Addiko Bank

Group Annual Report 2021

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

			EUR m
Selected items of the Profit or Loss statement	**2021**	**2020**	**(%)**
Net banking income	236.3	234.5	0.8%
Net interest income	169.5	174.7	-2.9%
Net fee and commission income	66.8	59.8	11.7%
Net result on financial instruments	6.2	11.7	-46.9%
Other operating result	-16.5	-13.7	-20.3%
Operating expenses	-171.1	-169.7	0.8%
Operating result before impairments and provisions	54.9	62.8	-12.5%
Other result	-20.9	-8.1	>100%
Credit loss expenses on financial assets	-13.2	-48.4	72.6%
Tax on income	-7.2	-4.9	-45.4%
Result after tax	13.6	1.4	>100%

Performance ratios	**2021**	**2020**	**(pts)**
Net interest income/total average assets	2.9%	2.9%	0.1
Return on average tangible equity	1.7%	0.2%	1.5
Cost/income ratio	72.4%	72.4%	0.0
Cost of risk ratio	-0.3%	-1.0%	0.7
Cost of risk ratio (net loans)	-0.4%	-1.4%	0.9
Earnings/loss per share (in EUR) [1]	0.70	0.07	62.8

Selected items of the Statement of financial position	**2021**	**2020**	**(%)**
Loans and advances to customers	3,278.7	3,584.7	-8.5%
o/w gross performing loans	3,287.3	3,603.6	-8.8%
Deposits and borrowings of customers	4,708.2	4,728.1	-0.4%
Equity	805.1	851.8	-5.5%
Total assets	5,842.3	5,914.5	-1.2%
Risk-weighted assets[2]	3,624.9	4,053.1	-10.6%

Balance sheet ratios	**2021**	**2020**	**(pts)**
Loan to deposit ratio	69.6%	75.8%	-6.2
NPE ratio	2.9%	3.5%	-0.6
NPE Ratio (on balance loans)[3]	4.0%	4.7%	-0.7
NPE coverage ratio	71.9%	73.6%	-1.7
Liquidity coverage ratio	252.1%	208.5%	43.6
Common equity tier 1 ratio[2]	22.2%	20.3%	1.9
Total capital ratio[2]	22.2%	20.3%	1.9

Moody's Rating	**Dec21**	**Dec20**
Outlook	Stable	Stable
Counterparty Risk Rating	Ba3/NP	Ba3/NP
Bank Deposits	Ba3/NP	Ba3/NP
Baseline Credit Assessment (BCA)	ba2	ba2
Adjusted Baseline Credit Assessment	ba2	ba2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)	Ba2(cr)/NP(cr)

[1]Amount of shares 19,500,000. [2]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 [3] incl. National Bank Exposure

Letter from the CEO

Dear Shareholders, Customers and Employees,

2021 was an exciting year. At the beginning of June, the changes in our Management Team were completed, and we have initiated our Transformation Program to boost growth in our focus areas and to lower costs by streamlining operations. We will become the leading specialist bank for Consumer & SME customers in our region and challenge both universal and pure online banks with the best digital offerings and excellent personal customer service.

The program already yielded first results:
- We accelerated our loan book transformation by focusing even more on smaller SME customers while reducing the concentration in the higher-size medium SME segment. Our focus book grew by 9.5% excluding the medium SME segment. At the same time, we decreased the non-focus book by 33%.
- We aligned our organisational structure with our specialist strategy by reducing our operational OPEX run-rate by approximately EUR 10 million compared to the EUR 174 million guidance for 2021.
- We successfully pushed for an NPE reduction by decreasing our NPE volume by EUR 50 million resulting in an improved NPE ratio of 2.9% at the end of 2021 compared to 2020's 3.5%. The NPE ratio related to on-balance loans decreased to 4.0% (2020: 4.7%).

As part of the program, we have also started new business initiatives ranging from new sales channels and partnerships to attracting new customer segments. In addition, we further improved our digital capabilities, which remain an important pillar in our specialist strategy.

Overall, the economies in CSEE performed better in 2021 than previously expected. Our region showed solid growth and exceeded previous forecasts with strong household consumption, flourishing business investments and a rebound in tourism. The still ongoing pandemic had no significant effect on the economy. We have been observing a clear normalisation of business activities. People and enterprises have adapted to the new normality.

This is also reflected in our results. For 2021, we posted a profit of EUR 13.6 million supported by a solid operating performance and our Transformation Program. Our focus areas are growing, the accelerated run-down of our non-focus areas is progressing as planned, and we are well on track to achieve our goal of having about 95% of our loan book in the focus areas in the mid-term. Our capital ratio further improved to a transitional CET1 ratio of 22.2%, proving our solid financial position, our resilient asset quality and our strong balance sheet.

We also received a very positive SREP letter from the European Central Bank, which foresees a significant reduction in our capital requirements. This would give us additional flexibility for the use of our capital.

These positive developments have been dampened by the surprising introduction of a retroactive CHF law in Slovenia. We are currently taking all possible measures and are preparing legal actions to prevent this unconstitutional law from coming into effect. In any case, our strong capitalisation, which improved considerably at the year-end 2021, makes me very confident that we will shoulder the potential impact from the implementation of the law should it come to pass.

I am very optimistic about the future and highly confident that we will continue our positive development in 2022. We are operating in the last emerging market in Europe, a region that is growing faster than the EU average, and we have positioned ourselves very well with a combination of on-site presence and digital innovation. Our new business initiatives are already showing promising first results, and we will continue to improve efficiency by reducing costs and complexity.

This is supported by our current brand repositioning. Our future brand character will reflect our business strategy of becoming the leading specialist bank in our region. Furthermore, a new marketing concept is planned during the second quarter of 2022. We are already looking forward to revealing it to you.

Last year's changes in our organisational structure, the pandemic waves and the necessity for working from home affected all of us. I therefore want to express my appreciation to all employees for their efforts, their passion and their professional behaviour over the entire year. I am convinced that we will continue to create value for our customers and our shareholders together.

Yours sincerely,

Herbert Juranek
CEO

Addiko Bank

Group Annual Report 2021

Group Management Report 5

1. Overview of Addiko Bank 5
2. General economic environment 5
3. Transformation Program 6
4. Corporate Governance 7
5. Branches 7
6. Financial development of the Group 8
7. Segment information 13
8. Capital-, share-, voting and control rights 22
9. Analysis of non-financial key performance indicators 23
10. Internal Control System for accounting procedures 23
11. Consolidated non-financial report 24
12. Austrian code of Corporate Governance 24
13. Other disclosures 24
14. Research & Development 24
15. Mid-Term Targets, Outlook & Risk factors 24

Consolidated Financial Statements 29

I. Consolidated statement of comprehensive income 32

II. Consolidated statement of financial position 34

III. Consolidated statement of changes in equity 35

IV. Consolidated statement of cash flows 36

V. Notes to the consolidated financial statements 37

Company 37
Notes to the profit or loss statement 68
Notes to the consolidated statement of financial position 78
Segment Reporting 100
Supplementary information required by IFRS 144
Supplementary information required by Austrian Law 167

Statement of all legal representatives 173

Audit Opinion 174

Report of the Supervisory Board 181

Glossary 184

Imprint 188

Disclaimer:

Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Actual results may differ materially from the results predicted and information on past performances do not permit reliable conclusions to be drawn as to the future performances. Forward-looking statements based on the management's current view and assumptions might involve risks and uncertainties that could cause a material deviation from the statement contained herein.

The English version of the Report is a translation. Only the German is the authentic language version.

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This report does not constitute a recommendation or an invitation or offer to invest or any investment or other advice or any solicitation to participate in any business and no one shall rely on these materials regarding any contractual or other commitment, investment, etc.

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 specialist banking group focusing on providing banking products and services to Consumer and small and medium-sized enterprises (SME) in Central and South-Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the listed and fully-licensed Austrian parent bank registered in Vienna, Austria, regulated by the Austrian Financial Markets 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 via two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2021 approximately 0.8 million customers, using a well-dispersed and continuously optimised network of 155 branches and via an increasing use of modern digital banking channels.

Based on its 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. 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 growth in its Consumer and SME lending. During the second half 2021, the new management team has committed themselves to an accelerated transformation towards the focus areas via business growth initiatives and a faster reduction of non-the focus loan books as well as gradual exit from low-yielding and high-ticket medium enterprises within the SME segment.

Addiko Group delivers a modern customer experience in line with its strategy. Banking products and services have been standardised, especially in the Consumer and the SME segment, to improve efficiency, manage risks and maintain asset quality. This specialist approach is continuously fine-tuned to react to customer needs and the market environment.

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 63% 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.

On 13 July 2021, Moody's upgraded Addiko Bank AG's long-term Counterparty Risk Assessment (CR Assessment) to Ba1(cr) from Ba2(cr) and its long-term Counterparty Risk Ratings (CRR) to Ba2 from Ba3 following an update of their methodology. All other ratings remained unchanged and the outlook stable.

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 Covid-19 pandemic is still affecting the world, and the region where the bank operates, with periodic waves occurring every several months. The vaccination rates have peaked after an initial increase and remain low, also related to vaccine skepticism. However, this does not seem to have any significant effect on the economy. People and enterprises have adapted to the new normality over time and are behaving as if there was no pandemic. Governments are acting in the same way, avoiding lockdowns and introducing, if any, just mild restrictions.

As a result, all countries had better economic results than expected previously. Household consumption was very strong everywhere, due to delayed consumption and increased savings. Business investment also flourished, for similar reasons. Montenegro and Croatia, both countries with a high economic exposure to tourism, experienced a very strong rebound based on the good development during the tourism season. In Serbia and Bosnia & Herzegovina, FDI inflows were very solid, which might also be related to near-shoring trends.

Partly because of the strong economy, but primarily due to the higher international food and energy prices, inflation gained momentum everywhere in the region. Although the averages for 2021 were around 2-3%, inflation was around or above 5% in December 2021 in all the countries of the region. Some of the governments (Croatia and Serbia) have taken measures for addressing these issues, through price freezes and through government transfers.

Country summaries

Croatia's economy grew faster than most EU-CSEE countries in 2021, and faster than expected, with real GDP rebounding by an estimated 8.7%. Tourism was the main driver of the good results, with total tourist nights (domestic and foreign) growing by 55% compared to 2020. Inflation reached 5.5% in December 2021, pushing the average for the full year to 2.6%.

Slovenia's economic growth exceeded expectations in 2021 recording a strong GDP growth of 6.6%, primarily due to the 8.8% rise in private spending. While GDP and exports exceeded pre-crisis levels some months before the

end of 2021, two important economic sectors – tourism and automotive – are still operating at below pre-crisis levels of output: the former due to the pandemic and the latter due to supply-side issues. Inflation averaged 1.9% in 2021 but reached 4.9% in December 2021. Rising energy prices are of concern to energy-intensive sectors, which play a prominent role in the economy in the region and in Europe.

Bosnia & Herzegovina's economy grew by an estimated 4.8% in 2021, thereby exceeding the pre-pandemic level of 2019. Industrial production, private consumption, exports and FDI inflows all increased significantly, while Covid-19 related mobility restrictions were fairly soft. Inflation rose strongly towards the end of 2021 due to sharp rises in food and energy prices, but was still below 2% for the full year 2021. Political tensions have been on the rise since the second half of 2021, as one part of the country, Republika Srpska, has taken steps to create its own army, tax authority and judiciary – thus increasing the risk that it will secede. This jeopardises the country's political stability, economic progress and support from the EU, and potentially opens up the possibility of renewed inter-ethnic violence.

Serbia's economy continued its good performance in 2021 – according to flash estimates, GDP grew by 7.5%, which is among the highest figures in Europe. A supportive fiscal policy was one of the main drivers – government capital expenditure increased by over 50% in 2021. Foreign direct investment was also strong, reaching 7.4% of GDP. The strength of the economy, together with high global energy and food prices, caused inflation to reach 7.9% in December, and pushed the average for the full year to 4%. The central bank has not yet raised its policy rate, but the government has decided to freeze the price of certain basic products, which should prevent inflation from escalating further.

Montenegro posted with 11.4% one of the highest GDP growth rates in Europe in 2021 after a steep decline in 2020, as the tourist sector flourished, boosting consumption in turn. The buoyant economy also helped stabilise the fiscal sector, with both deficit and public debt declining substantially. On the negative side, inflation in December 2021 reached 4.6% year-on-year, bringing the average for the full year to 2.4%. The solid economic results are, however, overshadowed by the political instability, which has intensified in January 2022.

3. Transformation Program

In August 2021, the new management team of Addiko launched the Transformation Program to become the leading specialist bank in the region. It aims at challenging universal banks via the best digital offerings and pure online banks via superb personal customers service as well as at accelerating the group's transformation towards a pure specialist bank.

The Transformation Program is planned to run until the end of 2022 and rests on three pillars:

First, on boosting growth in the focus areas by new Consumer & SME initiatives, the expansion of digital and hybrid offerings and the acceleration of the loan book transformation towards the defined focus segments. Second, on aligning the group's organisational structure and cost base with its specialist strategy by reducing costs and complexity on the one hand and streamlining the operating model on the other hand, leveraging digital capabilities. Third, on tackling special topics proactively which includes an ambitious reduction of NPEs as well as the exploration of structural opportunities.

While the new business initiatives will take longer to materialise, and the accelerated reduction of non-focus will have a negative short-term impact on the net banking income growth, the Transformation Program already yielded first results during 2021:

- The loan book transformation was accelerated:
  - Shift in focus towards lower SME tickets
  - Reduction of concentration in the low-yielding and higher ticket medium SME segment (-18.5%)
  - Growth in focus book at 9.5% excluding the medium SME segment; overall focus growth at 4.0% in 2021
  - Decrease in non-focus book of 32.8% in 2021 following accelerated run-down
- The operational OPEX run-rate was reduced by approximately EUR 10 million compared to EUR 174 million guidance cap in 2021. First results are visible already in 2021 with reported operating expenses of EUR 171.1 million (down EUR 2.9 million vs. guidance).
- The push for the NPE reduction was initiated during the second half of 2021, leading to a decrease of EUR 50 million in NPE volume to EUR 194 million compared to 2020 and an NPE ratio (on balance loans) of 4.0% at the end of 2021, down from 4.7% in 2020.

Brand repositioning

Addiko Group is in the midst of a brand repositioning process. The future brand character of the company has been decided to best reflect the business strategy of becoming the leading specialist bank for Consumers and SMEs in our region. Furthermore, a new advertising concept has been agreed on and is planned for implementation during the second quarter 2022.

As experts in Consumer and SME lending, Addiko stand for speed and flexibility, and promise to be in all situations whenever & wherever customers need that extra boost.

The repositioning process covers:

- Brand narrative
- User Journey Implication (implications of the repositioning on the different customer touch points along the overall sales funnel according to the predefined marketing areas)
- Segmentation & Message Hierarchy (development of a target group segmentation and corresponding cascading of messages for external communication architecture)
- Brand Measurement (Setting up a brand measurement system and defining KPIs)

4. Corporate Governance

Mr. Csongor Németh, Chief Executive Officer (CEO), left Addiko Bank AG with 31 May 2021. Mr. Markus Krause, Chief Risk & Financial Officer (CRO & CFO), left Addiko Bank AG with 31 May 2021.

The Supervisory Board appointed Mr. Herbert Juranek as new Chief Executive Officer starting from 1 May 2021. Consequently, Mr. Juranek has stepped down from his function as Deputy Chairman and member of the Supervisory Board as of the close of the Annual General Meeting on 26 April 2021. Mr. Juranek is an experienced banker with a strong leadership track record in financial institutions active in Austria and the CSEE markets.

On the Annual General Meeting on 26 April 2021 Mr. Pieter van Groos has been appointed as new Supervisory Board Member, thereby replacing Mr. Herbert Juranek.

As of 1 June 2021, Mr. Edgar Flaggl has taken over the role as CFO of Addiko Bank AG, reporting directly to the CEO. Since having joined in 2012, Mr. Flaggl has held various leadership positions within the Group including Finance, Balance Sheet Management & Treasury as well as Corporate Development & Strategy and was part of the leadership team during the restructuring and transformation of the bank before and after its re-privatisation and the successful IPO in 2019.

As of 1 June 2021, Mr. Tadej Krasovec has been appointed as CRO of Addiko Bank AG. Mr. Krasovec is a senior executive with more than 18 years of extensive banking experience who in his last position was successfully leading the CRO and COO functions of Addiko Bank Slovenia.

5. Branches

At year end 2021 Addiko Group operated a total of 155 branches, out of which 35 were in Croatia, 18 in Slovenia, 56 in Bosnia & Herzegovina, 36 in Serbia and 10 in Montenegro. This physical distribution network is continuously being reviewed to enable the hybrid delivery of Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels and digital innovation.

6. Financial development of the Group

6.1. Detailed analysis of the reported result

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020	(abs)	(%)
Net banking income	236.3	234.5	1.9	0.8%
Net interest income	169.5	174.7	-5.1	-2.9%
Net fee and commission income	66.8	59.8	7.0	11.7%
Net result on financial instruments	6.2	11.7	-5.5	-46.9%
Other operating result	-16.5	-13.7	-2.8	20.3%
Operating income	**226.0**	**232.5**	**-6.5**	**-2.8%**
Operating expenses	**-171.1**	**-169.7**	**-1.4**	**0.8%**
Operating result before impairments and provisions	**54.9**	**62.8**	**-7.8**	**-12.5%**
Other result	-20.9	-8.1	-12.8	>100%
Credit loss expenses on financial assets	-13.2	-48.4	35.2	-72.6%
Result before tax	**20.8**	**6.3**	**14.5**	**>100%**
Tax on income	-7.2	-4.9	-2.2	45.4%
Result after tax	**13.6**	**1.4**	**12.3**	**>100%**

The **net banking income** improved by EUR 1.9 million to EUR 236.3 million (YE20: EUR 234.5 million) mainly driven by higher net interest income and strong net fee and commission income in the segments Consumer and SME, which was partially neutralised by the accelerated reduction in non-focus business, driven by reduced net interest income in non-focus.

The **net interest income** decreased from EUR 174.7 million at YE20, by EUR -5.1 million, or -2.9%, to EUR 169.5 million at YE21. The development was positively impacted by the Consumer Business, stable at EUR 100.2 million, and the SME Business, which increased by EUR 1.9 million. The Consumer Business was mainly driven by a higher volume of EUR 93 million which compensated slightly lower loan book interest rates, which were down by -19bp. On the other hand, the increase in SME Business was mainly driven by improved interest rates +14bp, while volumes were constant, which was mainly related to an increasing business focus on micro and small SME customers within the SME segment. The positive development in the focus segments could not fully compensate the impact from the accelerated run-down of the non-focus segments, in which the regular interest income decreased by EUR -9.1 million following a sharp and intentional decrease of EUR 410.4 million in volume, mainly due to repayments in Large Corporate and EUR 23.5 million portfolio sales in the Public Finance segment in Slovenia. On the liability side, the net interest income was positively influenced by the reduction of the interest rate of deposits (-9bp) driven by a further shift from higher yielding term deposits to lower yielding a-vista deposits (share in a-vista increased from 66% to 70%) and further deposits repricing. The net interest income was also impacted by the treasury business (EUR -2.5 million from lower bond yields (-25bp) and higher negative interests on cash volumes).

The **net fee and commission income** increased to EUR 66.8 million (YE20: EUR 59.8 million) as a result of increasing business activities in the Consumer Business (up EUR 4.4 million). This was mainly driven by higher card business, bancassurance and FX/DCC. Also the SME Business improved (up EUR 2.8 million), which was mainly related to more transactions, trade finance and FX/DCC. The increase in net fee and commission income in 2021 was reflecting the gradual normalisation of the economic activity starting from the second quarter 2021, while the previous year was negatively impacted by the Covid-19 pandemic related slowdown in business activities.

The **net result on financial instruments** amounted to EUR 6.2 million at YE21, compared to EUR 11.7 million at YE20 and mainly stems from realised profits from the sale of plain vanilla debt securities in both years.

The **other operating result** as the sum of the other operating income and the other operating expense increased from EUR -13.7 million at YE20, by EUR -2.8 million, to EUR -16.5 million at YE21 mainly due to higher ECB fees and higher restructuring costs , compared to the prior year, with the latter being mainly related to executed measures to group's organisational structure. This position includes the following significant items:

- Regulatory charges from the recovery and resolution fund of EUR -1.2 million (YE20: EUR -1.4 million).
- Deposit guarantee expenses of EUR -5.8 million (YE20: EUR -8.1 million). The decrease was mainly

driven by the notification from the Croatian Deposit Insurance Agency that, starting from 1 January 2021 and until further notice, no further payments to the local deposit insurance needed to be performed. This development was offset by a slight increase for the Austrian Deposit Insurance, reflecting the additional costs related to an exit of an Austrian Bank from the deposit insurance system.

- Bank levies and other taxes increased from EUR -3.0 million at YE20 to EUR -4.2 million at YE21 mainly due to the higher supervision fees charged by the ECB.
- Restructuring costs increased from EUR -4.6 million at YE20 to EUR -5.3 million at YE21. The costs recognised in 2021 reflect cost reduction initiatives as defined by the Transformation Program announced with the 1H21 results, with the goal to further align the organisational structure with Addiko's specialist strategy. In the comparative period the restructuring expenses were mainly connected with the closure of unprofitable branches, reduction of FTEs and specifically with costs for the changes in the management board structure in Austria during 2020.

