Addiko Bank

Group Annual Report 2020

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

			EUR m
Selected items of the Profit or Loss statement	**2020**	**2019**	**(%)**
Net banking income	234.5	250.2	-6.3%
Net interest income	174.7	183.0	-4.5%
Net fee and commission income	59.8	67.2	-11.0%
Net result on financial instruments	11.7	13.4	-12.8%
Other operating result	-13.7	-20.0	-31.2%
Operating expenses	-169.7	-189.1	-10.3%
Operating result	**62.8**	**54.6**	**15.1%**
Other result	-8.1	-19.4	-58.3%
Credit loss expenses on financial assets	-48.4	2.9	>100%
Tax on income	-4.9	-2.9	67.8%
Result after tax	**1.4**	**35.1**	**-96.2%**
Performance ratios	**2020**	**2019**	**(pts)**
Net interest income/total average assets	2.9%	3.0%	0.0
Return on average tangible equity	0.2%	4.2%	-4.0
Cost/income ratio	72.4%	75.6%	-3.2
Cost of risk ratio	-1.0%	0.1%	-1.1
Cost of risk ratio (net loans)	-1.4%	0.1%	-1.5
Selected items of the Statement of financial position	**2020**	**2019**	**(%)**
Loans and advances to customers	3,584.7	3,871.9	-7.4%
o/w gross performing loans	3,603.6	3,869.5	-6.9%
Deposits of customers	4,728.1	4,831.2	-2.1%
Equity	851.8	861.3	-1.1%
Total assets	5,914.5	6,083.6	-2.8%
Risk-weighted assets[1)]	4,053.1	4,571.5	-11.3%
Balance sheet ratios	**2020**	**2019**	**(pts)**
Loan to deposit ratio	75.8%	80.1%	-4.3
NPE ratio	3.5%	3.9%	-0.4
NPE Ratio (on balance loans)	5.9%	6.2%	-0.3
NPE coverage ratio	73.6%	73.8%	-0.2
Liquidity coverage ratio	208.5%	175.4%	33.1
Common equity tier 1 ratio[1)]	20.3%	17.7%	2.6
Total capital ratio[1)]	20.3%	17.7%	2.6

[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

Dear shareholders, customers and employees,

2020 was the first full calendar year of Addiko Bank AG as a stock listed entity. We continued to execute on our strategic priorities to become a specialist banking group in CSEE, focusing on unsecured Consumer and SME lending as well as payments.

In my view, the key highlights of last year can be summarised in five main areas:

1. Health & safety and team Addiko

Throughout the Covid-19 pandemic, Addiko Group has proactively and swiftly deployed all necessary and possible measures to continue operating as a provider of essential banking services. Appropriate precautions were taken to ensure the health and safety of our teams, partners and customers. Internally, we have introduced a number of initiatives to maintain our focus on the company's business and our culture while ensuring professional business continuity.

Addiko Group has implemented adequate measures to provide customers with safe and unhindered access to all banking services, with a special emphasis on digital services and communication channels.

Addiko was once again recognized, this time for its "Excellence in Challenges" and also as "Employer Partner" by Selectio in Croatia, Serbia and Montenegro. We have also been acknowledged as "Customers' friend" by ICERTIAS in Montenegro and Bosnia & Herzegovina. On the digital front, our mAccount was awarded the "Most innovative banking product" in Serbia by Innovation Week during 2020.

A special note of appreciation must go to all of our staff for this tremendous effort in this extraordinary and challenging year.

2. Shareholder value and capital

Despite the externally modelled and previously predicted regulatory expectations of the impact a crisis would have on our capital, I am proud to inform you that Addiko Group's capital position has further strengthened with a CET1 ratio of 20.3% on a transitional basis (19.3% IFRS 9 fully-loaded), which already excludes the envisaged amount of dividends. Moreover, we managed to maintain customers' trust reflected in a stable funding and a solid liquidity position, while we further reduced our funding costs.

From a shareholder perspective, our share price has improved by ca. 40% between the beginning of July and the year end 2020 and, following a constructive dialogue and considering the European Central Bank (ECB) recommendation on dividend distribution, we now plan to distribute a dividend of ca. EUR 46.6 million or EUR 2.39 per share in an unconditional and a conditional tranche in 2021, subject to shareholder approval.

The first unconditional tranche of ca. EUR 7 million represents the maximum amount allowed under the currently valid guidelines of the ECB, while the second, conditional tranche of ca. EUR 39.6 million is envisaged upon the lifting of the ECB recommendation after 30 September 2021 assuming no other legally mandatory distribution restriction is effective or applicable. The sum of the conditional and the unconditional tranche in the amount of EUR 46.6 million corresponds to the already communicated 2019 dividend of ca. EUR 40 million, as approved on 27 November by the AGM 2020, which was carried forward to the financial year 2020, and, in addition, a dividend for the financial year 2020.

3. Financials and operating performance

We managed to improve our underlying operational performance while keeping a robust asset quality during 2020, despite the Covid-19 related impacts on the economy and our business.

The net profit of EUR 1.4 million is a respectable achievement after reporting a loss of EUR 12.2 million for the first six months of the year. This was a result of the economic recovery during the second half of the year, the restarting business activities and the tightly managed operating costs. It is important to note that Addiko's results were significantly impacted by a considerable increase in risk provisioning, predominantly associated with macroeconomic and portfolio behaviour expectations due to Covid-19.

Our operating result stood at a solid EUR 62.8 million, an improvement of 15.1% compared to 2019 (EUR 54.6 million) impacted by Covid-19 related social and economic inactivity. Addiko Group's cost base decreased by ca. EUR 20 million or ca. -10% YoY driven by rigorous and successful cost containment efforts as well as Covid-19 related savings.

4. Digital improvements

Over the past 12 months, we have fine-tuned our business model and sharpened our digital strategy. Digital also remains an enabler for further initiated cost reduction measures to make the organisation leaner and more efficient. Continuous efforts went into delivering on our digital commitments while further improving our digital capabilities and, in parallel, managing our IT related cost base down.

Even in this challenging environment, we continued to innovate in digital banking by pioneering new products and delivering new features as the first in our region, including mAccount in Serbia, mLoan in Montenegro and a revamped Virtual Branch in Croatia. We continue to focus on evolving towards fully end-to-end services to provide our customers with pure digital loans and current accounts.

5. Solid Asset Quality and Regulatory Update

The unprecedented social and macroeconomic challenges related to the Covid-19 pandemic have also clearly tested Addiko Group's resilience. Our unwavering commitment to continue to support our customers in a straightforward manner with their financings has been recognised and appreciated. We focused much of our efforts to enable smooth access to moratoria and to help our customers continue making informed financial decisions.

Addiko Group's Non-Performing Exposure (NPE) volumes (EUR 243.7 million), ratio (3.5%) and coverage (73.6%) remained stable. While NPEs have clearly been affected by the repayment moratoria introduced in our markets, thereby preventing defaults for potentially impacted exposures, it is essential to highlight that Addiko Group had around EUR 164 million exposure in moratoria as of year end 2020 (only ca. 2.4% of total Group exposure), and over 90% of our credit risk bearing exposures remained current, i.e. without any overdues.

The past year has also provided us with an important milestone in terms of our regulatory environment. Since 7 October 2020, Addiko Bank AG and, at consolidated level, Addiko Group has been under the direct supervision of the ECB. Together with our EU subsidiaries in Croatia and Slovenia, we are regarded as a significant supervised group by the ECB.

The outlook for 2021 and a return to a pre-crisis operating environment will largely depend on the evolution of the pandemic. Our strategy and our operational model position us favourably to continue supporting customers and delivering results for our shareholders. It was and will remain to be a key priority for us to ensure the safety and well-being of our staff and customers while we continue with our efforts to gain a level playing field for our capital requirements.

I am certain that Addiko will continue to deliver value to shareholders, customers and employees.

Sincerely yours,

Csongor Németh
Chairman of the Management Board

Addiko Bank

Group Annual Report 2020

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 listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and since the 7 October 2020 by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates via two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2020 approximately 0.8 million customers in CSEE, using a well-dispersed network of 168 branches and modern digital banking channels.

Based on its focused 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. These core activities are largely funded 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 intended 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, manage risks and maintain asset quality.

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 62.9% of the bank's shares are in free float, the rest of the shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Western Europe and North America.

Addiko Group’s Investor relations website https://www.addiko.com/investor-relations/ contains further information, including financial and other information for investors.

2. General economic environment

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after the Covid-19 pandemic started to spread at the end of the first quarter of 2020. Lockdown measures brought European economies to a halt. While policy measures alleviated some of the pressures, and the summer rebound signaled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through such heavy storm is quite a challenge, especially for the CSEE economies due to a rather distinct feature of the crisis that lies not in its intensity, although it is comparable in amplitude only to the last great depression of the 30s, but in the fact that the contraction is more severe in the service sector due to social distancing measures. This atypical cyclical pattern exposed vulnerabilities of tourism-dependent economies and have significantly affected growth prospects of Addiko’s countries of operation.

The main channels of impact for these economies can be split into two broad categories: (i) external - including weaker export demand, a reduction in FDI, lower rate of portfolio and remittance inflows, substandard tourists numbers; and (ii) internal - reflecting the imposition of severe lockdown measures and the negative economic knock-on effects. These factors brought down the average growth in the target markets by almost 10 p.p., from 3.2% in 2019 to -6.4% in 2020. Croatia exhibited the largest drop (estimated to be -9.4%), followed by Montenegro (- 9.0%) and Slovenia (-6.7%). The contraction was somewhat cushioned in Serbia (-2.0%) and Bosnia and Herzegovina (-5.0%). It can also be expected that Serbia will likely its pre-crisis GDP level already in 2021, while for other countries it will surely take a year or two longer for this to materialize.

On the other hand, coordinated fiscal response and ample liquidity provided by central banks across Europe stabilised labor market developments and helped to keep interest rates low and price dynamics dampened. This is true also for Addiko’s countries of operation. The fact that all of them, with the exemption of Serbia, have the Euro or managed/fixed exchange rates, only contributes to easier mirroring of the ECB policy effects. However, group homogeneity is not fully observable during this crisis, neither in economic weaknesses nor policy actions taken by each country in question. Serbia, for example, has been impacted foremost by supply disruptions and weaker demand for its goods exports. As an example, we note that the Fiat-Chrysler plant was closed in February, the first industry shutdown related to the Covid-9 pandemic in Europe. The most open economy by far is Slovenia, and that is likely to be reflected in the final macroeconomic data for 2020. Yet, Slovenia is far better equipped to move activities online than the rest of the target markets. Nevertheless, some characteristics do isolate Slovenia and Croatia from non-EU sample of countries in focus. Slovenia and Croatia had substantial stimuli packages, reflecting to some degree their greater ability to borrow on international capital markets. In addition, their stringency measures were less severe compared to the non-EU countries. Contrary, the latter ones have shown to be highly exposed to fall in FDI and heavily reliant on foreign aid. Not least important to mention, the non-EU countries also do have more favorable demographics.

In general, the Croatian economy will suffer a severe setback in 2020 since Covid-19 caused domestic and international demand to shrink drastically. The reason for this is the country's reliance on its dominant tourism sector, which accounts for a quarter of Croatia's GDP. On top of the disruptions in tourism, Croatia had to cope with the impact of strong earthquakes which struck its capital Zagreb and its surroundings during the year 2020, causing damage estimated in the region of EUR 5.7 billion. To relieve local businesses with aggravated circumstances for loans repayments, a moratorium for three months on obligations to banks was introduced already in the first quarter. The Croatian Banking Association additionally agreed to defer the repayment of loans to the tourism sector, which had been severely hit by Covid-19, until mid-2021. The Croatian Bank for Reconstruction and Development (HBOR) also issued a moratorium on debt service for three months and further announced that it would extend its export loan insurance program. Private lending towards the end of 2020 mainly relies on housing loans. The second wave of infections should therefore be offset somewhat by the resilient private consumption whose increase should extend into 2021, supported by low inflation, changes in income tax, accumulated involuntary savings and the fact that large-scale layoffs have been avoided.

In Slovenia, the lockdown measures and consumer pessimism contributed to a sharp fall in private spending, while investment contracted together with a shrinking of orders in manufacturing, most notably in exporting sectors. Public spending was the only component of the GDP which rose. The government responded by adopting several stimulus packages totaling ca. EUR 7 billion. Several measures to control unemployment, and government-issued tourist vouchers remain in place. A 12-months long deferral on loan payments on capital and interest coming due was put in place in March 2020. A public guarantee of EUR 2.2 billion was also introduced to cover loans extended to non-banking enterprises. Companies will remain conservative in their investment spending, especially after signs of firms building-up their inventories to hedge against renewed disruption to supply chains, and Slovenian consumers are expected to remain one of the more savings-oriented populations in the EU. However, there seems to be quite strong purchasing impulses within the household sector. Prospects for a strong recovery in 2021 exist, depending, of course, on the economic situation of the country's trading partners and the stabilising role of households´ spending. The government will look to restart the public and private investment cycle in construction; it has published a priority list of infrastructure projects and has high hopes for getting the most out of the allocated EU Recovery Fund.

In Bosnia and Herzegovina (BiH), the Covid-19 pandemic weighs severely on private consumption, which accounts for almost 75% of the country's GDP. The Federation of Bosnia and Herzegovina and its capital Sarajevo will suffer in particular, given their higher reliance on the services sector, including tourism. Data show that the tourism sector was hit particularly badly in April by Covid-19, as was the case in the rest of the region, with a drop of 99% year on year in terms of tourist arrivals. The BiH banking agencies announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities in light of the economic downturn caused by the pandemic. As far as 2021 is concerned, it can be expected that investments will pick up again in light of postponed public projects such as the expansion of the country's energy and transport infrastructure. This will help real GDP growth to reach around 3% next year, but will remain among the weakest in the region, reflecting among other factors, a more conservative policy stance and in particular less scope for fiscal stimulus, simultaneously increasing the country's reliance on foreign aid and loans.

The Covid-19 pandemic deeply affected Montenegro's economic growth in 2020, since tourism is the most important pillar of the country's economy with a share of around 22% of GDP and income from tourism generating revenue in the amount of EUR 1.1 - 1.3 billion. Tourism directly and indirectly creates a total of around 36,000 jobs and thus a fifth of all employment. In addition to tourism, Montenegro is also counting on its growing role as a hub for electricity traffic between the Balkans and Italy, but this suffers from the temporary shutdown of large investment projects in the energy and construction sectors caused by Covid-19. The country's GDP is expected to contract by 9% in 2020, to be followed with a recovery of 5% in 2021. In July, the Central Bank announced that banks are obliged to grant a moratorium to borrowers from the country's tourism as well as agriculture, forestry, and fishing sectors. The announced moratorium was activated in September 2020 and will run until August 2021. The moratorium is available to borrowers who are not past due in loan repayments for more than 90 days and whose loans were not classified as non-performing assets as of 31 December 2019.

The most benign consequences of these extremely deep recessions caused by the pandemic have been felt in Serbia, which demonstrated satisfactory resilience already during the first wave in the first half of 2020. The relatively good results are partly due to the supportive fiscal policy, including credit guarantee schemes and credit lines to corporates, direct cash support to the population as well as a moratorium on loan repayments, which lasted five months in total, and was used by around two thirds of the clients. In addition, Serbia broadened economic interactions with outside-EU partners, primarily China. While some progress has been made in the reforms of the tax administration and the privatisation of state-owned banks, other structural reforms of public administration and state-owned enterprises advanced slowly. Nevertheless, industrial sector and private consumptions seem to remain quite robust and will certainly prove to be important drivers of future growth.

3. Earnings performance in brief

Although business in 2020 has been marked by Covid-19, the Group's results demonstrated the robustness and resilience of its sustainable business model.

Addiko Group reported an improved operating result of EUR 62.8 million at the end of the year 2020. This is an improvement of 15.1% compared to the year 2019 (YE19: EUR 54.6 million). The operating result reflects a stable business development despite the Covid-19 crisis, supported by non-recurring income (the sale of debt securities) and a successful cost containment. The result after tax of EUR 1.4 million (YE19: EUR 35.1 million) was impacted by a significant increase in risk provisioning predominantly associated with macroeconomic expectations due to Covid-19. The Group has successfully maintained its robust asset quality and has tightened underwriting criteria preferring sustainable portfolio quality over new business and volume growth. The loan book in the focus segments remained stable, whereby Consumer and SME amount to 65.3% of the gross performing loan book (YE19: 62.0%). The Group has limited exposure to industry sectors considered as Covid-19 sensitive. The NPE ratio (CRB based) of 4.9% (YE19: 5.3%), the NPE ratio (on-balance loans) of 5.9% (YE19:6.2%) and the NPE provision coverage at 73.6% (YE19: 73.8%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the successful receivables collection.

Addiko Group entered into this Covid-19 crisis from a position of strength with regard to its solid capital base, its stable funding and its ample liquidity. The bank's capital position has been further strengthened with a fully-loaded CET1 ratio of 19.3% even after having deducted EUR 46.6 million of planned dividends (consisting of an unconditional and a conditional tranche). The Management Board of Addiko Bank AG remains committed to its communicated 2019 dividend proposal, now aiming for a dividend decision at the upcoming AGM 2021 on 26 April 2021 with payment of a first unconditional tranche of EUR 7.0 million, reflecting the maximum amount within the currently valid guidelines of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower). In addition, a conditional payment of EUR 39.6 million is envisaged after 30 September 2021 under the condition that neither a recommendation of the ECB would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable.

4. Response to the Covid-19 Pandemic

4.1. Supporting clients

The Covid-19 pandemic is having unprecedented effects around the globe, both on people and economies. The pandemic determined governments in the countries of operation of the Group to take essential measures such as business lockdowns and restrictions with regards to social contacts, which have affected strongly social and economic activities.

Professional servicing of its customers remain the priority for Addiko Group through this crisis and a comprehensive range of measures have been implemented to support retail and business customers. Addiko Bank Croatia decided to support clients employed in the healthcare sector as they were on the front lines fighting against the coronavirus. They were exempted from paying monthly account maintenance fees in April, May and June 2020. Also, Addiko Bank in Sarajevo and Banja Luka launched a new marketing campaign to remind clients of the flexibility and service offered by using Addiko Mobile services, available from the comfort of their home. In these times of uncertainty, the bank strives to maintain a customer-first approach. All Addiko Bank services are tailored to the needs of clients, with an additional focus on health and safety.

In addition, 75,698 moratoria on payment obligations were granted in the fiscal year, of which 1,888 were still active as of 31 December 2020. Further details are provided in Note (59) Credit risk (counterparty default risk), under the sub-item Moratorium due to Covid-19.

4.2. Operational stability

The Group has enabled safe working conditions for its personnel in their workplace and extensive remote working has been implemented already in March, when the number of employees working from home increased ten-fold from 200 to 2,000 across Addiko Group. The home office has been extended voluntary throughout the year, with the goal of incorporating this permanently into Addiko's operating framework. In the branches working hours were decreased in accordance to local regulations and all branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients. Through these measures, Addiko Group has ensured the availability of critical services to its stakeholders during the Covid-19 crisis.

5. Corporate Governance

5.1. ECB Supervision

In July 2020 Croatia entered into the Single Supervisory Mechanism as the Governing Council of the European Central Bank (ECB) has adopted a decision to establish close cooperation with the Croatian National Bank. Following the decision to classify Addiko as a significant institution, the ECB started the direct supervision of Addiko Bank AG on the 7 October 2020, as the supervised entity at the highest level of prudential consolidation, together with its subsidiaries in Croatia and Slovenia.

5.2. Supervisory Board

Following the IPO and the subsequent change in the shareholder structure, several changes took place in the Supervisory Board of the Group during 2020, with Mrs. Monika Wildner, Mr. Kurt Pribil, Mr. Herbert Juranek and Mr. Frank Schwab joining the Board, while Mr. Hermann-Josef Lamberti, Mr. Hans Lotter and Mr. Henning Giesecke resigned from their functions.

The Supervisory Board at its constituent meeting on 2 December 2020 appointed Mr. Kurt Pribil to Chair of the Supervisory Board. Mr. Herbert Juranek was appointed to Deputy Chair of the Supervisory Board in the same meeting.

5.3. Management Board

During 2020, the following changes in the Management Board of the Group took place:

Mr. Johannes Proksch resigned as Chief Financial Officer (CFO) of Addiko Bank AG as of 29 May 2020. The Supervisory Board appointed Mr. Markus Krause, Chief Risk Officer (CRO), as new Chief Financial Officer in addition to his current tasks. Furthermore, Mr. Razvan Munteanu resigned as Chief Executive Officer (CEO) of Addiko Bank AG with effect from 1 July 2020. The Supervisory Board appointed Mr. Csongor Bulcsu Nemeth, Chief Corporate & SME Banking Officer (CCBO), as new Chief Executive Officer in addition to his previous tasks. As decided by the Supervisory Board in May 2020, Mr. Ganesh Krishnamoorthi joined Addiko Bank AG on 1 August 2020 as Chief Retail, IT and Digitalisation Officer.

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

6.1. Great customer experience with efficient distribution transformation

Addiko Bank approaches its retail customers primarily through branches and for the coming years expects an increased contribution from alternative touchpoints (such as express facilities with more self-service multi-functional machines, virtual branches, teams of skilled sellers present at customers' workplace premises), digital channels and partnerships with third parties.

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 has been 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 standalone 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 capitalising 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 workplace. 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. Throughout 2020 most Bank@Work activities were performed using alternative channels to safely communicate with customers.

6.2. 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.

With respect to daily banking, Addiko Bank aims to differentiate itself from the competition through superior online and mobile banking services, innovative banking channels and innovative ways of helping customers manage their daily financial needs, for instance by giving them the ability to utilise various types of payment methods.

Addiko Bank's retail customers are able to conduct digital banking transactions via Addiko Bank's digital banking offerings and non-customers are able to find out details and apply for Addiko Bank's consumer products via specific Addiko Bank lending pages, which consists of interactive calculators, contact forms and a multichannel acquisition platform / chatbot that performs sales dialogues with a focus on the products provided in each particular market.

Addiko Bank focuses particularly on selling standardised products (unsecured loans and account packages) over digital channels, in line with specific restrictions/limitations of the individual markets. Products are accessible through digital, allowing simulations where appropriate, end-to-end sales where legally possible. A state-of-the-art loan application processing system combined with a credit decision engine has been rolled out in Addiko Bank entities in Croatia, Serbia, Bosnia & Herzegovina and Montenegro, with Slovenia to follow. Content delivery through social media, support of regular communication through digital, and implementation of features such as chat pay over Viber, chatbot, branch designs compatible with the digital age – all such features contribute to the strengthening of the digital dimension of Addiko Bank's brand, customers' accessibility and convenience.

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 16% in 2020 (9% for 2019) and the contribution of Bank@Work to 31% (27% for 2019).

Similar to the strategy for Consumer, Addiko is embracing a digital-first strategy for its Small and Medium Enterprise customers. In the past years Addiko established a group-wide digital loan application process for its legal entity customers, comprising a maximum set of automatic checks to ensure a great customer experience throughout the application. In return, the relationship manager is freed up from manual work and can provide an indicative offer to the customer almost instantly.

For servicing the legal entity customer, the e-banking system has been redesigned from scratch and offers a modern look and feel as well as a wide range of functionalities to support the daily banking activities of the customers in the best way possible.

Further digitalisation efforts will focus on strengthening the self-service capabilities of the digital channels to ensure that Addiko Bank is supporting any legal entity customer with the right digital tools.

In recent years, Addiko Bank has started a group-wide project to build up a new digital platform which will cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. The underlying application process has therefore been redesigned from scratch resulting in a state-of-the-art customer experience combined with transparent and tangible process and performance metrics for the bank.

In 2020, this platform as well as the underlying digital processes have been rolled out group-wide which results in a homogenous digital ecosystem that can be further leveraged in the years to come with additional products and services. The focus will be to offer a compelling value proposition of online self-services that further reduces the cost-to-serve. With it, Addiko Bank also plans to continue to digitally serve the untapped potential of smaller legal entities in need of financing whilst consequently increasing the loan volumes and related commission income.

6.3. IT Strategy

Whilst continuing the support for the roll out of the mobile initiatives in the group banks a strong focus for the Information Technology is on the stabilisation and optimisation of the infrastructure and service providers utilised for the group. This will help to improve the customer experience and satisfaction on one hand, but it will also impact the cost line on the other.

Optimisation activities in the area of data and data quality will provide the foundation for further data driven innovations for the banking group, allowing better targeted services and products for the focus client segments.

Increased investments in Cybersecurity tools and processes for the IT landscape, starting from infrastructure activities to improved thread detection and mitigation tools and processes will result in a higher level of safety for Addiko Group and its clients.

All above activities are ensured by strict adherence and compliance with all regulatory frameworks governing the infrastructure of the financial system.

In 2021, Digital Development will keep the course of further developing the systems that enable offering banking products via digital channels, with clear emphasis on cash loans and working capital financings. The changes and the new implementations are planned within all segments of automated loan processing systems, expanding to the front-end solutions featuring smooth and frictionless user experience while bearing in mind Addiko's ultimate goal – offering the best-in-class banking solutions for existing and new clients.

The newly introduced IT development setup is going to permit a stronger focus on the development of digital products with much better synergies between the development teams. Along with the new approach to the development (i.e. hackathons, combination of agile methodologies etc.), the new setup will enable shorter time to market new products or channels as well as more efficient upgrades of the existing ones.

6.4. Branches

At year end 2020 Addiko Group operated a total of 168 branches, out of which 42 were located in Croatia, 19 in Slovenia, 60 in Bosnia & Herzegovina, 36 in Serbia and 11 in Montenegro. This physical distribution is continuously reviewed to enable the delivery of Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

7. Financial development of the Group

7.1. Detailed analysis of the reported result

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019	(%)
Net banking income	234.5	250.2	-6.3%
Net interest income	174.7	183.0	-4.5%
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Operating result	**62.8**	**54.6**	**15.1%**
Other result	-8.1	-19.4	-58.3%
Credit loss expenses on financial assets	-48.4	2.9	>100%
Result before tax	**6.3**	**38.0**	**-83.4%**
Tax on income	-4.9	-2.9	67.8%
Result after tax	**1.4**	**35.1**	**-96.2%**

Net interest income decreased from EUR 183.0 million at YE19, by EUR -8.3 million, or -4.5%, to EUR 174.7 million at YE20. The decrease in interest income, lower by EUR -13.8 million from EUR 210.8 million at YE19 to EUR 197.0 million at YE20, is due to the restrictive consumer lending regulations introduced during 2019, the Covid-19 impact on new loans disbursements in the focus segments and the planned run down of non-focus portfolio. Furthermore, the decline in interest income reflects lower yields in the bond portfolio, in connection with the current interest rate environment. The negative impact in interest income was partially compensated by the decrease in **interest expenses** from EUR -27.8 million at YE19, by EUR -5.5 million, to EUR -22.3 million at YE20, predominantly resulting from lower interest expenses for customer deposit for EUR -4.6 million, mainly caused by a shift from higher yield term deposits to lower yield current deposits. The **net interest margin** slightly decreased to 291bp at YE20, compared to 299bp at YE19.

Net fee and commission income slightly decreased to an amount of EUR 59.8 million (YE19: EUR 67.2 million). Thereof, fee and commission income decreased from EUR 83.0 million at YE19 to EUR 75.6 million at YE20, whereas fee and commission expenses stayed stable at EUR -15.8 million at YE20 compared to YE19. The decrease in fee and commission income was connected with the Covid-19 outbreak and is mainly visible on card operations as well as transactions, where fewer withdrawals and payments has been made by customers. This effect is partly compensated by the increase in fees from accounts & packages.

Net result on financial instruments amounts to EUR 11.7 million at YE20, compared to EUR 13.4 million at YE19 and mainly results in both years from realised profits from the sale of debt securities. In addition, in 2019 the position included the result from the sale of bonds and financial instruments which the Group obtained within the extraordinary administration procedures of a large Croatian retailer.

