with regard to Rules 77 to 83 of the Austrian Code of Corporate Governance) audited the Consolidated Corporate Governance Report of Addiko Bank AG pursuant to Section 96 (2) Austrian Stock Corporation Act, and issued a report thereon to the Management Board and the Supervisory Board. In its meeting dated 4 March 2020, the Supervisory Board examined the Consolidated Corporate Governance Report based on the report of the Audit Committee from 4 March 2020 pursuant to Section 96 Austrian Stock Corporation Act, with this examination not resulting in any objections. Being a publicly listed entity, Addiko Bank AG adheres to the Austrian Code of Corporate Governance. The Supervisory Board determined that Addiko Bank AG is to comply with the Austrian Code of Corporate Governance as amended in January 2018 from 12 July 2019 onwards. The Supervisory Board strives to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this context, the Supervisory Board complies with all Rules relating to the cooperation of the Supervisory Board and the Management Board, and to the Supervisory Board itself, except for the deviations presented in the Corporate Governance Report.

Separate and Consolidated Financial Statements 2019
Deloitte Audit Wirtschaftsprüfungs GmbH audited the separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of the Addiko Group as at 31 December 2019, issuing unqualified audit opinions. Pursuant to statutory provisions, the Management Report and the Group Management Report have been audited as to whether they are consistent with the separate and Consolidated Financial Statements and have been prepared in accordance with the applicable legal requirements. The Consolidated Non-Financial Report was read and considered not to be materially inconsistent with the Consolidated Financial Statements nor to be materially misstated.

The separate Financial Statements of Addiko Bank AG were prepared in accordance with the regulations of the Austrian Banking Act (BWG) and – where applicable – with the provisions of the Austrian Commercial Code (UGB). The Consolidated Financial Statements of the Addiko Group were prepared in accordance with IFRS as adopted by the EU and in compliance with the requirements under Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG). The Annual Report, the Group Annual Report, the Consolidated Corporate Governance Report, the Consolidated Non-Financial Report and the Management Board's proposal for the allocation of the annual profit 2019 – all prepared by the Management Board – were discussed in detail with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on 4 March 2020.

At the meeting, the aforementioned Committee inter alia resolved to propose approval of the separate Financial Statements of Addiko Bank AG by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on 4 March 2020. At this meeting, the separate and Consolidated Financial Statements were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and appropriate.

The Management Report of Addiko Bank AG as well as that of the Addiko Group, the Consolidated Corporate Governance Report and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net profit for the year in the amount of EUR 40.0 million in the financial year 2019. At the next General Assembly, a proposal will therefore be made to distribute an amount of EUR 39.975 million by the Company as a dividend.

The result of the examination is that the Supervisory Board had no objections to the separate Financial Statements, the Consolidated Financial Statements and the audit performed by the auditor.

The Supervisory Board, therefore, concurred with the results of the audit on 4 March 2020 and approved the separate Financial Statements of Addiko Bank AG. The separate Financial Statements have, therefore, been adopted.

The Supervisory Board would like to express thanks to the members of the Management Board and to the entire staff for their outstanding commitment and excellent achievements in 2019, particularly for the support in the course of the IPO, and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti m.p.
Chairman of the Supervisory Board

Vienna, 4 March 2020

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits defined within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures
CRB	Credit Risk Bearing
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR ("undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account") and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps

ECL	Expected Credit Loss
ERM 2	European Exchange Rate Mechanism 2
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
GCCR	Group Corporate Credit Risk
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions for performing loans and non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GRRM	Group Retail Risk Management
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk
ICSID	International Center for Settlement of Investment Disputes
Jaws	Measures the difference between the rates of change in net banking income and operating expenses; positive jaws occur when the figures for the percentage change in income is higher than, or less negative than, the corresponding rate for operating expense
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days

Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRR
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible assets, tangible assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where re-payment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension

	funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
Pillar 2 Guidance (P2G)	The level and quality of own funds the institution is expected to hold in excess of its overall capital requirements. The Pillar 2 guidance is a non-legally binding expectation of the regulatory authorities
Pillar 2 Requirement (P2R)	Additional own funds requirements imposed in accordance with Article 104(1)(a) of Directive 2013/36/EU. The Pillar 2 requirement covers risks underestimated or not covered by Pillar 1
POCI	Purchased or originated credit impaired assets
Public Finance	The segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
Return on tangible equity (@14.1% CET1 Ratio)	Calculated as adjusted result after tax (pre-tax result adjusted for non-recurring items, assuming a theoretical tax rate and costs for T2) over average tangible equity (i.e. shareholder equity reduced by intangible assets) excluding excess capital over 14.1% CET1 ratio
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million
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
Tier 1 capital (T1)	Sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution
Total capital ratio (TCR)	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR

Tier 2 capital	Own funds consisting of the sum of Tier 1 capital and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 refers to instruments or subordinated loans with an original maturity of at least five years that do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity (and fulfill other requirements)
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

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