In the **operating expenses,** gross savings in the amount of EUR 7.4 million were achieved during 2021, which are visible by excluding the costs for variable remuneration for the year 2021 in the amount of EUR 7.3 million (YE20: EUR 0.1 million) and severance expenses in the amount of EUR 1.5 million connected with the changes in the management board of Addiko Bank AG in May 2021.

The other result amounting to EUR -20.9 million (YE20: EUR -8.1 million) was significantly impacted by credit linked and portfolio based provisions for expected legal matters on Swiss-franc denominated loans in Croatia (EUR -13.3 million), by the costs connected with the finalisation of the arbitration procedures with the ICSID in Washington, DC started in 2017 against Montenegro (EUR -1.4 million) and by loan processing fees disputes in Serbia in the amount of EUR -3.4 million. These costs could be partially compensated by the collection of EUR 2.1 million from a final court decision in favour of one entity of Addiko Group, in relation to past damage claims (2020 EUR 1.9 million). The position other result was also impacted by impairments on non-financial assets which was mainly driven by the early renegotiation of a contract with a central IT supplier at better terms, which was leading to the recognition of a EUR -2.3 million impairment on the amounts deferred, based on the previous version of the respective contract. Compared to the previous year no material modification losses have been recognised in connection with the moratoria programs in Serbia and Montenegro, while in the previous reporting period, 2020, the effect was EUR -2.6 million.

Credit loss expenses on financial assets returned to more normalised levels of EUR -13.2 million. The provision bookings were significantly below the amount recognised in YE20 (EUR -48.4 million), which included risk model adjustments in connection with changed macroeconomic parameters that incorporated estimated impacts of the Covid-19 pandemic outbreak. During the first waves of the pandemic in 2020, the Group anticipated material impacts to credit quality, which prompted higher provision bookings in 2020. However, state subsidies, introduced moratoria as well as loan restructurings initiated by Addiko positively influenced the asset quality development in the second half of 2020 as well as during 2021. The economy and clients proved to be more resilient, and the actual cost of risk was better than initially anticipated. As of the reporting date, moratoria measures significantly declined and were applicable on loans with an exposure of only EUR 2.4 million (YE20: EUR 163.5 million). In order to consider the fact that the risk models currently applied for the estimation of the ECL have been calibrated based on a historical period, which does not include the unprecedented conditions of the Covid-19 pandemic as seen in the current environment, a recalculation of the post model overlay was performed, leading to an overall overlay of EUR 9.0 million, which is EUR 2.0 million higher compared with the EUR 7.0 million recognised in the 2020 financial statements.

Tax on income amounted to EUR -7.2 million at YE21 compared to EUR -4.9 million at YE20. The effective tax rate of 34.6% for 2021 reflects the fact that the tax expenses are calculated on the profits of the entities operating in the CSEE countries, while the consolidated result includes the operational costs of the holding for which no tax benefits could be accounted for.

6.2. Detailed analysis of the statement of financial position

EUR m

	31.12.2021	31.12.2020	(abs)	(%)
Cash reserves	1,361.7	1,156.3	205.4	17.8%
Financial assets held for trading	32.6	36.4	-3.8	-10.5%
Loans and receivables	3,284.4	3,641.2	-356.8	-9.8%
Loans and advances to credit institutions	5.7	56.5	-50.8	>100%
Loans and advances to customers	3,278.7	3,584.7	-306.0	-8.5%
Investment securities	1,012.2	929.0	83.1	8.9%
Tangible assets	70.6	78.8	-8.2	-10.4%
Intangible assets	26.7	26.4	0.3	1.2%
Tax assets	26.9	25.2	1.7	6.6%
Current tax assets	2.7	3.9	-1.2	-30.1%
Deferred tax assets	24.1	21.3	2.8	13.3%
Other assets	14.9	18.5	-3.5	-19.1%
Non-current assets held for sale	12.3	2.7	9.5	>100%
Total assets	**5,842.3**	**5,914.5**	**-72.2**	**-1.2%**

The statement of financial position of Addiko Group is illustrated in the simple and solid interest-bearing asset structure: 56% 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 plain vanilla debt securities. With regard to the statement of financial position, Addiko's strategy continued to change the business composition from lower margin Large Corporate lending, Mortgage lending and Public Finance towards higher value-added lending in the focus segments Consumer and SME. This is reflected by an increase in the share of these two segments to 74.4% of total the gross performing loan book (YE20: 65.3%).

As of YE21, the **total assets** of Addiko Group stood at EUR 5,842.3 million and decreased by EUR -72.2 million or -1.2% compared to YE20 (EUR 5,914.5 million). The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements), significantly decreased to EUR 3,624.9 million (YE20: EUR 4,053.1 million). This decrease was mainly driven by the successful accelerated run-down of low yielding non-focus loans carrying a high risk weight, as well as the European Commission adding Bosnia and Herzegovina to the list of "equivalent third countries" as regards supervisory and regulatory arrangements for credit institutions in those countries on the 1 October 2021. This was leading to the application of preferential risk weights to the Sovereign exposures, which - in local currency - received a risk weight of 0%, resulting in a reduction of RWA by EUR 180 million.

The cash reserves increased to EUR 1,361.7 million as of 31 December 2021 (YE20: EUR 1,156.3 million). This reflects the strong liquidity position of the Group.

Overall, **loans and receivables** decreased to EUR 3,284.4 million from EUR 3,641.2 million at year end 2020:

- Loans and receivables to credit institutions (net) decreased by EUR -50.8 million to EUR 5.7 million (YE20: EUR 56.5 million).
- Loans and receivables to customers (net) decreased by EUR -306.0 million to EUR 3,278.7 million (YE20: EUR 3,584.7 million). The change was mainly in the non-focus segments, Large Corporate, Mortgage and Public Finance which decreased from EUR 1,261.4 million at year end 2020 to EUR 849.2 million in 2021. The focus segments Consumer and SME lending increased to an amount of EUR 2,426.1 million in 2021 (YE20: EUR 2,321.4 million).

The **investment securities** increased from EUR 929.0 million at YE20 to EUR 1,012.2 million at YE21. The investments are largely in high rated and investment grade government bonds and have maturities of less than five years. To ensure high quality levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets slightly increased to EUR 26.9 million (YE20: EUR 25.2 million), thereof EUR 10.4 million refer to deferred taxes on tax loss carried forward (YE20: EUR 11.6 million).

Other assets decreased to EUR 14.9 million (YE20: EUR 18.5 million). The main amounts in this position are related to prepaid expenses and accruals of EUR 7.9 million (YE20: EUR 8.7 million) as well as receivables for paid in deposits and receivables related to the card business.

EUR m

	31.12.2021	31.12.2020	(abs)	(%)
Financial liabilities held for trading	2.3	4.9	-2.6	-53.1%
Financial liabilities measured at amortised cost	4,933.6	4,973.4	-39.8	-0.8%
Deposits and borrowings of credit institutions	174.6	196.2	-21.7	-11.0%
Deposits and borrowings of customers	4,708.2	4,728.1	-19.9	-0.4%
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	-9.4%
Other financial liabilities	50.8	49.0	1.8	3.6%
Provisions	69.9	58.2	11.6	20.0%
Tax liabilities	5.8	0.0	5.8	>100%
Current tax liabilities	5.8	0.0	5.8	>100%
Other liabilities	25.7	26.3	-0.6	-2.3%
Equity	805.1	851.8	-46.6	-5.5%
Total equity and liabilities	**5,842.3**	**5,914.5**	**-72.2**	**-1.2%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable, with a slight decrease to EUR 4,933.6 million compared to EUR 4,973.4 million at year end 2020:

- Deposits and borrowings of credit institutions decreased from EUR 196.2 million at YE20 to EUR 174.6 million as of YE21 and include EUR 54.7 million from the participation in targeted longer-term refinancing operations (TLTRO) with the Slovenian National Bank (YE20: EUR 74.9 million).
- Deposits and borrowings of customers remained stable, with a slight reduction to EUR 4,708.2 million (YE20: EUR 4,728.1 million). The solid funding profile is one of the strengths of the Group, which drives its low dependence on market funding. Around 30% of the deposits are term deposits, mainly Euro denominated, followed by Croatian Kuna (HRK) and Bosnia-Herzegovina Convertible Marka (BAM).
- Other financial liabilities slightly increased from EUR 49.0 million at YE20 to EUR 50.8 million at YE21.

Provisions increased from EUR 58.2 million at YE20 to EUR 69.9 million at YE21. The development was primarily influenced by the recognition for credit linked and portfolio based provisions for expected court rulings in favour of consumers for Swiss-franc denominated loans. In addition, the Group recognised provisions for variable performance based bonus expenses which did not occur in the previous reporting period in line with applicable recommendations by the ECB for the financial year 2020.

Other liabilities slightly decreased from EUR 26.3 million at YE20 to EUR 25.7 million in YE21, mainly including accruals for services received but not yet invoiced (YE21: EUR 24.8 million, YE20: EUR 25.4 million) as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 851.8 million to EUR 805.1 million was mainly related to dividends to shareholders in the context of the unconditional dividend paid on 4 May 2021 (EUR 7.0 million) and the conditional dividend paid on 11 November 2021 (EUR 39.6 million). In addition the change in equity reflected the total comprehensive income, which includes the profit and loss for the reporting period in the amount of EUR 13.6 million, as well as changes in other comprehensive income in the amount of EUR -14.1 million. These changes were resulting from market related movements from debt and equity instruments measured at FVTOCI (EUR -15.9 million) which were partially compensated by the positive change of the FX reserves (EUR 1.8 million).

6.3. Capital and liquidity requirement

The Overall Capital Requirement (OCR) was 14.60% for the Group, consisting of:

- 12.10% TSCR (8% Pillar 1 Requirement and 4.10% Pillar 2 Requirement); and
- 2.5% CBR (2.5% Capital Conservation Buffer and 0% Countercyclical Buffer).

In addition to the capital requirement, the SREP decision for 2020 also includes a Pillar 2 Guidance (P2G), which is set at 4.00% and should be comprised entirely of CET1 capital. On 2 February 2022 Addiko received the final SREP decision for 2021 which includes a reduction of the Pillar 2 Requirement from 4.10% to 3.25%, to be held in the form of 56.25% of Common Equity Tier 1 (CET1) capital and 75%

of Tier 1 capital. Furthermore, the new SREP decision includes a reduction of the P2G from 4.00% to 2.00%, which should be comprised entirely of CET1 capital and held over and above the OCR. The new SREP requirements will be applicable from 1 March 2022. Based on the new requirements the regulator therefore expects Addiko to maintain a total capital ratio of 15.75% (11.25% SREP requirement, plus 2.5% CCB, plus 2% P2G). The ECB started with the Comprehensive Assessment Stress Test in June 2021, whose result is expected to be included in the next SREP letter and in particular in the determination of the P2G going forward.

As of 31 December 2021 the **capital base** of Addiko Group was solely made up of CET1, and stood at 22.2% (YE20: 20.3%) on a IFRS 9 transitional basis which is significantly above applicable requirements and the guidance (P2G). Addiko's fully phased-in CET1 stood at a solid 21.6% and increased from 19.3% at YE20.

The positive development of the capital ratio during 2021 was mainly driven by the reduction of RWAs from EUR 4,053.1 million to EUR 3,624.9 million on a transitional basis, which overcompensated the decrease in capital from EUR 823.5 million to EUR 804.3 million. The principal reason for the reduction of the capital on a transitional basis is the negative phase-in impact from the application of the IFRS 9 transitional capital rules amounting to EUR 23 million, while the negative changes in OCI (EUR -14.1 million) are almost entirely compensated by the profit for the year 2021 of EUR 13.6 million.

Following the "Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs" which was approved on 2 February 2022 by the National Assembly of Slovenia, Addiko Bank AG has conducted a preliminary impact assessment, according to which it assessed a negative impact caused by the implementation of the new law in the range of approximately EUR 100 to 110 million, based on its own interpretation and assuming a real worst-case scenario. Such negative impact would result in a net loss for the financial year 2022. Consequently, no regular dividends are expected to be paid out for the financial years 2021 and 2022.

Addiko’s leverage ratio remained sound at 12.9% at the end of 2021 (YE20: 13.1%).

The **liquidity position** of the Group remained strong, with a LTD ratio (net) of 69.6% (YE20: 75.8%), thus fulfilling all liquidity indicators with significant headroom to regulatory requirements.

On 3 March 2021, Addiko received the decision from the Single Resolution Board (SRB) relating to the future MREL requirement, which is not defined anymore for the whole Addiko Group, but only for Addiko Bank d.d. (Croatia). Consequently based on the new decision no additional external own funds and eligible liabilities needed to be generated at the level of Addiko Group. The required MREL target defined at the level of Addiko Bank d.d. (Croatia) in amount of 26.13% of TREA (total risk exposure amount) and 5.91% of LRE (leverage ratio exposure) is already covered by the local own funds and eligible liabilities.

6.4. Notable transactions

As part of its management activities of non-performing loan portfolios, Addiko was able to dispose of a part of its NPE exposure with a nominal amount of EUR 16.7 million via two electronic auction sales during the third quarter. One auction was awarded to the best bidder, which is an entity affiliated with a major shareholder of Addiko. Since no significant influence as defined by IAS 28, could be assessed, this shareholder is not considered as a related entity for the purposes of IAS 24. Thus, no further disclosures in relation to this auction sale are included in the report.

7. Segment information

As of 1 January 2021 the following changes have been introduced in Segment Performance Reporting:

- 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.
- During 2020 a deep dive of the costs of the partent company in Austria included in the segment Corporate Center was performed. As a result, a portion of the costs of departments previously defined as overhead could be indirectly charged to the market segments based on the support they provide (defined via keys). The costs additionally allocated on market segments identified at YE21 amount to EUR 14.8 million (YE20 amounting to EUR 13.5 million. Comparative figures (YE20) have been adapted accordingly.

EUR m

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	136.3	55.7	16.9	13.4	5.7	8.4	236.3
Net interest income	100.2	30.5	16.9	8.7	4.5	8.7	169.5
o/w regular interest income	95.1	31.9	19.8	9.8	3.1	14.3	174.0
Net fee and commission income	36.1	25.2	0.0	4.7	1.2	-0.3	66.8
Net result from financial instruments	0.0	0.0	0.0	0.0	0.0	6.2	6.2
Other operating result	0.0	0.0	0.0	0.0	0.0	-16.5	-16.5
Operating income	**136.3**	**55.7**	**16.9**	**13.4**	**5.7**	**-1.9**	**226.0**
Operating expenses	**-81.1**	**-30.9**	**-2.2**	**-5.9**	**-2.2**	**-48.8**	**-171.1**
Operating result before change in credit loss expense	**55.1**	**24.8**	**14.7**	**7.5**	**3.5**	**-50.7**	**54.9**
Other result	0.0	0.0	0.0	0.0	0.0	-20.9	-20.9
Credit loss expenses on financial assets	-15.9	-5.4	7.6	-2.1	0.5	2.0	-13.2
Result before tax	**39.2**	**19.4**	**22.3**	**5.4**	**4.0**	**-69.6**	**20.8**
Business volume							
Net loans and receivables	1,364.3	1,061.8	541.6	239.4	68.1	9.1	3,284.4
o/w gross performing loans customers	1,388.9	1,057.1	534.7	239.2	67.4		3,287.3
Gross disbursements	500.6	565.8	6.0	78.0	4.7		1,155.1
Financial liabilities at AC[1)]	2,461.6	1,078.1	0.0	304.8	398.2	690.9	4,933.6
RWA[2)]	1,028.9	870.1	327.1	278.8	49.3	545.6	3,099.8
Key ratios							
NIM [3)]	5.7%	2.2%	1.4%	1.3%	1.3%		3.0%
Cost/Income Ratio	59.5%	55.5%	12.9%	43.9%	38.7%		72.4%
Cost of risk ratio	-1.0%	-0.3%	1.3%	-0.5%	0.5%		-0.3%
Loan to deposit ratio	55.4%	98.5%	0.0%	78.5%	17.1%		69.6%
NPE ratio (on-balance loans)	4.3%	5.0%	9.4%	4.4%	2.8%		4.0%
NPE coverage ratio	78.8%	64.1%	77.6%	53.5%	40.6%		71.9%
NPE collateral coverage	4.3%	65.4%	74.5%	83.3%	95.8%		49.5%
Change CL/GPL (simply Ø)	-1.2%	-0.5%	1.3%	-0.6%	0.5%		-0.4%
Yield GPL (simply Ø)	7.1%	3.0%	3.4%	2.7%	3.1%		4.6%

1) Financial liabilities at AC at YE21 include the Direct deposits (Austria/Germany) amounting to EUR 383 million, EUR 175 million Deposits of credit institutions, EUR 133 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 Group, prepared on the basis of the internal reports used by the Management to assess the performance of the business segments and is used as a source for decision making. The business segmentation is subdivided into higher value adding Consumer and SME Business, which represent the focus segments of Addiko Group and into the non-focus segments, which comprise Large Corporates, Mortgages and Public Finance. According to the Group's strategy the accelerated contraction of lower margin Large Corporate, Mortgage and Public Finance lending is managed accordingly.

Segment definition in brief:

Consumer: The Consumer segment serves c. 0.7 million customers, which includes Private Individuals (excluding mortgage and housing loans) through a hybrid distribution consisting of a network of 155 branches and state of the art digital channels.

SME: The SME segment serves approximately 37 thousand SME clients (companies and private entrepreneurs with annual turnover between EUR 0 million and EUR 50 million) in the CSEE region.

Mortgage: The Mortgage segment comprises Retail customers with loans related to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.

Large Corporates: The Large Corporate segment includes legal entities with annual gross revenues of more than EUR 50 million.

Public Finance: The Public Finance segment comprises businesses oriented on participation in public tenders for the financing requirements of key public institutions in CSEE countries, ministries of finance, state enterprises and local governments.

Corporate Center: The Corporate Center segment consists of the Treasury business in the parent company and the banking subsidiaries as well as central functions items such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levies and the intercompany reconciliation. In addition, this segment includes direct deposit activities of Addiko Bank AG with customers in Austria and Germany.

7.1. Consumer

EUR m

Consumer Business			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income	100.2	100.5	-0.3%
o/w regular interest income	95.1	95.7	-0.6%
Net fee and commission income	36.1	31.7	13.7%
Operating income	**136.3**	**132.3**	**3.0%**
Operating expenses	**-81.1**	**-79.8**	**1.7%**
Operating result before change in credit loss expense	**55.1**	**52.5**	**5.0%**
Other result	0.0	-1.7	-99.1%
Credit loss expenses on financial assets	-15.9	-19.7	-19.4%
Result before tax	**39.2**	**31.1**	**26.2%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	1,364.3	1,267.3	7.7%
o/w gross performing loans customers	1,388.9	1,296.0	7.2%
Gross disbursements	500.6	334.0	49.9%
Financial liabilities at AC	2,461.6	2,478.2	-0.7%
Key ratios	**2021**	**2020**	**(bps)**
NIM [1)]	5.7%	5.9%	-14
Cost/Income Ratio	59.5%	60.3%	-76
Cost of risk ratio	-1.0%	-1.3%	33
Loan to deposit ratio	55.4%	51.1%	428
NPE ratio (on-balance loans)	4.3%	4.9%	-54
NPE coverage ratio	78.8%	84.8%	-598
NPE collateral coverage	4.3%	5.5%	-120
Change CL/GPL (simply Ø)	-1.2%	-1.5%	32
Yield GPL (simply Ø)	7.1%	7.3%	-20

[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's strategy is to offer modern banking, focusing on products for the essential needs of customers via unsecured loans and payments, communicated in a simple and transparent manner and delivered efficiently via a hybrid distribution approach consisting of physical branches and modern digital channels. In the segment Consumer the focus is on unsecured lending, followed by account packages with regular transactions. Addiko also puts significant efforts into continuously improving digital capabilities and is recognised in its markets as a digital challenger with digital products and services such as Webloans, mLoans and online account opening capabilities. In the context of the Covid-19 pandemic, various processes were moved from the branch network to alternative and digital channels, in order to respond to the social distancing requirements and changing customer preferences.

In the first half of 2021 Addiko was still impacted by the lockdown measures implemented by the local governments to contain the spread of 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. During the remainder of 2021, the business and sales activities intensified across the region, reaching pre-Covid-19 levels. Sales channels were also adapted to the new environment, allowing customers increasing remote access to the bank's product and services, leveraging Addiko's digital capabilities and assisted sales channel.

Moreover, the digital engagement of customers preferring to use mobile channels significantly improved in the context of the Covid-19 pandemic, thereby proving the capabilities and awareness of the mobile app available in all Addiko entities. This allowed an improving digital contribution to the sales results during 2021, as the bank was able to respond well to social distancing requirements.