Other operating result as the sum of other operating income and other operating expense improved from EUR -20.0 million at YE19, by EUR 6.2 million, to EUR -13.7 million at YE20. This position includes the following significant items:

- Charges from the recovery and resolution fund (YE20: EUR -1.4 million, YE19: EUR -1.3 million);
- Deposit guarantee expenses (YE20: EUR -8.1 million, YE19: EUR -9.1 million);
- Restructuring costs increasing from EUR -3.9 million to EUR -4.6 million connected with further cost optimisation initiatives throughout the Group;
- Income of EUR 1.6 million due to outcome of a tax litigation decided in favor of the Group;
- Bank levies and other taxes decreased from EUR -4.3 million at YE19 to EUR -3.0 million at YE20.

Operating expenses decreased from EUR -189.1 million at YE19 by EUR 19.4 million or -10.3% to EUR -169.7 million at the current reporting date and reflect the continuing focus on cost discipline:

- Personnel expenses declined compared to the previous period from EUR -96.7 million at YE19 to EUR -83.9 million at YE20. The decrease reflects the efficiency and right sizing programs conducted during 2019 and 2020. Furthermore, Addiko Group applied extreme moderation with regard to variable remuneration in line with ECB expectations. Therefore, the Group did not recognise any bonus provision for 2020 and has decided not to pay out any performance rewards based on 2020 performance indicators (YE19: EUR -7.8 million).

- Other administrative expenses decreased from EUR -73.3 million at YE19 by EUR -7.4 million or -10.1% to EUR -65.9 million at YE20. This development was mainly driven by lower advertising costs with marketing campaigns partially cancelled as a consequence of Covid-19 (YE20: EUR -4.7 million, YE19: EUR -7.7 million) as well as lower legal and advisory costs (YE20: EUR -4.9 million, YE19: EUR -8.7 million). Legal and advisory costs included in 2019 also EUR -2.0 million expenses in connection with the IPO preparation process.
- Depreciation and amortisation slightly increased from EUR -19.1 million at YE19, by EUR 0.8 million, to EUR -19.9 million at YE20.

Other result improving from EUR -19.4 million at YE19 by EUR 11.3 million to EUR -8.1 million at the current reporting date. The increase reflects the following elements:

- Credit-linked and portfolio based provisions for litigation in 2019, mainly resulting from legal matters on CHF currency clauses in Croatia. During 2020 the additional provisions for legal cases were significantly lower compared with the previous reporting period (EUR -9.2 million). In addition, in the current reporting period EUR 1.9 million could be collected from the final court decision in favor of one entity of the Addiko Group in relation to a past damage claim.
- Impairments on tangible and intangible assets were recognised in the amount of EUR -6.7 million during 2019, mainly driven by the impairment of intangible assets connected with 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 capitalised change requests on the previous version of the software. The testing of the non-financial assets was not leading to significant impairments during 2020.
- The Covid-19 debt payment moratorium imposed by governments where Addiko operates determined the recognition of EUR -2.6 million modification loss in 2020. In the previous year no significant modification losses were recognised.

Credit loss expenses on financial assets amount to EUR -48.4 million (YE19: EUR 2.9 million). The result YE20 was significantly influenced by the Covid-19 pandemic. The increase of risk provisions is also driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

Tax on income amounts to EUR -4.9 million at YE20 compared to EUR -2.9 million at YE19. This is mainly driven by the development of deferred taxes on tax losses carried forward. Due to the fact that a significant portion of the existing tax loss carried forward expired in 2020, independently by the taxable result achieved during the current year, the amount of deferred tax assets recognised at YE19 based on the expected future profitability had to be recognised as expense in 2020.

7.2. Detailed analysis of the statement of financial position

EUR m

	31.12.2020	31.12.2019	(%)
Cash reserves	1,156.3	899.4	28.6%
Financial assets held for trading	36.4	38.5	-5.2%
Loans and receivables	3,641.2	3,885.9	-6.3%
Loans and advances to credit institutions	56.5	14.0	>100%
Loans and advances to customers	3,584.7	3,871.9	-7.4%
Investment securities	929.0	1,096.6	-15.3%
Tangible assets	78.8	85.9	-8.3%
Intangible assets	26.4	27.9	-5.4%
Tax assets	25.2	25.7	-1.9%
Current tax assets	3.9	1.8	>100%
Deferred tax assets	21.3	23.9	-10.9%
Other assets	18.5	20.6	-10.5%
Non-current assets and disposal groups classified as held for sale	2.7	3.1	-12.8%
Total assets	**5,914.5**	**6,083.6**	**-2.8%**

The statement of financial position of Addiko Group shows the simple and solid interest-bearing asset structure: 61% 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 reflected by the increased share of these two segments of 65.3% of the gross performing loan book (YE19: 62.0%).

As of YE20 the **total assets** of Addiko Group in the amount of EUR 5,914.5 million decreased by EUR -169.1 million or -2.8% compared with the YE19 level (EUR 6,083.6 million). The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) decreased to EUR 4,053.1 million (YE19: EUR 4,571.5 million) reflecting the decreases of volumes and the relief measures introduced in CRR as response to Covid-19.

Cash reserve increased by EUR 256.9 million to EUR 1,156.3 million as of 31 December 2020 (YE19: EUR 899.4 million). This reflects the strong liquidity position of the Group.

Overall **loans and receivables** decreased to EUR 3,641.2 million from EUR 3,885.9 million at year end 2019:

- Loans and receivables to credit institutions (net) increased by EUR 42.4 million to EUR 56.5 million (YE19: EUR 14.0 million).
- Loans and receivables to customers (net) decreased by EUR -287.2 million to EUR 3,584.7 million (YE19: EUR 3,871.9 million). The change was mainly in the non-focus segments with Mortgage Business and Large Corporate and Public Finance decreasing from EUR 1,497.2 million at year end 2019 to EUR 1,261.4 million, which could not be compensated by the new disbursements in the focus segments, Consumer and SME lending, remaining stable at EUR 2,321.4 million (YE19: EUR 2,369.4 million).

The **investment securities** decreased from EUR 1,096.6 million at YE19 to EUR 929.0 million at YE20. They are largely invested in high rated government bonds and have maturities of less than five years. To ensure high levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets stayed at EUR 25.2 million (YE19: EUR 25.7 million), thereof EUR 11.6 million refer to deferred taxes on tax loss carried forward (YE19: EUR 16.4 million). This effect is partly offset by the tax receivable recognised due tax litigation decided in favour of the Group.

Other assets slightly reduced to EUR 18.5 million (YE19: EUR 20.6 million). The main amounts in this position are related to prepaid expenses and accruals (YE20: EUR 8.7 million; YE19: EUR 11.4 million), furthermore, receivables for paid in deposits and receivables from card business are included.

EUR m

	31.12.2020	31.12.2019	(%)
Financial liabilities held for trading	4.9	6.0	-18.8%
Financial liabilities measured at amortised cost	4,973.4	5,121.6	-2.9%
Deposits of credit institutions	196.2	233.9	-16.1%
Deposits of customers	4,728.1	4,831.2	-2.1%
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.1%
Other financial liabilities	49.0	56.4	-13.1%
Provisions	58.2	66.9	-12.9%
Other liabilities	26.3	27.9	-5.6%
Equity	851.8	861.3	-1.1%
Total equity and liabilities	**5,914.5**	**6,083.6**	**-2.8%**

On the liabilities' side, **financial liabilities measured at amortised cost** slightly decreased to EUR 4,973.4 million compared to EUR 5,121.6 million at year end 2019:

- Deposits of credit institutions decreased from EUR 233.9 million at YE19 to EUR 196.2 million as of YE20.
- Deposits of customers decreased to EUR 4,728.1 million (YE19: EUR 4,831.2 million). The strong deposit base is demonstrating the clients' confidence in the Group.
- Other financial liabilities decreased from EUR 56.4 million at YE19 to EUR 49.0 million at YE20.

Provisions decreased from EUR 66.9 million at YE19 to EUR 58.2 million at YE20. The development was primarily influenced by the payout of the bonus 2019 in certain countries, whereas no bonus provision was built for 2020.

Other liabilities decreased slightly from EUR 27.9 million at YE19 to EUR 26.3 million in YE20 and mainly include accruals for services received but not yet invoiced (YE20: EUR 25.4 million, YE19: EUR 27.0 million) as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 861.3 million to EUR 851.8 million is reflecting the total comprehensive income, which includes the profit and loss for the reporting period in the amount of EUR 1.4 million as well as changes in other comprehensive income in the amount of EUR -10.9 million. These changes were mainly due to market related movements from debt and equity instruments measured at FVTOCI (EUR -4.9 million) and from the changes of the FX reserves (EUR -6.0 million).

7.3. Capital and liquidity Requirement

The Group's capital and liquidity ratios strengthened further in 2020 despite the challenging economic conditions.

The **capital base** of Addiko Group is solely made up of CET1 and stands at 20.3% (YE19: 17.7%) on a IFRS 9 transitional basis and at 19.3% without applying IFRS 9 transitional rules (YE19: 17.1%), well above the Overall Capital Requirements and P2G of 18.6% based on the currently valid SREP decision. The increase in the total capital adequacy derives mainly from the RWA reduction, driven by the lower volumes generated during 2020 as well to the RWAs measures introduced by the EU as response to Covid-19. In the regulatory capital calculation, the Group deducts a dividend proposal of EUR 46.6 million (consisting of an unconditional and a conditional tranche) which includes the EUR 40.0 million from the year 2019 not yet paid out following the recommendation of the ECB.

The 2020 SREP assessment has been performed by the FMA using a pragmatic approach in light of the Covid-19 pandemic. This approach focused on the ability of the supervised entities to respond to the challenges of the Covid-19 crisis and its impact on their current and prospective risk profile and carried forward the requirements resulting out of the 2019 SREP cycle. This means that the Pillar 2 Requirement from the 2020 SREP process remains unchanged at 4.1% as well as the Pillar 2 Guidance at 4%. Please refer to section 16.2 Dividend Policy and to note (79) Capital Management for further details on this topic.

The **liquidity position** of the Group remains strong, with LTD ratio (net) of 75.8% (YE19: 80.1%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Group.

On 28 January 2021, Addiko Bank received the draft decision from the SRB relating to the future **MREL requirement**, which amounts to 26.13% of TREA (total risk exposure amount) and 5.91% of LRE (leverage ratio exposure) based on the point-of-entry strategy at the subsidiary level of Addiko Bank d.d. (Croatia). Under the previous decision, the MREL target of Addiko Group would have required additional own funds and eligible liabilities in the amount of up to EUR 412.4 million (based on Addiko

Group's capital structure and balance sheet composition as of 31 December 2019 and subject to a transitional period of up to 4 years). Based on the new decision no additional own funds and eligible liabilities need to be generated at the level of Addiko Group, as the required MREL target defined at the level of Addiko Bank d.d. (Croatia) is already covered by the local own funds and eligible liabilities taking into consideration also planned local capital measures which are expected to be implemented during 2021 following the required regulatory approvals.

8. Segment reporting

As of 1 January 2020, Addiko reports the segments "Mortgage" and "Consumer" as two separate segments. At 31 December 2019 these two segments were shown as parts of the Retail segment without separation of the position "Operating expenses". This new presentation is aimed to enhance the transparency of the development of the strategic focus areas. Comparative figures have been adapted accordingly. The Covid-19 debt payment moratorium imposed by governments where Addiko operates determined the recognition of EUR -2.6 million modification loss in 2020 which is relocated on market segments in position Other result.

EUR m

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	141.3	41.9	19.1	14.8	6.5	10.9	234.5
Net interest income	103.5	25.6	19.1	9.8	5.4	11.2	174.7
o/w regular interest income	96.7	29.2	24.8	13.1	3.8	16.8	184.4
Net fee and commission income	37.8	16.3	0.0	5.0	1.1	-0.3	59.8
Net result from financial instruments	0.0	0.0	0.0	0.0	0.0	11.7	11.7
Other operating result	0.0	0.0	0.0	0.0	0.0	-13.7	-13.7
Operating income	141.3	41.9	19.1	14.8	6.5	8.9	232.5
Operating expenses	-79.4	-24.1	-1.2	-4.1	-1.8	-59.0	-169.7
Operating result	61.8	17.8	17.9	10.7	4.7	-50.1	62.8
Other result	-1.7	-0.3	-0.5	-0.1	0.0	-5.5	-8.1
Credit loss expenses on financial assets	-21.5	-23.3	-1.2	-1.6	-0.2	-0.6	-48.4
Result before tax	38.6	-5.9	16.3	9.0	4.5	-56.2	6.3
Business volume							
Net loans and receivables	1,283.7	1,037.7	650.3	484.5	126.7	58.3	3,641.2
o/w gross performing loans customers	1,311.8	1,040.3	638.6	485.3	127.7		3,603.6
Gross disbursements	339.6	457.1	1.0	179.6	4.4		981.7
Financial liabilities at AC [1)]	2,667.7	787.2		367.3	391.5	759.7	4,973.4
RWA [2)]	968.2	819.9	385.5	524.7	78.2	666.8	3,443.3
Key ratios							
Net inerest margin (NIM) [3)]	5.9%	2.1%	1.5%	1.4%	1.3%		2.9%
Cost/Income Ratio	56.2%	57.5%	6.4%	27.9%	28.2%		72.4%
Cost of risk ratio	-1.4%	-1.4%	-0.2%	-0.2%	-0.1%		-1.0%
Loan to deposit ratio	48.1%	131.8%	-	131.9%	32.4%		75.8%
NPE ratio (on-balance loans)	5.6%	5.8%	11.1%	2.3%	0.6%		5.9%
NPE coverage ratio	83.9%	69.0%	71.6%	53.4%	49.6%		73.6%
NPE collateral coverage	12.4%	58.4%	73.3%	66.7%	51.0%		49.0%
Change CL/GPL (simply Ø)	-1.6%	-2.2%	-0.2%	-0.3%	-0.1%		-1.3%
Yield GPL (simply Ø)	7.3%	2.8%	3.6%	2.5%	2.7%		4.5%

[1)] Financial liabilities at AC at YE20 include the Direct deposits (Austria/Germany) amounting to EUR 429 million, EUR 196 million Deposits of credit institutions, EUR 135 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 and into non-focus segments, which are Large Corporates, Public Finance and Mortgages. According to the Group's strategy the contraction of lower margin Mortgage lending and Public Finance is managed accordingly.

Segment definition in brief:
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 corporate clients with an annual gross revenue between EUR 0.5-10 million, the medium corporate business subsegment of up to EUR 50 million.
Large Corporates: includes corporate clients with an annual gross revenue above EUR 50 million as well as institutional groups.
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.

8.1. Consumer

EUR m

Consumer			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income	103.5	104.8	-1.3%
o/w regular interest income	96.7	94.0	2.9%
Net fee and commission income	37.8	42.3	-10.7%
Operating income	**141.3**	**147.1**	**-4.0%**
Operating expenses	**-79.4**	**-86.0**	**-7.6%**
Operating result	**61.8**	**61.1**	**1.1%**
Other result	-1.7	-	n.a.
Credit loss expenses on financial assets	-21.5	-20.3	6.1%
Result before tax	**38.6**	**40.9**	**-5.5%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	1,283.7	1,304.2	-1.6%
o/w gross performing loans customers	1,311.8	1,341.7	-2.2%
Gross disbursements	339.6	636.5	-46.6%
Financial liabilities at AC	2,667.7	2,691.6	-0.9%
Key ratios	**2020**	**2019**	**(pts)**
NIM [1]	5.9%	6.0%	-0.16
Cost/Income Ratio	56.2%	58.4%	-2.21
Cost of risk ratio	-1.4%	-1.3%	-0.10
Loan to deposit ratio	48.1%	48.5%	-0.34
NPE ratio (on-balance loans)	5.6%	5.9%	-0.3
NPE coverage ratio	83.9%	91.9%	-7.99
NPE collateral coverage	12.4%	14.2%	-1.82
Change CL/GPL (simply Ø)	-1.6%	-1.6%	-0.02
Yield GPL (simply Ø)	7.3%	7.4%	-0.15

[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

Consumer strategy

Addiko Bank's Consumer segment serves 704 thousand customers through a network of 168 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.

In the segment Consumer 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. In the context of the Covid-19 crises, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

Consumer YE20 Business review

From the second half of the first quarter onwards Addiko Bank was heavily impacted by the lockdown from Covid-19. As a result, the demand for loans and the number of transactions significantly dropped. The period after the lockdown was marked by a gradual recovery towards the end of the year 2020. In the last quarter of 2020, the sales activities intensified in all entities, reaching almost the pre-Covid levels. The sales channels were also adapted to the new context, allowing customers to get access to the bank's product and services remotely (mLoan, assisted sales, Virtual Branch).

The operating result at YE20 amounted to EUR 61.8 million, 1.1% higher than at YE19 driven by significant decrease visible in operating expenses by EUR 6.6 million (-7.6%) due to lower marketing expenses and positive effect caused by optimisation in number of branches.
Net interest income at EUR 103.5 million (YE19: EUR 104.8 million) at a NIM of 5.9%. The net fee and commission income decreased by EUR 4.5 million to EUR 37.8 million at YE20 compared to EUR 42.3 million at YE19, due to lower commission income (EUR -4.2 million) driven by FX&DCC, Bancassurance and Cards categories and impacted by Covid-19 crisis.
With lower costs and stable income, Cost/Income ratio improved by 2.2 pts to 56.2% (YE19: 58.4%).

The gross disbursements are lower at YE20 in comparison with the comparative period mainly influenced by the Covid-19 crisis. Consequently, the YE20 consumer gross performing loans are at slightly lower level compared to YE19 by -2.2%. The NPE Ratio (on – balance loans) is lower by 0.3 pts showing the focus on the quality of the portfolio. The result before tax amounts to EUR 38.6 million (YE19: EUR 40.9 million), which is 5.5% lower than at YE19 due to higher allocations to risk provision in Consumer segment compared to the same period last year and the Covid-19 debt payment moratorium imposed by governments where Addiko operates determined the recognition of EUR -1.7 million modification loss in 2020 in Consumer segment. In the previous year no significant modification losses were recognised.

Simplifying product portfolio, digitalisation 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.
All Addiko entities continued to promote personalised lending offers to the existing customer base, in addition to the improved digital experience. Moreover, the digital engagement of the mobile customers significantly improved in the context of the Covid-19 crisis, proving the good reputation and capabilities of the mobile app throughout all Addiko entities. Towards the end of 2020, the digital contribution to the sales results increased significantly as the bank was able to respond well to social distancing requirements.

Standardising products and processes, and consolidating partners and vendors is another critical element of the Group's strategy.

8.2. SME Business

EUR m

SME Business			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income	25.6	23.8	7.4%
o/w regular interest income	29.2	29.2	-0.2%
Net fee and commission income	16.3	17.9	-9.1%
Operating income	**41.9**	**41.7**	**0.3%**
Operating expenses	**-24.1**	**-22.9**	**5.3%**
Operating result	**17.8**	**18.9**	**-5.7%**
Other result	-0.3	-	n.a.
Credit loss expenses on financial assets	-23.3	-3.2	>100%
Result before tax	**-5.9**	**15.7**	**>100%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	1,037.7	1,065.2	-2.6%
o/w gross performing loans customers	1,040.3	1,059.0	-1.8%
Gross disbursements	457.1	626.7	-27.1%
Financial liabilities at AC	787.2	723.5	8.8%
Key ratios	**2020**	**2019**	**(pts)**
NIM [1)]	2.1%	2.3%	-0.13
Cost/Income Ratio	57.5%	54.8%	2.7
Cost of risk ratio	-1.4%	-0.2%	-1.17
Loan to deposit ratio	131.8%	147.2%	-15.40
NPE ratio (on-balance loans)	5.8%	5.6%	0.24
NPE coverage ratio	69.0%	66.1%	2.90
NPE collateral coverage	58.4%	63.5%	-5.06
Change CL/GPL (simply Ø)	-2.2%	-0.3%	-1.90
Yield GPL (simply Ø)	2.8%	2.9%	-0.16

[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 12 thousand SME clients (companies with annual turnover between EUR 0.5 million and EUR 50 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 38 dedicated SME centres across 6 countries integrated in Addiko's Retail branch network. 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 its SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are highly digitalised and having competitive advantage.

SME YE20 Business review

2020 influenced by lower disbursements as consequence of continued lockdowns across the region, tightened lending criteria and deteriorated investment sentiment, due to Covid-19. Accordingly, the YE20 SME gross performing loans decreased by 1.8% compared to YE19. Net interest income increased at YE20 from EUR 23.8 million at YE19, by EUR 1.8 million, or 7.4%, to EUR 25.6 million with a NIM at 2.1%. Net fee and commission income decreased by 9.1% compared to YE19, mainly arising from a drop in transactions as a result of decreased economic activity due to the Covid-19 crisis in 2020. Operating expenses increased by EUR 1.2 million compared to YE19 due to adjustment in the allocation keys. The SME segment has generated EUR -5.9 million result before tax impacted by strongly increased credit loss expenses on financial assets in 2020. This increase is strongly impacted by the updated macroeconomic scenarios included in the provisioning mode in combination with a change in LGD and an updated change in staging parameter, which resulted in an increase of provisions coverage for exposures in stage 1 and stage 2, as well as increased portfolio migrations from stage 1 to stage 2. The NPE Ratio (on – balance loans) remained on a very low level of 5.8% as well day-past-due indicators, showing the overall solid quality of the portfolio.

8.3. Mortgage

The Mortgage lending is not part of the “focus area” and, consequently primarily targets the retention of existing, profitable customers. Private individuals with an existing mortgage loan, are granted mortgage loan extensions on a selective basis. Given the gradual run-down strategy, mortgage lending products are not actively marketed.

The business strategy to focus on growing the Consumer business and payments, while gradually reducing the Mortgage portfolio is reflected in the segment result. This is reflected in the result before tax which at YE20 amounts to EUR 16.3 million, reflecting a 52.2% decreased in comparison with EUR 34.0 million at YE19, mainly driven by EUR 105.9 million lower gross loans and consequently lower net interest income. Nevertheless, stable and low NPE Ratio (on – balance loans) shows the remaining portfolio quality. The operating expenses decreased by 15.6% compared to YE19.

EUR m

Mortgages			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income	19.1	22.7	-15.6%
o/w regular interest income	24.8	30.6	-18.8%
Net fee and commission income	0.0	0.0	-
Operating income	**19.1**	**22.7**	**-15.6%**
Operating expenses	**-1.2**	**-1.5**	**-15.6%**
Operating result	**17.9**	**21.2**	**-15.6%**
Other result	-0.5	-	n.a.
Credit loss expenses on financial assets	-1.2	12.8	>100%
Result before tax	**16.3**	**34.0**	**-52.2%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	650.3	758.8	-14.3%
o/w gross performing loans customers	638.6	744.5	-14.2%
Gross disbursements	1.0	9.5	-89.4%
Financial liabilities at AC	0.0	0.0	-
Key ratios	**2020**	**2019**	**(pts)**
NIM [1)]	1.5%	1.7%	-0.21
Cost/Income Ratio	6.4%	6.4%	0.00
Cost of risk ratio	-0.2%	1.5%	-1.69
Loan to deposit ratio	n.m.	n.m.	n.m.
NPE ratio (on-balance loans)	11.1%	11.3%	-0.2
NPE coverage ratio	71.6%	70.7%	0.91
NPE collateral coverage	73.3%	70.1%	3.20
Change CL/GPL (simply Ø)	-0.2%	1.6%	-1.75
Yield GPL (simply Ø)	3.6%	3.8%	-0.19

[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

8.4. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income	9.8	10.7	-8.2%
o/w regular interest income	13.1	14.3	-8.4%
Net fee and commission income	5.0	5.9	-15.2%
Operating income	**14.8**	**16.6**	**-10.7%**
Operating expenses	**-4.1**	**-4.1**	**-0.3%**
Operating result	**10.7**	**12.4**	**-14.2%**
Other result	-0.1	-	n.a.
Credit loss expenses on financial assets	-1.6	6.9	>100%
Result before tax	**9.0**	**19.4**	**-53.5%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	484.5	583.6	-17.0%
o/w gross performing loans customers	485.3	570.7	-15.0%
Gross disbursements	179.6	280.5	-36.0%
Financial liabilities at AC	367.3	402.3	-8.7%
Key ratios	**2020**	**2019**	**(pts)**
NIM [1)]	1.4%	1.5%	-0.04
Cost/Income Ratio	27.9%	24.9%	2.91
Cost of risk ratio	-0.2%	0.9%	-1.07
Loan to deposit ratio	131.9%	145.1%	-13.16
NPE ratio (on-balance loans)	2.3%	3.0%	-0.62
NPE coverage ratio	53.4%	47.5%	5.97
NPE collateral coverage	66.7%	65.1%	1.68
Change CL/GPL (simply Ø)	-0.3%	1.2%	-1.50
Yield GPL (simply Ø)	2.5%	2.5%	0.01

[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 50 million.

The largest local and international companies are serviced by centralised local teams and coordinated by a headquarter role, 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 favorable risk and reward ratio.

Large Corporates YE20 Business review

As a non-focus segment Large Corporates records a slightly lower loan book portfolio as well as income in comparison with the comparative period. The NIM remained stable at 1.4%. Net fee and commission income amounts to EUR 5.0 million (YE19: EUR 5.9 million) and decreased mainly due to lower transactions as a result of the decreased economic activity due to the Covid-19 crisis and a lower ultimo volume balance. The result before tax at EUR 9.0 million (YE19: EUR 19.4 million) was impacted by allocations for risk provision in the amount of EUR -8.5 million compared to YE19. The NPE Ratio (on - balance loans) is at low 2.3% at YE20 (YE19: 3.0%) with high NPE coverage ratio at 53.4% (YE19: 47.5%) evidencing the Group focus on a derisked asset base.

8.5. Public Finance

EUR m

Public Finance			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income	5.4	6.6	-16.9%
o/w regular interest income	3.8	4.7	-20.1%
Net fee and commission income	1.1	1.4	-23.1%
Operating income	**6.5**	**7.9**	**-18.0%**
Operating expenses	**-1.8**	**-2.1**	**-11.5%**
Operating result	**4.7**	**5.9**	**-20.3%**
Other result	0.0	-	n.a.
Credit loss expenses on financial assets	-0.2	1.3	>100%
Result before tax	**4.5**	**7.1**	**-37.3%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	126.7	154.8	-18.2%
o/w gross performing loans customers	127.7	153.6	-16.9%
Gross disbursements	4.4	5.9	-25.5%
Financial liabilities at AC	391.5	538.5	-27.3%
Key ratios	**2020**	**2019**	**(pts)**
NIM [1)]	1.3%	1.2%	0.0
Cost/Income Ratio	28.2%	26.1%	2.1
Cost of risk ratio	-0.1%	0.7%	-0.8
Loan to deposit ratio	32.4%	28.7%	3.6
NPE ratio (on-balance loans)	0.6%	3.2%	-2.6
NPE coverage ratio	49.6%	54.2%	-4.6
NPE collateral coverage	51.0%	84.2%	-33.2
Change CL/GPL (simply Ø)	-0.1%	0.7%	-0.9
Yield GPL (simply Ø)	2.7%	2.8%	-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 and operating financing loans) and other complementary products such as domestic and foreign payments, 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 limiting new lending to almost zero.

Public Finance YE20 Business review

The net interest income at YE20 amounts to EUR 5.4 million (YE19: EUR 6.6 million), with NIM at 1.3% (YE19: 1.2%). The decrease in net interest income occurred due to the strategic run-down of the portfolio (-16.9% in gross performing loans compared to YE19). Net fee and commission income decreased by EUR -0.3 million compared to the comparative period and amounts to EUR 1.1 million (YE19: EUR 1.4 million). The Public Finance segment has generated EUR 4.7 million operating result (YE19: EUR 5.9 million) and EUR 4.5 million result before tax at YE20 (YE19: EUR 7.1 million).

Due to the strategy to decrease the lending activity in this segment, the credit risk bearing exposure of the segment further decreased and amounts to EUR 161.1 million (YE19: EUR 191.5 million). The NPE Ratio (on – balance loans) strongly decreased at YE20 and shows a low NPE share in the portfolio of 0.6% (YE19: 3.2%).