Consumer YE21 Business review

The net interest income slightly decreased by EUR 0.4 million to EUR 100.2 million at YE21, compared to YE20 (YE20: EUR 100.5 million) at a NIM of 5.7%, despite general margin pressure and regulatory caps on interest rates that can be charged in Addiko's largest market Croatia. The net fee and commission income increased by EUR 4.4 million to EUR 36.1 million at YE21 compared to EUR 31.7 million at YE20, due to higher income from account packages, lending activities, Bancassurance and FX&DCC. The Cost/Income ratio improved to 59.5% (YE20: 60.3%) driven by the overall positive development in 2021. The operating result before change in credit loss expenses at YE21 amounted to EUR 55.1 million, up 5.0% versus YE20, despite increased operating expenses (+1.7%) which were mainly caused by a normalisation of marketing expenses compared to the same period last year.

The gross disbursements at YE21 are close to pre-Covid-19 levels and reflect the recovery of business activities in the

markets where Addiko is present. Consequently, the YE21 consumer gross performing loans significantly increased by +7.2% compared to YE20. The NPE ratio (on-balance loans) also improved with a decrease of 54 bps illustrating the continued focus on the asset quality of the portfolio.

The result before tax amounted to EUR 39.2 million (YE20: EUR 31.1 million), which is up 26.2% YoY, also influenced by lower allocations of credit loss expenses on financial assets and no recognition of modification losses in other result related to moratoria.

7.2. SME Business

EUR m

SME Business			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income	30.5	28.6	6.8%
o/w regular interest income	31.9	30.2	5.7%
Net fee and commission income	25.2	22.3	12.7%
Operating income	**55.7**	**50.9**	**9.4%**
Operating expenses	**-30.9**	**-35.0**	**-11.9%**
Operating result before change in credit loss expense	**24.8**	**15.8**	**56.4%**
Other result	0.0	-0.3	>100%
Credit loss expenses on financial assets	-5.4	-25.1	-78.5%
Result before tax	**19.4**	**-9.6**	**>100%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	1,061.8	1,054.1	0.7%
o/w gross performing loans customers	1,057.1	1,056.1	0.1%
Gross disbursements	565.8	462.7	22.3%
Financial liabilities at AC	1,078.1	976.7	10.4%
Key ratios	**2021**	**2020**	**(bps)**
NIM [1)]	2.2%	2.2%	1
Cost/Income Ratio	55.5%	68.9%	-1338
Cost of risk ratio	-0.3%	-1.4%	112
Loan to deposit ratio	98.5%	107.9%	-944
NPE ratio (on-balance loans)	5.0%	6.7%	-173
NPE coverage ratio	64.1%	70.4%	-634
NPE collateral coverage	65.4%	64.4%	105
Change CL/GPL (simply Ø)	-0.5%	-2.4%	185
Yield GPL (simply Ø)	3.0%	2.8%	18

[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's strategy is to offer modern banking, focusing on products for the essential needs of customers via unsecured loans and payments, communicated in a simple and transparent manner and delivered efficiently via a hybrid distribution approach consisting of physical branches and modern digital channels. In the SME segment, the focus is on shorter term unsecured financing, followed by transaction banking and trade finance products.
In recent years Addiko has started a group-wide project to build up a new digital platform to cater to the needs of modern SME 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 2021, the group-wide roll out of this platform as well as the underlying digital processes has been finalised, which results in a homogenous digital eco-system that can be further leveraged with targeted products and services in the years to come. The focus continues to be on offering a compelling value proposition for digitally enabled loan products and online self-services capabilities that further reduce the cost-to-serve. Addiko also plans to increase the focus on untapped niches of micro and small enterprises in need of financing whilst reducing large ticket and low value adding medium SME lending, while increasing the loan volumes and interest and commission income.

SME YE21 Business review

The net interest income increased by EUR 1.9 million or 6.8% to EUR 30.5 million at YE21 compared to EUR 28.6 million at YE20 with NIM at 2.2%, due to the accelerated growth in 2021 related to micro and small enterprises with higher interest yields (yield increase of 18bps based on simple average).

The net fee and commission income increased by 12.7% compared to YE20, due to higher income from transactions, loans and trade finance on the back of targeted initiatives and the economic recovery across the region. Operating expenses decreased by EUR 4.2 million compared to YE20 driven by lower personnel expenses following FTE reductions. Consequently, the operating result before change in credit loss expenses at YE21 amounted to EUR 24.8 million, 56.4% better compared to YE20. The Cost/Income ratio decreased to 55.5% (YE20: 68.9%) driven by the

overall positive development in the operating income and lower operating expenses in 2021.

The gross disbursements at YE21 are close to the pre-Covid-19 level and increased by 22.3% compared to YE20.

The result before tax amounts to EUR 19.4 million (YE20: EUR -9.6 million), which is also related to significantly lower allocations of credit loss expenses on financial assets and no recognition of modification losses in the other result from moratoria. The NPE ratio (on-balance loans) came down to a level of 5.0% (YE20: 6.7%) and underlined the solid quality of the SME portfolio.

7.3. Mortgage

Mortgage lending is defined as non-focus, and primarily targets the managed and gradual run-down of existing and profitable customers loans along their contractual maturity. Given the run-down strategy, mortgage lending products are not actively marketed.

This is reflected in the operating income which amounted to EUR 16.9 million at YE21, representing an 11.9% decrease in comparison to EUR 19.1 million at YE20. This reduction in operating income is mainly driven by a EUR 103.9 million lower gross performing loan book which consequently results in lower net interest income.

EUR m

Mortgages			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income	16.9	19.1	-11.9%
o/w regular interest income	19.8	24.8	-20.4%
Net fee and commission income	0.0	0.0	-
Operating income	**16.9**	**19.1**	**-11.9%**
Operating expenses	**-2.2**	**-2.1**	**1.3%**
Operating result before change in credit loss expense	**14.7**	**17.0**	**-13.6%**
Other result	0.0	-0.5	-100.0%
Credit loss expenses on financial assets	7.6	-1.2	>100%
Result before tax	**22.3**	**15.4**	**45.3%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	541.6	650.3	-16.7%
o/w gross performing loans customers	534.7	638.6	-16.3%
Gross disbursements	6.0	1.0	492.6%
Financial liabilities at AC	0.0	0.0	-
Key ratios	**2021**	**2020**	**(bps)**
NIM [1]	1.4%	1.5%	-6
Cost/Income Ratio	12.9%	11.2%	167
Cost of risk ratio	1.3%	-0.2%	145
Loan to deposit ratio	0.0%	0.0%	0
NPE ratio (on-balance loans)	9.4%	11.1%	-168
NPE coverage ratio	77.6%	71.6%	599
NPE collateral coverage	74.5%	73.3%	121
Change CL/GPL (simply Ø)	1.3%	-0.2%	147
Yield GPL (simply Ø)	3.4%	3.6%	-22

[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

7.4. Large Corporates

EUR m

Large Corporates			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income	8.7	9.8	-11.1%
o/w regular interest income	9.8	13.1	-25.2%
Net fee and commission income	4.7	5.0	-6.1%
Operating income	**13.4**	**14.8**	**-9.4%**
Operating expenses	**-5.9**	**-5.2**	**13.9%**
Operating result before change in credit loss expense	**7.5**	**9.6**	**-21.9%**
Other result	0.0	-0.1	-100.0%
Credit loss expenses on financial assets	-2.1	-1.6	29.6%
Result before tax	**5.4**	**8.0**	**-31.7%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	239.4	484.5	-50.6%
o/w gross performing loans customers	239.2	485.3	-50.7%
Gross disbursements	78.0	179.6	-56.6%
Financial liabilities at AC	304.8	367.3	-17.0%
Key ratios	**2021**	**2020**	**(bps)**
NIM [1]	1.3%	1.4%	-7
Cost/Income Ratio	43.9%	35.0%	898
Cost of risk ratio	-0.5%	-0.2%	-26
Loan to deposit ratio	78.5%	131.9%	-5335
NPE ratio (on-balance loans)	4.4%	2.3%	209
NPE coverage ratio	53.5%	53.4%	9
NPE collateral coverage	83.3%	66.7%	1654
Change CL/GPL (simply Ø)	-0.6%	-0.3%	-27
Yield GPL (simply Ø)	2.7%	2.5%	23

[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's business activities relating to loan products, services and deposit products, as well as other complementary products to companies with an annual turnover of above EUR 50 million.

An accelerated run-down path is anticipated in this segment, as initiated during the second half of 2021 while Addiko will continue to serve selected customers with a favourable and balanced view on value generation.

Large Corporates YE21 Business review

As a non-focus segment Large Corporates records lower gross performing loans and consequently lower operating income in comparison to the same period last year. In 2021 the Large Corporate portfolio was highly influenced by repayments and low new business activity, in line with the accelerated run-down path initiated in the second half of 2021.

The net interest income decreased by EUR 1.1 million to EUR 8.7 million at YE21 compared to EUR 9.8 million at YE20 with NIM at 1.3%. Net fee and commission income amounted to EUR 4.7 million and decreased from YE20s EUR 5.0 million due to the reduction in gross performing loans and the gradual exit from non-focus custody business in Croatia. The result before tax amounted to EUR 5.4 million at YE21 (YE20: EUR 8.0 million) which was additionally impacted by slightly higher operating expenses and credit loss expenses on financial assets.

The NPE ratio (on-balance loans) increased by 209bps to 4.4% mainly driven by the reduced loan book versus 2020 rather than new formation.

7.5. Public Finance

EUR m

Public Finance			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income[1)]	4.5	5.4	-16.8%
o/w regular interest income	3.1	3.8	-19.4%
Net fee and commission income	1.2	1.1	10.6%
Operating income	**5.7**	**6.5**	**-12.3%**
Operating expenses	**-2.2**	**-2.1**	**4.7%**
Operating result before change in credit loss expense	**3.5**	**4.4**	**-20.5%**
Other result	0.0	0.0	-100.0%
Credit loss expenses on financial assets	0.5	-0.2	>100%
Result before tax	**4.0**	**4.2**	**-3.9%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	68.1	126.7	-46.2%
o/w gross performing loans customers	67.4	127.7	-47.2%
Gross disbursements	4.7	4.4	7.7%
Financial liabilities at AC	398.2	391.5	1.7%
Key ratios	**2021**	**2020**	**(bps)**
NIM [1)]	1.3%	1.3%	9
Cost/Income Ratio	38.7%	32.4%	630
Cost of risk ratio	0.5%	-0.1%	65
Loan to deposit ratio	17.1%	32.4%	-1525
NPE ratio (on-balance loans)	2.8%	0.6%	221
NPE coverage ratio	40.6%	49.6%	-900
NPE collateral coverage	95.8%	51.0%	4475
Change CL/GPL (simply Ø)	0.5%	-0.1%	68
Yield GPL (simply Ø)	3.1%	2.7%	44

[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 is part of the non-focus area and comprises Addiko's business with key public institutions in CSEE countries, such as ministries of finance, state enterprises and local governments. Given the run-down strategy, lending products in the Public Finance segment are not actively marketed.

Public Finance YE21 Business review

The net interest income amounted to EUR 4.5 million at YE21 (YE20: EUR 5.4 million), with NIM at 1.3%. The decrease in net interest income was related to the run-down of the portfolio (47.2% lower gross performing loans compared to YE20). The net fee and commission income remained stable at EUR 1.2 million compared to the same period last year. The Public Finance segment generated an operating income of EUR 5.7 million (YE20: EUR 6.5 million) and a result before tax of EUR 4.0 million at YE21 (YE20: EUR 4.2 million). The Cost/Income Ratio increased to 38.7% (YE20: 32.4%) due to lower operating income.

The NPE ratio increased by 221bps at YE21 predominantly driven by a reduction in the gross performing loan balance and a slight increase in the NPE stock.

7.6. Corporate Center

EUR m

Corporate Center			
Profit or loss statement	**2021**	**2020**	**(%)**
Net interest income[1)]	8.7	11.3	-22.5%
Net fee and commission income	-0.3	-0.3	-1.7%
Net result from financial instruments	6.2	11.7	-46.9%
Other operating result	-16.5	-13.7	20%
Operating income	**-1.9**	**8.9**	**>100%**
Operating expenses	**-48.8**	**-45.4**	**7.3%**
Operating result before change in credit loss expense	**-50.7**	**-36.5**	**38.7%**
Other result	-20.9	-5.5	278.8%
Credit loss expenses on financial assets	2.0	-0.6	>100%
Result before tax	**-69.6**	**-42.7**	**63.0%**
Business volume	**2021**	**2020**	**(%)**
Net loans and receivables	9.1	58.3	-84.3%
Financial liabilities at AC[2)]	690.9	759.7	-9.1%

[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. [2)]Financial liabilities at AC at YE21 include the Direct deposits (Austria/Germany) amounting to EUR 383 million, EUR 175 million Deposits of credit institutions, EUR 133 million Other

Corporate Center Strategy

The Corporate Center segment is primarily an internal segment without direct product offerings to external customers and comprise the results from Addiko's liquidity and capital management activities. This segment reflects Addiko's treasury activities as well as other functions, such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levies and other one-off items, including Addiko Group's reconciliation to IFRS (i.e. consolidation effects). In addition, this segment includes direct deposit activities of Addiko Bank AG to customers in Austria and Germany, which are steered by Group Treasury and conducted for liquidity management 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 the funding mix of Addiko's banking subsidiaries in CSEE.

Corporate Center YE21 Business review

The segment reporting illustrates combined figures for treasury and positions related to central functions.

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.

The net interest income at YE21 amounted to EUR 8.7 million (YE20: EUR 11.3 million) driven by a decrease of interest income from the treasury bond portfolio mainly related to lower yields reflecting the development of the interest rate environment.

The net result on financial instruments amounted to EUR 6.2 million at YE21, compared to EUR 11.7 million at YE20 mainly relates to realized profits from the sale of debt securities.

The other operating result decreased from EUR -13.7 million at YE20 to EUR -16.5 million at YE21 (down by EUR -2.8 million) mainly due to higher ECB supervision fees and higher restructuring costs compared to the same period last year.

The other operating result includes the following main items:

- Regulatory charges from the Recovery and Resolution Fund of EUR -1.2 million (YE20: EUR -1.4 million)
- Deposit guarantee expenses of EUR -5.8 million (YE20: EUR -8.1 million)
- Restructuring expenses of EUR -5.3 million (YE20: EUR -4.6 million)
- Banking levies and other taxes of EUR -4.2 million (YE20: EUR -3.0 million)

Operating expenses increased by EUR -3.3 million, to EUR -48.8 million at YE21 (YE20: EUR -45.4 million), mainly driven by costs for variable remuneration in the amount of -7.3 million, fully compensated by the successful cost optimisation in 2021.

The other result amounting to EUR -20.9 million (YE20: EUR -5.5 million) was significantly impacted by credit linked and portfolio based provisions for expected legal matters on Swiss-franc denominated loans in Croatia (EUR -13.3 million), by the costs connected with the finalisation of the arbitration procedures with the ICSID in Washington, DC started in 2017 against Montenegro (EUR -1.4 million) and by loan processing fees disputes in Serbia in the amount of EUR -3.4 million. These costs could be partially compensated by the collection of EUR 2.1 million from a final court decision in favour of one entity of Addiko Group, in relation to past damage claims (2020 EUR 1.9 million). The position other result was also impacted by impairments on non-financial assets which was mainly driven by the early renegotiation of a contract with a central IT supplier at better terms, which was leading to the recognition of a EUR -2.3 million impairment on the amounts deferred, based on the previous version of the respective contract. Compared to the previous year no material modification losses have been recognised in connection with the moratoria programs in Serbia and Montenegro, while in the previous reporting period, 2020, the effect was EUR -2.6 million.

Asset Contribution

The net interest income in the Corporate Center at YE21 includes only a fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 40.8 million. The majority of the IGC in the amount of EUR 34.2 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 would be zero.

Since a certain percentage of longer-term assets is funded by shorter term liabilities, market segments are therefore charged more for their assets than compensated for their liabilities within the applied funds transfer pricing (FTP) methodology. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is re-distributed from the segment Corporate Center to the originator of the IGC, i.e. the respective market segment.

8. 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 at the reporting date and is divided into 19,500,000 voting no-par value bearer shares. As at the reporting 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 9.99% 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 authorised to increase the share capital subject to approval of the Supervisory Board, if necessary in several tranches, by up to EUR 97,500,000 by issuing up to 9,750,000 new voting no-par value bearer shares against cash and/or non-cash contributions (also indirectly through a credit institution pursuant to Section 153 (6) AktG) within five years after entering the corresponding amendment to the Company's statutes into the Austrian Commercial Register, and to determine the issue price and terms of issue in agreement with the Supervisory Board. Subject to approval of the Supervisory Board, the Management Board is authorised to exclude the shareholders' statutory subscription right if (i) the capital increase is made against a non-cash contribution, (ii) the capital increase is made against a cash contribution and the shares issued under exclusion of the shareholders' subscription right do not, in total, exceed 10% (ten per cent) of the Company's share capital or (iii) shares are issued to employees, executives or members of the Management Board of the Company in the course of an employee stock participation program or stock option program. The Supervisory Board is authorised to resolve on amendments to these statues relating to the issue of shares in the course of an approved capital increase. In the General Assembly dated 6 June 2019 and pursuant to Section 159 (2) No. 1 AktG, the share capital was conditionally increased (conditional capital) by up to EUR 19,500,000 by issuing up to 1,950,000 no-par value bearer shares. The conditional capital increase shall only be implemented to the extent that a conversion or subscription right, which the Company has granted to the creditors of convertible bonds or other instruments that provide their holders with a conversion of subscription right, is exercised. The issuing price and the conversion rate are to be determined on the basis of accepted simplified actuarial methods and the price of the Company's shares using a generally accepted pricing procedure (basis for the calculation of the issue amount); the issue amount is to be at least EUR 10 (ten euros) per share. Subject to approval of the Supervisory Board, the Management Board is authorised to determine the further details of the conditional capital increase. The Supervisory Board is authorised to resolve on amendments to these statues relating to the issue of shares in the course of a conditional capital increase. Within the meaning of Section 65 Austrian Stock Corporation Act, the Management Board was authorised in the General Assembly on 27 November 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 authorised, 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.

9. Analysis of non-financial key performance indicators

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

10. 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 the 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. The monitoring of key risks is part of the daily activities of the 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 emphasises and demonstrates to all levels the importance of internal controls.

11. 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 a separate non-financial report. The report will be published online – on www.addiko.com - and also contains the disclosure for the parent company in accordance with Section 243b UGB.

12. 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/

13. 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 (91). 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 is presented in note (75) Fair value disclosure.

14. Research & Development

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

15. Mid-Term Targets, Outlook & Risk factors

15.1. Mid-Term Targets

The Management Board and Supervisory Board of Addiko Bank AG have decided on the following updated Mid-Term Targets starting with the business year 2022 and aligned them with the Transformation Program initiated in the second half of 2021 to boost revenue and growth in the focus areas and lower costs by streamlining operations:

Business Growth:
- Loan book in focus areas at ca. 95%
- Net interest margin ca. 3.8%
- Focus loan book growth ca. 10% CAGR
- Cost of risk (net loans) ca. 1.4%
- Loan/deposit ratio <100%

Cost Base:
- Cost income ratio ca. 50%

The above leading to:
- Return on tangible equity (14.1% CET1 Ratio) >10%
- Total capital ratio >16.1%
- Annual dividend payout of 60% of net profit

The above Mid-Term targets 2022 does not consider any potential impacts from the Slovenian CHF law ("Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs") as approved by the National Assembly of Slovenia on 2 February 2022. If the legal remedies used against the new law were unsuccessful and, as a consequence, the law would have to be executed, it might have an impact on the Mid-Term guidance.

Moreover, the potential execution of the above-mentioned CHF law would result in a net loss for the financial year 2022. Based on Addiko's continuous regulatory dia-

logue and its existing capital structure, no regular dividends are expected to be paid out for the financial year 2022.

15.2. Outlook

Economic growth is projected to remain strong over the next three years despite some headwinds in the near term. Sharply rising rates of Covid-19 infections are still affecting the world and the region Addiko is present, with periodic waves occurring every several months. The emergence of the Omicron variant has added to this uncertainty. In addition, supply bottlenecks have intensified and are now expected to last longer, only to be gradually dissipating from the second quarter of 2022 and fully unwinding by 2023. However, this does not seem to have any material effects on the economy, with people and firms having adapted to the new normality and behaving as if there were no pandemic. Governments are acting in the same way, avoiding lockdowns and introducing just mild restrictions.

Real GDP is expected to exceed pre-Covid-19 level in the first quarter of 2022. As global supply constraints ease and the pandemic-related restrictions and associated uncertainties decrease, growth is consequently expected to be solid in 2022, notwithstanding a less supportive fiscal stance and higher market interest rate expectations. Household consumption will remain the key driver of economic growth, benefiting from a rebound in real disposable income, some unwinding of the accumulated savings and a robust labour market.

Inflation gained momentum everywhere in the region, in which it is expected to be close to or higher than the 2021 levels at around 2-3% for 2022. Although considerably stronger than previously anticipated, these inflationary pressures are still assessed to be largely temporary, reflecting a surge in energy prices and international and domestic mismatches in demand and supply as economies reopen. High inflation will reduce real incomes to some extent and may slow down spending and growth in turn.

Higher energy prices may also have an adverse effect on businesses and households as they have increased substantially in Europe and the CSEE region, which may affect small and medium enterprises in particular. Some of the governments (Croatia and Serbia) have taken measures for addressing these issues, through price freezes and government transfers, but these measures are only short-term.

On top of this, political tensions are reoccurring in the region. Bosnia & Herzegovina is going through the biggest political crisis since the war, in Montenegro there is a government crisis, in Serbia there are some tensions with Kosovo. At the moment, these events seem unlikely to escalate into bigger conflicts but are still likely to have certain negative effects on the economic developments in 2022 in those countries.

Overall, the expectations for 2022 are that the region will continue to grow solidly.

The Croatian economy is expected to expand by 5.0%, with the inflow of EU Recovery and Resilience Facility (RRF) funds further supporting Croatia's growth dynamics. According to government estimates, the implementation of the RRF-financed projects – including the reconstruction of earthquake-damaged infrastructure – is expected to contribute 1.4% to headline GDP growth in both 2022 and 2023. As the government steps up fiscal consolidation with a view to introducing the Euro in January 2023, this year's budget deficit will likely decline to below the 3% Maastricht requirement, and the public debt-to-GDP ratio will fall to around 80%. Supported by the ongoing economic recovery across the EU and the normalisation of tourist activity, Croatia's current account surplus is projected to rise to 0.5% of GDP, though the unemployment rate will likely remain at some 7% – above pre-Covid-19 levels. Persistent global supply-chain disruptions and higher energy prices will continue to exert upward pressure on inflation, which should average 3% in 2022, albeit with some volatility.

Slovenia's economic growth is expected at 4.1% in 2022. Private spending is anticipated to grow by 4.5% and investment activity should stay strong at 7.8%. While GDP and exports exceeded pre-Covid-19 levels some months before the end of 2021, two important economic sectors – tourism and automotive – are still operating at below the pre-crisis levels of output: the former due to the pandemic and the latter due to supply-side issues. Whether they will recover fully in 2022 is unclear. Inflation averaged 1.9% in 2021 but reached 4.9% in December. It will likely stay high through most of 2022 with the consumer price index expected to grow by 3.2% for the full year. Rising energy prices are also of concern to energy-intensive sectors, which play a prominent role in the economy. With a rapidly rising structural deficit, the sustainability of public finances is also under discussion; that said, the public deficit will decrease substantially year on year (to 2.4% of GDP), due to the reduction in Covid-19 related expenditure, and public debt will hover at around 80% of GDP.

With parliamentary elections scheduled for April, no tightening of fiscal policy is to be expected, and any major reforms will likely be pushed into 2023. The likely division of parliamentary seats is far from clear, as new players are expected to enter the highly fractured political arena.

In Bosnia & Herzegovina the economy is expected to grow by 3.1% in 2022 and therefore is among the lowest growth rates in the whole region. This is largely a reflection of the increased political risks, which will likely cause public infrastructure projects and private-sector investments to be put on hold, while consumer spending and exports will grow only slowly. With further increases in energy prices, inflation is anticipated to climb to 2.6% in 2022.

In Serbia, the economy is expected to remain robust with a GDP growth of 4.6% in 2022. The government will keep fiscal policy expansionary ahead of the presidential and parliamentary elections in April, and it has already embarked on some transfer programmes, such as the EUR 100 stimulus for people aged between 16 and 29, which will have a positive effect on consumption and economic activity. Foreign direct investment is likely to remain strong. One downside risk may arise from the ongoing problems in the global supply chains, which could hit the output of foreign-owned factories in the country. Another risk may stem from ongoing protests against a proposed lithium mine, which could gather pace as the elections approach.

In Montenegro, consumption and savings may be significantly boosted in 2022 by the tax and labour market reform programme ‘Europe now!’, which abolishes health insurance contributions, introduces progressive income taxation and almost doubles the minimum wage. It could significantly reduce income inequality, shrink the grey economy and counter the negative effects of inflation. But it may also reduce government revenues substantially, leading to cuts in public spending and a rise in public debt. The solid economic results are, however, overshadowed by the political instability, which has intensified in January 2022. The uncertainty with respect to the new government coalition may exacerbate ethnic divisions, slow down EU accession and dampen growth potential in 2022. It is expected that the economy will bounce back to pre-pandemic levels, unless the political turmoil escalates.

Concurrent with the improved growth expectations, the CSEE region offers higher growth compared to mature markets with still underserved niches to be identified. For this reason, the Group intends to further accelerate its competitive specialist strategy execution in the CSEE markets in 2022, focusing on sustainable business growth in the segments Consumer and SME, with a specific focus on micro and small enterprises and the overall ambition to become the leading CSEE specialist bank for these segments.

Addiko’s prudent risk approach will remain a key anchor of the loan growth generation strategy. Addiko intends to rebalance its risk appetite to enable growth and at the same time to leverage on its advanced risk-management tools across Consumers and SMEs as part of its modern digital platform.

The clear focus on Consumer and SME business will accelerate the transformation of the balance sheet of Addiko towards these higher value generating segments. In this context, the Group will consider the possibility of capital generation via faster non-focus reduction. Addiko believes that the reduction in the non-focus portfolio will generate value in the long-term by sharpening the focus in the core segments and releasing capital from higher risk weight non-focus loans

As one of its short-term ambitions, Addiko intends to further push its efficiency by reducing costs and complexity and streamlining its operating model. Addiko already identified 74 costs initiatives which will be executed during 2022 and are expected to generate a sustainable and visible gross saving impact. A partial reinvestment of such savings will be utilised to mitigate the EUR mid-single-digit costs for the Euro implementation project in Croatia during 2022.

In summary, for the full year 2022 the Group expects:

- Gross performing loans at ca. EUR 3.3 billion with >10% growth in focus, despite further reduction in medium SMEs
- Net Banking Income stable at 2021 level despite the accelerated run-down in non-focus
- Operating expenses to further decrease to below EUR 165 million, excluding the EURO project in Croatia (costs in the mid-single digit million range)
- TCR above 18.6% on a transitional basis
- Sum of other result and credit loss expenses on financial assets ca. 1% on average net loans and advances to customers.

The above Outlook 2022 does not consider any potential impacts from the Slovenian CHF law ("Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs") as approved by the National Assembly of Slovenia on 2 February 2022. If the legal remedies used against the new law were unsuccessful and, as a consequence, the law would have to be executed, it might have an impact on the Mid-Term guidance.

15.3. Risk factors

Given Addiko's focus on Consumer and SME, the business is particularly tied to the economic cycle and the financial performance of the bank could be better or worse than expected depending on how the economies of its markets perform. In addition, the negative impact of potential further lockdowns to combat the Covid-19 pandemic could also have a negative impact on the bank's earnings than expected.

The bank is present in countries with heightened levels of political risk and recourse in case of default is more difficult given less developed legal systems. A potential political conflict in CSEE could negatively impact bilateral trade and lower economic growth. Furthermore, the laws and courts of these countries have not been fully tested in contract enforcement proceedings and other aspects of Addiko Group`s operations in these markets. Additionally, in some circumstances, it may not be possible to obtain the legal remedies provided for under these laws and regulations in a reasonably timely manner. A lack of legal certainty or Addiko Group's inability to obtain effective legal remedies in a reasonably timely manner may have a material adverse effect on Addiko Group's business, financial position and results of operations.

The bank faces regulatory risk from the implementation of various regulatory and consumer protection initiatives, e.g. MREL, PSD2, GPDR, etc. Potential regulatory constraints could also negatively impact the bank's ability to improve efficiency.

On 2 February 2022, the Slovenian Parliament passed the "Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs". Since the Law affects civil law contractual relationships retroactively, Addiko will challenge its constitutionality and intends to use all legal remedies against the law. If outlined legal remedies are unsuccessful, Addiko assessed a worst case negative impact caused by the implementation of the law in the range of approximately EUR 100 to 110 million. Based on the preliminary impact assessment, Addiko Bank AG reiterates the expectation that both Addiko Bank AG and Addiko Group will remain well above mandatory capital requirements and its existing capitalisation will be sufficient to cover the impact from the implementation of the law. At year end, the transitional CET1 ratio stood at 22.2% for Addiko Group (21.6% IFRS 9 fully-loaded) and at 53.6% for Addiko Bank AG (no separation between transitional and fully-loaded).

A review of conflicting rulings related to historical CHF lending in Croatia by the Croatian Supreme Court could also have negative consequences for the bank's financial performance.

In September 2017, the Group filed a Requests for Arbitration with the ICSID in Washington, DC against the Republic of Croatia and the Republic of Montenegro regarding the Conversion Laws claiming EUR 165 million respectively EUR 8.1 million. The Group claims that the Bilateral Investment Treaties (BIT) regarding the fair and equivalent treatment under the respective BIT was violated. The tribunal in the case against Montenegro rejected Addiko's claim in its award rendered on 23 November 2021. In the proceedings against Croatia the main hearing was conducted in March 2021 and parties are waiting for the final award. If the action is unsuccessful, then court fees and legal costs could amount up to ca. EUR 10 million. Based on legal advice, management believes that the action will be successful.

Vienna, 22 February 2022
Addiko Bank AG

MANAGEMENT BOARD

Herbert Juranek
Chairman

Tadej Krašovec
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

Consolidated Financial Statements

I. Consolidated statement of comprehensive income		**32**
	Statement of profit or loss	32
	Statement of other comprehensive income	33
II. Consolidated statement of financial position		**34**
III. Consolidated statement of changes in equity		**35**
IV. Consolidated statement of cash flows		**36**
V. Notes to the consolidated financial statements		**37**
Company		37
(1)	Accounting principles	37
(2)	Covid-19 disclosures	38
(3)	Changes in the presentation of the financial statements	38
(4)	Application of new standards and amendments	39
(5)	Use of estimates and assumptions/material uncertainties in relation to estimates	44
(6)	Accounting topics affected by Covid-19	46
(7)	Basis of measurement	47
(8)	Scope of consolidation	47
(9)	Basis of consolidation and business combinations	47
(10)	Foreign currency translation	48
(11)	Leases	49
(12)	Earnings per share	51
(13)	Net interest income	51
(14)	Net fee and commission income	51
(15)	Net result on financial instruments	52
(16)	Other operating income and other operating expenses	53
(17)	Other result	53
(18)	Financial instruments	53
(19)	Repurchase agreements	62
(20)	Fiduciary transactions	62
(21)	Financial guarantees	62
(22)	Cash reserves	63
(23)	Tangible assets: Property, plant and equipment and investment properties	63
(24)	Intangible assets	64
(25)	Tax assets and tax liabilities	64
(26)	Other assets	64
(27)	Non-current assets and disposal groups classified as held for sale	65
(28)	Provisions	65
(29)	Other liabilities	66
(30)	Share-based payments	66
(31)	Equity (including non-controlling interests)	67
Notes to the profit or loss statement		68
(32)	Net interest income	68
(33)	Net fee and commission income	69
(34)	Net result on financial instruments	70
(35)	Other operating income and other operating expenses	71
(36)	Personnel expenses	72
(37)	Other administrative expenses	72
(38)	Depreciation and amortisation	72
(39)	Other result	73
(40)	Credit loss expenses on financial assets	73

(41) Taxes on income 74

Notes to the consolidated statement of financial position 78
(42) Cash reserves 78
(43) Financial assets held for trading 79
(44) Loans and receivables 79
(45) Investment securities 85
(46) Tangible assets 87
(47) Intangible assets 87
(48) Development of tangible and intangible assets 88
(49) Other assets and Non-current assets and disposal groups classified as held for sale 91
(50) Financial liabilities held for trading 92
(51) Financial liabilities measured at amortised cost 92
(52) Provision 93
(53) Other liabilities 97
(54) Equity 98
(55) Statement of cash flows 99

Segment Reporting 100
(56) Risk control and monitoring 109
(57) Risk strategy & Risk Appetite Framework (RAF) 109
(58) Risk organisation 109
(59) Internal risk management guidelines 111
(60) Credit risk 111
(61) Risk provisions 125
(62) Measurement of real estate collateral and other collateral 131
(63) Market risk 134
(64) Liquidity risk 136
(65) Operational risk 139
(66) Object risk 139
(67) Other risks 140
(68) Legal risk 141

Supplementary information required by IFRS 144
(69) Analysis of remaining maturities 144
(70) Leases from the view of Addiko Group as lessor 146
(71) Leases from the view of Addiko Group as lessee 147
(72) Assets/liabilities denominated in foreign currencies 148
(73) Transfer of financial assets – repurchase agreements 148
(74) Contingent liabilities and other liabilities not included in the statement of financial position 148
(75) Fair value disclosures 149
(76) Offsetting financial assets and financial liabilities 155
(77) Derivative financial instruments 157
(78) Related party disclosures 157
(79) Share-based payments 158
(80) Capital management 159

Supplementary information required by Austrian Law 167
(81) Assets pledged as collateral 167
(82) Breakdown of securities admitted to listing on a stock exchange 167
(83) Return on total assets 167
(84) Expenses for the auditor 168
(85) Trading book 168
(86) Employee data 168

(87) Expenses for severance payments and pensions 168
(88) Relationship with members of the Company's Boards 169
(89) Boards and Officers of the Company 170
(90) Scope of consolidation 171
(91) Events after the reporting date 171
Statement of all legal representatives 173
Audit Opinion 174
Report of the Supervisory Board 181
Glossary 184
Imprint 188

I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method		185.5	194.3
Other interest income		2.2	2.6
Interest expenses		-18.2	-22.3
Net interest income	**(32)**	**169.5**	**174.7**
Fee and commission income		84.3	75.6
Fee and commission expenses		-17.5	-15.8
Net fee and commission income	**(33)**	**66.8**	**59.8**
Net result on financial instruments	(34)	6.2	11.7
Other operating income	(35)	3.8	6.0
Other operating expenses	(35)	-20.3	-19.8
Operating income		**226.0**	**232.5**
Personnel expenses	(36)	-92.0	-83.9
Other administrative expenses	(37)	-61.1	-65.9
Depreciation and amortisation	(38)	-18.0	-19.9
Operating expenses		**-171.1**	**-169.7**
Operating result before impairments and provisions		**54.9**	**62.8**
Other result	(39)	-20.9	-8.1
Credit loss expenses on financial assets	(40)	-13.2	-48.4
Result before tax		**20.8**	**6.3**
Tax on income	(41)	-7.2	-4.9
Result after tax		**13.6**	**1.4**
thereof attributable to equity holders of parent		13.6	1.4

	31.12.2021	31.12.2020
Result after tax attributable to ordinary shareholders (in EUR m)	13.6	1.4
Weighted-average number of ordinary shares (in units of shares)	19,500,000.0	19,500,000.0
Earnings/loss per share (in EUR)	0.70	0.07
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)	0.70	0.07

The following notes (1) - (91) are an integral part of these consolidated financial statements.

Statement of other comprehensive income

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Result after tax	**13.6**	**1.4**
Other comprehensive income	**-14.1**	**-10.9**
Items that will not be reclassified to profit or loss	**0.6**	**0.5**
Actuarial gains or losses on defined benefit plans	0.2	0.0
Fair value reserve - equity instruments	0.4	0.5
Net change in fair value	0.3	0.6
Income Tax	0.1	-0.1
Items that are or may be reclassified to profit or loss	**-14.7**	**-11.4**
Foreign currency translation	1.8	-6.0
Gains/losses of the current period	1.8	-6.0
Fair value reserve - debt instruments	-16.4	-5.4
Net change in fair value	-15.2	6.0
Net amount transferred to profit or loss	-3.8	-12.3
Income Tax	2.5	1.0
Total comprehensive income for the year	**-0.5**	**-9.5**
thereof attributable to equity holders of parent	-0.5	-9.5

The following notes (1) - (91) are an integral part of these consolidated financial statements.

II. Consolidated statement of financial position

EUR m

	Note	31.12.2021	31.12.2020
Assets			
Cash reserves	(42)	1,361.7	1,156.3
Financial assets held for trading	(43)	32.6	36.4
Loans and receivables	(44)	3,284.4	3,641.2
Loans and advances to credit institutions		5.7	56.5
Loans and advances to customers		3,278.7	3,584.7
Investment securities	(45)	1,012.2	929.0
Tangible assets	(46)	70.6	78.8
Property, plant and equipment		65.5	74.0
Investment property		5.1	4.7
Intangible assets		26.7	26.4
Tax assets		26.9	25.2
Current tax assets		2.7	3.9
Deferred tax assets	(41)	24.1	21.3
Other assets	(49)	14.9	18.5
Non-current assets held for sale	(49)	12.3	2.7
Total assets		**5,842.3**	**5,914.5**
Equity and liabilities			
Financial liabilities held for trading	(50)	2.3	4.9
Financial liabilities measured at amortised cost	(51)	4,933.6	4,973.4
Deposits and borrowings of credit institutions		174.6	196.2
Deposits and borrowings of customers		4,708.2	4,728.1
Issued bonds, subordinated and supplementary capital		0.1	0.1
Other financial liabilities		50.8	49.0
Provisions	(52)	69.9	58.2
Tax liabilities		5.8	0.0
Current tax liabilities		5.8	0.0
Other liabilities	(53)	25.7	26.3
Equity	(54)	805.1	851.8
thereof attributable to equity holders of parent		805.1	851.8
Total equity and liabilities		**5,842.3**	**5,914.5**

The following notes (1) - (91) are an integral part of these consolidated financial statements.

III. Consolidated statement of changes in equity

The consolidated statement of changes in equity is presented at the 31.12.2021 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**	**237.9**	**17.6**	**-12.6**	**413.8**	**851.8**	**0.0**	**851.8**
Result after tax	0.0	0.0	0.0	0.0	13.6	13.6	0.0	13.6
Other comprehensive income	0.0	0.0	-16.1	1.8	0.2	-14.1	0.0	-14.1
Total comprehensive income	0.0	0.0	-16.1	1.8	13.8	-0.5	0.0	-0.5
Transactions with equity holders	0.0	0.0	0.0	0.0	-46.1	-46.1	0.0	-46.1
Dividends paid	0.0	0.0	0.0	0.0	-46.6	-46.6	0.0	-46.6
Share-based payments	0.0	0.0	0.0	0.0	0.5	0.5	0.0	0.5
Other changes	0.0	0.0	-0.6	0.0	0.6	0.0	0.0	0.0
Equity as at 31.12.	**195.0**	**237.9**	**0.9**	**-10.8**	**382.1**	**805.1**	**0.0**	**805.1**

The consolidated statement of changes in equity is presented at the 31.12.2020 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
Transactions with equity holders								
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 following notes (1) - (91) are an integral part of these consolidated financial statements.

IV. Consolidated statement of cash flows

EUR m

	2021	2020[1)]
Result after tax	**13.6**	**1.4**
Depreciation and amortisation of intangible assets, tangible fixed assets and financial investments	19.1	20.1
Change in risk provisions on financial instruments	13.2	48.4
Modification gains or losses	0.1	2.6
Change in provision	30.5	11.5
Gains or losses on investment securities	-3.8	-11.9
Gains or losses from disposals of intangible assets and tangible fixed assets	-2.0	-1.7
Gains or losses on financial instruments at FVTPL	2.4	-3.8
Gains or losses on financial assets and liabilities, measured at amortised costs	-0.9	0.1
Subtotal	**72.4**	**66.7**
Loans and advances to credit institutions and customers	133.6	-9.6
Investment securities	-93.6	173.1
Financial assets held for trading	1.4	5.8
Other assets	2.2	4.2
Financial liabilities measured at amortised cost	-13.8	-120.2
Financial liabilities held for trading	-2.6	-1.1
Provisions	-15.7	-21.0
Other liabilities	5.8	-1.1
Payments for taxes on income	-0.4	-1.6
Interests received	193.6	205.6
Interests paid	-24.4	-23.2
Dividends received	0.1	0.1
Cash flows from operating activities	**258.6**	**277.7**
Proceeds from sales of:	8.3	5.2
Non-current assets held for sale	1.7	0.4
Tangible assets, investment properties, lease assets and intangible assets	6.6	4.8
Payments for purchases of:	-11.0	-13.2
Tangible assets, investment properties, lease assets and intangible assets	-11.0	-13.2
Cash flows from investing activities	**-2.7**	**-7.9**
Dividends paid	-46.6	0.0
Lease payments	-5.9	-6.9
Cash flows from financing activities	**-52.5**	**-6.9**
Net (decrease) increase in cash and cash equivalents	**203.3**	**262.9**
Cash reserves at the end of previous period (01.01.)	**1,156.7**	**899.8**
Effect of exchange rate changes	1.8	-6.0
Cash and cash equivalents at end of period (31.12.)	**1,361.9**	**1,156.7**

[1)]The Cashflow for the period 2020 was adjusted according to the explanation in note (3) Changes in the presentation of the financial statements

The following notes (1) - (91) are an integral part of these consolidated financial statements.

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.

(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 (69) Analysis of remaining maturities.

All subsidiaries included in the consolidated financial statements of Addiko Group 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 stated in millions of euros (EUR million), except when otherwise indicated; the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On 22. February 2022, the Management Board of Addiko Bank AG approved the consolidated financial statements as at 31 December 2021 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 2021.