8.6. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**2020**	**2019**	**(%)**
Net interest income [1]	11.2	14.4	-22.1%
Net fee and commission income	-0.3	-0.3	20.7%
Net result from financial instruments	11.7	13.4	-12.8%
Other operating result	-13.7	-20.0	-31.1%
Operating income	**8.9**	**7.6**	**16.4%**
Operating expenses	**-59.0**	**-72.6**	**-18.7%**
Operating result	**-50.1**	**-65.0**	**-22.9%**
Other result	-5.5	-19.4	-71.5%
Credit loss expenses on financial assets	-0.6	5.3	>100%
Result before tax	**-56.2**	**-79.0**	**-28.9%**
Business volume	**2020**	**2019**	**(%)**
Net loans and receivables	58.3	19.3	202.5%
Financial liabilities at AC [2]	759.7	765.8	-0.8%

[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.

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 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 YE20 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) and 3) the consolidation effects.

Net interest income at YE20 amounts to EUR 11.2 million (YE19: EUR 14.4 million) driven by a decrease of interest income from the treasury bond portfolio mainly related to lower yields reflecting the current interest rate environment. Investments were made primarily in government bonds of Western and Eastern European countries. The remainder of the bond portfolio is made up of securities issued by global financial institutions and corporate issuers with high credit ratings.
The slight decrease of net result from financial instruments which at YE20 amounted to EUR 11.7 million (YE19: EUR 13.4 million). In 2019 the position includes the result from the sale of bonds and financial instruments which the Group obtained within the extraordinary administration procedures of a large Croatian retailer. YE20 positive performance trend due to realisation of OCI in bond portfolio.
Other operating result as the sum of other operating income and other operating expense improved from EUR -20.0 million at YE19, by EUR 5.9 million, to EUR -13.7 million at YE20. This position includes also the following significant items:

- Charges from the recovery and resolution fund (YE20: EUR -1.4 million, YE19: EUR -1.3 million);
- Deposit guarantee expenses (YE20: EUR -8.1 million, YE19: EUR -9.1 million);
- Restructuring costs increasing from EUR -3.9 million to EUR -4.6 million connected with further cost optimisation initiatives throughout the Group.
- Additional positive effect from a tax dispute of EUR 1.6 million

The other result at YE20 amounted to EUR -5.5 million (YE19: EUR -19.4 million) driven by provision expenses in relation to legal matters on CHF currency clauses in Croatia in 2019 and impairments on tangible and intangible assets recognised during 2019 in amount of EUR -6.7 million (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 capitalised change requests on the previous version of the software). Operating expenses decreased from EUR -72.6 million in YE19, by EUR -13.6 million, to EUR -59.0 million mainly driven by no bonus accruals in 2020 (YE19: EUR -7.7 million) and EUR -2.0 million IPO costs in 2019. Financial liabilities at AC at YE20 include Direct deposits (Austria/Germany) amounting to EUR 429 million, EUR 196 million Deposits of credit institutions, EUR 135 million Other.

Asset Contribution

The net interest income at YE20 in the Corporate Center includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 42.8 million. The majority of the IGC in the amount of EUR 31.7 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.

8.7. Segments - other disclosure

As of 1 January 2021, two changes will be introduced in Segment Performance Reporting:

1. Re-segmentation of sub-segment Micro (private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue) from segment Consumer to segment SME. Volume effect of the above-mentioned shift amounts to EUR 16.4 million net loans and receivables and EUR 189.5 million financial liabilities at AC with an impact on the profit and loss statement of EUR 9.0 million with regards to net banking income. Furthermore, operating expenses reallocation in amount of EUR -7.3 million and credit loss expenses on financial assets of EUR -1.8 million resulting overall with a shift of result before tax in the amount of EUR -0.1 million.

2. At the end of 2020 a deep dive of overhead costs presented in Corporate Center was performed. It was concluded that costs of departments previously defined as overhead could be indirectly charged to market segments based on support they provide (defined via keys). The total costs identified at year end 2020 amounted to EUR 13.5 million which are currently shown in segment Corporate Center and from 2021 onwards will be allocated to market segments accordingly (Consumer: EUR -7.6 million; SME: EUR -3.7 million; Non-focus: EUR -2.2 million).

The adjusted segment results for YE20 after introduction of the changes described above, if applied on YE20, would be as following:

EUR m

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	132.3	50.9	19.1	14.8	6.5	10.9	234.5
Net interest income	100.5	28.6	19.1	9.8	5.4	11.3	174.7
o/w regular interest income	95.7	30.2	24.8	13.1	3.8	16.8	184.4
Net fee and commission income	31.7	22.3	0.0	5.0	1.1	-0.3	59.8
Net result from financial instruments	0.0	0.0	0.0	0.0	0.0	11.7	11.7
Other operating result	0.0	0.0	0.0	0.0	0.0	-13.7	-13.7
Operating income	**132.3**	**50.9**	**19.1**	**14.8**	**6.5**	**8.9**	**232.5**
Operating expenses	**-79.8**	**-35.0**	**-2.1**	**-5.2**	**-2.1**	**-45.4**	**-169.7**
o/w direct	-57.6	-24.1	-0.1	-2.5	-1.1	-3.8	-89.2
o/w indirect (incl. overhead Holding)	-22.2	-10.9	-2.1	-2.7	-1.0	-41.7	-80.5
Operating result	**52.5**	**15.8**	**17.0**	**9.6**	**4.4**	**-36.5**	**62.8**
Other result	-1.7	-0.3	-0.5	-0.1	0.0	-5.5	-8.1
Credit loss expenses on financial assets	-19.7	-25.1	-1.2	-1.6	-0.2	-0.6	-48.4
Result before tax	**31.1**	**-9.6**	**15.4**	**8.0**	**4.2**	**-42.7**	**6.3**
Business volume							
Net loans and receivables	1,267.3	1,054.1	650.3	484.5	126.7	58.3	3,641.2
o/w gross performing loans customers	1,296.0	1,056.1	638.6	485.3	127.7		3,603.6
Gross disbursements	334.0	462.7	1.0	179.6	4.4		981.7
Financial liabilities at AC	2,478.2	976.7		367.3	391.5	759.7	4,973.4
Key ratios							
Net inerest margin (NIM)	5.9%	2.2%	1.5%	1.4%	1.3%		2.9%
Cost/Income Ratio	60.3%	68.9%	11.2%	35.0%	32.4%		72.4%
Cost of risk ratio	-1.3%	-1.4%	-0.2%	-0.2%	-0.1%		-1.0%
Loan to deposit ratio	51.1%	107.9%	-	131.9%	32.4%		75.8%
NPE ratio (CRB based)	4.5%	4.6%	11.2%	2.1%	0.6%		4.9%
NPE coverage ratio	84.8%	70.4%	71.6%	53.4%	49.6%		73.6%
NPE collateral coverage	-2.8%	64.4%	73.3%	66.7%	51.0%		49.0%
Change CL/GPL (simply Ø)	-1.5%	-2.4%	-0.2%	-0.3%	-0.1%		-1.3%
Yield GPL (simply Ø)	7.3%	2.8%	3.6%	2.5%	2.7%		4.5%

9. 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 2020 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. The Management Board is not aware of any shareholder who holds directly or indirectly more than 9.9 per cent of the Company's share capital. Around 63% of the shares are free float.
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. Deviating from the provisions required by law, the removal of a member of the Supervisory Board only requires a simple majority. All other provisions are as stipulated by law regarding 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 authorized 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 authorized 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 authorized 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 authorized to determine the further details of the conditional capital increase. The Supervisory Board is authorized 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 was authorized in the General Assembly on November 27, 2020 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. The Management Board was also authorized, for a period of 30 months from the date of the resolution by the General Assembly, to acquire own shares for the purpose of offering them to employees, executive employees and members of the Management Board or Supervisory Board of the Company or an affiliated company for purchase pursuant to Section 65 (1) no. 4 of the Austrian Stock Corporation Act (AktG) up to 10% of the share capital.

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.

10. Analysis of non-financial key performance indicators

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

11. 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 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 the importance of internal controls.

12. 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.

13. 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/

14. 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 (89). 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 (75) Fair value disclosure.

15. Research & Development

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

16. Mid-Term Targets and Outlook

16.1. Mid-Term Targets

Addiko Group has updated its Mid-Term Targets to reflect Covid-19 related impacts, which mean a delay in timing of execution rather than an impact in substance.

Following the conclusion of the yearly cycle for a 5-year planning period and further clarity on Covid-19 related impacts, the Management Board and Supervisory Board of Addiko Bank AG have decided on the following updated Mid-Term Targets starting with the business year 2021:

- Continuous shift of the loan book from the "non-focus" to the "focus areas" of ca. 90% (prev.> 85%)
- Net interest margin ca. 3.7% (prev. ca. 3.8%)
- Net fee and commission income growth ca. 7% CAGR 2021 to Mid-term (prev. ca. 10%)
- Cost income ratio ca. 50% (prev. <50%)
- Cost of risk (net loans) ca. 1.45% (prev. ca. 1.5%),
- Return on tangible equity (14.1% CET1 Ratio) > 9% (prev. ca. 9.5%)
- Total capital ratio >16.1% (unchanged)
- Loan/deposit ratio < 100% (prev. ca. 100%)

The delay in delivering the targets is mainly driven by the decline in the overall gross performing loan book to ca. EUR 3.6 billion.

16.2. Dividend policy

As adopted in the annual general meeting (AGM) on 27 November 2020, the distribution of the 2019 dividend of EUR 2.05 per share is dependent on two conditions, namely that until 10 March 2021 (which is the anticipated date of publication of the Annual Report 2020) neither a recommendation of the European Central Bank ("ECB") would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution ban is effective or applicable, and that the Common Equity Tier 1 (CET1) capital ratio of Addiko Bank AG (and Addiko Group) after such distribution is not lower than 18.6%.

The ECB has on 15 December 2020 published a recommendation that banks exercise extreme prudence on dividends and has to this end asked all banks to consider not distributing any cash dividends or to limit such distributions until 30 September 2021. As a consequence of such recommendation, despite a CET 1 ratio of 20.3% on a transitional basis or 19.3% fully-loaded as of year end 2020 with the currently envisaged dividend amounts already deducted, the existing profit allocation resolution dated 27 November 2020 does not permit a dividend distribution. The 2019 balance sheet profit of EUR 40 million is therefore carried forward to the financial year 2020, as resolved by the AGM.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of ca. EUR 46.6 million in the financial year 2020, which includes the communicated 2019 balance sheet profit of EUR 40 million (carried forward to the financial year 2020). Considering the ECB recommendation on dividend distribution (ECB/2020/62), the Management Board of Addiko Bank AG intends to propose to the upcoming AGM 2021 on 26 April 2021 to allocate such balance sheet profit in the following manner: In total, the Bank aims to generate shareholder return of ca. EUR 46.6 million (EUR 2.39 per share) to be proposed for distribution in two tranches, one unconditional and one conditional tranche.

The first, unconditional tranche of ca. EUR 7 million (EUR 0.36 per share) shall, subject to shareholder approval, be distributed on the dividend payment date of 4 May 2021 and represents the maximum dividend allowed under the currently valid recommendation of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower).

In addition, the conditional distribution of the second tranche of up to ca. EUR 39.6 million (up to EUR 2.03 per share) is, subject to shareholder approval, envisaged to be paid after 30 September 2021 under the condition and to the extent that on the twelfth working day of each calendar month after 30 September 2021 until 31 January 2022 neither a recommendation of the ECB would, in the company's view, conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable.

In terms of its dividend policy, Addiko aims at an annual dividend payout of 60% of net profit in the following years. The potential distribution of any excess capital would be based on the annual SREP decision. Addiko may optimise its capital structure by issuing eligible capital instruments (e.g. Additional Tier 1, Tier 2) with timing being dependent on the overall feasibility, the economic environment and the capital markets.

16.3. Outlook 2021

The third and fourth quarter of 2020 were a period in which the CSEE economies started to recover from the initial Covid-19 shock. Lockdowns were lifted after a decline in infection and mortality rates and economic activity started to pick up again. Despite the positive developments, volatility and uncertainty remain high which do not only make it difficult to forecast future developments but also detrimentally affect business decisions of private agents and policy responses in an attempt of adjusting to unexpected outcomes. Overall, negative risks predominate, the main ones being potential mutations of the virus, faster spreading and immunity to vaccines, extension of the lockdowns in the EU which will reduce external demand for products from the CSEE countries and inadequate fiscal support by the Balkan governments due to limited fiscal space. While there is evidence that supply chain constraints across Europe have quickly vanished, demand will not string back as quickly, and there is a concern that poor capacity utilisation could hamper investment, contributing to fear of dampened economic activity even without lockdown measures renewed.

In general, a relatively firm and uniform bounce-back is expected by the second half of 2021, bringing the annual rate of growth to an average of 4.5% (Croatia and Montenegro growing as fast as 5.0%, Slovenia and Serbia 4.7% and 4.5% respectively, and Bosnia and Herzegovina will most likely experience a slower pace of recovery of around 3.1%). The medium-term outlook will bring marginal slowing of this pickup in the rate of growth and convergence to a longer-run path, stabilising labor market indicators and consequently private consumption. These developments will mirror, to some extent, the cyclical pattern of the eurozone economies, and while on average there still will be some positive difference between the regional growth and growth in the eurozone, that gap will be narrowed in the recovery phase. This also means no demand pressures are to be expected and with continuously accommodative monetary framework, inflationary dynamics will stay modest.

Given Addiko Group's clear focus on the CSEE region, its performance is inextricably linked to the health of the economy in this region. Concurrent with the improved growth expectations in the countries of operation, the Group expects that the activity on new loan generation will continue to pick up in the financial year 2021. However, the lower activity of loan disbursements in the financial year 2020 and the continuously challenging interest environment will put additional pressure on operational income. Consequently, Addiko announced a cost optimisation program in 3Q20 to further reduce costs by ca. EUR 15 million vs. YE20's guidance of EUR 175 million until 2022. As already communicated and in line with ECB recommendations, the Management Board has waived any potential bonuses for 2020.

The overall slowdown of the economy is expected to have a negative impact on the existing loan portfolio quality. While state aid packages and moratoria programs introduced on the markets support citizens and companies, to some extent mitigating the negative economic effects, they also complicate a timely reflection of a potential deterioration of the loan portfolios. The development in the cost of risk will ultimately depend on the severity of the Covid-19 related disruption on economic activities.

At the same time, the bank's capital position is expected to remain very strong, with a fully-loaded CET1 ratio of 19.3%, which is an increase of 2.3 pts compared to year end 2019, which already excludes the envisaged EUR 46.6 million dividend.

The funding and liquidity situation of the Group continues to be solid with customer deposits at EUR 4.7 billion and an LCR of ca. 209%. The impacts of the pandemic have not caused any material liquidity outflows. Even if a very unfavorable liquidity scenario would materialise going forward, the Group has sufficient liquidity reserves at the level of Addiko Bank AG as well as in each subsidiary in the form of placements at the ECB and money market placements.

The Group is convinced that the continuous focus on executing its specialist strategy of Consumer and SME lending ("focus areas") in the CSEE region and its rigorous commitment to digital transformation, will minimise the negative impacts from the current economic situation.

In summary, for the full year 2021 the Group expects:

- Gross performing loans at ca. EUR 3.5 billion with >5% growth in focus
- Net Banking Income stable at 2020 level
- Operating expenses to remain below EUR 174 million (including ca. EUR 3 million AQR costs and ca. EUR 6 million bonus pool)
- CET1 Ratio above 18.6% on a transitional basis
- Credit loss expenses on financial assets <1% on average net loans and advances to customers

Vienna, 23 February 2021
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
Chief Executive Officer

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

Consolidated Financial Statements

I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method		194.3	207.4
Other interest income		2.6	3.4
Interest expenses		-22.3	-27.8
Net interest income	**(31)**	**174.7**	**183.0**
Fee and commission income		75.6	83.0
Fee and commission expenses		-15.8	-15.8
Net fee and commission income	**(32)**	**59.8**	**67.2**
Net result on financial instruments	(33)	11.7	13.4
Other operating income	(34)	6.0	3.5
Other operating expenses	(34)	-19.8	-23.4
Operating income		**232.5**	**243.7**
Personnel expenses	(35)	-83.9	-96.7
Other administrative expenses	(36)	-65.9	-73.3
Depreciation and amortisation	(37)	-19.9	-19.1
Operating expenses		**-169.7**	**-189.1**
Operating result		**62.8**	**54.6**
Other result	(38)	-8.1	-19.4
Credit loss expenses on financial assets	(39)	-48.4	2.9
Result before tax		**6.3**	**38.0**
Tax on income	(40)	-4.9	-2.9
Result after tax		**1.4**	**35.1**
thereof attributable to equity holders of parent		1.4	35.1

	31.12.2020	31.12.2019
Result after tax attributable to ordinary shareholders (in EUR m)	1.4	35.1
Weighted-average number of ordinary shares (in units of shares)	19,500,000.0	19,500,000.0
Earnings/loss per share (in EUR)	0.07	1.80
Weighted-average diluted number of ordinary shares (in units of shares)	19,500,000.0	19,500,000.0
Diluted earnings/loss per share (in EUR)	0.07	1.80

Statement of other comprehensive income

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Result after tax	**1.4**	**35.1**
Other comprehensive income	**-10.9**	**16.7**
Items that will not be reclassified to profit or loss	**0.5**	**1.4**
Fair value reserve - equity instruments	0.5	1.3
Net change in fair value	0.6	1.6
Income Tax	-0.1	-0.3
Items that may be reclassified to profit or loss	**-11.4**	**15.3**
Foreign currency translation	-6.0	-0.5
Gains/losses of the current period	-6.0	-0.5
Fair value reserve - debt instruments	-5.4	15.8
Net change in fair value	6.0	26.6
Net amount transferred to profit or loss	-12.3	-8.8
Income Tax	1.0	-2.0
Total comprehensive income for the year	**-9.5**	**51.8**
thereof attributable to equity holders of parent	-9.5	51.8

II. Consolidated statement of financial position

EUR m

	Note	31.12.2020	31.12.2019
Assets			
Cash reserves	(41)	1,156.3	899.4
Financial assets held for trading	(42)	36.4	38.5
Loans and receivables	(43)	3,641.2	3,885.9
Loans and advances to credit institutions		56.5	14.0
Loans and advances to customers		3,584.7	3,871.9
Investment securities	(44)	929.0	1,096.6
Tangible assets	(45)	78.8	85.9
Property, plant and equipment		74.0	81.8
Investment property		4.7	4.1
Intangible assets	(46)	26.4	27.9
Tax assets		25.2	25.7
Current tax assets		3.9	1.8
Deferred tax assets		21.3	23.9
Other assets	(48)	18.5	20.6
Non-current assets and disposal groups classified as held for sale		2.7	3.1
Total assets		**5,914.5**	**6,083.6**
Equity and liabilities			
Financial liabilities held for trading	(49)	4.9	6.0
Financial liabilities measured at amortised cost	(50)	4,973.4	5,121.6
Deposits of credit institutions		196.2	233.9
Deposits of customers		4,728.1	4,831.2
Issued bonds, subordinated and supplementary capital		0.1	0.1
Other financial liabilities		49.0	56.4
Provisions	(51)	58.2	66.9
Other liabilities	(52)	26.3	27.9
Equity	(53)	851.8	861.3
thereof attributable to equity holders of parent		851.8	861.3
Total equity and liabilities		**5,914.5**	**6,083.6**

III. Consolidated statement of changes in equity

The consolidated statement of changes in equity is presented in 2020 as follows:

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.	**195.0**	**298.7**	**22.5**	**-6.6**	**351.7**	**861.3**	**0.0**	**861.3**
Result after tax	0.0	0.0	0.0	0.0	1.4	1.4	0.0	1.4
Other comprehensive income	0.0	0.0	-4.9	-6.0	0.0	-10.9	0.0	-10.9
Total comprehensive income	0.0	0.0	-4.9	-6.0	1.4	-9.5	0.0	-9.5
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	-60.7	0.0	0.0	60.7	0.0	0.0	0.0
Equity as at 31.12.	**195.0**	**237.9**	**17.6**	**-12.6**	**413.8**	**851.8**	**0.0**	**851.8**

The consolidated statement of changes in equity is presented in 2019 as follows:

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.	**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.	**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.	**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”.

IV. Consolidated statement of cash flows

EUR m

	2020	2019*
Cash reserves at the end of previous period (01.01.)	**899.8**	**1,006.9**
Result after tax	**1.4**	**35.1**
Depreciation and amortisation of intangible assets, tangible fixed assets and financial investments	20.1	25.5
Change in risk provisions on financial instruments and modification gain/loss	51.0	-2.9
Change in provision	11.5	20.8
Gains (losses) from disposals of intangible assets, tangible fixed assets and investment securities	-13.6	-10.1
Investment securities	-11.9	-8.8
Intangible and tangible assets	-1.7	-1.3
Issued bonds, subordinated and supplementary capital	0.1	0.0
Subtotal	**70.5**	**68.5**
Loans and advances to credit institutions and customers	-9.6	-319.2
Investment securities	173.1	115.0
Financial assets held for trading	2.0	-14.1
Other assets	4.2	13.4
Financial liabilities measured at amortised cost	-120.2	-77.1
Financial liabilities held for trading	-1.1	3.9
Provisions	-21.0	-14.4
Other liabilities from operating activities	-10.4	-3.7
Payments for taxes on income	-1.6	-3.4
Interests received	205.6	222.9
Interests paid	-23.2	-29.9
Dividends received	0.1	0.1
Cash flows from operating activities	**268.4**	**-38.0**
Proceeds from the sale of:	4.8	3.1
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	4.8	3.1
Payments for purchases of:	-13.2	-19.5
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	-13.2	-19.5
Other changes	2.2	-2.1
Cash flows from investing activities	**-6.2**	**-18.6**
Dividends paid	0.0	-50.0
Cash flows from financing activities	**0.0**	**-50.0**
Effect of exchange rate changes	-5.3	-0.5
Cash and cash equivalents at end of period (31.12.)	**1,156.7**	**899.8**

*In the consolidated statement of cash flows 2019 the carrying amount of cash and cash equivalents was presented, although it would be correct to show the gross carrying amount movement, therefore the 2019 figures were adjusted accordingly.

The cash flows from operating activities include the principle portion of lease payments in the amount of EUR -6.5 million (YE19: EUR -6.5 million). Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. Non-cash investing and financing activities are arising from application of IFRS 16 Leases and they are disclosed in the notes (11) Leases and (47) Development of tangible and intangible assets.

V. Notes to the consolidated financial statements

Company

Addiko Group is a listed 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, a fully-licensed Austrian parent bank registered in Vienna, Austria, supervised by the Austrian Financial Market Authority and by the European Central Bank, 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.

Based on its focused 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 steady growth in its Consumer and SME lending.

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 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 (68) 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 (5) Use of estimates and assumptions/material uncertainties in relation to estimates.

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 23 February 2021, the Management Board of Addiko Bank AG approved the consolidated financial statements as at 31 December 2020 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 2020.

(2) Changes in the presentation of the financial statements

In 2020 Addiko Group reviewed the consolidated statement of comprehensive income. The result of the review led to changes in the consolidated statement of profit or loss. Starting with the year 2020,

- “Modification gains or losses on financial instruments” are shown into a new position “Other result". Until year end 2019, they were presented under the line item "Net result on financial instruments";
- “Impairment on non-financial instruments”, “Allocation of provisions on legal cases and expenses for legal cases not covered by provisions (credit linked)” and “Expense from assets classified as held for sale and disposal groups” (impairment) are shown into new position “Other result”. Until year end 2019, they were presented under the line “Other operating expenses";
- “Reversal of impairment on non-financial assets”, “Release of provisions on legal cases (credit linked)”, “Income from assets classified as held for sale and disposal groups” (reversal of impairment) are shown into new position “Other result”. Until year end 2019, they were presented under the line “Other operating income";
- “Depreciation and amortisation of investment properties” are shown in position “Other operating expenses”. Until year end 2019, it was presented under the line item “Depreciation”;
- new line “Other result” was added;
- the line “Operating result before change in credit loss expense” was renamed to “Operating result”;
- the line “Operating result before tax” was renamed to “Result before tax”.

The changes in presentation were made in order to increase the transparency on the development of the underlying operative result of the bank and to provide more relevant information, enabling at the same time greater comparability. This change in presentation had no impact on the “Result after tax” as well as on the “Total comprehensive income for the year” of Addiko Group.

The above changes are summarised in the below table:

EUR m

Line item in the Notes	2019 P&L presentation before reclassification	2019 P&L presentation after reclassification	Reclassified amounts
Modification gains/losses	Net result on financial instruments	Other result	0.0
Impairment on non-financial assets	Other operating expenses	Other result	-6.7
Reversal of impairment on non-financial assets	Other operating income	Other result	0.4
Allocation of provisions for legal cases	Other operating expenses	Other result	-15.3
Release of provisions for legal cases	Other operating income	Other result	5.0
Expenses for legal cases not covered by provision	Other operating expenses	Other result	-2.7
Income from the sale of assets classified as held for sale and disposal groups	Other operating income	Other result	0.0
Losses from the sale of assets classified as held for sale and disposal groups	Other operating expenses	Other result	0.0
Depreciation and amortisation of investment properties	Depreciation and amortisation	Other operating expenses	-0.1

The changes also made it necessary to adapt the presentation of the comparable period and the comparable reporting date. The following table shows the reconciliation of the 2019 statement of profit or loss to the new format. The corresponding changes are also incorporated in the segment reporting 2019.

EUR m

	01.01. - 31.12.2019	Reclassification		01.01. - 31.12.2019
Interest income calculated using the effective interest method	207.4	0.0	Interest income calculated using the effective interest method	207.4
Other interest income	3.4	0.0	Other interest income	3.4
Interest expenses	-27.8	0.0	Interest expenses	-27.8
Net interest income	**183.0**	**0.0**	**Net interest income**	**183.0**
Fee and commission income	83.0	0.0	Fee and commission income	83.0
Fee and commission expenses	-15.8	0.0	Fee and commission expenses	-15.8
Net fee and commission income	**67.2**	**0.0**	**Net fee and commission income**	**67.2**
Net result on financial instruments	13.4	0.0	Net result on financial instruments	13.4
Other operating income	8.9	-5.4	Other operating income	3.5
Other operating expenses	-48.2	24.7	Other operating expenses	-23.4
Operating income	**224.3**	**19.3**	**Operating income**	**243.7**
Personnel expenses	-96.7	0.0	Personnel expenses	-96.7
Other administrative expenses	-73.3	0.0	Other administrative expenses	-73.3
Depreciation and amortisation	-19.1	0.1	Depreciation and amortisation	-19.1
Operating expenses	**-189.2**	**0.1**	**Operating expenses**	**-189.1**
Operating result before change in credit loss expense	**35.2**	**19.4**	**Operating result**	**54.6**
		-19.4	Other result	-19.4
Credit loss expenses on financial assets	2.9	0.0	Credit loss expenses on financial assets	2.9
Operating result before tax	**38.0**	**0.0**	**Result before tax**	**38.0**
Tax on income	-2.9	0.0	Tax on income	-2.9
Result after tax	**35.1**	**0.0**	**Result after tax**	**35.1**

(3) 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 2020:

Standard	Name	Description	Effective for financial year
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework in IFRS Standards	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
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 - Phase 1	2020
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of business	2020

3.1. Conceptual Framework

The **Conceptual Framework 2018** version have been issued in March 2018 by the International Accounting Standards Board (IASB). Some Standards included references to the 1989 and 2010 versions of the Framework. Therefore IASB has published a separate document *Amendments to references to Conceptual Framework in IFRS Standards* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments are effective for accounting periods beginning on or after 1 January 2020. This amendment does not have any significant impact on the Addiko Group.

3.2. IAS 1 and IAS 8

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

3.3. IFRS 9, IAS 39 and IFRS 7

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 applies 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 are effective for accounting periods beginning on or after 1 January 2020. These amendments do not result in any significant changes within the Addiko Group.

3.4. IFRS 3

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 does 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
IFRS 16	Amendments to IFRS 16 Leases	Covid 19-Related Rent Concessions	from June 2020
IFRS 9, IAS 37, IFRS 7, IFRS 4 and IFRS 16	Amendments to IFRS 9 Financial Instruments; IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases	Interest rate benchmark reform - Phase 2	2021

The amendments to **IFRS 16 Leases** (Covid-19-Related Rent Concessions) provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. Addiko Group chose not to apply the practical expedient.