(2) Covid-19 disclosures

Considerations and significant impacts of the Covid-19 outbreak are presented within the Addiko consolidated financial statements in those chapters to which they can be assigned thematically:

- Note (6) Accounting topics affected by Covid-19, discusses the accounting and measurement methods affected by Covid-19.
- Note (60) Credit risk contains a separate sub-chapter “Moratoria due to Covid-19” which contains information on credit exposures subject to certain Covid-19 measures.
- Note (61) Risk provisions contains a separate sub-chapter “Method of calculating risk provisions” which explains the considerations of the pandemic on the ECL measurement and sensitivity analyses.
- Note (80) Own funds and capital requirements discusses the adjustments to the regulatory framework due to the current Covid-19 crisis.

(3) Changes in the presentation of the financial statements

In 2021 Addiko Group reviewed the consolidated statement of cash flows. The result of the review led to changes in the consolidated statement of cash flows and the following positions were adjusted:

- Modification gains and losses in the amount of EUR 2.6 million are presented now in the new line “Modification gains or loss” (before: “Change in risk provisions on financial instruments and modification gain/loss”);
- Gains and losses on remeasurement of financial instruments at fair value through profit or loss in the amount of EUR -3.8 million are presented now in new line “Gains or losses on financial instruments at FVTPL” (before: “Financial assets held for trading” in cash flow from operating activities);
- Cash paid for amounts included in lease liabilities in the amount of EUR 6.9 million is presented in the new line “Lease payments” as cash flow from financing activities (before: “Other liabilities from operating activities" in cash-flow from operating activities);
- Proceeds from the sale of assets held for sale (IFRS 5) in the amount of EUR 0.4 million are presented in the new line “Proceeds from the sale of non-current assets” in cashflow from investing activities (before: “Other changes”);
- FX changes from tangible assets, investment properties, lease assets and intangible assets in the amount of EUR -0.7 million were adjusted in “Effect of exchange rate changes” (EUR -0.7 million) and “Other changes” (EUR 0.7 million);
- Effects of reassessments and modifications of right of use assets in the amount of EUR 2.4 million were adjusted in “Other liabilities from operating activities" (EUR 2.4 million) and “Other changes” (EUR -2.4 million).

(4) Application of new standards and amendments

New standards, interpretations and their amendments are listed below.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2021:

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
IFRS 4	Amendments to IFRS 4 Insurance contracts	Deferral of IFRS 9	2021

4.1. Amendments to IFRS 16 Leases: Covid-19 Related Rent Concessions

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.

4.2. Amendments to IFRS 9 Financial Instruments: Interest rate benchmark reform - Phase 2

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 interbank offered rates (IBORs) are actually replaced by alternative nearly risk free rates (RFR) based on liquid underlying market transactions.

The Addiko Group applied these amendments to annual reporting periods beginning on or after 1 January 2021 retrospectively. Earlier application is permitted and restatement of prior period is not required. The Group did not have any transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, therefore there is no impact on opening equity as a result of retrospective application.

The amendments introduce practical expedients in relation to **accounting for modifications of financial assets and financial liabilities** required by the reform. If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the effective interest rate of the financial asset or financial liability is updated to reflect the change that is required by the reform. There is consequently no adjustment of the carrying amount. In effect, the change is treated as akin to a movement in the market rate of interest. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis - i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then first the effective interest rate of the financial asset or financial liability is updated to reflect the change that is required by interest rate benchmark reform. After that, all other modifications are accounted for using the current IFRS requirements.

In addition, the amendments introduce practical expedients in case future lease payments are changed as required by the interest rate benchmark reform. In such case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

Furthermore, the amendments clarify that **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 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. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. As at 31 December 2021, it is known that the remaining USD LIBOR tenors will be ceased as at 30 June 2023 and it is still unclear when the announcement that will set a date for the termination of the publication of EURIBOR will take place. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates. It is expected that the local reference rates used in the subsidiaries will not be affected by IBOR reform.

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 rates, 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's IBOR exposures to non-derivative financial assets as at 31 December 2021 were Loans and advances indexed to EURIBOR and LIBOR. The Addiko Group's IBOR exposures to non-derivative financial liabilities as at 31 December 2021 were deposits indexed to EURIBOR. The Addiko Group holds interest rate derivatives with floating legs that are indexed to EURIBOR and LIBOR.

On 22 October 2021, the European Commission adopted the implementing regulations on the designation of a statutory replacement rate for two interest rate benchmarks, the Swiss Franc London Interbank Offered Rate (CHF LIBOR) and the Euro Overnight Index Change (EONIA).

The main focus of the Addiko Group during 2021 was the transition of CHF LIBOR. In subsidiaries which are located in the European Union, there is a statutory solution based on EU Commission implementing act therefore annexes of customers contracts are not needed. In non-EU countries, the strategies for transition were defined and approved by the Board Members since neither a local regulation on benchmark replacement has been adopted, nor is there any recommendation on industry level or Banking Association. Annexes of contracts are in the process of preparation and have to be signed by all parties in accordance with defined strategy. Beside it, subsidiaries updated General terms and conditions and prepared the implementation of new contracts and annexes of the existing contracts in their core systems.

EURIBOR was so far reformed (the calculation methodology was changed) rather than being replaced. The Addiko Group expects that EURIBOR will continue to exist as a benchmark rate, but to be prepared on different scenario, fallback clauses were prepared by external law firm and will be incorporated in any existing as well as new loan agreements.

Addiko Group further monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts and the volume of instruments that have yet to transition to an alternative benchmark rate. Addiko Group evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

The following table shows the total amount of financial instruments which have transitioned to the new reference rates and which are referenced to LIBOR held on 31 December 2021:

in EUR Mio.

	Non-derivative financial assets		Non-derivative financial liabilities		Derivatives	
	No. of contracts	Carrying amount	No. of contracts	Carrying amount	No. of contracts	Nominal amounts
CHF	1,033	43.6	0	0.0	0	0.0
USD	0	0.0	0	0.0	0	0.0
Total	**1,033**	**43.6**	**0**	**0.0**	**0**	**0.0**

The following table shows the total amount of financial instruments which are yet to transition to the new reference rates and which are referenced to LIBOR held on 31 December 2021:

in EUR Mio.

	Non-derivative financial assets		Non-derivative financial liabilities		Derivatives	
	No. of contracts	Carrying amount	No. of contracts	Carrying amount	No. of contracts	Nominal amounts
CHF	445	24.4	4	0.0	0	0.0
USD	0	0.0	16	0.3	2	8.8
Total	**445**	**24.4**	**20**	**0.3**	**2**	**8.8**

In addition, on 31 December 2021 Addiko Group had 57 derivative contracts with total notional amount EUR 198,3 million which are referenced to EONIA. It was replaced on 3 January 2022 with Euro short term rate (€STR - new alternative reference rate which was developed by ECB) plus a fixed spread.

4.3. Amendments to IFRS 4 Insurance contracts: Deferral of IFRS 9

The amendments to **IFRS 4 Insurance contracts** (Deferral to IFRS 9) provide an extension of the end date for applying the temporary exemption from IFRS 9 to 1 January 2023. These amendments are not applicable for Addiko Group.

4.4. New standards not yet effective

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 April 2021
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	2022
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework	2022
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use	2022
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts	2022

The amendments to **IFRS 16 Leases** (Covid-19-Related Rent Concessions) extend the practical expedient in relation to Covid-19 related rent concession for any change in lease payments originally due on or before 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. Addiko Group chose not to apply the practical expedient.

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.

4.5. New standards and interpretations not yet been adopted by the EU

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

Standard	Name	Description
IFRS 17	IFRS 17 Insurance contracts	New Standard replacing IFRS 4
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Disclosure of Accounting policies
IAS 8	Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors	Definition of Accounting Estimates
IAS 12	IAS 12 Income Taxes	Deferred Tax related to Assets and liabilities arising from a Single Transaction

New **IFRS 17** Insurance contracts will replace IFRS 4. It applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Addiko Group.

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

The amendments to **IAS 1** clarify the requirements for disclosure of material accounting policy instead of significant accounting policies. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Addiko Group.

The amendments to **IAS 8** replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Addiko Group.

The amendments to **IAS 12** provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Addiko Group.

(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 experiences 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.

In light of the ongoing Covid-19 pandemic, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available. The long-term impact of the pandemic on economic development, the development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be in hindsight overestimated or underestimated.

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 (61.2) Development of risk provisions.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear to be highly likely. These estimates are based on the respective 5 years tax plans prepared by the management of the subsidiaries. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. The Group regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. For further details regarding tax loss carried forward please refer to note (41) 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.

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering 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 regarding provisions for legal cases and uncertainty of estimates are described in note (52) Provisions for pending legal disputes.

Pension obligations are measured based on the projected unit credit method for defined benefit pension plans. In measuring such obligations, assumptions have to be made regarding long-term trends for salaries, pensions and future mortality in particular. Changes in the underlying assumptions from year to year and divergences from the actual effects each year are reported under actuarial gains and losses.

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 the note (11) Leases.

The other most significant uses of judgements, assumptions and estimates are described in the notes of the respective assets and liabilities and relate to:

- Classification of financial assets (business model assessment, SPPI assessment) – the note (18) Financial instruments
- Determination of control over investees – the note (9) Basis of consolidation and business combinations

(6) Accounting topics affected by Covid-19

The Covid-19 outbreak and its effect on the global economy have continued to impact at different times and to varying degrees the countries where the Group is operating and the future effects of the pandemic still remain uncertain. The speed at which countries and territories are able to return to pre-Covid-19 levels of economic activity will vary based on the levels of continuing government support offered, the continuing levels of infection, and ability of governments to roll out vaccines across each country. There remains uncertainty regarding the efficacy and side effects of the vaccines over various time horizons, particularly as new variants of the virus emerge. A full return to pre-pandemic levels of social interaction across all key markets is unlikely in the short to medium term, despite the easing of government restrictions in many of these markets.

Covid-19 is consequently resulting in increased estimation uncertainty especially in relation to ECL models, the recognition of public moratoria on repayment of loans and the measurements of deferred tax assets on unused tax losses carried forward.

ECL models continue to be impacted by the pandemic, particularly as a result of the various government measures introduced to support borrowers during the outbreak. This continues to require enhanced monitoring of model outputs and the use of model overlays, including management judgmental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of Covid-19 on critical model inputs. For further information on credit risk provisioning methodology, reference is made to the Risk Report under note (61) Method of calculating risk provisions.

In light of the spread of Covid-19, a variety of measures have been taken by governments in Addiko Group’s region aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans. In most cases interest continues to accrue on the outstanding balance during the moratorium period. In case an economic loss is incurred, modification losses are recognised from accounting perspective. This results from the fact that the interest accrued, instead of being repaid or capitalised at the end of the moratorium, is repaid over the period after the moratorium. For further information on credit exposures subject to certain Covid-19 measures, reference is made to the sub-chapter “Moratoria due to Covid-19” in the note (60) Credit risk.

The measurement of deferred tax assets on unused tax losses carried forward is based on the availability of qualifying taxable temporary differences and on the company’s projections of future taxable profits. Due to the impact of Covid-19 there is substantially more uncertainty than under normal market conditions, which may affect the projections of future taxable profits. For further information on deferred tax assets, reference is made to note (41) Tax losses carried forward.

(7) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items, which are measured on the following alternative basis on each reporting date.

Items	Measurement basis
Financial assets and liabilities held for trading	Fair value
Investment securities at fair value through other comprehensive income	Fair value
Investment securities at fair value through profit or loss	Fair value
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell
Provision for for cash-settled shared-based payments	Fair value
Provision for pensions and other post employment defined benefit obligations	Present value of defined benefit obligations

(8) 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.

	31.12.2021 Fully consolidated	31.12.2020 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

(9) 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.

(10) 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 31.12.2021	Average 2021	Closing date 31.12.2020	Average 2020
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.51560	7.52835	7.55190	7.53550
Serbian dinar (RSD)	117.58210	117.57344	117.58020	117.57450

(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.

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 is 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 financing 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”.

(14) Net fee and commission income

Fee and commission income (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”. 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.

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. Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognised upon completion of the underlying transaction. Taking into consideration Addiko product classes the following services are accrued over the period:

- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).
- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bancassurance*, representing commission income and expense from insurance brokerage

The fees generated by the following products are recognised upon completion of the underlying transaction:

- *Transaction services*, representing fee income charged to clients for transactions performed (except credit cards) like payment order, standing order
- *Cards*, representing fee income related to prepaid and credit cards (like monthly membership fees) and acquiring business like membership fees, interchange fees, scheme fees, service fees, etc.
- *FX & DCC*, representing fee income related to foreign exchange transactions like fees from FX spot transaction or Dynamic currency conversions.
- *Trade finance*, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities

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

In the note (33) Net fee and commission income in the notes to the statement of profit or loss, the product view is used as a base for presentation.

(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, dividends 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 and interest expense, which are presented in “Net interest income”.

Net result on non-trading financial assets mandatorily at fair value through profit or loss includes all gains and losses from changes in the fair value of these assets, realised gains and losses from derecognition and dividends.

Net result on financial instruments at fair value through other comprehensive income includes gains and losses from derecognition and dividends. Financial assets and 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 expenses for restructuring 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 insignificant 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:

- Unilateral changes of margins and interest rates: passing on costs related to the basic lending agreement, introducing the clauses designed to maintain a stable profit margin, and the changes of interest rates that reflect the worsening of the credit rating, are not SPPI harmful.
- Prepayment clauses: if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption they are not critical. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features: those could be typically side business clauses where the penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event. Such clauses are not SPPI harmful.
- Project financing: if there is no reference to the performance of the underlying business project 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: if the loan contains interest mismatch features (fixation date is before the start of the period, reference rate's tenor is different to the rate reset frequency, etc.), it has to be assessed 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), and 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 2020 and 2021, 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. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

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. Dividend income and 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 is presented in the line "Other interest income". Dividend income and 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 a modification or an exchange of financial liability measured at amortised cost does not result in the derecognition of the original financial liability, Addiko Group recognises an adjustment to the amortised cost of the financial liability arising from a modification or an exchange in profit or loss at the date of the modification or exchange.

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 2021, Addiko Group assessed that the criteria for the reduction of interest rate will not be met (2020: the criteria were not 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 2021 and 2020.

There were no changes to Addiko´s business model during 2021 and 2020.

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).

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in note (45) Investment securities.

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 below 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 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 according to the CRR default definition. The regulatory default definition according to CRR (Capital Requirement Regulation) Article 178 of Regulation (EU) No. 575/2013 is as follows:

- 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.

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 (gross carrying amount adjusted for the loss allowance).

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 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.

For financial instruments in stage 1 and 2 measured at amortised costs, the unamortised balance of the origination fees and transaction costs considered in the effective interest rate is presented in the line "Net interest income" and for financial instruments in stage 3 measured at amortised costs, it is presented in the line "Credit loss expenses on financial assets". The release of the credit loss allowances of the original asset and the recognition of credit loss allowance for the new asset are presented in the line ""Credit loss expenses on financial assets".

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 is recognised in profit or loss in the line "Other result".

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.

The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the minimum reserve requirement deposits are not subject to any restraints.

(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 the 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 0.97% as at 31 December 2021 (2020: 0.72%) and a salary increase of 3.67% p.a. (2020: 3.82% p.a.) for active staff members. Biometric basic data are taken into account using the AVÖ 2018 P generation mortality tables for salaried employees (2020: 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% (2020: 3.0%) while Slovenia is using 0.90%% (2020: 0.65%). The fluctuation discounts amount to 0.0%-4.83% (2020: 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 (35) 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) Share-based payments

30.1. Share-settled share-based payments

The fair value of deferred shares granted to the management board under the variable remuneration scheme is recognised as Personnel expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date and is recognised in equity in the share-based payment reserve included in Other reserves. At initial recognition, the granted amount is estimated based on expected fulfillment of vesting conditions. The estimates of service conditions and non-market performance conditions are revised at the end of the reporting period, and adjustments are recognised in profit or loss and in the share-based payment reserve. Where shares are forfeited due to a failure by the employee to satisfy the service conditions during the vesting period,

any expenses previously recognised in relation to such shares are reversed or, if shares are forfeited after the vesting period, they are transferred with the equity.

30.2. Cash-settled share-based payments

Liabilities for the group's cash-settled share-based payments are recognised as Personnel expenses over the relevant service period. The liabilities are remeasured to fair value at each reporting date until the settlement and are presented as Provisions in the balance sheet. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Changes in the measurement of the liability are reflected in the statement of profit or loss.

(31) 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 the note (10) 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, the liability reserve and equity-settled share-based payment transactions.

Notes to the profit or loss statement

(32) Net interest income

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method	**185.5**	**194.3**
Financial assets at fair value through other comprehensive income	12.1	13.9
Financial assets at amortised cost	172.9	179.9
Negative interest from financial liabilities	0.4	0.5
Other interest income	**2.2**	**2.6**
Financial assets held for trading	1.7	2.2
Other assets	0.5	0.4
Total interest income	**187.7**	**197.0**
Financial liabilities measured at amortised cost	-14.9	-19.5
o/w lease liabilities	-0.4	-0.4
Financial liabilities held for trading	-1.3	-1.4
Negative interest from financial assets	-2.0	-1.4
Total interest expense	**-18.2**	**-22.3**
Net interest income	**169.5**	**174.7**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -14.9 million (YE20: EUR -19.5 million) includes expenses of EUR -7.7 million (YE20: EUR -11.7 million) related to customer deposits. The negative interest income on TLTRO III financial liabilities amounts to EUR 0.3 million (YE20: EUR 0.1 million).

Interest income break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives - Trading	**1.1**	**1.5**
Debt securities	**12.7**	**14.6**
Governments	10.4	11.9
Credit institutions	1.1	1.3
Other financial corporations	0.1	0.2
Non-financial corporations	1.1	1.2
Loans and advances	**172.9**	**179.9**
Central banks	0.0	0.2
Governments	2.5	3.2
Credit institutions	0.0	0.1
Other financial corporations	0.6	0.7
Non-financial corporations	43.6	44.5
Households	126.3	131.3
Other assets	**0.5**	**0.4**
Negative interest from financial liabilities	**0.4**	**0.5**
Central banks	0.4	0.4
Non-financial corporations	0.1	0.1
Total	**187.7**	**197.0**

Interest expenses break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives - Trading	**-1.3**	**-1.4**
Deposits	**-14.4**	**-19.1**
Governments	-1.1	-1.3
Credit institutions	-1.5	-1.7
Other financial corporations	-1.1	-1.0
Non-financial corporations	-3.0	-3.4
Households	-7.7	-11.7
Other liabilities	**-0.4**	**-0.4**
Negative interest from financial assets	**-2.0**	**-1.4**
Debt securities	**-0.1**	**-0.3**
Central banks	0.0	-0.3
Governments	-0.1	0.0
Loans and advances	**-1.9**	**-1.1**
Central banks	-1.9	-0.7
Credit institutions	0.0	-0.4
Total	**-18.2**	**-22.3**

(33) Net fee and commission income

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Transactions	21.0	19.4
Accounts and Packages	21.3	20.7
Cards	12.1	10.9
Foreign exchange& Dynamic currency conversion	11.2	9.8
Securities	1.9	2.5
Bancassurance	4.6	3.0
Loans	5.0	3.5
Deposits	0.9	0.0
Trade finance	5.4	4.9
Other	0.9	0.9
Fee and commission income	**84.3**	**75.6**
Cards	-9.7	-7.9
Transactions	-4.0	-4.0
Client incentives	-0.3	-0.1
Securities	-0.5	-0.5
Accounts and Packages	-1.0	-1.2
Bancassurance	-0.4	-0.4
FX changes	-0.1	-0.1
Loans	-0.5	-0.5
Other	-0.9	-1.0
Fee and commission expenses	**-17.5**	**-15.8**
Net fee and commission income	**66.8**	**59.8**

The fees and commission presented in this note include income of EUR 38.4 million (YE20: EUR 35.1 million) and expenses of EUR -10.7 million (YE20: EUR -9.1 million) relating to financial assets and liabilities not measured at FVTPL.

(34) Net result on financial instruments

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Held for trading financial instruments	1.5	-0.1
o/w exchange difference	4.0	-3.9
o/w gain or losses on financial instruments	-2.4	3.8
Financial assets at fair value through other comprehensive income	3.8	11.9
Financial assets at amortised cost	0.9	-0.1
Total	**6.2**	**11.7**

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

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives	-2.4	-3.8
Debt securities	-0.1	-0.1
Other financial liabilities	0.1	7.8
Total	**-2.4**	**3.8**

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

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest rate instruments and related derivatives	0.3	-0.9
Foreign exchange trading and derivatives related to foreign exchange and gold	-2.9	4.8
Credit risk instruments and related derivatives	0.1	0.1
Other	0.0	-0.2
Total	**-2.4**	**3.8**

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

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Gains or losses on financial assets measured at fair value through other comprehensive income	3.8	11.9
Gains or losses on financial assets and liabilities, measured at amortised cost	0.9	-0.1
Total	**4.7**	**11.8**

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

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Debt securities	3.8	11.9
Loans and advances	0.9	0.0
Other financial liabilities	0.0	-0.1
Total	**4.7**	**11.8**

(35) Other operating income and other operating expenses

Other operating income and other operating expenses - net

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Deposit guarantee	-5.8	-8.1
Recovery and resolution fund	-1.2	-1.4
Banking levies and other taxes	-4.2	-3.0
Restructuring expenses	-5.3	-4.6
Net result from sale of non financial assets	2.0	1.7
Net result from sale of assets classified as held for sale and disposal groups	0.1	0.1
Result from operate lease assets	0.0	0.3
Result from other income and other expenses	-2.1	1.3
Total	**-16.5**	**-13.7**

Other operating income and other operating expenses - gross

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Other operating income	**3.8**	**6.0**
Gain from sale of non financial assets	2.3	2.0
Income from operating lease assets	0.3	0.5
Gain from the sale of assets classified as held for sale and disposal groups	0.1	0.1
Other income	1.1	3.5
Other operating expenses	**-20.3**	**-19.8**
Losses from sale of non financial assets	-0.3	-0.3
Expense incurred in earning the operating lease assets income	-0.3	-0.2
Restructuring expenses	-5.3	-4.6
Recovery and resolution fund	-1.2	-1.4
Deposit guarantee	-5.8	-8.1
Banking levies and other taxes	-4.2	-3.0
Other expenses	-3.2	-2.2
Total	**-16.5**	**-13.7**

(36) Personnel expenses

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Wages and salaries	-57.4	-59.3
Social security	-10.5	-10.8
Variable remuneration	-7.8	-0.5
Bonuses and sales incentives	-6.3	-0.5
Cash-settled share-based payments	-1.1	0.0
Equity-settled share-based payments	-0.5	0.0
Other personal tax expenses	-1.1	-1.1
Voluntary social expenses	-3.3	-3.3
Expenses for retirement benefits	-8.7	-8.9
Expenses for severance payments	-2.1	-0.4
Income from release of other employee provisions	0.3	0.7
Other personnel expenses	-1.1	-0.3
Total	**-92.0**	**-83.9**

In the financial year 2021, Addiko Group started to recognise expenses for variable remuneration after in the previous period only sales incentives were recognized, in line with ECB recommendations.

(37) Other administrative expenses

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
IT expenses	-32.7	-36.3
Premises expenses (rent and other building expenses)	-11.6	-12.0
Legal and advisory costs	-3.6	-4.9
Advertising costs	-5.7	-4.7
Other administrative expenses	-7.6	-7.9
Total	**-61.1**	**-65.9**

(38) Depreciation and amortisation

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Property, plant and equipment	-11.4	-12.3
o/w right of use assets	-6.3	-7.1
Intangible assets	-6.6	-7.6
Total	**-18.0**	**-19.9**

(39) Other result

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Net result from legal provision and legal income/expense	**-16.4**	**-4.8**
Release of provisions for legal cases and income from legal cases	3.9	4.4
Allocation of provisions for passive legal cases and legal costs	-20.3	-9.2
Result from assets classified as held for sale and disposal groups	**-0.2**	**-0.3**
Reversal of impairment	0.0	0.0
Impairment	-0.2	-0.3
Impairment / reversal of impairment on non financial assets	**-4.2**	**-0.4**
Reversal of impairment	0.3	3.0
Impairment	-4.5	-3.4
Modification gains or losses	**-0.1**	**-2.6**
Total	**-20.9**	**-8.1**

The net amount of EUR -16.4 million expenses for legal cases mainly relate to legal matters for existing and expected legal proceedings in relation to Swiss franc unilateral interest rate change in Croatia (EUR – 13.3 million), costs connected with the finalisation of the arbitration procedures with the ICSID in Washington, DC started in 2017 against Montenegro (EUR -1.4 million) and by loan processing fees disputes in Serbia (EUR -3.4 million). These costs could be partially compensated by the collection of EUR 2.1 million from the final court decision in favor of one entity of the Addiko Group in relation to past damage claims (2020 EUR 1.9 million).

Further details regarding provisions for legal cases are included in note (52) Provisions.

The position impairments/reversal of impairment on non-financial assets was mainly impacted by the early renegotiation of a contract with a central IT supplier at better terms, which was leading to the recognition of EUR -2.3 million impairment on the amounts deferred based on the previous version of the contract.

Compared with the previous year no material modification losses have been recognised in connection with the moratoria programs applied in Serbia and Montenegro, while in the previous reporting period the effect was EUR 2.6 million. Details regarding the volumes subject to these measures are reported in note (60.12.2).

(40) Credit loss expenses on financial assets

Credit loss expenses 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. - 31.12.2021	01.01. - 31.12.2020
Change in CL on financial instruments at FVTOCI	**1.8**	**-1.5**
Change in CL on financial instruments at amortised cost	**-18.3**	**-46.1**
Net allocation to risk provision	-25.4	-51.2
Proceeds from loans and receivables previously impaired	8.5	6.8
Directly recognised impairment losses	-1.4	-1.7
Net allocation of provisions for commitments and guarantees given	**3.2**	**-0.8**
Total	**-13.2**	**-48.4**

The credit loss expenses in the year 2021 were significantly below the amount recognised in the prior year of EUR -48.4 million, which included risk model adjustments in connection to changed macroeconomic parameters that incorporated estimated impacts of the Covid-19 out-break. The improvement in the overall macroeconomic environment during 2021 prompted overall lower recognition than in previous year. However, it should be noted that post-model risk overlay recognised during 2020 was re-assessed and increased during 2021.

(41) Taxes on income

EUR m

	01.01. - 31.12.2021	01.01. - 31.12.2020
Current tax	-7.4	-1.5
Deferred tax	0.2	-3.4
thereof: temporary differences	1.5	1.4
thereof: tax losses carried forward	-1.2	-4.8
Total	**-7.2**	**-4.9**

41.1. Reconciliation of effective tax rate

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

EUR m

	31.12.2021	31.12.2020
Result before tax	**20.8**	**6.3**
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	-5.2	-1.6
Tax effects		
from divergent foreign tax rates	4.4	1.8
from previous year	0.2	0.6
from foreign income and other tax-exempt income	0.6	0.1
from investment related tax relief and other reducing the tax burden	4.1	4.4
from non-tax deductible expenses	-5.6	-4.4
from current-year losses and temporary differences for which no deferred tax asset is recognised	-12.9	-9.5
from the recognition of previously unrecognised tax losses and temporary differences	5.3	4.2
from other tax effects	1.9	-0.5
Actual income tax (effective tax rate: -34.4% (2020: -78.2%))	**-7.2**	**-4.9**

41.2. Movements in deferred tax balances

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 and for unused tax losses as presented in the following table:

EUR m

				Balance at 31 December		
2021	Net balance 1.1.	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Financial assets designated at FVTPL	0.2	0.0	0.0	0.2	0.2	0.0
Financial assets at fair value through other comprehensive income	-2.4	-0.1	2.4	-0.1	0.2	-0.3
Financial assets at amortised cost	2.8	0.2	0.0	2.9	2.9	0.0
Tangible assets	3.1	-0.5	0.0	2.6	2.7	-0.1
Intangible assets	0.6	-0.1	0.0	0.5	0.5	0.0
Financial liabilities held for trading	0.3	-0.2	0.0	0.1	0.1	0.0
Provisions	4.6	2.4	0.0	7.0	7.0	0.0
Other	0.4	-0.2	0.2	0.4	0.5	0.0
Tax losses carried forward	11.6	-1.2	0.0	10.4	10.4	0.0
Tax assets (liabilities) before set-off	**21.3**	**0.2**	**2.6**	**24.1**	**24.6**	**-0.4**
Set-off of tax	0.0	0.0	0.0	0.0	-0.4	0.4
Tax assets (liabilities)	**21.3**	**0.2**	**2.6**	**24.1**	**24.1**	**0.0**

EUR m

					Balance at 31 December	
2020	Net balance 1.1.	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Financial assets designated at FVTPL	0.2	0.0	0.0	0.2	0.2	0.0
Financial assets at fair value through other comprehensive income	-3.2	0.1	0.8	-2.4	0.1	-2.5
Financial assets at amortised cost	1.4	1.4	0.0	2.8	3.1	-0.3
Tangible assets	3.8	-0.7	0.0	3.1	3.3	-0.1
Intangible assets	0.0	0.7	0.0	0.6	0.6	0.0
Financial liabilities held for trading	0.2	0.1	0.0	0.3	0.3	0.0
Provisions	4.9	-0.3	0.1	4.6	4.6	0.0
Other	0.2	0.1	0.1	0.4	0.7	-0.3
Tax losses carried forward	16.4	-4.8	0.0	11.6	11.6	0.0
Tax assets (liabilities) before set-off	**23.9**	**-3.4**	**0.9**	**21.3**	**24.5**	**-3.2**
Set-off of tax	0.0	0.0	0.0	0.0	-3.2	3.2
Tax assets (liabilities)	**23.9**	**-3.4**	**0.9**	**21.3**	**21.3**	**0.0**

The total change in deferred taxes in the consolidated financial statements is EUR 2.8 million (2020: EUR -2.5 million). Of this, EUR 0.2 million (2020: EUR -3.4 million) is reflected in the current income statement as deferred tax income and an amount of EUR 2.6 million (2020:EUR 0.9 million) is shown in other comprehensive income in equity.

41.3. Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because not enough taxable profits are expected to be generated within the next 5 years.

EUR m

	2021		2020	
	Gross amounts	Tax effect	Gross amounts	Tax effect
Deductible temporary differences	0.0	0.0	0.0	0.0
Tax losses	278.2	62.7	267.8	57.0
Total	**278.2**	**62.7**	**267.8**	**57.0**

41.4. Tax losses carried forward

The utilisation of the unused tax losses from previous years and their possibility to be carried forward are presented in the following table:

EUR m

Tax losses per country	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate	**18.0%**	**19.0%**	**10.0%**	**10.0%**	**15.0%**	**9.0%**	**25.0%**	
Total tax losses carried forward	**0.0**	**167.6**	**0.0**	**3.0**	**0.0**	**0.0**	**163.6**	**334.2**
thereof fully/ unlimited utilisable	0.0	167.6	0.0	0.0	0.0	0.0	163.6	331.2
thereof restricted utilisable	0.0	0.0	0.0	3.0	0.0	0.0	0.0	3.0
1st following year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	3.0	0.0	0.0	0.0	3.0
Theoretical Deferred Tax asset	0.0	31.8	0.0	0.3	0.0	0.0	40.9	73.0
Recognised DTA	0.0	10.1	0.0	0.3	0.0	0.0	0.0	10.4
Unrecognised DTA	0.0	21.8	0.0	0.0	0.0	0.0	40.9	62.7

In 2021, the management of the Slovenian subsidiary, based on the updated five-year business plan and taking into account the reversal of existing taxable temporary differences, updated its estimate of the future taxable profits and the Group used EUR 1.1 million of previously unrecognised tax losses, which has a positive tax impact of EUR 0.2 million. By assuming that the entity will generate enough taxable profits in the future years to entirely utilise the existing taxable losses, additional deferred tax assets and related tax benefit of EUR 21.8 million could be recognised.

In 2021, the Group’s parent company, recognised additional tax losses in amount of EUR 40.9 million (2020: EUR 24.1 million), increasing cumulative tax losses to EUR 163.6 million (2020: EUR 122.7 million). Although the tax losses are unlimited utilisable Management has determined that the recoverability of cumulative tax losses is uncertain as it is not probable that future taxable profit will be available against which the Group can use the benefits.

EUR m

Tax losses per country as of 31.12.2020	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Total
applicable tax rate	**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**	**12.3**	**8.4**	**122.7**	**333.4**
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	12.3	8.4	0.0	29.6
1st following year	0.0	0.0	0.1	2.8	12.3	8.4	0.0	23.6
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
Theoretical Deferred Tax asset	0.0	34.4	0.1	0.9	1.8	0.8	30.7	68.6
Recognised DTA	0.0	9.9	0.0	0.7	0.9	0.0	0.0	11.6
Unrecognised DTA	0.0	24.5	0.1	0.1	0.9	0.8	30.7	57.0

Notes to the consolidated statement of financial position

(42) Cash reserves

EUR m

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	126.8	0.0	126.8
Cash balances at central banks	1,116.8	0.0	1,116.7
Other demand deposits	118.3	-0.1	118.2
Total	**1,361.9**	**-0.1**	**1,361.7**

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**

The total amount of cash reserves at central banks and other demand deposits is considered as low risk business and is classified within stage 1 (12-month ECL).

The cash reserves include EUR 269.1 million (2020: EUR 244.1 million) minimum reserves which subsidiaries were holding at the reporting date in their current accounts at their national central banks in order to meet on average during the maintenance period the prescribed requirements.

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

EUR m

2021	Stage 1
Gross carrying amount at 01.01.	**1,039.9**
Changes in the gross carrying amount	193.5
Transfer between stages	0.0
Write-offs/utilisation	0.0
Foreign exchange and other movements	1.6
Gross carrying amount at 31.12.	**1,235.1**

EUR m

2020	Stage 1
Gross carrying amount at 01.01.	**778.9**
Changes in the gross carrying amount	270.0
Transfer between stages	0.0
Write-offs/utilisation	0.0
Foreign exchange and other movements	-8.9
Gross carrying amount at 31.12.	**1,039.9**

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

EUR m

2021	Stage 1
ECL allowance as at 01.01.	**-0.4**
Changes in the loss allowance	0.3
ECL allowance as at 31.12.	**-0.1**

EUR m

2020	Stage 1
ECL allowance as at 01.01.	**-0.4**
Changes in the loss allowance	0.0
ECL allowance as at 31.12.	**-0.4**

Although the gross carrying amount of cash reserves at central banks and other demand deposits increased in the period, the ECL amount decreased due to improvement in macroeconomic indicators and expectations.

(43) Financial assets held for trading

EUR m

	31.12.2021	31.12.2020
Derivatives	**1.1**	**3.1**
Debt securities	**31.5**	**33.4**
Governments	31.5	33.4
Total	**32.6**	**36.4**

(44) Loans and receivables

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

44.1. Loans and advances to credit institutions

EUR m

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	5.7	0.0	5.7
Credit institutions	5.7	0.0	5.7
Total	**5.7**	**0.0**	**5.7**

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

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**56.5**	**0.0**	**0.0**	**0.0**	**56.5**
Changes in the gross carrying amount	-59.2	8.2	0.0	0.0	-51.0
Transfer between stages	8.3	-8.3	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.	**5.7**	**0.0**	**0.0**	**0.0**	**5.7**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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/utilisation	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.	**56.5**	**0.0**	**0.0**	**0.0**	**56.5**

As the ECL allowance amounts to less than EUR 0.1 million, no breakdown into stages is provided.

44.2. Loans and advances to customers

EUR m

31.12.2021	Gross carrying amount	ECL				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	
Households	2,093.0	-15.4	-33.0	-93.7	-2.1	1,948.8
Non-financial corporations	1,320.9	-8.0	-17.2	-40.0	0.0	1,255.7
Governments	51.8	-0.1	-0.1	0.0	0.0	51.6
Other financial corporations	23.4	-0.1	-0.6	-0.1	0.0	22.7
Total	**3,489.2**	**-23.6**	**-50.9**	**-133.8**	**-2.1**	**3,278.7**

EUR m

31.12.2020	Gross carrying amount	ECL				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	
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**

Development of ECL allowance:

LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**1,670.5**	**305.6**	**145.7**	**9.4**	**2,131.2**
Changes in the gross carrying amount	129.8	-114.0	-16.0	-0.7	-0.8
Transfer between stages	-116.2	87.8	28.4	0.0	0.0
Write-offs/utilisation	-0.1	-0.2	-39.2	-0.8	-40.2
Changes due to modifications that did not result in derecognition	0.0	-0.1	-0.1	0.0	-0.1
Foreign exchange and other movements	3.1	0.4	-0.6	0.2	3.0
Gross carrying amount at 31.12.	**1,687.0**	**279.6**	**118.2**	**8.1**	**2,093.0**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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/utilisation	-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.	**1,670.5**	**305.6**	**145.7**	**9.4**	**2,131.2**

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-16.5**	**-40.1**	**-113.6**	**-2.4**	**-172.6**
Changes in the loss allowance	19.1	-13.2	-21.0	-0.2	-15.3
Transfer between stages	-18.0	20.2	-2.1	0.0	0.0
Write-offs/utilisation	0.0	0.1	49.1	0.8	50.0
Foreign exchange and other movements	0.0	0.0	-6.2	-0.3	-6.4
ECL allowance as at 31.12.	**-15.4**	**-33.0**	**-93.7**	**-2.1**	**-144.3**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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/utilisation	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
Foreign exchange and other movements	0.3	-0.3	-0.7	-0.1	-0.8
ECL allowance as at 31.12.	**-16.5**	**-40.1**	**-113.6**	**-2.4**	**-172.6**

Overall gross carrying amount slightly decreased during YE21, mostly through write-offs/utilisation, while repayments were in general in line with disbursements of new loans. Additionally, improvement of macro-economic scenarios positively impacted ECL on the performing portfolio, decreasing the ECL coverage of both stage 1 and stage 2 portfolio.

LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**1,274.0**	**249.4**	**81.9**	**0.0**	**1,605.3**
Changes in the gross carrying amount	-100.3	-113.3	-17.9	0.0	-231.6
Transfer between stages	-72.2	28.3	43.9	0.0	0.0
Write-offs/utilisation	0.0	0.0	-42.1	0.0	-42.1
Foreign exchange and other movements	-11.2	0.5	0.0	0.0	-10.7
Gross carrying amount at 31.12.	**1,090.4**	**164.8**	**65.8**	**0.0**	**1,320.9**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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/utilisation	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.	**1,274.0**	**249.4**	**81.9**	**0.0**	**1,605.3**

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-12.8**	**-21.7**	**-58.0**	**0.0**	**-92.5**
Changes in the loss allowance	1.8	-1.6	-11.3	0.0	-11.1
Transfer between stages	3.0	6.1	-9.1	0.0	0.0
Write-offs/utilisation	0.0	0.0	42.5	0.0	42.5
Foreign exchange and other movements	0.0	0.0	-4.1	0.0	-4.1
ECL allowance as at 31.12.	**-8.0**	**-17.2**	**-40.0**	**0.0**	**-65.2**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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/utilisation	0.0	0.0	7.9	0.0	8.0
Foreign exchange and other movements	0.1	-0.3	-1.1	0.0	-1.3
ECL allowance as at 31.12.	**-12.8**	**-21.7**	**-58.0**	**0.0**	**-92.5**

Overall gross carrying amount of loans and advances to non-financial corporations significantly decreased during YE21, which was accompanied by the significant decrease of ECL – primarily from utilisation through write-offs, but also influenced by the improvement of macro-scenarios.

LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**79.7**	**2.6**	**0.3**	**0.0**	**82.6**
Changes in the gross carrying amount	-29.1	-0.9	-0.1	0.0	-30.1
Transfer between stages	-4.7	4.9	-0.2	0.0	0.0
Foreign exchange and other movements	-0.7	0.0	0.0	0.0	-0.7
Gross carrying amount at 31.12.	**45.2**	**6.6**	**0.0**	**0.0**	**51.8**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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
Foreign exchange and other movements	0.2	0.0	0.0	0.0	0.2
Gross carrying amount at 31.12.	**79.7**	**2.6**	**0.3**	**0.0**	**82.6**

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-0.4**	**-0.3**	**-0.1**	**0.0**	**-0.8**
Changes in the loss allowance	0.3	0.3	0.0	0.0	0.5
ECL allowance as at 31.12.	**-0.1**	**-0.1**	**0.0**	**0.0**	**-0.2**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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
ECL allowance as at 31.12.	**-0.4**	**-0.3**	**-0.1**	**0.0**	**-0.8**

The overall gross carrying amount of loans and advances to general governments decreased in 2021, accompanied by the slight decrease of ECL.

LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**25.6**	**6.6**	**0.0**	**0.0**	**32.3**
Changes in the gross carrying amount	-7.0	-2.0	0.1	0.0	-8.9
Transfer between stages	1.6	-1.6	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.	**20.3**	**3.0**	**0.1**	**0.0**	**23.4**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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/utilisation	0.0	0.0	-0.3	0.0	-0.3
Foreign exchange and other movements	0.3	0.0	0.0	0.0	0.3
Gross carrying amount at 31.12.	**25.6**	**6.6**	**0.0**	**0.0**	**32.3**

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-0.3**	**-0.5**	**0.0**	**0.0**	**-0.8**
Changes in the loss allowance	0.2	-0.1	0.0	0.0	0.0
Transfer between stages	-0.1	0.1	0.0	0.0	0.0
ECL allowance as at 31.12.	**-0.1**	**-0.6**	**-0.1**	**0.0**	**-0.8**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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
Write-offs/utilisation	0.0	0.0	0.3	0.0	0.3
ECL allowance as at 31.12.	**-0.3**	**-0.5**	**0.0**	**0.0**	**-0.8**

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

44.3. 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

	31.12.2021		31.12.2020	
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
Other financial corporations	0.0	0.0	1.1	0.0
Non-financial corporations	21.2	0.0	196.3	-0.1
Households	17.2	-0.2	246.2	-1.8
Total	**38.4**	**-0.2**	**443.7**	**-1.9**

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 2021 amounted to EUR 0.3 million as at 31 December 2021 (2020: EUR 7.7 million).