The amendments to **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** deal with replacement issues affecting financial reporting when an existing interest rate benchmark depending on submissions based on expert judgement are actually replaced by risk free rates based on liquid underlying market transactions. Practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis) was introduced. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. The amendment introduces new disclosures about the transition

The Addiko Group has exposure to IBORs on its financial instruments that will be reformed. Although some of the IBORs were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. The Group is in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rate, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform, and there is still uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in. The main risks to which the Group is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves, revision of operational controls related to the reform and assessing of potential litigation risk. Financial risk is predominantly limited to interest rate risk. The Group plans to finish the process of amending contractual terms by the end of the year 2021.

The amendment applies to annual reporting periods beginning on or after 1 January 2021 and are to be applied retrospectively. Earlier application is permitted and restatement of prior period is not required.

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

Standard	Name	Description
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual Improvements to IFRS Standards 2018-2020 Cycle	IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts

The amendments to **IAS 1** clarify the requirements for classifying liabilities as current or non-current. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

The collection of **annual improvements to IFRSs 2018-2020** includes amendments to the following standards:

- The amendments to **IFRS 1** permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent´s date of transition to IFRSs.
- The amendments to **IFRS 9** clarify which fees an entity includes when it applies to “10 percent” test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other´s behalf.
- The amendment to **IFRS 16** only regards changes in illustrative example 13 (no effective date is stated).
- The amendments to **IAS 41** remove the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The amendments apply to annual reporting periods beginning on or after 1 June 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

The amendments to **IFRS 3** update outdated references in IFRS 3 without significantly changing its requirements. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

The amendments to **IAS 16** relate to revenue incurred before an item of property, plant and equipment is ready for use. Costs for test runs to check whether an item of property, plant and equipment is functioning properly continue to be directly attributable costs. If goods are already produced as part of such test runs, both the income from their sale and their production costs must be recognised in profit or loss in accordance with the relevant standards. It is therefore no longer permissible to offset the net proceeds against the cost of the item of property, plant and equipment. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

The amendments to **IAS 37** clarify which costs should be considered as costs of fulfilling the contract when assessing whether a contract is onerous. Costs of fulfilling a contract comprise the costs that relate directly to the contract. They can be incremental costs of fulfilling a contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

(4) Standards used for comparative periods

For the reporting period ending 31 December 2020, there was no replacement of Standards which were effective in the reporting period ending 31 December 2019.

(5) 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 (18) Financial instruments as well as to the Risk Report under note (60) 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 (18) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (75) 75.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (43) Loans and receivables as well as note (44) 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 (40) 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 (51) 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 If there is a significant event or significant changes in circumstances within the Groups control, the lease terms are reassessed, especially with regards to extension or termination options. For lease contracts with indefinite term the Addiko Group estimates the length of the contract by using 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 the treatment of leasing contracts please refer to note (11) Leases.

(6) Accounting topics affected by Covid-19

In the beginning of March, the World Health Organisation declared the Covid-19 outbreak as a global pandemic which is having a massive impact on world trade, leading to sudden supply- and demand shocks and market volatility. All countries where Addiko Group operates have taken a variety of measures, aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays between three to twelve months. Further, some banks are offering renegotiations of repayment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

Both, public moratoria and voluntarily granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies on contractual modifications of financial assets apply accordingly. That means that for financial instrument not measured at FVTPL, that are subject to contractual modifications which do not result in derecognition, the gross carrying amount of the asset is adjusted by recognising a modification gain or loss in the profit or loss statement. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the statement of profit or loss, the modification gain or loss is presented in the line "Other result". Contractual modifications would only lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument if the modified terms are substantially different from the original terms.

Based on the set of criteria which assess if a modification is significant, described in the Note "18.3. Derecognition and contract modification", an analysis was conducted in each country which lead to the result that the public moratoria and payment holidays applied in the year 2020 in Addiko Group did not lead to derecognition. In particular this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase.

(7) 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.

	31.12.2020 Fully consolidated	31.12.2019 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

(8) 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.

(9) 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 31.12.2020	Average 2020	Closing date 31.12.2019	Average 2019
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.55190	7.53550	7.43950	7.41980
Serbian dinar (RSD)	117.58020	117.57450	117.59280	117.87450

(10) 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.

(11) Leases

11.1. Leases in which Addiko Group is a lessee

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

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Addiko Group also assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets 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 when 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 less lease incentives and variable payments that depend on an index or an interest rate. Prolongation options, termination options and purchase options are also considered (see note (5) “Use of estimates and assumptions/material uncertainties in relation to estimates”), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

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 IFRS 16 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.

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities. In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.

11.2. Leases in which Addiko Group is a lessor

Lessor accounting depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor (as finance or operating lease), the economic effect of the lease contract prevails over the legal ownership of the leased asset.

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.

11.3. 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 direct operating expenses are reported under the line item “Other operating income” or "Other operating expense", scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

With regards to the presentation in the Cashflow Statement, 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.

(12) 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.

(13) 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.

(14) 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.

(15) 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, realised 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.

(16) 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 as restructuring expenses or 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).

(17) Other result

The other result includes impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups and for non financial assets. In addition, it shows the result from legal provisions and legal income and expense. Furthermore, the modification gains and losses are presented in this position.

(18) 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.

18.1. 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 analyses 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 in a way 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 2019 and 2020, 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

Financial assets
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.

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.

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 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.

Financial liabilities
Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

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.

In March 2019, ECB launched long-term funding for banks “Targeted Longer-Term Refinancing Operations” (TLTRO III). During 2020, ECB decided on modifications to the terms and conditions by further reduction of interest rates in order to support further the provision of loans to customers. Interest rate depends on rate applied for the Eurosystem´s main refinancing operation and on achieving of specific volume of customer loans. If the target is achieved, interest rate is reduced. Periodically Addiko Group assess whether the criteria are met. Changes in estimates due to revised assessment of eligibility conditions are booked as an adjustment of the carrying amount (revised estimated received payments) and in net interest income. In 2020, Addiko Group assessed that the criteria for the reduction of interest rate will not be met.

Financial liabilities arising from TLTRO III are presented in the line “Deposits of credit institutions” and are measured at amortised costs. Received refinancing loans are not considered as below-market interest rate loans, due to the fact that ECB creates its own market with liquidity products and similar conditions are offered to all eligible participants.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. 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. Addiko Group did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2020 and 2019.

There were no changes to Addiko´s business model during 2020 and 2019.

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

18.2. 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 in retail an internally developed statistical model on country and segment level is applied. For Corporate a simplified approach is chosen: Addiko Bank uses expertly determined overall LGD values in that segment. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

In addition to the generalised 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 formalised 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 realising 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 macroeconomic 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 macroeconomic 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 external data sources. 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.

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 formalised 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.

18.3. 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.

(19) 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.

(20) 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.

(21) 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.

(22) 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.

(23) 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 (11) Leases. 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 property, plant and equipment used by the Group is reported separately under depreciation and amortisation in the income statement. Scheduled depreciation on investment property is reported separately under "Other operating expenses" in the income statement. Gains and losses on disposal of property, plant and equipment and 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 result”. 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.

(24) 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 result"

(25) 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.

(26) 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.

(27) 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. “Impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale and disposal groups are presented in “Other operating income and other operating expense.”

(28) Provisions

28.1. 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 0.72% as at 31 December 2020 (2019: 0.9%) and a salary increase of 3.82 % p.a. (2019: 3.2% 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% (2019: 3.0%) while Slovenia is using 0.65% (2019: 0.75%). The fluctuation discounts amount to 0.0%-4.5% (2019: 0.0%-4.5%) 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.

28.2. 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”.

28.3. 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 (34) Other operating income and other operating expenses.

28.4. 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.

(29) Other liabilities

This item includes deferred income and non-financial liabilities that due to their nature could not be classified in specific balance sheet item.

(30) 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 (9) 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

(31) Net interest income

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	**194.3**	**207.4**
Financial assets at fair value through other comprehensive income	13.9	16.9
Financial assets at amortised cost	179.9	189.8
Negative interest from financial liabilities	0.5	0.7
Other interest income	**2.6**	**3.4**
Financial assets held for trading	2.2	3.0
Other assets	0.4	0.4
Total interest income	**197.0**	**210.8**
Financial liabilities measured at amortised cost	-19.5	-25.3
o/w lease liabilities	-0.4	-0.5
Financial liabilities held for trading	-1.4	-1.3
Negative interest from financial assets	-1.4	-1.2
Total interest expense	**-22.3**	**-27.8**
Net interest income	**174.7**	**183.0**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -19.5 million (YE19: EUR -25.3 million) includes expenses of EUR -11.7 million (YE19: EUR -16.3 million) related to customer deposits. The negative interest income on TLTRO III financial liabilities amounts to EUR 0.1 million (YE19: EUR 0.0 million).

Interest income break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**1.5**	**2.7**
Debt securities	**14.6**	**17.2**
Governments	11.9	14.1
Credit institutions	1.3	1.7
Other financial corporations	0.2	0.2
Non-financial corporations	1.2	1.2
Loans and advances	**179.9**	**189.8**
Central banks	0.2	0.5
Governments	3.2	4.0
Credit institutions	0.1	0.3
Other financial corporations	0.7	0.9
Non-financial corporations	44.5	47.3
Households	131.3	136.9
Other assets	**0.4**	**0.4**
Negative interest from financial liabilities	**0.5**	**0.6**
Central banks	0.4	0.6
Non-financial corporations	0.1	0.0
Total	**197.0**	**210.8**

Interest expenses break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**-1.4**	**-1.3**
Deposits	**-19.1**	**-24.7**
Governments	-1.3	-1.6
Credit institutions	-1.7	-1.6
Other financial corporations	-1.0	-0.9
Non-financial corporations	-3.4	-4.3
Households	-11.7	-16.3
Issued bonds, subordinated and supplementary capital	**0.0**	**0.0**
Other liabilities	**-0.4**	**-0.6**
Negative interest from financial assets	**-1.4**	**-1.1**
Debt securities	**-0.3**	**-0.3**
Central banks	-0.3	-0.3
Loans and advances	**-1.1**	**-0.8**
Central banks	-0.6	-0.6
Credit institutions	-0.4	-0.2
Other assets	-0.1	0.0
Total	**-22.3**	**-27.8**

(32) Net fee and commission income

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Transactions	19.4	22.4
Accounts and Packages	20.7	19.1
Cards	10.9	12.4
FX & DCC	9.8	11.9
Securities	2.5	2.7
Bankassurance	3.0	4.6
Loans	3.5	3.5
Trade finance	4.9	5.0
Other	0.9	1.3
Fee and commission income	**75.6**	**83.0**
Cards	-7.9	-7.0
Transactions	-4.0	-4.4
Client incentives	-0.1	-0.4
Securities	-0.5	-0.5
Accounts and Packages	-1.2	-1.1
Bancassurance	-0.4	-0.4
Other	-1.6	-2.0
Fee and commission expenses	**-15.8**	**-15.8**
Net fee and commission income	**59.8**	**67.2**

The fees and commission presented in this note include income of EUR 35.1 million (YE19: EUR 35.0 million) and expenses of EUR -9.1 million (YE19: EUR -8.1 million) relating to financial assets and liabilities not measured at FVTPL.

(33) Net result on financial instruments

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Held for trading financial instruments	-0.1	0.2
o/w exchange difference	-3.9	8.8
o/w gain or losses on financial instruments	3.8	-8.6
Non trading financial assets	0.0	4.5
Financial assets at fair value through other comprehensive income	11.9	8.8
Financial assets at amortised cost	-0.1	-0.1
Total	**11.7**	**13.4**

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

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives	-3.8	-9.4
Debt securities	-0.1	0.8
Other financial liabilities	7.8	0.0
Total	**3.8**	**-8.6**

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

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest rate instruments and related derivatives	-0.9	-1.6
Foreign exchange trading and derivatives related to foreign exchange and gold	4.8	-7.3
Credit risk instruments and related derivatives	0.1	-0.1
Other	-0.2	0.4
Total	**3.8**	**-8.6**

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

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Gains or losses on financial assets and liabilities, measured at fair value through other comprehensive income	11.9	8.8
Gains or losses on financial assets and liabilities, measured at amortised cost	-0.1	-0.1
Total	**11.8**	**8.7**

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

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Debt securities	11.9	8.8
Issued bonds, subordinated and supplementary capital	-0.1	-0.1
Total	**11.8**	**8.7**

(34) Other operating income and other operating expenses

Other operating income and other operating expenses - net

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Deposit guarantee	-8.1	-9.1
Recovery and resolution fund	-1.4	-1.3
Banking levies and other taxes	-3.0	-4.3
Restructuring expenses	-4.6	-3.9
Net result from sale of non financial assets	1.7	1.0
Net result from sale of assets classified as held for sale and disposal groups	0.1	0.1
Result from operate lease assets	0.3	0.3
Result from other income and other expenses	1.3	-2.8
Total	**-13.7**	**-20.0**

Other operating income and other operating expenses - gross

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Other operating income	**6.0**	**3.5**
Gain from sale of non financial assets	2.0	1.3
Income from operating lease assets	0.5	0.3
Gain from the sale of assets classified as held for sale and disposal groups	0.1	0.1
Other income	3.5	1.7
Other operating expenses	**-19.8**	**-23.4**
Losses from sale of non financial assets	-0.3	-0.3
Expense incurred in earning the operating lease assets income	-0.2	-0.1
Restructuring expenses	-4.6	-3.9
Recovery and resolution fund	-1.4	-1.3
Deposit guarantee	-8.1	-9.1
Banking levies and other taxes	-3.0	-4.3
Other expenses	-2.2	-4.5
Total	**-13.7**	**-20.0**

In the financial year 2020 a reclassification of certain positions from other operating income and expenses to other result (Note 38) was performed. A detailed description of those reclassifications can be found in note (2) Changes in presentation of the financial statements.

The line item "Restructuring expenses" in the amount of EUR -4.6 million (YE19: EUR -3.9 million) includes cost optimisation initiatives in the Group. The other income in 2020 includes EUR 1.6 million, which is due to the positive outcome of a tax dispute.

(35) Personnel expenses

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Wages and salaries	-59.3	-62.6
Social security	-10.8	-11.6
Variable remuneration	-0.5	-8.7
Other personal tax expenses	-1.1	-1.1
Voluntary social expenses	-3.3	-3.3
Expenses for retirement benefits	-8.9	-9.5
Expenses for severance payments	-0.4	-0.7
Income from release of other employee provisions	0.7	0.9
Other personnel expenses	-0.3	-0.3
Total	**-83.9**	**-96.7**

Addiko Group applied extreme moderation with regard to variable remuneration in line with ECB expectations. The group will not payout any annual bonus for 2020. For employees in Addiko Bank Croatia, who have direct contact with customers (in particular employees working in branches and customer service) a bonus was paid as appreciation for the work done under difficult circumstances following the earthquake in Zagreb in the midst of the Covid-19 pandemic.

In 2020 the Group wide alignment of presentation of Personnel expenses was finalised. The final mapping also required reclassifications of previous period, whereas the main impact can be seen in the position "Expenses for retirement benefits". Expenses in connection with retirement benefits were shown throughout the Group in several different positions within personal expenses and after alignment it was decided to show all expense which are linked to pension in the position "Expenses for retirement benefits". This leads to a reclassification of EUR 5.0 million from "Wages and salaries" and EUR 3.6 million from "Social security" and EUR 0.5 million from "Other personal tax expenses" to position "Expenses for retirement benefits". Furthermore, "Voluntary social expenses" were increased by EUR 2.2 million by reclassifying EUR 0.8 million from "Wages and salaries", EUR 1.0 million from "Social security", EUR 0.3 million from "Other personal tax expenses". In addition, the position "Other personal tax expenses" was decreased by EUR 1.6 million, whereas EUR 1.3 million were reclassified to "Wages and salaries" and EUR 0.3 million to "Social security".

(36) Other administrative expenses

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
IT expense	-36.3	-33.4
Premises expenses (rent and other building expenses)	-12.0	-13.4
Legal and advisory costs	-4.9	-8.7
Advertising costs	-4.7	-7.7
Other administrative expenses	-7.9	-10.2
Total	**-65.9**	**-73.3**

(37) Depreciation and amortisation

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Property, plant and equipment	-12.3	-12.4
o/w right of use assets	-7.1	-7.2
Intangible assets	-7.6	-6.6
Total	**-19.9**	**-19.1**

In the financial year 2020 the position depreciation and amortisation of investment properties was reclassified to other operating income and other operating expense. A detailed description of this reclassifications can be found in note (2) Change in the presentation of the financial statements.

(38) Other result

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Net result from legal provision and legal income/expense	**-4.8**	**-13.1**
Release of provisions for legal cases and income from legal cases	4.4	5.0
Allocation of provisions for passive legal cases and legal costs	-9.2	-18.1
Result from assets classified as held for sale and disposal groups	**-0.3**	**0.0**
Reversal of impairment	0.0	0.0
Impairment	-0.3	0.0
Impairment / reversal of impairment on non financial assets	**-0.4**	**-6.3**
Reversal of impairment	3.0	0.4
Impairment	-3.4	-6.7
Modification gains/losses	**-2.6**	**0.0**
Total	**-8.1**	**-19.4**

The positions presented in other result in the financial year 2020 were in previous periods included in the position other operating income and expenses as well as net result on financial instruments. A detailed description of those reclassifications can be found in note (2) Change in the presentation of the financial statements.

The net amount of EUR -4.8 million provisions for legal cases mainly relate to legal matters on foreign currency loans. During 2020 the additional provisions for legal cases were significantly lower compared with the previous reporting period. Furthermore, this position includes the positive impact from the collection of a past damage claim, where the final court decision was in favor of one entity of the Addiko Group. For further details concerning legal risk, please refer to note (67) Legal risk.

The line item "Impairment on non-financial assets" included in 2019 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 capitalised change requests on the previous version of the software. In addition, this position included also the outcome of a group wide project to assess future economic benefit of certain IT applications. In 2020, a significantly lower impairment loss was recognised in this context.

The Covid-19 debt payment moratorium imposed by governments where Addiko operates determined the recognition of EUR -2.6 million modification loss.

(39) 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. - 31.12.2020	01.01. - 31.12.2019
Change in CL on financial instruments at FVTOCI	**-1.5**	**1.1**
Change in CL on financial instruments at amortised cost	**-46.1**	**0.3**
Net allocation to risk provision	-51.2	-5.3
Proceeds from loans and receivables previously impaired	6.8	7.3
Directly recognised impairment losses	-1.7	-1.7
Other changes	0.0	0.0
Net allocation of provisions for commitments and guarantees given	**-0.8**	**1.5**
Total	**-48.4**	**2.9**

The credit loss expenses in 2020 were significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

The positive result in 2019 was 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.

(40) Taxes on income

EUR m

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax	-1.5	-2.7
Deferred tax	-3.4	-0.3
Total	**-4.9**	**-2.9**

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

EUR m

	31.12.2020	31.12.2019
Result before tax	**6.3**	**38.0**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	-1.6	-9.5
Tax effects		
from divergent foreign tax rates	1.8	7.0
from previous year	0.6	0.0
from foreign income and other tax-exempt income	0.1	0.4
from investment related tax relief and other reducing the tax burden	4.4	2.2
from non-tax deductible expenses	-4.4	-1.7
from non-recognition of deferred tax assets on loss carry-forwards and temporary differences	-9.5	-10.6
from the change of deferred taxes on loss carry-forwards and temporary differences	4.2	9.0
from other tax effects	-0.5	0.3
Taxes on income (effective tax rate: -78.2% (2019: -7.6%))	**-4.9**	**-2.9**

40.1. Deferred tax assets/liabilities

In the financial year, 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

	2020			2019		
	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)
Allowance for financial assets	1.8	0.3	0.0	-1.2	-0.4	0.0
Accelerated depreciation for tax purposes				1.2	0.0	0.0
/Accelerated capital allowances	1.1	0.2	0.0			
Impairment on debt instruments at FVTOCI	-2.2	0.1	0.9	-3.3	0.0	-2.4
Deferred revenue fee income	-0.3	0.1	0.0	-0.4	-0.1	0.0
Other	9.3	0.8	-0.1	11.2	2.9	0.1
Tax losses carried forward	11.6	-4.8	0.0	16.4	-2.6	0.0
Total deferred Tax	**21.3**	**-3.4**	**0.9**	**23.9**	**-0.2**	**-2.3**

The total change in deferred taxes in the consolidated financial statements is EUR -2.5 million. Of this, EUR -3.4 million is reflected in the current income statement as deferred tax expense, and an amount of EUR 0.9 million is shown in other comprehensive income in equity.

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

EUR m

	2020	2019
Balance at start of period (01.01.)	**23.9**	**26.5**
Tax income/expense recognised in profit or loss	-3.4	-0.2
Tax income/expense recognised in OCI	0.9	-2.3
Fx-difference	0.0	-0.1
Balance at end of period (31.12.)	**21.3**	**23.9**

EUR m

	2020	2019
Deferred tax assets	21.3	23.9
Deferred tax liabilities	0.0	0.0
Total	**21.3**	**23.9**

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 31.12.2020	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	**0.0**	**181.1**	**0.6**	**8.4**	**12.1**	**8.4**	**122.7**	**333.2**
thereof fully/ unlimited utilisable	0.0	181.1	0.0	0.0	0.0	0.0	122.7	303.8
thereof restricted utilisable	0.0	0.0	0.6	8.4	12.1	8.4	0.0	29.4
1st following year	0.0	0.0	0.1	2.8	12.1	8.4	0.0	23.4
2nd following year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3rd following year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4th following year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5th following year	0.0	0.0	0.5	5.5	0.0	0.0	0.0	6.0

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

In 2020, deferred tax assets on existing tax loss carryforwards in the amount of EUR 0.8 million were reversed and a utilisation of tax loss carried forward of EUR 4.0 million (2019: EUR 11.6 million) was recognised in the Group due to the fact that the tax loss carried forward is not unlimited utilisable in some countries of the Group. In 2019 EUR 9.0 million were recognised as deferred tax assets on existing tax loss carryforwards.

Notes to the consolidated statement of financial position

(41) Cash reserves

EUR m

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	116.8	0.0	116.8
Cash balances at central banks	946.2	-0.1	946.1
Other demand deposits	93.7	-0.3	93.4
Total	**1,156.7**	**-0.4**	**1,156.3**

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**

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 244.1 million (YE19: EUR 266.3 million).

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

EUR m

	Stage 1
Gross carrying amount at 01.01.2020	**778.9**
Changes in the gross carrying amount	270.0
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	-8.9
Gross carrying amount at 31.12.2020	**1,039.9**

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**

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

EUR m

	Stage 1
ECL allowance as at 01.01.2020	**-0.4**
Changes in the loss allowance	0.0
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.12.2020	**-0.4**

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	0.0
Foreign exchange and other movements	-0.1
ECL allowance as at 31.12.2019	**-0.4**

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 increase of gross carrying amount of cash reserves at central banks and other demand deposits did not incur increase of ECL because cash deposits at central banks are considered low risk business and central banks have very low probability of default.

(42) Financial assets held for trading

EUR m

	31.12.2020	31.12.2019
Derivatives	**3.1**	**2.5**
Debt securities	**33.4**	**36.0**
Governments	33.4	36.0
Total	**36.4**	**38.5**

(43) Loans and receivables

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

43.1. Loans and advances to credit institutions

EUR m

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	56.5	0.0	56.5
Credit institutions	56.5	0.0	56.5
Total	**56.5**	**0.0**	**56.5**

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**14.1**	**0.0**	**0.0**	**0.0**	**14.1**
Changes in the gross carrying amount	43.9	0.2	0.0	0.0	44.1
Transfer between stages	-0.8	0.8	0.0	0.0	0.0
Write-offs	0.0	-0.2	0.0	0.0	-0.2
Foreign exchange and other movements	-0.8	-0.7	0.0	0.0	-1.5
Gross carrying amount at 31.12.2020	**56.5**	**0.0**	**0.0**	**0.0**	**56.5**

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
ECL allowance as at 01.01.2020	**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 in models	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 31.12.2020	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**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 in models	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**

43.2. Loans and advances to customers

EUR m

31.12.2020	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	2,131.2	-16.5	-40.1	-113.6	-2.4	1,958.7
Non-financial corporations	1,605.3	-12.8	-21.7	-58.0	0.0	1,512.7
Governments	82.6	-0.4	-0.3	-0.1	0.0	81.9
Other financial corporations	32.3	-0.3	-0.5	0.0	0.0	31.4
Total	**3,851.4**	**-30.0**	**-62.6**	**-171.7**	**-2.4**	**3,584.7**

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**

Development of gross carrying amount and ECL allowance:

43.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**1,920.0**	**181.8**	**165.7**	**11.0**	**2,278.4**
Changes in the gross carrying amount	-50.8	-31.7	-9.3	-0.1	-91.9
Transfer between stages	-190.8	157.5	33.4	0.0	0.0
Write-offs	-0.1	-0.1	-39.5	-0.4	-40.1
Changes due to modifications that did not result in derecognition	-0.5	-1.2	-0.6	0.0	-2.2
Foreign exchange and other movements	-7.3	-0.7	-4.0	-1.1	-13.0
Gross carrying amount at 31.12.2020	**1,670.5**	**305.6**	**145.7**	**9.4**	**2,131.2**

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**

Overall gross carrying amount slightly decreased during 2020, mostly through repayments being higher than disbursements of new loans mainly due to the Covid-19 crisis. Stage 3 decrease was mainly through mandatory write-offs in Bosnia & Herzegovina, while biggest impact on stage 1 decrease was transfer of exposure to stage 2 due to worsened macroeconomic environment triggered by Covid-19. The same reason triggered also the increase of ECL in stage 2.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-20.3**	**-32.7**	**-135.4**	**-1.1**	**-189.5**
Changes in the loss allowance	19.3	-28.5	-14.4	-1.5	-25.1
Transfer between stages	-15.8	21.3	-5.5	0.0	0.0
Write-offs	0.0	0.0	42.3	0.4	42.8
Changes due to modifications that did not result in derecognition	0.0	0.1	0.0	0.0	0.1
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.3	-0.3	-0.7	-0.2	-0.8
ECL allowance as at 31.12.2020	**-16.5**	**-40.1**	**-113.6**	**-2.4**	**-172.6**

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	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**

43.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**1,602.3**	**39.2**	**89.7**	**0.0**	**1,731.2**
Changes in the gross carrying amount	-59.9	-40.7	-11.3	0.0	-111.9
Transfer between stages	-263.9	251.6	12.3	0.0	0.0
Write-offs	0.0	0.0	-7.6	0.0	-7.6
Changes due to modifications that did not result in derecognition	-0.2	-0.1	0.0	0.0	-0.3
Foreign exchange and other movements	-4.3	-0.7	-1.1	0.0	-6.1
Gross carrying amount at 31.12.2020	**1,274.0**	**249.4**	**81.9**	**0.0**	**1,605.3**

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**

Overall gross carrying amount of loans and advances to non-financial corporations slightly decreased during 2020, mostly through repayments being higher than disbursements of new loans (due to Covid-19 crisis). Biggest impact on stage 1 decrease was transfer of exposure to stage 2 due to worsened macroeconomic environment triggered by Covid-19. The same reason triggered also the increase of ECL in stage 2. Additionally, ECL was increased both in stage 1 and stage 2 through impact of changes in macroeconomic scenario on PD values of individual clients.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-10.1**	**-3.5**	**-59.6**	**0.0**	**-73.2**
Changes in the loss allowance	-5.8	-15.5	-4.7	0.0	-25.9
Transfer between stages	3.0	-2.5	-0.6	0.0	0.0
Write-offs	0.0	0.0	7.9	0.0	8.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	-0.3	-1.1	0.0	-1.3
ECL allowance as at 31.12.2020	**-12.8**	**-21.7**	**-58.0**	**0.0**	**-92.5**

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	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**

43.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**92.2**	**0.4**	**2.2**	**0.0**	**94.8**
Changes in the gross carrying amount	-12.0	-0.1	-0.2	0.0	-12.4
Transfer between stages	-0.7	2.4	-1.7	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
Foreign exchange and other movements	0.2	0.0	0.0	0.0	0.2
Gross carrying amount at 31.12.2020	**79.7**	**2.6**	**0.3**	**0.0**	**82.6**

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**

The overall gross carrying amount of loans and advances to general governments slightly decreased in 2020, accompanied by the slight decrease of ECL.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.3**	**0.0**	**-0.7**	**0.0**	**-1.0**
Changes in the loss allowance	-0.1	0.3	0.0	0.0	0.2
Transfer between stages	0.0	-0.6	0.6	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	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 31.12.2020	**-0.4**	**-0.3**	**-0.1**	**0.0**	**-0.8**

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	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**

43.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**31.3**	**0.0**	**0.4**	**0.0**	**31.6**
Changes in the gross carrying amount	18.8	-18.0	-0.2	0.0	0.6
Transfer between stages	-24.8	24.6	0.1	0.0	0.0
Write-offs	0.0	0.0	-0.3	0.0	-0.3
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.3	0.0	0.0	0.0	0.3
Gross carrying amount at 31.12.2020	**25.6**	**6.6**	**0.0**	**0.0**	**32.3**

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**

The overall loss allowance for other financial corporations remains on the same level.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.2**	**0.0**	**-0.4**	**0.0**	**-0.6**
Changes in the loss allowance	-0.1	-0.5	0.1	0.0	-0.5
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.3	0.0	0.3
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	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 31.12.2020	**-0.3**	**-0.5**	**0.0**	**0.0**	**-0.8**

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	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**

43.3. Loans and advances subject to contractual modifications that did not result in derecognition

The table below shows debt financial instruments measured at amortised costs, assigned to stage 2 or stage 3, that were subject to contractual modification that did not result in derecognition during the reporting period.