(45) Investment securities

EUR m

	31.12.2021	31.12.2020
Fair value through other comprehensive income (FVTOCI)	1,009.2	928.7
Mandatorily at fair value through profit or loss (FVTPL)	3.0	0.3
Total	**1,012.2**	**929.0**

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

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**911.8**	**0.0**	**0.0**	**0.0**	**911.8**
Changes in the gross carrying amount	81.9	0.0	0.0	0.0	81.9
Foreign exchange and other movements	1.0	0.0	0.0	0.0	1.0
Gross carrying amount at 31.12.	**994.8**	**0.0**	**0.0**	**0.0**	**994.8**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.	**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
Foreign exchange and other movements	-8.0	0.0	0.0	0.0	-8.0
Gross carrying amount at 31.12.	**911.8**	**0.0**	**0.0**	**0.0**	**911.8**

Investment securities - development of ECL allowance

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-2.1**	**0.0**	**0.0**	**0.0**	**-2.1**
Changes in the loss allowance	1.8	0.0	0.0	0.0	1.8
ECL allowance as at 31.12.	**-0.3**	**0.0**	**0.0**	**0.0**	**-0.3**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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
ECL allowance as at 31.12.	**-2.1**	**0.0**	**0.0**	**0.0**	**-2.1**

45.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.12.2021	31.12.2020
Debt securities	**992.4**	**909.7**
Governments	754.4	628.4
Credit institutions	167.6	197.0
Other financial corporations	18.8	27.8
Non-financial corporations	51.6	56.5
Equity instruments	**16.7**	**19.0**
Governments[1)]	13.1	13.2
Other financial corporations	3.2	5.5
Non-financial corporations	0.4	0.3
Total	**1,009.2**	**928.7**

[1)] Slovenian Bank Resolution Fund

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

EUR m

	31.12.2021	31.12.2020
Slovenian Central Bank Resolution Fund	13.1	13.2
VISA Inc	2.9	4.8
Other equity instruments	0.7	1.0
Total	**16.7**	**19.0**

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

EUR m

	31.12.2021	31.12.2020
Debt securities	**2.7**	**0.0**
Other financial corporations	2.7	0.0
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**3.0**	**0.3**

(46) Tangible assets

EUR m

	31.12.2021	31.12.2020
Owned property, plant and equipment	**46.2**	**52.8**
Land and buildings	36.6	41.2
Plant and equipment	8.9	10.8
Plant and equipment under construction	0.8	0.8
Right of use assets	**19.3**	**21.2**
Land and buildings	17.4	19.1
Plant and equipment	1.9	2.1
Investment property	**5.1**	**4.7**
Total	**70.6**	**78.8**

(47) Intangible assets

EUR m

	31.12.2021	31.12.2020
Goodwill	0.0	0.0
Purchased software	19.9	19.1
Other intangible assets	1.3	1.5
Developed software	1.8	0.3
Intangible assets under development	3.8	5.5
Total	**26.7**	**26.4**

(48) Development of tangible and intangible assets

48.1. Development of cost and carrying amounts

EUR m

2021	Owned property, plant and equipment				Right of use assets			
	Land and buildings	Plant and equipment - internally used	Plant and equipment - under construction	Plant and equipment - operating lease	Land and buildings	Plant and equipment	Investment properties	Total
Acquisition cost 1.1.	**92.5**	**81.2**	**0.8**	**0.0**	**29.8**	**4.4**	**9.8**	**218.5**
Foreign exchange differences	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.5
Additions	0.4	1.7	1.0	0.0	3.9	0.9	0.1	8.1
Disposals	-7.4	-15.3	0.0	0.0	-2.5	-0.4	-0.7	-26.7
Other changes	-2.0	-0.6	-1.1	0.0	-0.1	0.0	3.1	-0.4
Acquisition cost 31.12.	**83.7**	**67.2**	**0.8**	**0.0**	**31.1**	**4.9**	**12.2**	**199.9**
Cumulative depreciation and amortisation 31.12.	-47.1	-58.3	0.0	0.0	-13.7	-3.0	-7.1	-129.3
Carrying amount 31.12.	**36.6**	**8.9**	**0.8**	**0.0**	**17.4**	**1.9**	**5.1**	**70.6**

EUR m

2021	Intangible assets			
	Purchased software	Developed software	Under development	Total
Acquisition cost 1.1.	**124.0**	**1.0**	**5.5**	**130.5**
Foreign exchange differences	0.2	0.0	0.0	0.2
Additions	2.4	0.0	4.8	7.2
Internal development	0.0	0.0	0.6	0.6
Disposals	-15.5	0.0	-0.6	-16.1
Other changes	4.6	2.0	-6.6	0.0
Acquisition cost 31.12.	**115.7**	**3.0**	**3.8**	**122.5**
Cumulative depreciation and amortisation 31.12.	**-94.5**	**-1.3**	**0.0**	**-95.7**
Carrying amount 31.12.	**21.2**	**1.8**	**3.8**	**26.7**

EUR m

2020	Owned property, plant and equipment				Right of use assets			
	Land and buildings	Plant and equipment - internally used	Plant and equipment - under construction	Plant and equipment - operating lease	Land and buildings	Plant and equipment	Investment properties	Total
Acquisition cost 1.1.	**100.3**	**80.8**	**0.8**	**0.0**	**29.4**	**4.4**	**6.3**	**221.9**
Foreign exchange differences	-0.7	-0.5	0.0	0.0	-0.2	0.0	0.0	-1.5
Additions	0.6	2.1	1.9	0.0	4.9	0.2	0.0	9.8
Disposals	-3.2	-2.2	0.0	0.0	-1.9	-0.1	-1.8	-9.3
Other changes	-4.4	1.0	-1.9	0.0	-2.5	0.0	5.3	-2.4
Acquisition cost 31.12.	**92.5**	**81.2**	**0.8**	**0.0**	**29.8**	**4.4**	**9.8**	**218.5**
Cumulative depreciation and amortisation 31.12.	-51.3	-70.4	0.0	0.0	-10.7	-2.3	-5.0	-139.7
Carrying amount 31.12.	**41.2**	**10.8**	**0.8**	**0.0**	**19.1**	**2.1**	**4.7**	**78.8**

EUR m

2020	Intangible assets			
	Purchased software	Developed software	Under development	Total
Acquisition cost 1.1.	**120.5**	**1.0**	**1.6**	**123.1**
Foreign exchange differences	0.0	0.0	0.0	-0.6
Additions	1.4	0.0	7.0	8.5
Internal development	0.0	0.0	0.0	0.0
Disposals	-0.4	0.0	0.0	1.9
Other changes	3.2	0.0	-3.2	-2.3
Acquisition cost 31.12.	**124.6**	**1.0**	**5.5**	**130.5**
Cumulative depreciation and amortisation 31.12.	-103.4	-0.7	0.0	-104.1
Carrying amount 31.12.	**21.2**	**0.3**	**5.5**	**26.4**

48.2. Development of depreciation and amortisation

EUR m

2021	Owned property, plant and equipment				Right of use assets			
	Land and buildings	Plant and equipment - internally used	Plant and equipment - under construction	Plant and equipment - operating lease	Land and buildings	Plant and equipment	Investment properties	Total
Cumulative depreciation and amortisation 01.01.	**-51.3**	**-70.4**	**0.0**	**0.0**	**-10.7**	**-2.3**	**-5.0**	**-139.7**
Foreign exchange differences	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.3
Disposals	5.0	13.9	0.0	0.0	2.1	0.4	0.4	21.6
Scheduled depreciation and amortisation	-2.1	-3.0	0.0	0.0	-5.1	-1.1	-0.2	-11.6
Impairment	-0.8	-0.2	0.0	0.0	0.0	0.0	-0.7	-1.8
Other changes	1.5	0.8	0.0	0.0	0.0	0.0	-1.6	0.8
Write-up	0.8	0.8	0.0	0.0	0.0	0.0	0.0	1.6
Cumulative depreciation and amortisation 31.12.	**-47.1**	**-58.3**	**0.0**	**0.0**	**-13.7**	**-3.0**	**-7.1**	**-129.3**

EUR m

2021	Intangible assets			
	Purchased software	Developed software	Under development	Total
Cumulative depreciation and amortisation 01.01.	**-103.4**	**-0.7**	**0.0**	**-104.1**
Foreign exchange differences	-0.2	0.0	0.0	-0.2
Disposals	15.4	0.0	0.6	16.0
Scheduled depreciation and amortisation	-6.3	-0.3	0.0	-6.6
Impairment	-0.1	-0.1	-0.6	-0.8
Other changes	0.2	-0.2	0.0	0.0
Cumulative depreciation and amortisation 31.12.	**-94.5**	**-1.3**	**0.0**	**-95.7**

EUR m

2020	Owned property, plant and equipment				Right of use assets			
	Land and buildings	Plant and equipment - internally used	Plant and equipment - under construction	Plant and equipment - operating lease	Land and buildings	Plant and equipment	Investment properties	Total
Cumulative depreciation and amortisation 01.01.	**-56.4**	**-70.2**	**0.0**	**0.0**	**-6.1**	**-1.2**	**-2.2**	**-136.1**
Foreign exchange differences	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.9
Disposals	1.8	2.2	0.0	0.0	1.4	0.1	0.3	5.8
Scheduled depreciation and amortisation	-2.2	-3.0	0.0	0.0	-6.0	-1.2	-0.2	-12.5
Impairment	0.0	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.2
Other changes	2.7	0.1	0.0	0.0	0.0	0.0	-2.8	0.0
Write-up	2.4	0.0	0.0	0.0	0.0	0.0	0.0	2.4
Cumulative depreciation and amortisation 31.12.	**-51.3**	**-70.4**	**0.0**	**0.0**	**-10.7**	**-2.3**	**-5.0**	**-139.7**

EUR m

2020	Intangible assets			
	Purchased software	Developed software	Under development	Total
Cumulative depreciation and amortisation 01.01.	**-94.5**	**-0.6**	**0.0**	**-95.2**
Foreign exchange differences	0.5	0.0	0.0	0.5
Disposals	0.3	0.0	0.0	0.3
Scheduled depreciation and amortisation	-7.5	-0.1	0.0	-7.6
Impairment	-2.2	0.0	0.0	-2.2
Other changes	0.0	0.0	0.0	0.0
Write-up	0.0	0.0	0.0	0.0
Cumulative depreciation and amortisation 31.12.	**-103.4**	**-0.7**	**0.0**	**-104.1**

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

The other assets contain the following main positions:

EUR m

	31.12.2021	31.12.2020
Prepayments and accrued income	7.9	8.7
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	1.8	3.3
Other remaining assets	5.2	6.4
Total	**14.9**	**18.5**

The position non-current assets held for sale mainly includes a portfolio of loans to customers for which a sale agreement has been signed on the 28 December 2021. The closing of the transaction is subject to certain conditions which are expected to be fulfilled until the end of February 2022.

EUR m

	31.12.2021	31.12.2020
Loans and receivables	11.3	0.1
Property plant and equipment	1.0	2.7
Total	**12.3**	**2.7**

(50) Financial liabilities held for trading

EUR m

	31.12.2021	31.12.2020
Derivatives	2.3	4.9
Total	**2.3**	**4.9**

(51) Financial liabilities measured at amortised cost

EUR m

	31.12.2021	31.12.2020
Deposits	**4,882.8**	**4,924.3**
Deposits and borrowings of credit institutions	174.6	196.2
Deposits and borrowings of customers	4,708.2	4,728.1
Issued bonds, subordinated and supplementary capital	**0.1**	**0.1**
Debt securities issued	0.1	0.1
Other financial liabilities	**50.8**	**49.0**
o/w lease liabilities	19.6	21.2
Total	**4,933.6**	**4,973.4**

The position "Deposits" includes borrowed funds in amount of EUR 229.6 million (YE20: 235.3 million) from supranational and local institutions for refinancing purposes of specific loans to customers under the specific funding criteria (purpose of the loan, compliance with environmental and social legislative provisions, other funding criteria). Thereof the carrying amount of TLTRO III liabilities amounted to EUR 54.7 million as of 31 December 2021 (2020: EUR 74.9 million).

51.1. Deposits and borrowings of credit institutions

EUR m

	31.12.2021	31.12.2020
Current accounts / overnight deposits	6.6	7.7
Deposits with agreed terms	168.0	188.5
Total	**174.6**	**196.2**

51.2. Deposits and borrowings of customers

EUR m

	31.12.2021	31.12.2020
Current accounts / overnight deposits	**3,251.6**	**2,948.5**
Governments	113.0	80.2
Other financial corporations	77.6	104.7
Non-financial corporations	957.5	834.2
Households	2,103.5	1,929.4
Deposits with agreed terms	**1,447.4**	**1,772.4**
Governments	108.0	125.6
Other financial corporations	183.6	195.2
Non-financial corporations	295.7	375.2
Households	860.2	1,076.5
Deposits redeemable at notice	**9.2**	**7.2**
Governments	1.0	1.0
Other financial corporations	0.0	3.1
Non-financial corporations	8.2	3.1
Total	**4,708.2**	**4,728.1**

51.3. Debt securities issued

EUR m

	31.12.2021	31.12.2020
Certificates of deposit	0.1	0.1
Total	**0.1**	**0.1**

(52) Provision

EUR m

	31.12.2021	31.12.2020
Pending legal disputes[1)]	42.6	34.0
Commitments and guarantees granted	7.2	10.4
Provisions for variable payments	10.4	6.6
Cash-settled share-based payments	1.1	0.0
Pensions and other post employment defined benefit obligations	2.1	2.0
Restructuring measures	2.4	1.0
Other long term employee benefits	0.4	0.4
Other provisions	3.7	3.8
Total	**69.9**	**58.2**

1) The item "Pending litigation and tax disputes" has been renamed "Pending legal disputes" in 2021. The comparative period has been adjusted accordingly and EUR 0.8 million were reclassified to other provision.

52.1. Provisions for pending legal disputes

The item “Pending legal disputes” includes provisions for litigations from lending business or litigations with customer protection associations, which normally occur in banking business.

Several subsidiaries of Addiko Group are involved in legal disputes regarding consumer protection claims. The proceedings mainly relate to allegations that certain contractual provisions, particularly in respect of consumer loans, violate mandatory consumer protection laws and regulations and principles of general civil law and that certain fees or parts of interest payments charged to customers in the past must be repaid. The allegations relate to the enforceability of certain fees as well as to contractual provisions for the adjustment of interest rates and currencies. In some jurisdictions, the legal risks in connection with loans granted in the past are also increased by the enactment of politically-motivated laws impacting existing lending relationships, which may result in repayment obligations towards customers, as well as a level of unpredictability of judicial decisions beyond the level of uncertainty generally inherent in court proceedings.

The increase of provision was mainly driven by the reassessment of estimates connected with the calculation of provisions for existing and expected legal proceedings in relation to Swiss franc unilateral interest rate change and Swiss franc currency clauses. For further information on this topic reference is made to the note (68) Legal risk. The reassessment was leading to the recognition in the income statement of additional provisions in amount of EUR 13.3 million, whereby the related total amount of the provision as of 31 December 2021 was EUR 28 million (2020: EUR 18.0 million), with EUR 3.4 million utilized during the year mainly in relation to lawyers and court costs. The calculation is based on the best possible estimate according to IAS 37 of expected outflows of economically useful resources as at the reporting date. The following main assumptions play a key role in the estimate: the overall number of customers which will decide to sue the bank, the outcome of individual court decisions, the estimated loss by individual contract. Outflows of economically useful resources are to be expected in the course of the next four business years. However, it should be considered that 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.

The following table presents a sensitivity analysis for each of the following main assumptions showing how the provision amount would be impacted by changes in the relevant assumptions that were reasonably possible at the reporting date:

EUR m

	31.12.2021
Change in number of expected court cases +25%	2.1
Change in number of expected court cases -25%	-2.1
Change in the percentage of individual court decisions in favor of the customer +10%	1.5
Change in the percentage of individual court decisions in favor of the customer -10%	-1.5
Change in the estimated loss by individual contract +15%	1.6
Change in the estimated loss by individual contract -15%	-1.6

In relation to the specific litigations no further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

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

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.	**942.2**	**66.2**	**9.7**	**0.0**	**1,018.1**
Changes in the nominal value	-6.6	-24.5	-3.0	0.0	-34.1
Transfer between stages	11.0	-10.4	-0.6	0.0	0.0
Foreign exchange and other movements	1.1	0.1	0.0	0.0	1.2
Nominal value at 31.12	**947.8**	**31.3**	**6.1**	**0.0**	**985.1**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.	**997.6**	**10.4**	**9.5**	**0.0**	**1,017.5**
Changes in the nominal value	-28.5	31.6	-0.7	0.0	2.4
Transfer between stages	-24.9	24.0	0.9	0.0	0.0
Write-offs/utilisation	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
Nominal value at 31.12	**942.2**	**66.2**	**9.7**	**0.0**	**1,018.1**

EUR m

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-3.6**	**-1.9**	**-5.0**	**0.0**	**-10.4**
Changes in the loss allowance	1.7	0.2	1.4	0.0	3.2
Transfer between stages	-0.6	0.6	0.0	0.0	0.0
ECL allowance as at 31.12.	**-2.6**	**-1.1**	**-3.7**	**0.0**	**-7.2**

EUR m

2020	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.	**-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
Foreign exchange and other movements	0.1	0.3	0.1	0.0	0.5
ECL allowance as at 31.12.	**-3.6**	**-1.9**	**-5.0**	**0.0**	**-10.4**

The overall ECL allowance for loan commitments, financial guarantees and other commitments decreased driven by decrease of nominal value.

52.3. Provisions – development of other provisions

EUR m

2021	Carrying amount 01.01.	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.
Pensions and other post employment defined benefit obligations	2.0	0.0	0.3	-0.1	0.0	0.0	2.1
Other long term employee benefits	0.4	0.0	0.1	0.0	0.0	0.0	0.4
Restructuring measures	1.0	0.0	4.8	-1.9	0.0	-1.5	2.4
Pending legal disputes[1)]	34.0	0.1	19.3	-9.0	-1.8	0.0	42.6
Provision for variable payments	6.6	0.0	8.5	-3.9	-0.1	-0.8	10.4
Cash-settled share-based payments	0.0	0.0	1.1	0.0	0.0	0.0	1.1
Other provisions	3.8	0.0	2.1	-2.0	-0.2	0.0	3.7
Total	**47.8**	**0.1**	**36.1**	**-16.9**	**-2.2**	**-2.3**	**62.6**

1) The item "Pending litigation and tax disputes" has been renamed "Pending legal disputes" in 2021. The opening balance has been adjusted accordingly and EUR 0.8 million were reclassified to other provision.

EUR m

2020	Carrying amount 01.01.	Foreign-exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.
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[1)]	35.7	-0.3	8.5	-6.5	-2.6	0.0	34.7
Provision for variable payments	14.0	0.0	0.4	-7.5	-0.4	0.0	6.6
Other provisions	2.9	0.0	0.6	0.0	-0.1	-0.3	3.1
Total	**56.9**	**-0.4**	**12.1**	**-17.5**	**-3.0**	**-0.3**	**47.8**

1) The item "Pending litigation and tax disputes" has been renamed "Pending legal disputes" in 2021. The opening balance as of 1.1.2021 has been adjusted accordingly and EUR 0.8 million were reclassified to other provision.

52.4. 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

	2021	2020
Present value of the defined benefit obligations as of 01.01	**2.0**	1.8
+ Current service cost	0.2	0.1
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	-0.1	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	0.1
+/- Actuarial gains/losses arising from changes from experience assumptions	-0.1	-0.1
- Payments from the plan	0.0	0.0
+ Past service cost	0.0	0.0
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	0.0	0.0
Present value of the defined benefit obligations as of 31.12	**2.1**	**2.0**

Due to the low amount of personnel provisions for the Addiko Group as at 31 December 2021, further disclosures according to IAS 19 are omitted.

(53) Other liabilities

EUR m

	31.12.2021	31.12.2020
Deferred income	0.9	0.9
Accruals and other liabilities	24.8	25.4
Total	**25.7**	**26.3**

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

(54) Equity

EUR m

	31.12.2021	31.12.2020
Equity holders of parent	**805.1**	**851.8**
Subscribed capital	195.0	195.0
Capital reserves	237.9	237.9
Fair value reserve	0.9	17.6
Foreign currency reserve	-10.8	-12.6
Cumulated result and other reserves	382.1	413.8
Non-controlling interest	**0.0**	**0.0**
Total	**805.1**	**851.8**

The subscribed capital is based on the separate financial statements prepared by Addiko Bank AG under UGB/BWG as at 31 December 2021. The total amount of EUR 195.0 million (2020: EUR 195.0 million) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 19,500,000 (2020: 19,500,000) no-par registered shares. The proportionate amount of the share capital per share amounts EUR 10.0 (2020: 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 developed during the business year as follows:

EUR m

	Legal Reserve	Liability Reserve	Other Reserves	Retained earnings
Opening Balance 01.01.	**19.5**	**22.7**	**54.9**	**316.6**
Allocations	0.0	0.0	0.2	0.5
Releases	0.0	0.0	-0.2	-46.6
Transfers	0.0	0.0	0.0	0.6
Transfers to capital reserves	0.0	0.0	0.0	0.0
Result after tax	0.0	0.0	0.0	13.6
Closing Balance 31.12.	**19.5**	**22.7**	**55.0**	**284.8**

Liability reserves and legal reserves present only the reserves of Addiko Bank AG in Austria. Liability reserves need to be set up for credit institutions according to Section 57 (5) BWG. For the legal reserve a certain percentage of the profit for the year is required to be allocated.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated retained earnings in the amount of EUR 38.8 million in the financial year 2021. In the next General Assembly the proposal for a full carry forward of the net accumulated profits will be made.