EUR m

	2020		2019	
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
Other financial corporations	1.1	0.0	0.0	0.0
Non-financial corporations	196.3	-0.1	0.0	0.0
Households	246.2	-1.8	0.0	0.0
Total	**443.7**	**-1.9**	**0.0**	**0.0**

The total gross carrying amount of debt financial assets measured at amortised costs, which were impacted by contractual modifications that did not result in derecognition at a time when they were assigned to stage 2 or stage 3 and reassigned to stage 1 during the year 2020 amounted to EUR 7.7 million as at 31 December 2020 (2019: EUR 0.0 million).

(44) Investment securities

EUR m

	31.12.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	928.7	1,079.9
Mandatorily at fair value through profit or loss (FVTPL)	0.3	16.7
Total	**929.0**	**1,096.6**

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**1,062.0**	**0.0**	**0.0**	**0.0**	**1,062.0**
Changes in the gross carrying amount	-142.2	0.0	0.0	0.0	-142.2
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	-8.0	0.0	0.0	0.0	-8.0
Gross carrying amount at 31.12.2020	**911.8**	**0.0**	**0.0**	**0.0**	**911.8**

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**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.7**	**0.0**	**0.0**	**0.0**	**-0.7**
Changes in the loss allowance	-1.5	0.0	0.0	0.0	-1.5
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes in models	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 31.12.2020	**-2.1**	**0.0**	**0.0**	**0.0**	**-2.1**

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 in models	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**

44.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.12.2020	31.12.2019
Debt securities	**909.7**	**1,061.3**
Governments	628.4	743.3
Credit institutions	197.0	221.6
Other financial corporations	27.8	34.4
Non-financial corporations	56.5	62.0
Equity instruments	**19.0**	**18.6**
Governments	13.2	13.2
Other financial corporations	5.5	5.1
Non-financial corporations	0.3	0.3
Total	**928.7**	**1,079.9**

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

EUR m

	31.12.2020	31.12.2019
Slovenian Bank Resolution Fund	13.2	13.2
VISA Inc	4.8	4.8
Other equity instruments	1.0	0.6
Total	**19.0**	**18.6**

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

EUR m

	31.12.2020	31.12.2019
Debt securities	**0.0**	**16.4**
Other financial corporations	0.0	16.4
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**0.3**	**16.7**

(45) Tangible assets

EUR m

	31.12.2020	31.12.2019
Owned property, plant and equipment	**52.8**	**55.2**
Land and buildings	41.2	43.8
Plant and equipment	11.6	11.4
Right of use assets	**21.2**	**26.6**
Land and buildings	19.1	23.3
Plant and equipment	2.1	3.2
Investment property	4.7	4.1
Total	**78.8**	**85.9**

(46) Intangible assets

EUR m

	31.12.2020	31.12.2019
Goodwill	0.0	0.0
Purchased software	24.9	27.2
Other intangible assets	1.5	0.7
Total	**26.4**	**27.9**

(47) Development of tangible and intangible assets

47.1. Development of cost and carrying amounts

EUR m

31.12.2020	Owned property, plant and equipment: Land and buildings	Owned property, plant and equipment: Plant and equipment - internally used	Right of use assets: Land and buildings	Right of use assets: Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 1.1.2020	100.3	81.5	29.4	4.4	6.3	123.1	345.0
Foreign exchange differences	-0.7	-0.5	-0.2	0.0	0.0	-0.6	-2.1
Additions	0.6	4.1	4.9	0.2	0.0	8.5	18.2
Disposals	-3.2	-2.2	-1.9	-0.1	-1.8	-0.4	-9.7
Other changes	-4.4	-0.8	-2.5	0.0	5.3	0.0	-2.4
Acquisition cost 31.12.2020	92.5	82.0	29.8	4.4	9.8	130.5	349.0
Cumulative depreciation and amortisation 31.12.2020	-51.3	-70.4	-10.7	-2.3	-5.0	-104.1	-243.8
Carrying amount 31.12.2020	41.2	11.6	19.1	2.1	4.7	26.4	105.2

EUR m

31.12.2019	Owned property, plant and equipment: Land and buildings	Owned property, plant and equipment: Plant and equipment - internally used	Right of use assets: Land and buildings	Right of use assets: Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 1.1.2019	**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**

47.2. Development of depreciation and amortisation

EUR m

31.12.2020	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
Cumulative depreciation and amortisation 1.1.2020	-56.4	-70.2	-6.1	-1.2	-2.2	-95.2	-231.2
Foreign exchange differences	0.4	0.4	0.0	0.0	0.0	0.5	1.5
Disposals	1.8	2.2	1.4	0.1	0.3	0.3	6.1
Scheduled depreciation and amortisation	-2.2	-3.0	-6.0	-1.2	-0.2	-7.6	-20.1
Impairment	0.0	0.0	-0.1	0.0	-0.2	-2.2	-2.4
Other changes	2.7	0.1	0.0	0.0	-2.8	0.0	0.0
Write-up	2.4	0.0	0.0	0.0	0.0	0.0	2.4
Cumulative depreciation and amortisation 31.12.2020	-51.3	-70.4	-10.7	-2.3	-5.0	-104.1	-243.8

EUR m

31.12.2019	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
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**

(48) Other assets

EUR m

	31.12.2020	31.12.2019
Prepayments and accrued income	8.7	11.4
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	3.3	4.4
Other remaining assets	6.4	4.8
Total	**18.5**	**20.6**

(49) Financial liabilities held for trading

EUR m

	31.12.2020	31.12.2019
Derivatives	4.9	6.0
Total	**4.9**	**6.0**

(50) Financial liabilities measured at amortised cost

EUR m

	31.12.2020	31.12.2019
Deposits	**4,924.3**	**5,065.1**
Deposits of credit institutions	196.2	233.9
Deposits of customers	4,728.1	4,831.2
Issued bonds, subordinated and supplementary capital	**0.1**	**0.1**
Debt securities issued	0.1	0.1
Other financial liabilities	**49.0**	**56.4**
o/w lease liabilities	21.2	26.0
Total	**4,973.4**	**5,121.6**

The carrying amount of TLTRO III liabilities (presented in the line "Deposits of credit institutions") amounted to EUR 74.9 million as at 31 December 2020 (2019: EUR 0.0 million).

50.1. Deposits of credit institutions

EUR m

	31.12.2020	31.12.2019
Current accounts / overnight deposits	7.7	6.2
Deposits with agreed terms	188.5	217.3
Repurchase agreements	0.0	10.3
Total	**196.2**	**233.9**

50.2. Deposits of customers

EUR m

	31.12.2020	31.12.2019
Current accounts / overnight deposits	**2,948.5**	**2,660.4**
Governments	80.2	81.0
Other financial corporations	104.7	98.0
Non-financial corporations	834.2	752.8
Households	1,929.4	1,728.7
Deposits with agreed terms	**1,772.4**	**2,130.5**
Governments	125.6	181.0
Other financial corporations	195.2	206.5
Non-financial corporations	375.2	448.9
Households	1,076.5	1,294.1
Deposits redeemable at notice	**7.2**	**40.3**
Governments	1.0	3.3
Other financial corporations	3.1	10.8
Non-financial corporations	3.1	26.2
Total	**4,728.1**	**4,831.2**

50.3. Debt securities issued

EUR m

	31.12.2020	31.12.2019
Certificates of deposit	0.1	0.1
Total	**0.1**	**0.1**

(51) Provision

EUR m

	31.12.2020	31.12.2019
Pending legal disputes and tax litigation	34.8	35.8
Commitments and guarantees granted	10.4	10.0
Provisions for variable payments	6.6	14.0
Pensions and other post employment defined benefit obligations	2.0	1.8
Restructuring measures	1.0	2.1
Other long term employee benefits	0.4	0.4
Other provisions	3.0	2.8
Total	**58.2**	**66.9**

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-term bonus provision for key management as well as employees. In addition, the Group has decided to follow the ECB expectation regarding variable remuneration and has not recognised any bonus provision for 2020.

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.

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2020	**983.4**	**10.4**	**13.5**	**0.0**	**1,007.3**
Changes in the nominal value	-14.3	31.6	-4.7	0.0	12.6
Transfer between stages	-24.9	24.0	0.9	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	-2.0	0.2	0.0	0.0	-1.8
Gross carrying amount at 31.12.2020	**942.2**	**66.2**	**9.7**	**0.0**	**1,018.1**

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**

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly increased in 2020, caused primarily by transfer of exposures from stage 1 (12-month ECL) to stage 2 (lifetime ECL), due to worsening of macroeconomic scenario through Covid-19 crisis and increase of individual PDs for the same reason.

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-2.8**	**-0.6**	**-6.6**	**0.0**	**-10.0**
Changes in the loss allowance	-0.2	-2.3	1.6	0.0	-0.9
Transfer between stages	-0.6	0.6	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.3	0.1	0.0	0.5
ECL allowance as at 31.12.2020	**-3.6**	**-1.9**	**-5.0**	**0.0**	**-10.4**

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 in models	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**

51.2. Provisions - development of other provisions

EUR m

	Carrying amount 01.01.2020	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2020
Pensions and other post employment defined benefit obligations	1.8	0.0	0.2	0.0	0.0	0.0	2.0
Other long term employee benefits	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Restructuring measures	2.1	0.0	2.3	-3.4	0.0	0.0	1.0
Pending legal disputes and tax litigation	35.8	-0.3	8.5	-6.5	-2.6	0.0	34.8
Provision for variable payments	14.0	0.0	0.4	-7.5	-0.4	0.0	6.6
Other provisions	2.8	0.0	0.6	0.0	-0.1	-0.3	3.0
Total	**56.9**	**-0.4**	**12.1**	**-17.5**	**-3.0**	**-0.3**	**47.8**

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**

51.3. 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

	2020	2019
Present value of the defined benefit obligations as of 01.01	**1.8**	1.8
+ Current service cost	0.1	0.1
+ 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	0.1	0.2
+/- Actuarial gains/losses arising from changes from experience assumptions	-0.1	-0.1
- Payments from the plan	0.0	-0.1
+ Past service cost	0.0	-0.1
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	0.0	0.0
Present value of the defined benefit obligations as of 31.12	**2.0**	**1.8**

Due to the low amount of personnel provisions for the Addiko Group as at 31 December 2020, further disclosures according to IAS 19 are omitted.

(52) Other liabilities

EUR m

	31.12.2020	31.12.2019
Deferred income	0.9	0.9
Accruals and other liabilities	25.4	27.0
Total	**26.3**	**27.9**

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

(53) Equity

EUR m

	31.12.2020	31.12.2019
Equity holders of parent	**851.8**	**861.3**
Subscribed capital	195.0	195.0
Capital reserves	237.9	298.7
Fair value reserve	17.6	22.5
Foreign currency reserve	-12.6	-6.6
Cumulated result and other reserves	413.8	351.7
Non-controlling interest	0.0	**0.0**
Total	**851.8**	**861.3**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at 31 December 2020. The total amount of EUR 195.0 million (2019: EUR 195.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 19,500,000 (2019: 19,500,000) no-par registered shares. The proportionate amount of the share capital per share amounts EUR 10.0 (2019: EUR 10.0). 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 former shareholders that do not represent subscribed capital.

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 46.6 million in the financial year 2020. In the next General Assembly, a proposal will be made to distribute an amount of EUR 46.6 million by the Company (consisting of an unconditional and a conditional tranche). With payment of a first tranche of EUR 7.0 million equivalent to a dividend of EUR 0.36 per share and reflecting the maximum amount within the currently valid guidelines of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower). In addition, a conditional payment of EUR 39.6 million equivalent to EUR 2.03 per share is envisaged after 30 September 2021 under the condition that neither a recommendation of the ECB would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable. The dividends have not been recognised as liability and there are not tax consequences.

(54) 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 leadership team as chief operating decision makers (CODM) to assess the performance of the segments and make decisions regarding the allocation of resources. The business segmentation is subdivided into Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages. 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.

As of 1 January 2020, Addiko reports the segments "Mortgage" and "Consumer" as two separate segments. At 31 December 2019 these two segments were shown as parts of the Retail segment without separation of the position "Operating expenses". This new presentation is aimed to enhance the visibility of the development of the strategic focus areas. Comparative figures have been adapted accordingly.

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.) 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 42.8 million. The majority of the IGC in the amount of EUR 31.7 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

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

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

Business Segmentation

The segment reporting comprises the following business segments:

Consumer: Addiko Bank's Consumer segment serves just under 0.7 million customers, which includes Private Individuals (excluding mortgage and housing loans) as well as private entrepreneurs and profit-oriented entities (Micro) with annual gross revenues of less than EUR 0.5 million, through a network of 168 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 12 thousand SME clients (companies with annual turnover between EUR 0.5 and 50 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.

Mortgage: Mortgage and housing loans portfolio

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than EUR 50 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

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	141.3	41.9	19.1	14.8	6.5	10.9	234.5
Net interest income	103.5	25.6	19.1	9.8	5.4	11.2	174.7
o/w regular interest income	96.7	29.2	24.8	13.1	3.8	16.8	184.4
Net fee and commission income	37.8	16.3	0.0	5.0	1.1	-0.3	59.8
Net result from financial instruments	0.0	0.0	0.0	0.0	0.0	11.7	11.7
Other operating result	0.0	0.0	0.0	0.0	0.0	-13.7	-13.7
Operating income	141.3	41.9	19.1	14.8	6.5	8.9	232.5
Operating expenses	-79.4	-24.1	-1.2	-4.1	-1.8	-59.0	-169.7
Operating result	61.8	17.8	17.9	10.7	4.7	-50.1	62.8
Other result	-1.7	-0.3	-0.5	-0.1	0.0	-5.5	-8.1
Credit loss expenses on financial assets	-21.5	-23.3	-1.2	-1.6	-0.2	-0.6	-48.4
Result before tax	38.6	-5.9	16.3	9.0	4.5	-56.2	6.3
Business volume							
Net loans and receivables	1,283.7	1,037.7	650.3	484.5	126.7	58.3	3,641.2
o/w gross performing loans customers	1,311.8	1,040.3	638.6	485.3	127.7		3,603.6
Gross disbursements	339.6	457.1	1.0	179.6	4.4		981.7
Financial liabilities at AC [1]	2,667.7	787.2		367.3	391.5	759.7	4,973.4
RWA [2]	968.2	819.9	385.5	524.7	78.2	666.8	3,443.3
Key ratios							
Net interest margin (NIM) [3]	5.9%	2.1%	1.5%	1.4%	1.3%		2.9%
Cost/Income Ratio	56.2%	57.5%	6.4%	27.9%	28.2%		72.4%
Cost of risk ratio	-1.4%	-1.4%	-0.2%	-0.2%	-0.1%		-1.0%
Loan to deposit ratio	48.1%	131.8%	-	131.9%	32.4%		75.8%
NPE ratio (on-balance loans)	5.6%	5.8%	11.1%	2.3%	0.6%		5.9%
NPE coverage ratio	83.9%	69.0%	71.6%	53.4%	49.6%		73.6%
NPE collateral coverage	12.4%	58.4%	73.3%	66.7%	51.0%		49.0%
Change CL/GPL (simply Ø)	-1.6%	-2.2%	-0.2%	-0.3%	-0.1%		-1.3%
Yield GPL (simply Ø)	7.3%	2.8%	3.6%	2.5%	2.7%		4.5%

[1] Financial liabilities at AC at YE20 include the Direct deposits (Austria/Germany) amounting to EUR 429 million, EUR 196 million Deposits of credit institutions, EUR 135 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

31.12.2019	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	147.1	41.7	22.7	16.6	7.9	14.1	250.2
Net interest income	104.8	23.8	22.7	10.7	6.6	14.4	183.0
o/w regular interest income	94.0	29.2	30.6	14.3	4.7	21.3	194.2
Net fee and commission income	42.3	17.9	0.0	5.9	1.4	-0.3	67.2
Net result from financial instruments	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	-20.0	-20.0
Operating income	**147.1**	**41.7**	**22.7**	**16.6**	**7.9**	**7.6**	**243.7**
Operating expenses	**-86.0**	**-22.9**	**-1.5**	**-4.1**	**-2.1**	**-72.6**	**-189.1**
Operating result	**61.1**	**18.9**	**21.2**	**12.4**	**5.9**	**-65.0**	**54.6**
Other result	-	-	-	-	-	-19.4	-19.4
Credit loss expenses on financial assets	-20.3	-3.2	12.8	6.9	1.3	5.3	2.9
Result before tax	**40.9**	**15.7**	**34.0**	**19.4**	**7.1**	**-79.0**	**38.0**
Business volume							
Net loans and receivables	1,304.2	1,065.2	758.8	583.6	154.8	19.3	3,885.9
o/w gross performing loans customers	1,341.7	1,059.0	744.5	570.7	153.6		3,869.5
Gross disbursements	636.5	626.7	9.5	280.5	5.9		1,559.2
Financial liabilities at AC [1]	2,691.6	723.5		402.3	538.5	765.8	5,121.6
RWA [2]	982.6	961.7	459.1	610.6	90.4	816.7	3,921.0
Key ratios							
Net interest margin (NIM) [3]	6.0%	2.3%	1.7%	1.5%	1.2%		3.0%
Cost/Income Ratio	58.4%	54.8%	6.4%	24.9%	26.1%		75.6%
Cost of risk ratio	-1.3%	-0.2%	1.5%	0.9%	0.7%		0.1%
Loan to deposit ratio	48.5%	147.2%	-	145.1%	28.7%		80.1%
NPE ratio (on-balance loans)	5.9%	5.6%	11.3%	3.0%	3.2%		6.2%
NPE coverage ratio	91.9%	66.1%	70.7%	47.5%	54.2%		73.8%
NPE collateral coverage	14.2%	63.5%	70.1%	65.1%	84.2%		51.2%
Change CL/GPL (simply Ø)	-1.6%	-0.3%	1.6%	1.2%	0.7%		0.1%
Yield GPL (simply Ø)	7.4%	2.9%	3.8%	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 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

	Focus Segments		Non-focus segments			Corporate Center	Total
31.12.2020	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net interest income	**103.5**	**25.6**	**19.1**	**9.8**	**5.4**	**11.2**	**174.7**
o/w Interest income	**103.1**	**32.1**	**27.1**	**14.0**	**3.9**	**16.8**	**197.0**
o/w Regular interest income	96.7	29.2	24.8	13.1	3.8	16.8	184.4
o/w Interest income on NPE	0.7	0.8	1.4	0.2	0.0	0.0	3.2
o/w Interest like income	5.7	2.1	0.9	0.7	0.1	0.0	9.4
o/w Interest expenses	**-9.4**	**-2.4**	**0.0**	**-1.4**	**-2.0**	**-7.1**	**-22.3**
o/w FTP (assets & liabilities)	**-5.2**	**-9.2**	**-15.6**	**-5.7**	**2.4**	**-8.6**	**-41.9**
o/w Interest gap contribution	**15.0**	**5.0**	**7.6**	**2.9**	**1.2**	**10.2**	**41.9**
o/w Asset contribution	15.0	5.0	7.6	2.9	1.2	-31.7	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	41.9	41.9

EUR m

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

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

EUR m

31.12.2020	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Transactions	8.7	7.8	1.5	0.9	0.5	19.4
Accounts and Packages	19.7	0.8	0.1	0.1	0.0	20.7
Cards	10.3	0.6	0.0	0.0	0.0	10.9
FX & DCC	5.5	3.6	0.3	0.0	0.3	9.8
Securities	0.3	0.0	2.2	0.0	-0.1	2.5
Bancassurance	3.0	0.0	0.0	0.0	0.0	3.0
Loans	1.8	1.2	0.4	0.0	0.0	3.5
Trade finance	0.0	3.6	1.1	0.1	0.0	4.9
Other	0.6	0.1	0.2	0.0	0.0	0.9
Fee and commission income	**50.0**	**17.8**	**5.9**	**1.2**	**0.8**	**75.6**
Cards	-7.8	-0.1	0.0	0.0	0.0	-7.9
Transactions	-2.3	-1.0	-0.3	-0.1	-0.3	-4.0
Client incentives	-0.1	0.0	0.0	0.0	0.0	-0.1
Securities	0.0	0.0	-0.4	0.0	-0.1	-0.5
Accounts and Packages	-0.5	-0.1	0.0	0.0	-0.1	-0.8
Bancassurance	-0.4	0.0	0.0	0.0	0.0	-0.4
Other	-1.0	-0.2	-0.2	0.0	-0.6	-2.0
Fee and commission expenses	**-12.2**	**-1.5**	**-0.9**	**-0.1**	**-1.1**	**-15.8**
Net fee and commission income	**37.8**	**16.3**	**5.0**	**1.1**	**-0.3**	**59.8**

EUR m

31.12.2019	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Large Corporates	Non-focus segments: 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**

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

31.12.2020	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	84.9	50.9	19.7	20.4	38.5	11.9	38.0	-29.8	234.5
Net interest income	58.6	40.8	13.2	13.9	29.2	10.5	38.3	-29.8	174.7
o/w regular interest income [1]	64.3	40.8	15.5	14.9	34.6	12.0	42.8	-40.7	184.4
Net fee and commission income	26.3	10.1	6.5	6.5	9.4	1.5	-0.3	0.0	59.8
Net result from financial instruments	5.5	1.1	0.1	1.2	1.9	0.0	-55.5	57.4	11.7
Other operating result	-4.4	-1.5	-1.5	0.4	-2.2	0.3	0.6	-5.5	-13.7
Operating income	**86.0**	**50.5**	**18.3**	**22.1**	**38.3**	**12.3**	**-17.0**	**22.1**	**232.5**
Operating expenses	**-47.6**	**-25.4**	**-13.8**	**-15.6**	**-25.6**	**-7.7**	**-34.4**	**0.4**	**-169.7**
Operating result	**38.4**	**25.1**	**4.5**	**6.5**	**12.6**	**4.6**	**-51.4**	**22.5**	**62.8**
Other result	-3.1	-0.6	-1.3	-1.2	-5.3	-1.0	-0.7	5.2	-8.1
Credit loss expenses on financial assets	-18.3	-11.2	-7.0	-11.1	-2.4	-0.5	-1.1	3.1	-48.4
Result before tax	**17.0**	**13.2**	**-3.9**	**-5.8**	**5.0**	**3.1**	**-53.2**	**30.8**	**6.3**
Total assets	**2,342.7**	**1,448.8**	**421.7**	**521.8**	**864.4**	**211.5**	**1,074.2**	**-970.6**	**5,914.5**
Business volume									
Net loans and receivables	1,252.1	1,145.1	289.1	260.4	614.7	170.0	197.3	-287.5	3,641.2
o/w gross performing loans customers	1,174.1	1,086.8	294.6	263.2	614.4	170.5	0.0		3,603.6
Gross disbursements	361.6	127.0	94.1	104.7	270.6	23.8	0.0		981.7
Financial liabilities at AC [2]	1,921.3	1,246.2	339.1	405.7	663.3	181.5	526.5	-310.3	4,973.4
RWA [3]	1,144.4	811.4	318.7	402.8	565.3	152.7	34.6	13.4	3,443.3
Key ratios									
Net interest margin (NIM)	2.5%	2.7%	3.1%	2.7%	3.5%	4.8%	3.4%		2.9%
Cost/Income Ratio	56.0%	50.0%	69.9%	76.3%	66.6%	64.4%	90.6%		72.4%
Cost of risk ratio	-1.1%	-0.8%	-1.7%	-2.6%	-0.3%	-0.2%	-12.8%		-1.0%
Loan to deposit ratio	68.2%	98.9%	92.3%	64.9%	104.6%	99.9%			75.8%
NPE ratio (on-balance loans)	8.4%	1.6%	7.8%	11.3%	3.1%	9.4%			5.9%
NPE coverage ratio	72.5%	65.9%	79.2%	80.3%	73.9%	61.9%			73.6%
NPE collateral coverage	51.0%	57.6%	37.9%	54.5%	35.4%	43.8%			49.0%
Change CL/GPL (simply Ø)	-1.5%	-1.0%	-2.4%	-4.1%	-0.4%	-0.3%			-1.3%
Yield GPL (simply Ø)	4.5%	3.4%	5.2%	5.2%	5.1%	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 429 million presented in ABH [3] Includes only credit risk (without application of IFRS 9 transitional rules)

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 from financial instruments	10.4	1.4	0.2	0.6	0.8	0.1	-130.9	130.9	13.4
Other operating result	-3.5	-2.9	-0.8	-1.1	-1.6	-1.3	-1.3	-7.5	-20.0
Operating income	**102.3**	**50.4**	**18.6**	**20.3**	**40.9**	**12.1**	**-98.8**	**97.9**	**243.6**
Operating expenses	**-54.7**	**-26.7**	**-14.1**	**-15.9**	**-28.7**	**-8.1**	**-40.5**	**-0.4**	**-189.1**
Operating result	**47.6**	**23.7**	**4.4**	**4.3**	**12.2**	**4.1**	**-139.3**	**97.5**	**54.5**
Other result	-21.5	-0.4	-0.2	0.2	-0.5	-0.1	-2.0	5.2	-19.4
Credit loss expenses on financial assets	-0.9	2.0	0.4	0.3	-1.3	-0.2	0.4	2.1	2.9
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 (on-balance loans)	7.6%	1.5%	12.5%	12.8%	4.2%	7.8%			6.2%
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)

Risk Report

(55) 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.

(56) 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.

(57) 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 2020, the following organisational units were operative:

Corporate Credit Risk (including Credit Risk Management for Corporate / SME / Public Finance and Credit Risk Management Financial Institution / Sovereigns) provides underwriting, individual risk assessment, monitoring, and review for all non-Consumer client segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions. The function has both an operational and strategic role related to credit risk management. 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 activities.

Group Retail Risk Management monitors and manages credit risk in Consumer portfolio for Addiko Group through portfolio reporting and analysis, tracking and evaluation of activities. The function has both an operational and strategic role related to credit risk management. Operationally it covers assessment and approval of lending products and test initiatives, while strategically defines policies, procedures, manuals, guidelines in relation to the governance of lending activities and collections. Besides this continuously monitors the portfolio development and ensures the development and maintenance of a reporting toolkit that serves this purpose.

Integrated Risk Management (IRM) operates as the independent risk management function, identifying, monitoring, controlling and reporting of all material risks to Management and Supervisory Boards, proposing of mitigation measures, initiating escalation in case defined limits are breached and defining methodology for risk measurement and assessment. IRM is actively involved in all major decisions relating to risk management and the development and review of risk strategy, own funds and economic capital management, stress testing, credit risk budgeting, tracking of risk exposure and steering of the ICAAP and SREP process as well manages the same processes from methodological point of view and reports on them to the management.
Integrated Risk Management includes a Group Market & Liquidity Risk team, which defines methodologies, produces internal and external reporting and oversees management and control activities related to market and liquidity risk.

Group Model and Credit Portfolio Management manages model portfolio in terms of methodology, target model architecture and model landscape, regulatory and business fitness purpose, supervises development of portfolio dependent and business related credit risk models as well as validation and regular monitoring of credit risk, IFRS 9 and market & liquidity model. The functions Group Credit Risk Portfolio Management and Business Modelling & Portfolio Analytics are embedded in Group Model and Credit Portfolio Management.

Group Data Office (GDO) is the main responsible function for the business aspects of enterprise data management in Addiko Group. GDO develops and maintains group-wide methods, standards and definitions to achieve a common and harmonised view on enterprise data. In operational matters the GDO team is supporting business functions in regular and ad-hoc reporting, common/central data transformations and calculations and data quality monitoring and reporting. GDO also acts as local Data Office for Addiko Bank AG and in that capacity is applying its methods to the local ABH data landscape and the relevant connections to group data. Although GDO is reporting to the Group CRO, its responsibilities and methods apply in principle to all functions of Addiko Group.

Group Non-Financial Risk Management is responsible for setting the strategic direction to efficiently manage all non-financial risk related activities and aims to ensure the adequate identification, measurement, management and mitigation of non-financial risks, a prudent conduct of business respecting all relevant laws, regulations, supervisory requirements and internal rules and decisions, thus supporting prudent, effective and efficient business operations.
Non-Financial Risk Management includes an **Operational Risk Management team** that 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.

(58) 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 control is carried out by Internal Audit.

(59) Credit risk

59.1. 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.

59.2. 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.

59.3. Risk measurement

The Addiko Group 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.

59.4. 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 towards financial institutions 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.

59.5. 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 2020:

EUR m

31.12.2020		Performing			Non Performing			Total
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	1,039.9	-0.3	1,039.5	0.0	0.0	0.0	1,039.9	1,039.5
Financial assets held for trading	36.4		36.4	0.0		0.0	36.4	36.4
Loans and receivables	3,674.3	-92.6	3,581.7	233.6	-174.1	59.5	3,907.9	3,641.2
of which credit institutions	56.5	0.0	56.5	0.0	0.0	0.0	56.5	56.5
of which customer loans [2]	3,617.8	-92.6	3,525.2	233.6	-174.1	59.5	3,851.4	3,584.7
Investment securities [3]	925.1	-2.1	923.0	0.0	0.0	0.0	925.1	923.0
Loans and receivables	0.0	0.0	0.0	0.4	-0.4	0.1	0.4	0.1
On balance total	**5,675.7**	**-95.1**	**5,580.6**	**234.0**	**-174.5**	**59.5**	**5,909.7**	**5,640.2**
Off balance	1,008.4	-5.5	1,002.9	9.7	-4.9	4.8	1,018.1	1,007.7
ECL on FVTOCI debt securities [4]	-2.1	2.1	0.0	0.0	0.0	0.0	-2.1	0.0
Total	**6,682.0**	**-98.5**	**6,583.5**	**243.7**	**-179.4**	**64.3**	**6,925.7**	**6,647.8**
Adjustments [5]	-3.0		-3.0			0.0	-3.0	-3.0
Total credit risk exposure	**6,679.0**	**-98.5**	**6,580.5**	**243.7**	**-179.4**	**64.3**	**6,922.7**	**6,644.9**

[1]The position does not include cash on hand in amount of EUR 116.8 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 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

59.6. Allocation of credit risk exposure within the Group

During 2020, the overall gross exposure within the Group decreased by EUR 135.8 million or 1.9%. Reductions in the exposures are recognised at Addiko Bank Croatia, Addiko Holding, Addiko Bank Slovenia and Addiko Bank Montenegro which are partially offset by increased exposure in Addiko Bank Serbia, Addiko Bank Sarajevo and Addiko Bank Banja Luka. Due to an executed re-segmentation of clients during first quarter of 2020, a shift of portfolio from core segments to the non-core segments is recognized, with an overall reduction of the core and non core portfolio since beginning of the year. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	31.12.2020	31.12.2019
Addiko Croatia	2,612.8	2,702.8
Addiko Slovenia	1,689.8	1,773.4
Addiko Serbia	1,059.6	1,001.4
Addiko in Bosnia and Herzegovina	1,104.5	1,076.5
Addiko Montenegro	238.0	252.4
Addiko Holding	217.9	252.0
Total	**6,922.7**	**7,058.5**

59.7. Credit risk exposure by rating class

At 31 December 2020 roughly 24.7% (YE19: 24.9%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions and private individuals with a minor part within corporate and souvereings.

During 2020 the NPE Stock reduced by EUR 32.8 million, mainly in the Consumer and Mortgage portfolio in Addiko Bank Sarajevo and Addiko Bank Banja Luka as a result of write offs, in the Corporate portfolio within Addiko Bank Serbia resulting out of collections and write offs as well as due to collection effects in majority of the countries.

The following table shows the exposure by rating classes and market segment as at 31 December 2020:

EUR m

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	197.7	816.7	257.1	145.8	78.5	12.6	1,508.2
SME	166.8	820.8	491.9	178.7	68.7	2.2	1,729.1
Non-Focus	477.5	677.9	289.7	85.0	96.5	2.2	1,628.9
o/w Large Corporate	122.8	347.4	221.7	41.6	15.4	0.6	749.5
o/w Mortgage	321.5	252.0	31.3	31.8	80.2	1.5	718.3
o/w Public Finance	33.2	78.6	36.7	11.6	0.9	0.1	161.1
Corporate Center[1]	866.0	997.6	192.9	0.0	0.0	0.0	2,056.5
Total	**1,708.0**	**3,313.0**	**1,231.6**	**409.5**	**243.7**	**17.0**	**6,922.7**

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

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

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 in identifying default to all customer segments, including consumer clients. If an obligor defaults on one deal, then all obligor´s transactions are classified as non-performing. 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

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	614.4	28.7	0.0	0.7	643.9
2A-2E	1,712.7	66.0	0.0	1.5	1,780.2
3A-3E	657.2	151.1	0.1	0.6	809.0
Watch	60.2	317.3	2.3	1.3	381.1
NPE	0.0	0.1	225.6	5.3	230.9
No rating	5.2	1.1	0.0	0.0	6.2
Total gross carrying amount	**3,049.8**	**564.2**	**227.9**	**9.4**	**3,851.4**
Loss allowance	-30.0	-62.6	-171.7	-2.4	-266.7
Carrying amount	**3,019.9**	**501.6**	**56.2**	**7.0**	**3,584.7**

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**

Loans and advances to banks at amortised cost:

EUR m

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	54.7	0.0	0.0	0.0	54.7
2A-2E	1.7	0.0	0.0	0.0	1.8
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	**56.5**	**0.0**	**0.0**	**0.0**	**56.5**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**56.4**	**0.0**	**0.0**	**0.0**	**56.5**

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**

Debt instruments measured at FVTOCI:

EUR m

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	512.1	0.0	0.0	0.0	512.1
2A-2E	377.2	0.0	0.0	0.0	377.2
3A-3E	14.8	0.0	0.0	0.0	14.8
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	7.7	0.0	0.0	0.0	7.7
Total gross carrying amount	**911.8**	**0.0**	**0.0**	**0.0**	**911.8**
Loss allowance	-2.1	0.0	0.0	0.0	-2.1
Carrying amount	**909.7**	**0.0**	**0.0**	**0.0**	**909.7**

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**

Commitments and financial guarantees given:

EUR m

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	194.7	2.9	0.0	0.0	197.6
2A-2E	527.2	12.2	0.0	0.0	539.4
3A-3E	206.6	28.2	0.0	0.0	234.8
Watch	13.4	22.8	0.0	0.0	36.2
NPE	0.0	0.0	9.1	0.0	9.2
No rating	0.4	0.0	0.6	0.0	0.9
Total gross carrying amount	**942.2**	**66.2**	**9.7**	**0.0**	**1,018.1**
Loss allowance	-3.6	-1.9	-4.9	0.0	-10.4
Carrying amount	**938.6**	**64.3**	**4.8**	**0.0**	**1,007.7**

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**

59.8. 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

	31.12.2020	31.12.2019
SEE	6,197.9	6,257.4
Europe (excl. CEE/SEE)	420.9	501.2
CEE	247.9	229.6
Other	56.1	70.4
Total	**6,922.7**	**7,058.5**

59.9. 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 service and the public sector – account for a share of 31.8% at YE20 (YE19: 29.8%). The well-diversified private customers sector accounts for a share of 24.6% (YE19: 25.6%).

EUR m

31.12.2020 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.1	1,699.8	0.0	0.1	1,702.0
Financial services	377.0	995.7	0.0	45.4	1,418.2
Public sector	14.2	519.3	247.8	0.0	781.4
Manufacturing Industry	15.0	1,044.6	0.0	4.3	1,063.9
Trade and commerce	0.0	664.6	0.0	4.6	669.2
Services	6.5	509.2	0.0	0.0	515.7
Real estate business	0.0	86.4	0.0	0.0	86.4
Tourism	0.0	116.6	0.0	0.0	116.6
Agriculture	0.0	57.7	0.0	0.0	57.7
Other	6.1	504.0	0.0	1.6	511.7
Total	**420.9**	**6,197.9**	**247.9**	**56.1**	**6,922.7**

The following table shows the exposure by business sector and region as at 31 December 2019:

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
Manufacturing 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 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.

59.10. Presentation of exposure by overdue days

EUR m

31.12.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,391.4	41.1	8.9	7.0	59.9	1,508.2
SME	1,619.4	43.8	14.1	1.0	50.8	1,729.1
Non-Focus	1,513.2	28.4	4.0	16.5	66.7	1,628.9
o/w Large Corporate	714.8	16.2	0.1	14.0	4.3	749.5
o/w Mortgage	639.6	10.3	3.9	2.5	62.0	718.3
o/w Public Finance	158.8	1.9	0.0	0.0	0.4	161.1
Corporate Center	2,056.5	0.0	0.0	0.0	0.0	2,056.5
Total	**6,580.5**	**113.3**	**27.0**	**24.5**	**177.4**	**6,922.7**

Due to granting of moratoria, which were in all Addiko entities granted based on local regulation and EBA guideline 2020/02/20 from April 2020 (including updates), worsening of macroeconomic situation caused by Covid-19 did not result in an increase of days past due.

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**

59.11. Presentation of exposure by size classes

As 31 December 2020 around 41.6% (YE19: 42.4%) 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 1,387.9 million (YE19: EUR 1,053.0 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	31.12.2020 GoBs	Exposure EUR m	31.12.2019 GoBs
< 10,000	551.1	300,339	570.4	294,723
10,000-50,000	1,244.9	60,632	1,266.2	60,479
50,000-100,000	310.6	4,492	353.7	5,137
100,000-250,000	291.7	1,966	324.8	2,221
250,000-500,000	213.0	601	202.6	592
500,000-1,000,000	268.3	384	278.5	398
1,000,000-10,000,000	1,644.9	565	1,620.1	579
10,000,000-50,000,000	783.3	41	1,136.2	57
50,000,000-100,000,000	227.1	3	253.1	3
> 100,000,000	1,387.9	6	1,053.0	5
Total	**6,922.7**	**369,029**	**7,058.5**	**364,194**

59.12. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2020 Collateral	Exposure	31.12.2019 Collateral
1A-1E	1,695.3	384.2	1,751.8	401.3
2A-2E	3,288.0	660.4	3,445.0	770.1
3A-3E	1,188.2	297.9	1,215.7	348.6
Watch	335.8	126.3	190.0	58.4
NPE	1.7	0.5	1.1	0.9
No rating	16.5	1.3	18.0	2.9
Total	**6,525.5**	**1,470.6**	**6,621.5**	**1,582.1**

The non-performing exposure (NPE) 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	31.12.2020 Collateral	Exposure	31.12.2019 Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	109.9	27.1	151.7	67.9
- overdue 31 to 60 days	24.0	8.4	6.9	1.9
- overdue 61 to 90 days	21.4	14.7	3.0	0.5
- overdue 91 to 180 days	0.5	0.4	0.1	0.1
- overdue 181 to 365 days	0.0	0.0	0.1	0.1
- overdue over 1 year	0.0	0.0	0.6	0.6
Total	**155.9**	**50.6**	**162.4**	**70.9**

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)	31.12.2020	31.12.2019
Exposure	241.3	274.7
Provisions	179.4	204.0
Collateral	118.2	140.0

All financial assets to which one or several default criteria apply (positive impairment trigger) are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation according to note (60) 60.1 “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.

59.12.1. 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.

During the 2020, payment moratoria were granted on a significant number of exposures to a significant number of clients, due to special circumstances related to Covid-19. The mayority of payment moratoria granted in Addiko fulfil the conditions as defined in the EBA 2020/02/20 from April 2020 (including updates), and also with local regulation issued specifically for this purpose. As a consequence moratoria granted to clients impacted by Covid-19 was not considered an autmatic forbearance (or default) trigger, and as such have not impacted on the forbearance amounts, but are being disclosed in a separate table below.

The following chart provides an overview of the forbearance status at the Addiko Group in the course of the financial year 2020. The off-balance positions only include loan commitments:

EUR m

	01.01.2020	Classified as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2020
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	1.8	0.0	-0.1	0.0	0.0	0.0	1.7
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	-0.3	0.0
Non-financial corporations	49.9	33.5	-6.9	0.0	-0.4	-8.2	67.9
Households	34.8	22.7	-4.4	0.0	-0.2	-6.5	46.4
Loans and advances	**86.8**	**56.2**	**-11.4**	**0.0**	**-0.6**	**-15.0**	**116.0**
Loan commitments given	0.2	0.5	-0.1	0.0	0.0	0.0	0.7

The following table shows the forbearance status in the course of the year 2019:

EUR m

	01.01.2019	Classfied as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	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 forbearance exposure was as follows in 2020:

EUR m

	Closing Balance 31.12.2020	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	1.7	0.0	1.7	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	67.9	28.0	9.2	30.7	0.2
Households	46.4	22.4	4.8	19.2	0.4
Loans and advances	**116.0**	**50.3**	**15.7**	**49.9**	**0.6**

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 following table shows the collateral allocation for the forbearance exposure at the YE20:

EUR m

Internal Collateral Value (ICV) in respect of forborne assets	ICV	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	3.9	3.9	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	6.3	5.1	0.0	0.0	0.0	1.2
Medium and Small Corporate	42.9	30.9	2.5	0.3	5.2	4.1
Retail	22.7	3.9	17.6	0.0	1.1	0.1
Total	**75.8**	**43.8**	**20.0**	**0.3**	**6.3**	**5.4**

Following table shows the collateral allocation for the forbearance exposure at the YE19:

EUR m

Internal Collateral Value (ICV) in respect of forborne assets	ICV	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**

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

In the financial year 2020, the Addiko Group reported carrying amounts of inventories (including rescue acquisitions) of EUR 3.3 million (2019: EUR 4.4 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).

59.12.3. MORATORIA DUE TO COVID-19

Based on intervention acts relating to the debt payment moratorium imposed by governments where Addiko operates, the Group banking members enduring 2020 granted 75,698 such moratoria of which 1,888 were still active at 31.12.2020. As moratoriums were granted for the period between 3 to 12 months, a significant number of granted moratoria has already expired by end of 2020.

Most of these moratoriums were granted in 1H20. It should be noted that markets such as Serbia implemented such schemes on an opt-out basis or as strong obligatory measure such as Montenegro, which means that a relatively large share of exposures have been included. Other countries like Bosnia and Hercegovina, Slovenia and Croatia, adopted an approach in which the decision to grant the moratoria is on the bank, based on client´s request, and therefore lower volumes have been requested.

The moratorium applies to a large group of obligors predefined on the basis of broad criteria (national law, business segment, product range, etc.) and envisages only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time. Moratoriums are granted for the period between 3 to 12 months, subject to applicable government measure.

As previously disclosed, Addiko has concluded so far that almost all moratoria introduced in the markets of operation fulfil the conditions as defined in the EBA guidelines 2020/02/20 from April 2020 (including updates). Relief offered to credit owners during 2020 thus, did not result in an automatic triggering of forbearance or default classificaton. However, Addiko Group continues to perform individual assessments whether there are other or additional circumstances that would lead to forbearance or default classification.

The following table shows the amount of exposure under moratoria per market segment:

EUR m

31.12.2020		Performing		Non Performing		Total
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	18.9	1.3	2.5	1.8	21.4	3.1
SME	93.7	7.3	1.3	0.6	95.0	7.9
Non Focus	46.2	1.2	0.9	0.4	47.2	1.6
o/w Large Corporate	30.5	0.6	0.0	0.0	30.5	0.6
o/w Mortgage	15.5	0.6	0.9	0.4	16.4	1.0
o/w Public Finance	0.2	0.0	0.0	0.0	0.2	0.0
Corporate Center	0.0	0.0	0.0	0.0	0.0	0.0
Total	**158.8**	**9.9**	**4.7**	**2.7**	**163.5**	**12.6**

The following table shows the amount of exposure under moratoria per country:

EUR m

31.12.2020		Performing		Non Performing		Total
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Addiko Croatia	29.5	0.8	0.5	0.3	30.0	1.0
Addiko Slovenia	97.9	5.0	3.1	1.7	100.9	6.7
Addiko Serbia	0.0	0.0	0.0	0.0	0.0	0.0
Addiko in Bosnia and Herzegovina	31.0	4.1	0.6	0.4	31.6	4.5
Addiko Montenegro	0.4	0.0	0.6	0.3	1.0	0.4
Addiko Austria	0.0	0.0	0.0	0.0	0.0	0.0
Total	**158.8**	**9.9**	**4.7**	**2.7**	**163.5**	**12.6**

(60) Development of risk provisions

60.1. 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.

Model timeseries (under the same methodology used in the preparation of the 2019 financial statements) were prolonged in 2020 taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

In the financial year 2021 Addiko expects significant uncertainty with regards to the economic developments due to the Covid-19 pandemic. While governmental steps have been taken to cushion the effects of a worsening global economy and its impacts on households and businesses, Addiko expects more volatile risk costs for the duration of the Covid-19 containment measures. Thus, the constantly changing situation requires regular adjustments within the financial year 2021 on the basis of updated macroeconomic forecasts. The risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies, which take into account the effect of Covid-19.

The following table provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate the ECL for 31.12.2020. The amounts shown represent the average value of the macroeconomic variables for 2021 and the remaining 2-year forecast period (2022-23) for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

31.12.2020	Baseline case 2021[1]	Baseline case Remaining 2-year period[1]	Optimistic case 3-year period[1]	Pessimistic case 3-year period[1]
Real GDP (constant prices)				
Croatia	5.0	3.3	5.4	2.3
Slovenia	4.7	3.0	5.3	1.9
Bosnia & Herzegovina	3.1	3.1	3.9	2.2
Serbia	4.5	3.6	4.7	3.0
Montenegro	5.0	3.8	5.1	3.4
EMU	5.8	2.2	4.5	2.2
Unemployment Rate (ILO, average %)				
Croatia	8.0	7.2	6.4	8.7
Slovenia	4.4	3.6	2.6	5.1
Bosnia & Herzegovina	16.0	15.4	14.6	17.0
Serbia	9.2	8.1	7.4	9.8
Montenegro	17.5	15.4	15.1	17.5
EMU	10.2	9.0	8.8	10.2
Real-Estate (% of change)				
Croatia	0.0	4.0	5.8	-0.4
Slovenia	-0.2	2.6	6.6	-3.2
Serbia	-0.7	5.8	7.6	-0.4
EMU	0.3	2.8	6.7	-2.8
CPI Inflation (average % YoY)				
Croatia	1.0	1.6	1.6	1.1
Slovenia	1.3	1.8	2.1	1.2
Bosnia & Herzegovina	1.4	1.8	2.0	1.3
Serbia	2.2	2.4	2.6	2.0
Montenegro	1.1	1.8	1.9	1.2
EMU	1.0	1.4	1.5	1.1

[1]The numbers represent average values for the quoted periods
Source: wiiw macro scenarios and historical dataset

31.12.2019	Historical 2019	Baseline case First 12 months[1]	Baseline case Remaining 2-year period[1]	Optimistic case 3-year period[1]	Pessimistic case 3-year period[1]
Real GDP (constant prices)					
Croatia	3.0	5.0	3.3	5.4	2.3
Slovenia	2.4	4.7	3.0	5.3	1.9
Bosnia & Herzegovina	2.7	3.1	3.1	3.9	2.2
Serbia	4.0	4.5	3.6	4.7	3.0
Montenegro	3.3	5.0	3.8	5.1	3.4
EMU	1.1	5.8	2.2	4.5	2.2
Unemployment Rate (ILO, average %)					
Croatia	6.6	8.0	7.2	6.4	8.7
Slovenia	4.6	4.4	3.6	2.6	5.1
Bosnia & Herzegovina	15.7	16.0	15.4	14.6	17.0
Serbia	10.7	9.2	8.1	7.4	9.8
Montenegro	14.8	17.5	15.4	15.1	17.5
EMU	7.6	10.2	9.0	8.8	10.2
Real-Estate (% of change)					
Croatia	8.0	0.0	4.0	5.8	-0.4
Slovenia	4.7	-0.2	2.6	6.6	-3.2
Serbia	n.a.	-0.7	5.8	7.6	-0.4
EMU	4.2	0.3	2.8	6.7	-2.8
CPI Inflation (average % YoY)					
Croatia	0.8	1.0	1.6	1.6	1.1
Slovenia	1.7	1.3	1.8	2.1	1.2
Bosnia & Herzegovina	0.6	1.4	1.8	2.0	1.3
Serbia	1.7	2.2	2.4	2.6	2.0
Montenegro	0.4	1.1	1.8	1.9	1.2
EMU	1.2	1.0	1.4	1.5	1.1

[1]The numbers represent average values for the quoted periods
Source: wiiw macro scenarios and historical dataset

The above scenarios are based on 30 September 2020 data and differentiated by the severity and duration of the associated economic impact of Covid-19, with a greater number of infections coinciding with longer periods of restrictions in activity and greater economic impact. The three scenarios are:

- Baseline: European economies will record unprecedented deep recessions in 2020 due to Covid-19 shock and group of countries in Addiko´s portfolio will experience larger hit since global financial crisis and earlier. It is clear that second wave is bringing about new lock-down measures, which will translate into relatively sluggish recovery. What will account for the difference in the recovery patterns across Addiko´s markets are country-specific structural weaknesses and financial constraints. A relatively firm and uniform bounce-back is expected by the second half of 2021, subject to material downside risks. Cumulative growth in the critical first three years is expected to remain positive for all countries in focus. This is especially true for Serbia which is less vulnerable to changes of the tourism market, has somewhat larger fiscal space and younger population overall. However, due to the lag effects on unemployment and second-round wage bargaining, consumer spending could remain sluggish, contributing to dampened business confidence and lower investment expectations, amplifying uncertainty surrounding the recovery phase. Global monetary conditions were already extraordinary loose before the coronavirus crisis, and this is now even more the case so one can expect ultra-low interest rates and large asset purchase program by the major central banks to continue until at least mid-2021.

- Optimistic: This scenario reflects a combination of the factors such as quicker-than-expected rollout of mass testing capacities, creation of a widely available vaccine, more robust upturn in the key Asian economies than currently projected, and consequently higher demand for European exports. Larger commitment of European institutions to the common recovery fund and ameliorating internal tensions between north and south Europe would of course additionally help to boost the recovery. The cyclical pattern can hardly be altered in short-run, but the positive outcomes mentioned could push the level of growth by as much as 1% annually, which implies regaining on average about 2/3 of the loss from 2020 already in the first year, and surpassing the pre-crisis level by the end of simulation horizon by more than 4%.

- Pessimistic: This scenario implies longer-than-expected waiting period for a mass vaccine, potentially with virus mutating into more dangerous ones, requiring the reinstatement of severe lockdown measures across Europe with that could last longer period of time, including in the Addiko countries of operation. Less effective and not optimally coordinated monetary, fiscal and banking policies and measures will put a pressure on the recovery, thus increasing existing vulnerabilities. It would slash the growth performance by half in comparison two the optimistic scenario, i.e. rather only 1/3 of the loss of output incurred in the 2020 would be regained in the first year of simulation, and barely would reach pre-crisis level by the end of three years from now. Croatia, which accounts for the largest portfolio of Addiko, would still not reach pre-crisis level in this scenario. However, moving to more restrictive conditions that forecasters have to envisage in designing scenarios this time entails great uncertainty. It is not only difficult to anticipate policy reactions or their effectiveness, but also their feedback on the uncertainty. On top of all that, there is scarcity of similar events that could provide useful empirical guidance.

The following table shows how the ECL allowance for stage 1 and stage 2 is taking into account the forward looking information from the weighted multiple economic scenarios. In line with the ESMA enforcement recommendations on the ECL measurement in the context of the Covid-19 pandemic, the Group's adapted its probability-weighted ECL allowance to reflect a 40 percent weighting of the base case (YE19: 60%), a 0 percent weighting of the optimistic case (YE19: 10%) and a 50 percent weighting of the pessimistic case (YE19: 30%). In addition the 2020 calculation includes a simulation of a more adverse scenario reflected as a model risk position (10%).

EUR m

31.12.2020	Probability weighted	Optimistc Case	Base Case	Pessimitic Case
Retail	55.6	53.9	55.3	56.8
Non-Retail	39.9	36.4	39.2	42.5
Corporate Center	3.0	2.2	2.8	3.8
Total	**98.5**	**92.5**	**97.2**	**103.0**

60.2. Development of risk provisions

The significant increase of risk provisions during 2020 is caused mainly by recognition of Covid-19 impact on the macro economic environment. The impact was, as described above, included in the ECL calculation model, rising overall ECL coverage for performing loans (stage 1 and stage 2). Partially due to moratoria granted by the bank, as well as due to various supportive measures initiated by governments, the impact of Covid-19 did not generate a material decrease of the asset quality in 2020 (no material increases in NPE and related risk provisions).

60.3. Changes in the calculation of portfolio risk provisions

Based on Addiko Group's ongoing model improvement framework, controls and updates are performed regularly to make sure that the latest available information is considered.

In the evaluation of the probability of default (PD) risk parameter, time series were extended to cover the most recent available time period in order to ensure that the migration matrices and calibration levels reflect the most up to date information. The interaction between PD and macroeconomic indicators were also investigated and then re-evaluated based on the extended time series. Whilst the applied methodology is identical to the one used at the beginning of the year, the extension of the time series can lead to changes in the observed significance of various indicators leading to changes in the variables entering the models compared to previous years. The current forecasts of macroeconomic indicators were then applied to the re-evaluated models to obtain the currently used parameterised matrices. The current forecasts are strongly impacted by the Covid-19 pandemic and reflect expectations of a significant worsening of economic conditions. Due to this, the estimated probabilities of default have risen significantly compared to the beginning of the period, leading to an increase in the expected credit loss.

In addition to the PD, the loss given default (LGD) risk parameter is estimated for the first time based on a statistical model for the private individuals and small enterprises portfolios. This activity was scheduled prior Covid 19 in order to replace expert values with real empirical evidence and is consequently independent of the recent economic developments. The LGD estimation includes parameters, which are applied during the ongoing assessment of performing clients, and parameter series, which are used in the collective assessment of non-performing clients, which are both estimated based on the observed history. For each of Addiko's banks, the various segments were investigated and analysed separately to ensure the representativity of the parameters for LGD. Aside from a few exceptions, the LGD values applied for performing clients have fallen compared to the values applied in previous years, leading to an overall reduction of the expected credit loss. In the case of the parameters applied in the collective assessment of non-performing clients, the effects show either a slight increase or a slight decrease of the expected loss, depending on the segment.

In addition to the risk parameters, Addiko Bank re-assessed the IFRS 9 PD thresholds for staging across its portfolio and product types. The thresholds were determined in line with industry wide practice and introduced a relative quantitative criterion in addition to the existing mathematically absolute change relative to initial recognition threshold used for SICR assessment. Where the relative changes are defined as the relative difference between the probability of default at origination the probability of default at the reporting date. The re-assessment was not Covid-19 induced and was instead driven as part of ongoing improvements and a desire to adhere to relevant industry best practice. The change in staging criteria has led to a nearly neutral ECL change.

The assessment of significant increase in credit risk and measurement of ECL provisions are required to be based on best available information about past events, current conditions and forecasts of economic conditions; This is especially important as changes occur rapidly such as with the current uncertainty we are now seeing. At the same time, the rapid changes make it impossible to provide a full certain reflection of future conditions with such increased uncertainty. As such, based on the short time series from which to base the impact of Covid-19 and the economic uncertainty in 2020 Addiko Bank has included a post model adjustment to cater for the severe economic circumstances. A simulation under consideration of additional macro worsening (baseline 40%, pessimistic 50%, adverse 10%) was assesses and lead to the post model risk overlay. The post model adjustment is in line with the IASB – IFRS 9 publication (27.03.2020): "IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic." The post model adjustment has been applied following robust governance controls and thoroughly documented and, will be re-assessed within the course of the ECL model updates in 2021.

60.4. Development of the coverage ratio

The coverage ratio 1 remains on the same level (73.6%) compared to the YE19 (73.8%). The slight reduction is resulting out of the performed write offs in the Consumer and Mortgage portfolio in Addiko Bank Sarajevo and Addiko Bank Banja Luka.

The following tables show the NPE and coverage ratios at YE20 and YE19:

EUR m

31.12.2020	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (On-balance loans)	Coverage Ratio 1	Coverage Ratio 3
Consumer	1,508.2	78.5	65.9	9.7	5.2%	5.6%	83.9%	96.3%
SME	1,729.1	68.7	47.4	40.1	4.0%	5.8%	69.0%	127.4%
Non Focus	1,628.9	96.5	66.1	69.5	5.9%	6.7%	68.5%	140.5%
o/w Large Corporate	749.5	15.4	8.2	10.3	2.1%	2.3%	53.4%	120.2%
o/w Mortgage	718.3	80.2	57.4	58.7	11.2%	11.1%	71.6%	144.9%
o/w Public Finance	161.1	0.9	0.5	0.5	0.6%	0.6%	49.6%	100.6%
Corporate Center	2,056.5	0.0	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Total	**6,922.7**	**243.7**	**179.4**	**119.3**	**3.5%**	**5.9%**	**73.6%**	**122.6%**
o/w Credit Risk Bearing	**5,013.6**	**243.7**	**179.4**	**119.3**	**4.9%**	**5.9%**	**73.6%**	**122.6%**

The NPE Ratio (On-balance loans) is calculated according to EBA definition.

EUR m

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (On-balance loans)	Coverage Ratio 1	Coverage Ratio 3
Consumer	1,531.5	84.3	77.5	12.0	5.5%	5.9%	91.9%	106.1%
SME	1,758.6	69.3	45.8	44.0	3.9%	5.6%	66.1%	129.6%
Non Focus	1,839.1	122.9	80.7	85.7	6.7%	7.4%	65.6%	135.4%
o/w Large Corporate	810.6	22.8	10.8	14.9	2.8%	3.0%	47.5%	112.5%
o/w Mortgage	837.0	94.6	66.8	66.2	11.3%	11.3%	70.7%	140.7%
o/w Public Finance	191.5	5.5	3.0	4.6	2.9%	3.2%	54.2%	138.4%
Corporate Center	1,929.3	0.0	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Total	**7,058.5**	**276.5**	**204.0**	**141.7**	**3.9%**	**6.2%**	**73.8%**	**125.0%**
o/w Credit Risk Bearing	**5,250.7**	**276.5**	**204.0**	**141.7**	**5.3%**	**6.2%**	**73.8%**	**125.0%**

(61) Measurement of real estate collateral and other collateral

The real estate market in Addiko operating countries is closely monitored from the beginning of the Covid-19 crisis. During the lock down, the real estate market was completely inactive and in last two month an increase in number of transactions can be observed. Still the number of transactions on the market is low because sellers are reluctant to decrease prices and investors are waiting for prices to decrease. Generally, Addiko estimates that prices on the real estate market take time to adjust to the circumstances and a decrease of the prices is expected during 2021. Since prices on the market still do not show significant negative trend and Addiko is using conservative haircuts for the calculation of the internal collateral values, which buffer potential losses, an extraordinary re-assessment of the market values for collaterals was not considered to be necessary yet.

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 2020 as well as 31 December 2019:

EUR m

Collateral Distribution	31.12.2020	31.12.2019
Exposure	6,922.7	7,058.5
Internal Collateral Value (ICV)	1,639.4	1,793.1
thereof CRE	663.6	703.8
thereof RRE	562.9	635.6
thereof financial collateral	29.0	27.3
thereof guarantees	267.7	293.4
thereof other	116.3	133.0
ICV coverage rate	**23.7%**	**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 7.35K(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

31.12.2020	Gross Carrying amount	Fair value of collateral held under the base case scenario								Net exposure	ECL
		Securities	Guarantees	Property	Other	Offsetting	Surplus collateral	Total collateral			
Loans and advances	**233.4**	**0.0**	**0.4**	**44.2**	**0.8**	**0.1**	**0.0**	**45.5**		**187.9**	**174.1**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Governments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.3	0.1
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Non-financial corporations	81.9	0.0	0.4	23.6	0.7	0.1	0.0	24.8		57.1	58.0
Households	151.2	0.0	0.0	20.7	0.0	0.0	0.0	20.7		130.5	116.0
Commitments and financial guarantees	**9.7**	**0.0**	**0.0**	**1.1**	**0.0**	**4.0**	**0.5**	**5.7**		**4.0**	**4.9**
Loan commitments given	1.3	0.0	0.0	0.3	0.0	0.0	0.0	0.3		1.0	0.9
Financial guarantees given	3.5	0.0	0.0	0.5	0.0	0.9	0.0	1.5		2.1	2.5
Other commitments given	4.9	0.0	0.0	0.3	0.0	3.1	0.5	3.9		1.0	1.5

EUR m

31.12.2019	Gross Carrying amount	Fair value of collateral held under the base case scenario								Net exposure	ECL
		Securities	Guarantees	Property	Other	Offsetting	Surplus collateral	Total collateral			
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

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.

(62) Market risk

62.1. 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.

62.2. 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).

62.3. Overview – market price risk

62.3.1. 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 31.12.2020 is EUR 0.7 million (comparable VaR figure as at 31 December 2019: EUR 1.5 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 2020. 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.

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% (2.7% at 31.12.2020 versus 5.9% at 31.12.2019) 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 (4.0% at 31.12.2020 versus 7.2% at 31.12.2019).

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 2020 amounts to EUR -0.2 million (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2019 was EUR -0.3 million.

62.3.2. 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 2020 is roughly EUR 607.0 million (volume per 31 December 2019 of approx. EUR 626.5 million), with the majority attributed to the currencies HRK and RSD. The value at risk for foreign exchange risk was approximately EUR 0.4 million per day as at 31 December 2020 (value at risk as at 31 December 2019: EUR 0.6 million), at a confidence interval of 99.0%. The limit of EUR 1.9 million was adhered to as at 31 December 2020.

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 (equity of EUR +193.6 million) and Addiko d.d. Zagreb (equity of EUR +382.5 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.

62.3.3. 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 5,313.0 as at 31 December 2020 (value at risk as at 31 December 2019: EUR 2,898.0) with a one-day holding period and a confidence level of 99.0% and EUR 0.0 – no exposure - (value at risk as at 31 December 2019: EUR 1,071.0) 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 2020 and therefore also no major concentration risk exists here.

62.3.4. CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.8 million at 31 December 2020 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2019: EUR 0.7 million). The limit of EUR 2.7 million was adhered to as at 31 December 2020. 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.

(63) Liquidity risk

63.1. 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.

63.2. 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 CSF 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.

63.3. 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 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 175.9 % in February 2020 and its peak of 235.6 % in July 2020.

In December 2020, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Counterbalancing Capacity	Addiko Group countable
Coins and bank notes	116.3
Withdrawable central bank reserves	653.4
Level 1 tradable assets	631.4
Level 2A tradable assets	4.6
Level 2B tradable assets	35.5
Total Counterbalancing Capacity	**1,441.2**

In December 2019, the counterbalancing capacity at the Addiko Group was structured as follows (the table from 2019 was adapted to the new calculation method that was introduced in 2020):

EUR m

Counterbalancing Capacity	Addiko Group countable
Coins and bank notes	120.9
Withdrawable central bank reserves	318.2
Level 1 tradable assets	732.0
Level 2A tradable assets	6.5
Level 2B tradable assets	40.3
Total Counterbalancing Capacity	**1,217.9**

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.

63.4. Overview – liquidity situation

The liquidity situation of the Addiko Group in 2020 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 5.0 billion. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2021.

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 sight and term-deposits. The most important currency in funding with 68 % 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 customers 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

31.12.2020	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	4,973.4	5,019.7	3,006.5	667.0	791.9	422.2	132.2
Deposits of customers	4,728.1	4,737.9	2,978.8	651.8	764.5	306.6	36.2
Deposits of credit institutions	196.2	223.6	8.4	1.4	24.2	97.9	91.7
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Other financial liabilities	49.0	58.2	19.3	13.8	3.2	17.6	4.2
Derivatives	4.9	1.7	1.0	0.6	0.0	0.0	0.0
Loan commitments	0.0	588.8	495.6	0.0	34.2	59.0	0.0
Financial guarantees	0.0	178.2	74.4	4.8	0.0	99.0	0.0
Other commitments	0.0	251.0	250.8	0.0	0.2	0.0	0.0
Total	**4,978.2**	**6,039.5**	**3,828.5**	**672.4**	**826.3**	**580.2**	**132.2**

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**

(64) Operational risk

64.1. 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.

64.2. General requirements - Operational risk management framework

Operational risk management (ORM) 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.

64.3. 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.

64.4. 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.

(65) 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.

(66) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk,
- Macroeconomic risks,

- Systemic risks,
- Business risk/Strategic risk.

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

Environmental, Social and Governance (ESG) Risks

ESG risks include all risks arising from potential negative impacts, direct or indirect, on the environment, people and communities and more generally all stakeholders, in addition to those arising from corporate governance. ESG risk could affect profitability, reputation and credit quality and could lead to legal consequences.

Addiko takes into account the environmental, social and governance (“ESG”) risks, associated with the activities of customer companies and pays particular attention to in-depth analysis of sustainability issues related to sectors which are considered as sensitive. Addiko does not treat the ESG risks as a separate risk type but integrates them in the existing risk classification and into the existing risk management framework.

As a first step Addiko concentrates on environmental risk management. Due to the fact that Addiko puts its focus on unsecured consumer lending, the environmental risk is considered a minor risk driver, primarily influencing non-retail exposures in specific industries.

The Credit Policy defines industries that are sensitive to environmental and social criteria or would be forbidden to finance. During the credit approval process, special attention is taken when analysing the aspects of the potential ESG risks that the company might face in its business performance or related to the specific project. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.

After aspects above being analysed and in case that transaction is being supported adequate mitigating and monitoring system is implemented/established which will ensure the control over the transaction.

(67) Legal Risk

Historical unilateral interest change and Suisse Frank clause risk

As at 31 December 2020 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 73.2 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 different jurisdictions as Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Montenegro; some of the local court practices and verdicts went against the defendant subsidiary banks, but other cases were ruled in their favor.

After the enactment of the Conversion Law in Serbia in May 2019, the majority of Addiko Serbia's CHF borrowers (89%) accepted the offers and withdrew their previous claims.

The subsidiary bank in Slovenia has 56 ongoing legal disputes in connection with CHF loans, whereby a positive outcome is expected for the Group which the current court practice in cases Addiko involved confirms. So far, regulatory authority and legislator have largely represented the interests of the banks. After breaking up the negotiations between the Slovenian Banking Association, Slovenian "Efektiva" and the government in November 2019 no further attempt was made by the government or parliament to introduce a Conversion Law in Slovenia. Nevertheless, the subsidiary bank in Slovenia started offering voluntary conversion of CHF loans (no retroactive effects) to clients. Until YE20 approximately 35%, i.e. 21 clients, of the contacted clients agreed. Conversion offers will be continued to other CHF clients during 2021.

In Bosnia & Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Sarajevo 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 31 December 2020, 84% of the customers requested a conversion, of which 75% were converted and 11% were closed without conversion in Sarajevo and, 91,7 % of the customers requested a conversion, of which 93,2 % were converted and 6,8 % were closed without conversion in Banja Luka. 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 neighboring 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. The loan agreement with the IMF ends in 2021 and is yet not prolonged. Hence, there might be no contractual obligation by Bosnia & Hercegovina not to introduce such a Conversion Law. On 19 January 2021 the parliament of the Federation in Bosnia voted on the application of the 2017 draft of a CHF Conversion Law ("Draft"). Although the parliament voted in favor on the motion to introduce the Draft it requested the petitioner to add all objections against the Draft stated during the parliamentary discussions when bringing the Draft again for voting. This means that the Draft needs to pass two times the House of Representatives and the House of Peoples before being adopted. It needs to be stressed that the Draft was already rejected by the parliament in 2017.

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 and 2020 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 which was confirmed by the Croatian Supreme Court ruling in a sample case proceeding that converted loans can only be annulled if general reasons for invalidity of the conversion annex were given, e.g. incapacity of the plaintiff to sign legal documents. In Q4/2020 two cases from another bank regarding validity of converted loans, i.e. validity of the annex, were referred to the CJEU for preliminary ruling.

In the class action against Addiko Bank a.d. Montenegro regarding the validity of the CHF clause the first instance ruled that this clause is invalid in 2020. Nevertheless, plaintiffs' request for compensation was denied and plaintiffs were ordered by the court to request conversion under the Conversion law 2015. An appeal was filed.

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. In the proceedings against Montenegro the main hearing has been conducted and parties are waiting for the final award. In the proceedings against Croatia the main hearing will be conducted in March 2021.

EUR m

	Exposure	31.12.2020 thereof CHF	Exposure	31.12.2019 thereof CHF
Addiko Bank Croatia	2,612.8	35.3	2,702.8	47.0
Addiko Bank Slovenia	1,689.8	58.1	1,773.4	68.8
Addiko Bank Serbia	1,059.6	4.1	1,001.4	3.9
Addiko Bank Sarajevo	621.7	7.1	596.6	9.3
Addiko Bank Banja Luka	482.8	6.1	479.8	4.6
Addiko Bank Montenegro	238.0	4.0	252.4	4.4
Addiko Holding	217.9	0.0	252.0	0.0
Total	**6,922.7**	**114.6**	**7,058.5**	**137.9**

During the business year 2020, CHF portfolio decreased from EUR 137.9 million at the end of 2019 to EUR 114.6 million at YE20. The reduction was mainly driven by the ongoing implementation of CHF conversion law for mortgage loans, which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019.

Passive legal disputes

The overall number of passive legal disputes increased in 2020. The majority of pending proceedings relate to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries, here especially the Croatian subsidiary. In the Republic of Serbia again loan processing fees disputes increased significantly in 2020.

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. 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 new legal disputes 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

(68) Analysis of remaining maturities

EUR m

31.12.2020	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	912.1	238.0	3.4	2.7	0.1	1,153.5	2.7	1,156.3
Financial assets held for trading	2.1	0.7	2.4	31.3	0.0	5.1	31.3	36.4
Financial assets mandatorily at fair value through profit or loss	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Financial assets at fair value through other comprehensive income	48.7	39.3	112.0	480.3	248.4	200.0	728.7	928.7
Financial assets at amortised cost	84.3	329.9	878.6	1,506.0	842.4	1,292.8	2,348.4	3,641.2
Tangible assets	-	-	-	-	-	0.0	78.8	78.8
Intangible assets	-	-	-	-	-	0.0	26.4	26.4
Tax assets	-	-	-	-	-	21.9	3.3	25.2
Current tax assets	-	-	-	-	-	3.9	0.0	3.9
Deferred tax assets	-	-	-	-	-	18.0	3.3	21.3
Other assets	-	-	-	-	-	18.4	0.0	18.5
Non-current assets and disposal groups classified as held for sale, financial instruments	-	-	-	-	-	2.7	0.0	2.7
Total	**1,047.5**	**607.9**	**996.4**	**2,020.2**	**1,090.9**	**2,694.9**	**3,219.6**	**5,914.5**
Financial liabilities held for trading	1.0	1.0	0.1	2.2	0.6	2.1	2.8	4.9
Financial liabilities measured at amortised cost	2,681.4	696.2	1,105.4	372.7	117.6	4,483.0	490.4	4,973.4
Provisions	-	-	-	-	-	48.1	10.1	58.2
Other liabilities	-	-	-	-	-	25.9	0.5	26.3
Total	**2,682.4**	**697.2**	**1,105.5**	**374.9**	**118.2**	**4,559.1**	**503.7**	**5,062.8**

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	85.9	85.9
Intangible assets	-	-	-	-	-	0.0	27.9	27.9
Tax assets	-	-	-	-	-	5.9	19.8	25.7
Current tax assets	-	-	-	-	-	0.9	0.9	1.8
Deferred tax assets	-	-	-	-	-	5.0	18.9	23.9
Other assets	-	-	-	-	-	15.1	5.5	20.6
Non-current assets and disposal groups classified as held for sale, financial instruments	-	-	-	-	-	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	-	-	-	-	-	47.7	19.2	66.9
Other liabilities	-	-	-	-	-	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**

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.

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

69.1. Finance leases

The receivables under finance lease are included in loans and receivables, breaking down as follows:

EUR m

	31.12.2020	31.12.2019
Minimum lease payments (agreed instalments + guaranteed residual value)	7.5	9.7
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	7.5	9.7
up to 1 year	2.7	2.6
from 1 year to 2 years	3.0	2.8
from 2 year to 3 years	1.8	2.8
from 3 year to 4 years	0.0	1.6
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0
Unrealised financial income (interest) (-)	0.0	-0.6
Net investment value (=)	7.5	9.1
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	7.5	9.1
up to 1 year	2.7	2.3
from 1 year to 2 years	3.0	2.6
from 2 year to 3 years	1.8	2.7
from 3 year to 4 years	0.0	1.6
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0

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

EUR m

	31.12.2020	31.12.2019
Movable Assets	7.5	9.1
Total	**7.5**	**9.1**

69.2. Operating leases

The undiscounted minimum lease payments to be received after the reporting date from operating leases for each of the years of the lease contract are shown as follows:

EUR m

	31.12.2020	31.12.2019
up to 1 year	0.3	0.6
from 1 year to 2 years	0.2	0.5
from 2 year to 3 years	0.1	0.5
from 3 year to 4 years	0.1	0.4
from 4 year to 5 years	0.0	0.3
over 5 years	0.0	0.0
Total	**0.7**	**2.3**

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

EUR m

	31.12.2020	31.12.2019
Investment properties	0.5	1.8
Land and buildings	0.2	0.4
Total	**0.7**	**2.3**

Rental income recognised by the Group during the year 2020 is EUR 0.3 million (2019: EUR 0.3 million).

(70) 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 (11) Leases, 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 -8.9 million in 2020 (2019: EUR -8.3 million).

The undiscounted maturity analysis of lease liabilities under IFRS 16 is as follows:

EUR m

Maturity analysis - contractual undiscounted cashflow	31.12.2020	31.12.2019
up to 1 year	4.7	6.8
from 1 year to 5 years	14.7	14.9
more than 5 years	3.1	5.6
Total undiscounted lease liabilities	**22.5**	**27.4**

The expenses relating to payments not included in the measurement of the lease liability are as follows:

EUR m

	31.12.2020	31.12.2019
Short-term leases	0.4	0.3
Leases of low value assets	1.0	0.6
Variable lease payments	0.4	0.4
Total	**1.8**	**1.3**

(71) Assets/liabilities denominated in foreign currencies

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

EUR m

	31.12.2020	31.12.2019
Assets	2,330.3	2,188.4
Liabilities	1,513.1	1,379.5

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.

(72) Return on total assets

As at 31 December 2020, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 0.02% (2019: 0.6%). The ratio is calculated by dividing the result after tax for the year by total assets at the reporting date.

(73) Transfer of financial assets - repurchase agreements

At the reporting date, no financial assets have been transferred under repurchase agreements. For the previous period the amounts were as follows:

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**

(74) 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

	31.12.2020	31.12.2019
Loan commitments given	588.8	593.0
Financial guarantees given	178.2	189.5
Other commitments, given	251.0	224.7
Total	**1,018.1**	**1,007.3**

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.

(75) 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. Addiko Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of Addiko Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. Addiko Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

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 de-rived 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.

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

Financial assets and financial liabilities are reported by instrument in the following way:

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 fac-tors 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.

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.

75.1. 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

31.12.2020	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	16.7	19.8	0.0	36.4
Derivatives	0.0	3.1	0.0	3.1
Debt securities	16.7	16.7	0.0	33.4
Investment securities mandatorily at FVTPL	0.0	0.0	0.3	0.3
Equity instruments	0.0	0.0	0.3	0.3
Investment securities at FVTOCI	824.0	102.2	2.6	928.7
Equity instruments	15.9	2.5	0.6	19.0
Debt securities	808.1	99.7	2.0	909.7
Total	**840.6**	**122.0**	**2.9**	**965.5**
Liabilities				
Financial liabilities held for trading	**0.0**	**4.9**	**0.0**	**4.9**
Derivatives	0.0	4.9	0.0	4.9
Total	**0.0**	**4.9**	**0.0**	**4.9**

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

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 described above for the categorisation in the respective level.

In the previous reporting period debt securities at FVTOCI with a book value of EUR 16.9 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. No such transfer took place in the financial year 2020. Debt securities at FVTOCI with a book value of EUR 66.1 million (2019: EUR 109.3 million) and debt securities held for trading with a book value of EUR 10.5 million (2019: EUR 2.1 million) were moved from level II to level I due to a more liquid market.

Unobservable inputs and sensitivity analysis for Level III measurements

For investment securities classified in level III, which is an illiquid unlisted corporate bond, the main input parameter is the discount factor. If the credit spreads used in the calculation of the fair value increased by 100 basis points, the cumulative valuation result as of 31 December 2020 would have decreased by EUR 0.1 million. If the credit spreads used in the calculation of the fair value decreased by 100 basis points, the cumulative valuation result as of 31 December 2020 would have increased by EUR 0.1 million. The development of Level III is presented as follows.

EUR m

2020	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into/out of other Levels	Other (+/-)	31.12.
Assets								
Investment securities mandatorily at FVTPL	0.3	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	0.3
Investment securities at FVTOCI	2.7	0.0	0.0	0.0	-0.1	0.0	0.0	2.6
Equity instruments	0.7	0.0	0.0	0.0	-0.1	0.0	0.0	0.6
Debt securities	2.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Total	**3.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**	**0.0**	**2.9**

EUR m

2019	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into/out of other Levels	Other (+/-)	31.12.
Assets								
Investment securities mandatorily at FVTPL	0.3	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	0.3
Investment securities at FVTOCI	0.6	0.0	0.0	2.0	0.0	0.1	0.0	2.7
Equity instruments	0.6	0.0	0.0	0.0	0.0	0.1	0.0	0.7
Debt securities	0.0	0.0	0.0	2.0	0.0	0.0	0.0	2.0
Total	**0.9**	**0.0**	**0.0**	**2.0**	**0.0**	**0.1**	**0.0**	**3.0**

75.2. 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

31.12.2020	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)]	1,156.3	1,156.3	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,641.2	3,984.8	343.7	0.0	0.0	3,984.8
Loans and receivables	3,641.2	3,984.8	343.7	0.0	0.0	3,984.8
Total	**4,797.5**	**5,141.1**	**343.7**	**0.0**	**0.0**	**3,984.8**
Liabilities						
Financial liabilities measured at amortised cost	4,973.4	4,988.3	-14.9	0.0	0.0	4,988.3
Deposits	4,924.3	4,939.2	-14.9	0.0	0.0	4,939.2
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1
Other financial liabilities	49.0	49.1	-0.1	0.0	0.0	49.1
Total	**4,973.4**	**4,988.3**	**-14.9**	**0.0**	**0.0**	**4,988.3**

[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

31.12.2019	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

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.

Addiko Group assessed that the fair value of cash positions approximately corresponds to their carrying amounts largely due to the short-term maturities of these instruments.

75.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At YE20 the carrying amount of investment properties amounts to EUR 4.7 million (2019: EUR 4.1 million), whereas the fair value amounts to EUR 5.0 million (2019: EUR 4.2 million). All investment properties were classified in level III (2019: level III).

(76) 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 realise 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

31.12.2020	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II)[1]	**0.1**	**2.0**	**2.0**
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**	**2.0**	**2.0**
d) Master netting arrangements (that are not included in b)			
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0	0.0
Amounts related to financial collateral (including cash collateral);	0.1	0.0	0.1
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	2.0	2.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[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	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	7.7	7.7
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

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

The prior year´s figure in the line "Amounts related to non-cash financial collateral received (excluding cash collateral)" was adjusted doe to the editorial error from EUR 0.0 million to EUR 7.7 million.

EUR m

31.12.2020	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II)[1]	**3.2**	**0.0**	**3.2**
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)	**3.2**	**0.0**	**3.2**
d) Master netting arrangements (that are not included in b)			
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0	0.0
Amounts related to financial collateral (including cash collateral);	3.2	0.0	3.2
Amounts related to non-cash financial collateral pledged (excluding cash collateral)	0.0	0.0	0.0
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

31.12.2019	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

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.

(77) Derivative financial instruments

77.1. Derivatives held for trading

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

EUR m

	31.12.2020	Fair values		31.12.2019	Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**332.7**	**2.3**	**3.8**	**417.8**	**2.2**	**2.9**
OTC options	27.9	0.0	0.0	38.8	0.1	0.1
OTC other	304.8	2.3	3.8	379.0	2.1	2.8
b) Foreign exchange and gold						
OTC-products	**183.7**	**0.8**	**1.0**	**205.4**	**0.3**	**3.0**
OTC other	183.7	0.8	1.0	205.4	0.3	3.0
c) Credit derivatives	**8.1**	**0.0**	**0.1**	**8.9**	**0.0**	**0.2**
Credit default swap	8.1	0.0	0.1	8.9	0.0	0.2

(78) Related party disclosures

Following the initial public offering (IPO) in July 2019, AI Lake (Luxembourg) S.à r.l. was Addiko's single largest shareholder. During the year 2020 AI Lake (Luxembourg) S.à r.l. sold its shares in Addiko Bank AG. All existing service level agreements between Addiko Bank AG or its subsidiaries and AI Lake (Luxembourg) S.à r.l. existed in relation to Real Estate Sales Program, Business Continuity Management and Corporate Communication / Marketing have been cancelled in July 2020. As of the reporting date, there are therefore no companies with significant influence, as around 62.9% is in free float and the other investors each hold a stake of less than 10%.

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. Transaction with related parties are done at arm´s length.

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

EUR m

31.12.2020	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.0	0.0
Loan and advances	0.0	0.0	0.0
Financial liabilities	0.0	1.8	0.0
Deposits	0.0	1.8	0.0
Other liabilities	0.0	0.0	0.0

EUR m

31.12.2019	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.1	0.0
Loan and advances	0.0	0.1	0.0
Financial liabilities	0.0	1.3	0.0
Deposits	0.2	1.3	0.0
Other liabilities	0.2	0.0	0.0

EUR m

31.12.2020	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
Interest expenses	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0
Other administrative expenses	0.0	0.0	0.0
Total	**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**

Remuneration received by key members of management within the Addiko Group are presented as follows:

EUR m

	31.12.2020	31.12.2019
Short term employee benefits	7.0	7.9
Other long term benefits	0.4	1.1
Termination benefits	1.3	1.5
Total	**8.6**	**10.5**

The figures presented in the table above are based on the amounts paid or payable in the respective reporting period.

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (86) Relationships with members of the Company's Boards.

(79) Capital management

79.1. 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 centralised 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.

79.2. 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.

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.

79.3. 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 2020 and 31 December 2019 amount to:

	31.12.2020			31.12.2019		
	CET1	T1	TCR	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**8.60%**	**10.10%**	**12.10%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.00%	0.00%	0.00%	0.003%	0.003%	0.003%
Combined Buffer Requirements (CBR)	**2.50%**	**2.50%**	**2.50%**	**2.503%**	**2.503%**	**2.503%**
Overall Capital Requirement (OCR)	**11.10%**	**12.60%**	**14.60%**	**11.103%**	**12.603%**	**14.603%**
Pillar II guidance (P2G)[1)]	4.00%	4.00%	4.00%	na	na	na
OCR + P2G	**15.10%**	**16.60%**	**18.60%**	**11.103%**	**12.603%**	**14.603%**
Temporary requirements after capital relief by ECB (without CCB + P2G)[1)]	**8.60%**	**10.10%**	**12.10%**	**na**	**na**	**na**

[1)] As response to the Covid-19 pandemic, CCB and P2G are part of the capital relief acc. to the 12 March 2020 press release by ECB Banking Supervision.

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 2019 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. The 2020 SREP assessment has been performed by the FMA using a pragmatic approach in the light of the Covid-19 pandemic. This approach focused on the ability of the supervised entities to respond to the challenges of the Covid-19 crisis and its impact on their current and prospective risk profile and carried forward the requirements resulting out of the 2019 SREP cycle. This means that the Pillar II requirement from the 2020 SREP process remains unchanged at 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%. 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. As announced by the European Central Bank (ECB) in its press release on 12 March 2020, European banks are not obliged to fully comply with the capital conservation buffer of 2.5% during the current Covid-19 crisis. In the "Frequently Asked Questions - FAQs" published on 20 March 2020, however, the ECB states that the incomplete fulfillment of the combined buffer requirement leads to restrictions on distributions and banks are only allowed to make distributions within the limits of the maximum distributable amount (MDA).
- 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%. As described for the Pillar II requirements, the FMA performed the 2020 SREP assessment using a pragmatic approach in the light of the Covid-19 pandemic, which carried forward the 2019 SREP decision.

Taking into account ECB's communication on the temporary capital relief measures with regard to the P2R, the full usage of the capital conservation buffer as well as the P2G, Addiko Group's CET1 requirement amounts to 8.6%, its T1 requirement amounts to 10.1% and its total own funds requirement amounts to 12.1%.

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 2020 and 31 December 2019 pursuant to CRR applying IFRS figures.

EUR m

Ref[1]		31.12.2020	31.12.2019
	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	650.4	615.3
3	Accumulated other comprehensive income (and other reserves)	5.0	15.9
5a	Independently reviewed profits net of any foreseeable charge or dividend	-45.3	-4.9
5aa	o/w profits of the current year	1.4	35.1
5ab	o/w foreseeable charge or dividend	-46.6	-40.0
6	**CET1 capital before regulatory adjustments**	**805.2**	**821.3**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.0	-1.1
8	Intangible assets (net of related tax liability)	-19.2	-27.9
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)	-11.6	-16.4
[#]	IFRS 9 transitional rules	50.1	34.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**18.4**	**-11.4**
29	**Common Equity Tier 1 (CET1) capital**	**823.5**	**809.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**823.5**	**809.8**
60	Total risk weighted assets	4,053.1	4,571.5
	Capital ratios and buffers %		
61	CET1 ratio	20.3%	17.7%
63	TC ratio	20.3%	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 13.7 million during the reporting period, reflecting the net impact of the following components:

- A decrease by EUR 10.9 million of the other comprehensive income mainly due to the decrease by EUR 6.0 million of the foreign currency reserves and the negative development of market values of debt instruments in amount of EUR 5.4 million. These developments were slightly compensated by the positive market development of equity instruments in the amount of EUR 0.5 million;
- A positive impact of EUR 16.1 million in connection with the application of the IFRS 9 transitional capital rules. This effect results from the following two components: based on the relevant regulation, starting with the 1 January 2020, the portion of the ECL from initial application of IFRS 9 which could be added back decreases from 85% to 70%, leading to an EUR 6.0 million negative impact on capital. This negative impact was fully compensated by the dynamic component of the IFRS 9 transitional rules as amended on the 24 June 2020 by the regulation (EU) 2020/873, which allow to add back to capital 100 % of the risen stock of stage 1 and stage 2 ECL in 2020, resulting in an increase of EUR 22.1 million;
- A decrease in regulatory deduction items in the amount of EUR 13.7 million composed of a decrease in investments in intangible assets connected with the Draft Regulatory Standards on the prudential treatment on software assets – EBA/CP/2020/11 (EUR 8.7 million), a decrease in deferred tax assets on existing taxable losses (EUR 4.8 million) and a decrease in the prudential valuation adjustments connected with assets/liabilities measured at fair value (EUR 0.2 million);

- Consideration of the audited result in the amount of EUR 1.4 million, less foreseeable dividends in the amount of EUR 6.6 million (in addition to EUR 40 million from the previous year)

As adopted in the AGM 2020 resolution on November 27, 2020, the distribution of the 2019 dividend of EUR 2.05 per share is dependent on two conditions, namely that before or at the latest until the publication of the Annual Report 2020 on March 10, 2021 neither a recommendation of the European Central Bank ("ECB") nor a legally mandatory distribution ban would conflict with a distribution of dividends, and that the Common Equity Tier 1 (CET1) capital ratio of Addiko Bank AG (and Addiko Group) after such distribution is not lower than 18.6%.

Since the ECB issued a prolongation of the ban with limitations on dividend distribution, one condition is not met. While the CET1 ratio after full implementation of IFRS9 regulation as of year end 2020 amounts to 19.3%, with the proposed dividend for the year 2019 already deducted, and the second condition is easily met, the existing AGM 2020 resolution from November 27, 2020 does not cater for a partial dividend distribution. The 2019 profit is therefore carried forward to the financial year 2020, as outlined in the adopted AGM resolution.

However the Management Board of Addiko Bank AG remains committed to its communicated 2019 dividend proposal, now aiming for a dividend decision at the upcoming AGM 2021 on 26 April 2021 with payment of a first tranche of the 2019 dividend up to the maximum within the currently valid guidelines of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower). In addition, a conditional payment of the residual 2019 dividend amount is envisaged after 30 September 2021 under the condition that neither a recommendation of the ECB would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable. For this reason in the calculation of the regulatory capital the Group continues to deduct the previously announced and earmarked full-year 2019 dividend of EUR 40.0 million. For the 2020 financial year, additional EUR 6.6 million of foreseeable dividends have already been deducted.

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 three types of risk. RWAs decreased by EUR 518.4 million during the reporting period:

- The RWA for credit risk decreased by EUR 464.6 million. One of the main reasons for the reduction is that Addiko Group has applied certain adjustments to the CRR and CRR II which became effective on 27 June 2020 in order to mitigate the Covid-19 pandemic impact (EU Regulation No. 2020/873). As of 1 January 2020, RWA increased by EUR 86.0 million because of application of Article 114 (6) c) CRR. However, the temporary treatment of public debt issued in the currency of another EU member state, with a risk weight of 0% until 31 December 2022, has led to a deduction of EUR 201.0 million in credit risk. In addition, the extension of the threshold for SME exposures of up to EUR 2.5 million for a reduction in risk weight and the introduction of the new SME supporting factor of 0.85 resulted in a reduction of credit risk by EUR 75.0 million. Furthermore, in December 2019, the European Commission has approved a decision to include Serbia on the list of third countries and territories whose supervisory and regulatory arrangements are considered as equivalent to the corresponding supervisory and regulatory arrangements applied in the EU (EU Regulation No. 2019/2166). The resulting risk weight of 0% for exposures to Serbia funded in domestic currency has led to a reduction in credit risk by EUR 111.0 million. By excluding the above elements the residual change in RWA for credit risk amounts to EUR 163.6 million, whereby the decreases on the loan book in amount of EUR 197 million as well as for non-performing exposures in the amount of EUR 10 million were partially compensated by the increase in the debt instruments in amount of EUR 43.4 million.

- The decrease of RWAs for market risk by EUR 52.4 million is mainly caused by the lower specific and general risk in trading book due to the application of the 0% risk weight (instead of 100% before) for debt securities in RSD (EUR 38.1 million RWA decrease) and less open positions in domestic currencies of non-euro subsidiaries banks (EUR 14.3 million RWA decrease).
- The RWA for counterparty credit risk and operational risks remained stable in line with previous year. The RWA for operational risks is based on the three-year average of relevant income, which represents the basis for the calculation.

EUR m

Ref[1]	31.12.2020	31.12.2019
1 Credit risk pursuant to Standardised Approach	3,493.4	3,958.0
6 Counterparty credit risk	3.1	3.8
19 Market risk	151.8	204.2
23 Operational risk	404.8	405.5
Total risk exposure amount	**4,053.1**	**4,571.5**

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 13.1% at 31 December 2020, up from 12.5% at 31 December 2019. The development was driven by growth in Tier 1 capital and reduction in the total leverage exposure.

EUR m

Ref[1]	31.12.2020	31.12.2019
20 Tier 1 capital	823.5	809.8
21 Total leverage ratio exposure	6,286.9	6,475.8
22 Leverage ratio %	**13.1%**	**12.5%**

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

Disclosures as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with Article 473a of Regulation (EU) No. 575/2013

EUR m

Ref1	31.12.2020	31.12.2019
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	823.5	809.8
2 CET1 capital as if IFRS 9 had not been applied	773.4	775.8
5 Total capital (TC)	823.5	809.8
6 TC as if IFRS 9 transitional rules had not been applied	773.4	775.8
Risk-weighted assets		
7 Total RWAs	4,053.1	4,571.5
8 Total RWAs as if IFRS 9 transitional rules had not been applied	4,003.0	4,534.5
Capital ratios %		
9 CET1	20.3%	17.7%
10 CET1 as if IFRS 9 transitional rules had not been applied	19.3%	17.1%
13 TC	20.3%	17.7%
14 TC as if IFRS 9 transitional rules had not been applied	19.3%	17.1%
Leverage ratio (LR)		
15 LR total exposure measure	6,286.9	6,475.8
16 LR	13.1%	12.5%
17 LR as if IFRS 9 transitional rules had not been applied	12.4%	12.0%

[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 and amended on the 24 June 2020. 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 resulting from initial application of IFRS9 amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. With introduction of regulation EU 2020/873 additional loan loss allowances since 1 January 2020 resulting from stages 1 and 2 due to Covid-19 pandemic can be included in own funds with a share of 100%, 100%, 75%, 50% and 25% each year until 2024.

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 to meet MREL (minimum requirement for own funds and eligible liabilities) 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 (Single Resolution Board) in the case of Addiko Group.

On 28 January 2021, Addiko Bank received the draft decision from the SRB relating to the future MREL requirement, which amounts to 26.13% of TREA (total risk exposure amount) and 5.91% of LRE (leverage ratio exposure) based on the point-of-entry strategy at the subsidiary level of Addiko Bank d.d. (Croatia) (in previous financial statements referred as multiple point of entry, MPE). According to the draft decision the MREL requirement shall be reached by 1 January 2022 and shall be met at all times from that date onwards. This draft SRB decision shall supersede the previous SRB decision on MREL requirement dated 17 December 2019 as of the date of communication to it by the national resolution authority. The previous decision included an MREL requirement in amount of 20.58% of TLOF (total liabilities and own funds) on consolidated level of Addiko Bank AG (in previous financial statements referred as single point of entry, SPE) which should have been reached by 31 December 2023.

Under the previous decision, the MREL target of Addiko Group would have required additional own funds and eligible liabilities in the amount of up to EUR 412.4 million (based on Addiko Group's capital structure and balance sheet composition as of 31 December 2019 and subject to a transitional period of up to 4 years). Based on the new decision no additional own funds and eligible liabilities need to be generated at the level of Addiko Group, as the required MREL target defined at the level of Addiko Bank d.d. (Croatia) is already covered by the local own funds and eligible liabilities taking into consideration also planned local capital measures which are expected to be implemented during 2021 following the required regulatory approvals.

Supplementary information required by Austrian Law

(80) 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. In the current year assets in the amount of EUR 8.4 million (YE19: EUR 9.6 million) were pledged as cash collaterals in relation to derivatives. No collaterals (debt securities) were pledged in connection with repurchase agreements in the current year (YE19: EUR 11.4 million).

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 0.0 million as of YE20 (YE19: EUR 5.5 million) and primarily relates to reverse repurchase agreements. All transactions were conducted under terms which are usual and customary to standard repurchase agreements.

(81) Breakdown of securities admitted to listing on a stock exchange

EUR m

	31.12.2020			31.12.2019		
	thereof listed	thereof unlisted	Total	thereof listed	thereof unlisted	Total
Financial assets held for trading						
Debt securities	16.7	16.7	33.4	16.5	19.5	36.0
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	0.0	0.0	0.0	16.4	16.4
Financial assets at fair value through other comprehensive income						
Equity instruments	0.0	19.0	19.0	0.0	18.6	18.6
Debt securities	816.7	93.0	909.7	934.0	127.3	1,061.3

(82) Expenses for the auditor

The following expenses for the group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna were incurred in the reporting period:

EUR m

	31.12.2020	31.12.2019
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	**0.0**	**-0.3**
Other assurance services	0.0	-0.3
Other services	0.0	0.0
Total services	**-0.2**	**-0.5**

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.

(83) Trading book

The volume of the trading book of Addiko Group breaks down as follows:

EUR m

	31.12.2020	31.12.2019
Derivatives in trading book (nominal)	516.4	623.2
Debt securities (carrying amount)	33.4	36.0
Trading book volume	**549.7**	**659.2**

(84) Employee data

	31.12.2020	31.12.2019
Employees at closing date (Full Time Equivalent - FTE)	2,675	2,739
Employees average (FTE)	2,714	2,904

(85) Expenses for severance payments and pensions

The following expenses were incurred for severance and pension payments at the ultimate Group parent institution:

in TEUR

	31.12.2020		31.12.2019	
	Severance payments	Pensions	Severance payments	Pensions
Members of Management Board	36.6	0.0	31.0	0.0
Key management personnel	45.4	6.5	37.9	8.3
Other employees	232.7	50.3	488.0	55.6
Total	**314.7**	**56.8**	**556.9**	**63.9**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 232.7 thousand (2019: EUR 488.0 thousand).

(86) Relationship with members of the Company's Boards

86.1. Advances, loans and liabilities with regard to Board members

As at 31 December 2020, 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.

86.2. Breakdown of remuneration received by Board members of the ultimate Group parent institution

in TEUR

	31.12.2020	31.12.2019
Management Board	2,054.8	2,953.0
Supervisory Board	335.8	261.1
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	1,263.8	1,490.5
Total	**3,654.4**	**4,704.6**

The members of the Management Board and Supervisory Board are stated in note (87) Boards and Officers of the Company.

(87) Boards and Officers of the Company

1 January to 31 December 2020

Supervisory Board

Chairman of the Supervisory Board:
Kurt Pribil (since 02.12.2020)
Hans-Hermann Lotter (from 20.05.-27.11.2020)
Hermann-Josef Lamberti (until 15.05.2020)

Deputy Chairman of the Supervisory Board:
Herbert Juranek (since 02.12.2020)
Hans-Hermann Lotter (until 19.05.2020)
Henning Giesecke (until 27.11.2020)

Members of the Supervisory Board:
Dragica Pilipović-Chaffey
Sebastian Prinz Schoenaich-Carolath
Monika Wildner (from 10.07.2020)
Franz Schwab (from 27.11.2020)
Kurt Pribil (from 10.07.2020-01.12.2020)
Herbert Juranek (from 27.11.-01.12.2020)

Delegated by the Works Council:
Christian Lobner
Thomas Wieser

Federal Supervisory Authorities

State Commissioner:
Vanessa Koch

Deputy State Commissioner:
Lisa-Maria Pölzer

Management Board

Csongor Bulcsu Németh, Chairman of the Management Board
Markus Krause, Member of the Management Board
Ganesh Krishnamoorthi, Member of the Management Board

(88) Scope of consolidation

The consolidated group of companies as defined under IFRS as at 31 December 2020 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	31.12.2020	CI
Addiko Bank d.d.	Zagreb	100.0	31.12.2020	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	31.12.2020	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	31.12.2020	CI
Addiko Bank d.d.	Sarajevo	100.0	31.12.2020	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.9	31.12.2020	CI

(89) Events after the reporting date

On 28 January 2021, Addiko Bank received the draft decision of the SRB relating to the future MREL requirement. Please refer to note (79) Capital Management for further details on this topic.

Vienna, 23 February 2021
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
Chief Executive Officer

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

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, 23 February 2021
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
Chief Executive Officer

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
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 31 December 2020, 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 of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows 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. These standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are 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 the 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 up to the date of our report is sufficient and appropriate to provide a basis for our opinion as of that date.

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 for the reporting period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on them, and we do not provide a separate opinion on these matters.

The following matters were of most significance to our audit:

1. Determination of credit risk provisions
2. Determination of provisions in connection with existing and potential legal risks in Croatia

1. Determination of credit risk provisions

Description and issue

At 31 December 2020, loans and advances (to customers and credit institutions) prior to deduction of credit risk provisions amounted to EUR 3,908 mn, the associated ridk provisions amount to EUR 267 mn.

For the determination of expected credit losses, Addiko Group has implemented processes for identification of loss events and of significant increases in credit risk. The expected credit losses are determined uniformly within the Addiko Group as follows:

- Expected credit losses for defaulted loans classified as significant at customer level are determined individually. Expected cash flows from the operating activities and from realization of collaterals are estimated using all available information.
- Expected credit losses for defaulted loans that have comparable risk profiles and that are not classified as significant at customer level are collectively determined. The expected cash inflow ratios are estimated using statistical methods.
- For non-defaulted loans, model based expected credit losses are calculated using estimated probabilities of default and loss given default rates. If no significant increase in credit risk has incurred since initial recognition, these risk provisions are recognized in the amount of the expected credit losses over the next twelve months. If a significant increase in credit risk has incurred since initial recognition, the expected credit losses are estimated for the remaining term of the receivables.

In financial year 2020 beside the change in determination of loss given default rates (LGD) for mass portfolios of retail customers and small business from expert-based estimates to a statistical model, refinements related to the identification of significant increases in credit risk were implemented.

Due to the fact that the parameters used in the model do not yet adequately reflect the current situation and the uncertainty surrounding the future economic impact of the COVID-19 pandemic, a post model adjustment increasing the credit risk provisions was applied.

We refer to the notes of the consolidated financial statements, section “18 Financial instruments”, “60 Development of risk provisions” as well as detailed amounts in section “59.5 Reconciliation between Financial instruments classes and Credit risk exposure”

The determination of credit risk provisions is associated with considerable uncertainties and discretion in all of the aforementioned areas. These arise from the identification of a loss event or of a significant increase in credit risk as well as from the estimation of expected cash flows or from the determination and updating of calculation parameters reflecting those. Hence, we identified the determination of expected credit losses as a key audit matter.

Our response

To assess the adequacy of credit risk provisions, we evaluated the methodology for determination of expected credit losses and its compliance with the requirements of IFRS 9.

We assessed the key processes and controls in credit risk management. We evaluated design, implementation and operating effectiveness of key controls in the credit process, especially in the monitoring and in the early warning process for potentially defaulting debtors.

For non-defaulted loans we assessed the models and their parameters on the basis of the bank's internal validations, to determine whether they provide an adequate basis for calculating reasonable amounts of impairments based on current data and reasonable and reliable forecasts (taking into account the effects of the COVID 19 pandemic). Particular focus was dedicated to the change in loss given default rates in the retail and small business sectors changed in the financial year 2020. We evaluated the adequacy of the probabilities of default rates and assessed the statistical models, parameters and mathematical principles applied. Based on the criteria defined by the Addiko Group, for a selection of test cases we assessed whether there was a significant increase in credit risk. Furthermore, we evaluated the arithmetical correctness of impairment for selected test cases. The post model adjustments were verified for compliance with the provisions of IFRS 9, the derivation and determination and adequacy of the amount of increase was critically assessed.

With regard to defaulted loans to customers, we critically assessed for selected test cases the bank's estimates regarding the amount and timing of future cash inflows, including those resulting from realization of collateral and taking into account the current economic environment affected by the COVID-19 pandemic. We also analysed the adequacy of the staging of exposures exposed to COVID-19 debt moratoria. Furthermore, we evaluated on a selection of test cases the arithmetical correctness of impairment.

2. Determination of provisions in connection with existing and potential legal risks in Croatia

Description and Issue

Following two rulings by the Croatian Supreme Court led to a substantial increase in court cases in connection with loan contracts in Swiss Francs (CHF-loans) at Addiko Bank d.d. in Zagreb:

- Ruling on nullity of the unilateral interest change provisions from May 2015 and
- Ruling on nullity of the currency clause provision from September 2019.

CHF-borrowers cannot exert any direct claims from these verdicts but have to file individual complaints at court. According to a ruling of the Croatian Supreme Court, CHF-loans being subject to conversion by the conversion law are not affected by the ruling from September 2019, unless general reason for annullment are present, e.g. incapacity of the plaintiff to sign legal documents.

The risks arising from this fact pattern should be assessed as to whether and to what extent a provision under IAS 37 should be recognized. The complexity of the legal circumstances and the early state of the proceedings entail a high degree of uncertainty regarding the assessment regarding the determination of the requirement of provisioning. 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 "67 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 as well as determination of loss potential. Furthermore, we have checked the arithmetical correctness 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 is 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 scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that for misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls 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, determine whether material uncertainty exists in relation to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention report to the related disclosures in the consolidated financial statements in our auditor's 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 gives 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 the internal control system 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 that were of most significance in the audit of the consolidated financial statements for the reporting period and are therefore key audit matters. We describe these matters in our auditor's report unless laws or regulations preclude 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. With respect to the consolidated non-financial statement included in the consolidated management report, our responsibility is to determine whether it had been prepared, to read it and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code and the Austrian Banking Act.

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 is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated 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 any 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 as auditors by the annual general meeting on June 6, 2019 and commissioned by the supervisory board on June 19, 2019 to audit the consolidated financial statements for the financial year ended 31 December 2020. We have been auditing the Group uninterrupted since the financial year ending 31 December 2014.

We confirm that our opinion expressed in the section Report on the audit of the consolidated financial statements, above, is consistent with the additional report to the audit committee referred to in Article 11 Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) Regulation (EU) No 537/2014 and that we remained independent of the Group when conducting the audit.

Engagement partner

The engagement partner responsible for the audit is Mr. Thomas Becker.

Vienna, February 26, 2021

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. 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,

2020 was the first full year after Addiko Bank AG went public and was admitted to the Vienna Stock Exchange in July 2019. In the midst of its continuous and consistent execution of the focused business strategy, Addiko Bank AG was like all banks impacted by the Covid-19 pandemic and its effects on the economy.

Despite these challenging economic, social and global circumstances due to this Covid-19 pandemic, Addiko Group kept its focus on its activities serving customers with Consumer and SME financing in Central and South-Eastern Europe as well as with payment services. Addiko Group offers convenient and fast banking services to its customers and puts a particular emphasis on innovative digital solutions. In essence, the global pandemic accelerated clients willingness to switch their banking services to digital while Addiko Group was ready to provide such services as requested by its customers. Online & mobile banking services for the aforementioned focus segments were further improved in the course of the ongoing digitization and optimization of business processes. The loan book of the non-focus segments mortgage financing, loans to large corporates and to public institutions was further reduced as planned during the financial year 2020.

Due to the pandemic and the measures taken by different governments, the existing prudent risk management framework and risk strategy have been further tightened and contributed to a prudent balance between risk and return. While this has been at the expense of loan volume growth during 2020, such prudent approach aims to ensure to minimize risks for the bank. To compensate for lower revenues due to reduced new business activities, Addiko Group kept its course of further driving sustainable cost efficiency while maintaining a balanced risk profile.

As of 13 October 2020, the former shareholder AI Lake (Luxembourg) S.à r.l. sold all its remaining shares.

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 nineteen meetings in total in the financial year 2020, adopted seventeen circular decisions and assisted the Management Board in an advisory capacity and by continually monitoring the governance of the company. At the meetings of the Supervisory Board and its Committees, the Management Board reported in depth on Addiko Group’s financial situation, risks and their mitigation and business performance. The Management Board discussed in detail strategies and related measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given sufficient 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 effective, lawful, compliant and appropriate.

The Supervisory Board had formed the following five standing Committees:

- the Audit and Compliance Committee/Audit, Compliance & AML Committee (which held seven meetings and adopted two circular decisions in 2020),
- the Credit Committee (which held three meetings and adopted fourteen circular decisions in 2020),
- the Risk Committee (which held five meetings in 2020),
- the Nomination & Remuneration Committee (which held nine meetings and adopted two circular decisions in 2020) and
- the Committee for Management Board Matters (which held five meetings and adopted one circular decision in 2020).

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 in person and via virtual meetings, 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 changed during the reported business year, i.e. two management board members Mr. Johannes Proksch and Mr. Razvan Munteanu stepped down from their mandates and Mr. Ganesh Krishnamoorthi was appointed as a management board member. Hence, the management board consists of three members since 1 August 2020.

In 2020, the Supervisory Board of Addiko Bank AG changed in such a way that Mr. Herman Josef Lamberti (resigned as of 15 May 2020), Mr. Hans-Hermann Lotter (Chair as of 20 May 2020 following Mr. Lamberti) and Mr. Henning Giesecke resigned as of 27 November 2020 from their Supervisory Board mandate and Mrs. Monika Wildner, Mr. Kurt Pribil (both as per 10 July 2020) and Mr. Herbert Juranek and Mr. Frank Schwab (both as per 27 November 2020) were appointed to the Supervisory Board by the General Meetings on 10 July 2020 respectively 27 November 2020. Accordingly, the Supervisory Board consists of eight 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 9 March 2021, the Supervisory Board examined the Consolidated Corporate Governance Report based on the report of the Audit, Compliance and AML Committee from 8 March 2021 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 2020. 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 2020
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 2020, 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 2020 – 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 8 March 2021.

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, Compliance and AML Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on 9 March 2021. 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 Annual 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.

As adopted in the annual general meeting ("AGM") on 27 November 2020, the distribution of the 2019 dividend of EUR 2.05 per share is dependent on two conditions, namely that until 10 March 2021 (which is the anticipated date of publication of the Annual Report 2020) neither a recommendation of the European Central Bank ("ECB") would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution ban is effective or applicable, and that the Common Equity Tier 1 (CET1) capital ratio of Addiko Bank AG (and Addiko Group) after such distribution is not lower than 18.6%.

The ECB has on 15 December 2020 published a recommendation that banks exercise extreme prudence on dividends and has to this end asked all banks to consider not distributing any cash dividends or to limit such distributions until 30 September 2021. As a consequence of such recommendation, despite a CET 1 ratio of 20.3% on a transitional basis or 19.3% fully-loaded as of year end 2020 with the currently envisaged dividend amounts already deducted, the existing profit allocation resolution dated 27 November 2020 does not permit a dividend distribution. The 2019 balance sheet profit of EUR 40 million is therefore carried forward to the financial year 2020, as resolved by the AGM.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 46.6 million in the financial year 2020, which includes the communicated 2019 balance sheet profit of EUR 40 million (carried forward to the financial year 2020). Following a constructive dialogue and considering the ECB recommendation on dividend distribution, the Management Board of Addiko Bank AG intends to propose to the upcoming AGM 2021 on 26 April 2021 to allocate such balance sheet profit in the following manner: In total, the Bank aims to generate shareholder return of ca. EUR 46.6 million (EUR 2.39 per share) to be proposed for distribution in two tranches, one un-conditional and one conditional tranche.

The first, unconditional tranche of ca. EUR 7 million (EUR 0.36 per share) shall, subject to shareholder approval, be distributed on the dividend payment date of 4 May 2021 and represents the maximum dividend allowed under the currently valid recommendation of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower).

In addition, the conditional distribution of the second tranche of up to ca. EUR 39.6 million (up to EUR 2.03 per share) is, subject to shareholder approval, envisaged to be paid after 30 September 2021 under the condition and to the extent that on the twelfth working day of each calendar month after 30 September 2021 until 31 January 2022 neither a recommendation of the ECB would, in the company's view, conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable.

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 9 March 2021 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, the leadership team and to the entire staff for their outstanding commitment and achievements in 2020.

On behalf of the Supervisory Board

Kurt Pribil m.p.
Chairman of the Supervisory Board

Vienna, 9 March 2021

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
AGM	Annual general meeting
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 securitises 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
Cost of risk ratio (net loans)	Credit loss expenses on financial assets/net loans customers
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
CRE	Commercial Real Estate Collaterals
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
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
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
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
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 50 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 repayment is doubtful, a realisation 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
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
RRE	Residential Real Estate Collaterals
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 10 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 10 million and EUR 50 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

Imprint

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