(55) 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. 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 intangible assets, property, plant and equipment and assets held for sale. Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items.

Lease payments and cash flows from the sale and purchase of equity instruments are disclosed in the cash flow from financing activities. In addition the position includes capital increases/decreases 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 2021 the following changes have been introduced in Segment Performance Reporting:

- 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.

- During 2020 a deep dive was performed of the Holding costs included in the segment Corporate Center. It was concluded that a portion of the costs of departments previously defined as overhead could be indirectly charged to the market segments based on the support they provide (defined via predefined keys).

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 40.8 million. The majority of the IGC in the amount of EUR 34.2 million is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

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

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

Business Segmentation

The segment reporting comprises the following business segments:

Consumer: The Consumer segment serves c. 0.7 million customers, which includes Private Individuals (excluding mortgage and housing loans) through a hybrid distribution consisting of a network of 155 branches and state of the art digital channels.

SME: The SME segment serves approximately 37 thousand SME clients (companies and private entrepreneurs with annual turnover between EUR 0 million and EUR 50 million) in the CSEE region.

Mortgage: The Mortgage segment comprises Retail customers with loans related to real estate purchase (housing loans also excluding a collateral) or leveraging private real estate as collateral.

Large Corporates: The Large Corporate segment includes legal entities with annual gross revenues of more than EUR 50 million.

Public Finance: The Public Finance segment comprises businesses oriented on participation in public tenders for the financing requirements of key public institutions in CSEE countries, ministries of finance, state enterprises and local governments.

Corporate Center: The Corporate Center segment consists of the Treasury business in the parent company and the banking subsidiaries as well as central functions items such as overhead, project-related operating expenses, contributions to the Single Resolution Fund, bank levies and the intercompany reconciliation. In addition, this segment includes direct deposit activities of Addiko Bank AG with customers in Austria and Germany.

Segments overview

EUR m

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	136.3	55.7	16.9	13.4	5.7	8.4	236.3
Net interest income	100.2	30.5	16.9	8.7	4.5	8.7	169.5
o/w regular interest income	95.1	31.9	19.8	9.8	3.1	14.3	174.0
Net fee and commission income	36.1	25.2	0.0	4.7	1.2	-0.3	66.8
Net result from financial instruments	0.0	0.0	0.0	0.0	0.0	6.2	6.2
Other operating result	0.0	0.0	0.0	0.0	0.0	-16.5	-16.5
Operating income	**136.3**	**55.7**	**16.9**	**13.4**	**5.7**	**-1.9**	**226.0**
Operating expenses	**-81.1**	**-30.9**	**-2.2**	**-5.9**	**-2.2**	**-48.8**	**-171.1**
Operating result before change in credit loss expense	**55.1**	**24.8**	**14.7**	**7.5**	**3.5**	**-50.7**	**54.9**
Other result	0.0	0.0	0.0	0.0	0.0	-20.9	-20.9
Credit loss expenses on financial assets	-15.9	-5.4	7.6	-2.1	0.5	2.0	-13.2
Result before tax	**39.2**	**19.4**	**22.3**	**5.4**	**4.0**	**-69.6**	**20.8**
Business volume							
Net loans and receivables	1,364.3	1,061.8	541.6	239.4	68.1	9.1	3,284.4
o/w gross performing loans customers	1,388.9	1,057.1	534.7	239.2	67.4		3,287.3
Gross disbursements	500.6	565.8	6.0	78.0	4.7		1,155.1
Financial liabilities at AC[1]	2,461.6	1,078.1	0.0	304.8	398.2	690.9	4,933.6
RWA[2]	1,028.9	870.1	327.1	278.8	49.3	545.6	3,099.8
Key ratios							
NIM[3]	5.7%	2.2%	1.4%	1.3%	1.3%		3.0%
Cost/Income Ratio	59.5%	55.5%	12.9%	43.9%	38.7%		72.4%
Cost of risk ratio	-1.0%	-0.3%	1.3%	-0.5%	0.5%		-0.3%
Loan to deposit ratio	55.4%	98.5%	0.0%	78.5%	17.1%		69.6%
NPE ratio (on-balance loans)	4.3%	5.0%	9.4%	4.4%	2.8%		4.0%
NPE coverage ratio	78.8%	64.1%	77.6%	53.5%	40.6%		71.9%
NPE collateral coverage	4.3%	65.4%	74.5%	83.3%	95.8%		49.5%
Change CL/GPL (simply Ø)	-1.2%	-0.5%	1.3%	-0.6%	0.5%		-0.4%
Yield GPL (simply Ø)	7.1%	3.0%	3.4%	2.7%	3.1%		4.6%

[1] Financial liabilities YE21 include the Direct deposits (Austria/Germany) amounting to EUR 383 million, EUR 175 million Deposits of credit institutions, EUR 133 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

31.12.2020	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**
Operating result before change in credit loss expense	**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[1]	2,478.2	976.7	0.0	367.3	391.5	759.7	4,973.4
RWA[2]	954.2	833.9	385.5	524.7	78.2	666.8	3,443.3
Key ratios							
NIM[3]	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%	0.0%	131.9%	32.4%		75.8%
NPE ratio (on-balance loans)[4]	4.9%	6.7%	11.1%	2.3%	0.6%		4.7%
NPE coverage ratio	84.8%	70.4%	71.6%	53.4%	49.6%		73.6%
NPE collateral coverage	5.5%	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%

[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 [4] The NPE Ratio (On-balance loans) as at YE20 is restated compared to the financial statements as of 31 December 2020 and also considers exposure to national bank within the denominator

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

EUR m

31.12.2021	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net interest income	**100.2**	**30.5**	**16.9**	**8.7**	**4.5**	**8.7**	**169.5**
o/w Interest income	102.4	35.1	21.8	10.9	3.2	14.3	187.7
o/w Regular Interest Income	95.1	31.9	19.8	9.8	3.1	14.3	174.0
o/w Interest income on NPE	1.3	0.8	1.0	0.3	0.1	0.0	3.5
o/w Interest like income	6.0	2.4	1.0	0.8	0.1	0.0	10.2
o/w Interest expenses	**-6.3**	**-2.6**	**0.0**	**-1.4**	**-1.4**	**-6.5**	**-18.2**
o/w FTP (asset & liabilities)	**-12.3**	**-8.1**	**-12.4**	**-3.9**	**1.6**	**-5.7**	**-40.8**
o/w Interest gap contribution	**16.3**	**6.1**	**7.6**	**3.1**	**1.1**	**6.6**	**40.8**
o/w Asset contribution	16.3	6.1	7.6	3.1	1.1	-34.2	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	40.8	40.8

EUR m

31.12.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net interest income	**100.5**	**28.6**	**19.1**	**9.8**	**5.4**	**11.2**	**174.7**
o/w Interest income	101.8	33.4	27.1	14.0	3.9	16.7	197.0
o/w Regular Interest Income	95.7	30.2	24.8	13.1	3.8	16.8	184.4
o/w Interest income on NPE	0.6	1.0	1.4	0.2	0.0	0.0	3.2
o/w Interest like income	5.6	2.2	0.9	0.7	0.1	0.0	9.4
o/w Interest expenses	**-9.3**	**-2.5**	**0.0**	**-1.4**	**-2.0**	**-7.1**	**-22.3**
o/w FTP (asset & liabilities)	**-6.9**	**-7.5**	**-15.6**	**-5.7**	**2.4**	**-8.6**	**-41.9**
o/w Interest gap contribution	**14.9**	**5.2**	**7.6**	**2.9**	**1.2**	**10.2**	**41.9**
o/w Asset contribution	14.9	5.2	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

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

EUR m

31.12.2021	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
Accounts and Packages	19.3	1.9	0.1	0.1	0.0	21.3
Transactions	4.4	13.7	1.4	0.8	0.6	21.0
Cards	10.4	1.6	0.0	0.0	0.0	12.1
FX & DCC	6.4	4.2	0.3	0.1	0.2	11.2
Trade finance	0.0	4.2	1.1	0.1	0.0	5.4
Loans	2.7	1.8	0.5	0.0	0.0	5.0
Bancassurance	4.6	0.0	0.0	0.0	0.0	4.6
Securities and Funds	0.3	0.1	1.6	0.0	-0.1	1.9
Other	0.6	0.6	0.4	0.2	0.0	1.9
Fee and commission income	**48.7**	**28.0**	**5.5**	**1.3**	**0.8**	**84.3**
Cards	-9.1	-0.6	0.0	0.0	0.0	-9.7
Transactions	-1.5	-1.8	-0.2	-0.1	-0.3	-4.0
Accounts and Packages	-0.7	-0.2	0.0	0.0	-0.1	-1.0
Securities and Funds	0.0	0.0	-0.4	0.0	-0.2	-0.5
Loans	-0.4	-0.1	0.0	0.0	0.0	-0.5
Bancassurance	-0.4	0.0	0.0	0.0	0.0	-0.4
Client incentives	-0.3	0.0	0.0	0.0	0.0	-0.3
Other	-0.2	-0.1	-0.2	0.0	-0.6	-1.1
Fee and commission expenses	**-12.7**	**-2.8**	**-0.8**	**-0.2**	**-1.1**	**-17.5**
Net fee and commission income	**36.1**	**25.2**	**4.7**	**1.2**	**-0.3**	**66.8**

EUR m

31.12.2020	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
Accounts and Packages	18.8	1.7	0.1	0.1	0.0	20.7
Transactions	4.3	12.3	1.5	0.9	0.5	19.4
Cards	9.3	1.6	0.0	0.0	0.0	10.9
FX & DCC	4.8	4.3	0.3	0.0	0.3	9.8
Trade finance	0.0	3.6	1.1	0.1	0.0	4.9
Loans	1.7	1.3	0.4	0.0	0.0	3.5
Bancassurance	3.0	0.0	0.0	0.0	0.0	3.0
Securities and Funds	0.3	0.0	2.2	0.0	-0.1	2.5
Other	0.5	0.2	0.2	0.0	0.0	0.9
Fee and commission income	**42.7**	**25.0**	**5.9**	**1.2**	**0.8**	**75.6**
Cards	-7.5	-0.4	0.0	0.0	0.0	-7.9
Transactions	-1.5	-1.9	-0.3	-0.1	-0.3	-4.0
Accounts and Packages	-0.5	-0.1	0.0	0.0	-0.1	-0.8
Securities and Funds	0.0	0.0	-0.4	0.0	-0.1	-0.5
Loans	-0.4	-0.1	0.0	0.0	0.0	-0.5
Bancassurance	-0.4	0.0	0.0	0.0	0.0	-0.4
Client incentives	-0.1	0.0	0.0	0.0	0.0	-0.1
Other	-0.5	-0.2	-0.2	0.0	-0.6	-1.5
Fee and commission expenses	**-11.0**	**-2.7**	**-0.9**	**-0.1**	**-1.1**	**-15.8**
Net fee and commission income	**31.7**	**22.3**	**5.0**	**1.1**	**-0.3**	**59.8**

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 separate 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 Recon Column includes mainly the intercompany reconciliation.

EUR m

31.12.2021	ABC	ABS	ABSE	ABSA	ABBL	ABM	ABH[4]	Reco	Addiko Group
Net banking income	80.5	52.0	42.9	21.4	21.5	12.5	46.7	-41.1	236.3
Net interest income	54.6	38.6	32.0	13.9	13.9	10.6	47.0	-41.1	169.5
o/w regular interest income[1]	56.6	37.3	35.3	14.3	15.7	11.3	49.7	-46.2	174.0
Net fee and commission income	25.8	13.3	10.9	7.6	7.5	1.9	-0.3	0.0	66.8
Net result on financial instruments	2.3	1.6	0.3	0.3	0.3	0.1	32.2	-30.9	6.2
Other operating result	-3.8	-2.0	-1.9	-1.2	-0.4	-1.7	-3.8	-1.7	-16.5
Operating income	**79.0**	**51.6**	**41.4**	**20.5**	**21.3**	**10.8**	**75.0**	**-73.6**	**226.0**
Operating expenses	**-45.3**	**-25.5**	**-25.3**	**-15.2**	**-14.8**	**-7.8**	**-32.6**	**-4.7**	**-171.1**
Operating result before change in credit loss expense	**33.7**	**26.1**	**16.1**	**5.3**	**6.6**	**3.0**	**42.4**	**-78.3**	**54.9**
Other result	-19.3	-0.3	-4.4	1.4	-0.5	-0.2	-1.7	4.1	-20.9
Credit loss expenses on financial assets	-4.6	1.6	-3.7	-1.4	-0.7	-2.1	2.1	-4.5	-13.2
Result before tax	**9.9**	**27.4**	**8.0**	**5.4**	**5.4**	**0.7**	**42.8**	**-78.7**	**20.8**
Total assets	**2,248.8**	**1,370.4**	**874.1**	**532.9**	**485.3**	**214.9**	**1,009.5**	**-893.6**	**5,842.3**
Business volume									
Net loans and receivables	1,051.9	981.7	617.7	241.0	292.7	163.9	51.4	-116.0	3,284.4
o/w gross performing loans customers	1,036.1	941.7	611.7	242.5	293.9	161.4	0.0	0.0	3,287.3
Gross disbursements	419.6	192.5	267.3	110.9	115.9	49.0	0.0	0.0	1,155.1
Financial liabilities at AC[2]	1,784.1	1,172.4	667.8	412.9	399.1	185.2	469.6	-157.5	4,933.6
RWA[3]	1,002.9	771.7	583.6	287.9	276.7	154.6	17.9	4.6	3,099.8
Cost/Income Ratio									
NIM	2.4%	2.7%	3.7%	2.6%	3.1%	5.0%	4.9%		2.9%
Cost/Income Ratio	56.2%	49.1%	58.9%	70.8%	68.8%	62.7%	69.8%		72.4%
Cost of risk ratio	-0.3%	0.1%	-0.4%	-0.4%	-0.2%	-1.0%	4.2%		-0.3%
Loan to deposit ratio	61.1%	91.1%	100.1%	59.0%	74.7%	92.4%			69.6%
NPE ratio (on-balance loans)	4.6%	2.0%	3.6%	5.4%	5.2%	8.7%			4.0%
NPE coverage ratio	75.3%	61.4%	64.5%	83.8%	85.2%	55.6%			71.9%
NPE collateral coverage	58.2%	59.6%	29.0%	39.4%	34.9%	54.6%			49.5%
Change CL/GPL (simply Ø)	-0.4%	0.2%	-0.6%	-0.5%	-0.2%	-1.3%			-0.4%
Yield GPL (simply Ø)	4.6%	3.6%	5.2%	5.4%	5.3%	6.8%			4.6%

[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 383 million presented in ABH [3] Includes only credit risk (without application of IFRS 9 transitional rules) [4] In ABH Intragroup exposure is included

EUR m

31.12.2020	ABC	ABS	ABSE	ABSA	ABBL	ABM	ABH[4]	Reco	Addiko Group
Net banking income	84.9	50.9	38.5	20.4	19.7	11.9	38.0	-29.8	234.5
Net interest income	58.6	40.8	29.2	13.9	13.2	10.5	38.3	-29.8	174.7
o/w regular interest income[1]	64.3	40.8	34.6	14.9	15.5	12.0	42.8	-40.7	184.4
Net fee and commission income	26.3	10.1	9.4	6.5	6.5	1.5	-0.3	0.0	59.8
Net result on financial instruments	5.5	1.1	1.9	1.2	0.1	0.0	-55.5	57.4	11.7
Other operating result	-4.4	-1.5	-2.2	0.4	-1.5	0.3	0.6	-5.5	-13.7
Operating income	**86.0**	**50.5**	**38.3**	**22.1**	**18.3**	**12.3**	**-17.0**	**22.1**	**232.5**
Operating expenses	**-47.6**	**-25.4**	**-25.6**	**-15.6**	**-13.8**	**-7.7**	**-34.4**	**0.4**	**-169.7**
Operating result before change in credit loss expense	**38.4**	**25.1**	**12.6**	**6.5**	**4.5**	**4.6**	**-51.4**	**22.5**	**62.8**
Other result	-3.1	-0.6	-5.3	-1.2	-1.3	-1.0	-0.7	5.2	-8.1
Credit loss expenses on financial assets	-18.3	-11.2	-2.4	-11.1	-7.0	-0.5	-1.1	3.1	-48.4
Result before tax	**17.0**	**13.2**	**5.0**	**-5.8**	**-3.9**	**3.1**	**-53.2**	**30.8**	**6.3**
Total assets	**2,342.7**	**1,448.8**	**864.4**	**521.8**	**421.7**	**211.5**	**1,074.2**	**-970.6**	**5,914.5**
Business volume									
Net loans and receivables	1,252.1	1,145.1	614.7	260.4	289.1	170.0	197.3	-287.5	3,641.2
o/w gross performing loans customers	1,174.1	1,086.8	614.4	263.2	294.6	170.5	0.0	0.0	3,603.6
Gross disbursements	361.6	127.0	270.6	104.7	94.1	23.8	0.0	0.0	981.7
Financial liabilities at AC[2]	1,921.3	1,246.2	663.3	405.7	339.1	181.5	526.5	-310.3	4,973.4
RWA[3]	1,144.4	811.4	565.3	402.8	318.7	152.7	34.6	13.4	3,443.3
Cost/Income Ratio									
NIM	2.5%	2.7%	3.5%	2.7%	3.1%	4.8%	3.4%		2.9%
Cost/Income Ratio	56.0%	50.0%	66.6%	76.3%	69.9%	64.4%	90.6%		72.4%
Cost of risk ratio	-1.1%	-0.8%	-0.3%	-2.6%	-1.7%	-0.2%	-12.8%		-1.0%
Loan to deposit ratio	68.2%	98.9%	104.6%	64.9%	92.3%	99.9%			75.8%
NPE ratio (on-balance loans)[5]	6.2%	1.4%	2.8%	8.8%	6.8%	8.4%			4.7%
NPE coverage ratio	72.5%	65.9%	73.9%	80.3%	79.2%	61.9%			73.6%
NPE collateral coverage	51.0%	57.6%	35.4%	54.5%	37.9%	43.8%			49.0%
Change CL/GPL (simply Ø)	-1.5%	-1.0%	-0.4%	-4.1%	-2.4%	-0.3%			-1.3%
Yield GPL (simply Ø)	4.5%	3.4%	5.1%	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 429 million presented in ABH [3] Includes only credit risk (without application of IFRS 9 transitional rules) [4] In ABH Intragroup exposure is included [5] The NPE Ratio (On-balance loans) as at YE20 is restated compared to the financial statements as of 31 December 2020 and also considers exposure to national bank within the denominator

Risk Report

(56) 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.

(57) 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.

(58) 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 2021, the following organisational units were operative:

Corporate Credit Risk (including Credit Risk Management for Corporate / SME / PF and Credit Risk Management FI / Sovereigns) provides underwriting, individual risk assessment, monitoring, and review for all non-Retail 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. In the last quarter 2021 this division was merged with Group Retail Risk Management to a new unit **Group Credit Risk Management**

Group Retail Risk Management monitors and manages credit risk in Retail 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. In the last quarter 2021 this division was merged with Corporate Credit Risk to a new unit **Group Credit Risk Management**.

Integrated Risk Management 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 for 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 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 harmonized view on enterprise data. In operational matters the GDO team is supporting business functions in regular and adhoc 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. In the last quarter 2021 this unit was integrated within Integrated Risk Management

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

(59) Internal risk management guidelines

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

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

(60) Credit risk

60.1. 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.

60.2. General requirements

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

In line with a Group wide instruction on authority levels as defined by the 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.

60.3. 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.

60.4. Risk limitation

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

In the 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.

60.5. 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.

Breakdown of net exposure within the Group in accordance with IFRS 7.35M as at 31 December 2021:

EUR m

31.12.2021		Performing			Non Performing			Total
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	1,235.1	-0.1	1,235.0	0.0	0.0	0.0	1,235.1	1,235.0
Financial assets held for trading	32.6		32.6	0.0		0.0	32.6	32.6
Loans and receivables	3,307.0	-74.5	3,232.4	187.9	-136.0	52.0	3,494.9	3,284.4
of which credit institutions	5.7	0.0	5.7	0.0	0.0	0.0	5.7	5.7
of which customer loans [2]	3,301.3	-74.5	3,226.7	187.9	-136.0	52.0	3,489.2	3,278.7
Investment securities [3] [4]	1,010.6	-0.3	1,008.3	0.0	0.0	0.0	1,010.6	1,008.3
Other Assets - IFRS 5	11.1	0.0	11.1	0.2	0.0	0.2	11.3	11.3
On balance total	**5,596.3**	**-74.9**	**5,519.4**	**188.1**	**-136.0**	**52.2**	**5,784.5**	**5,571.5**
Off Balance	979.1	-3.7	975.4	6.1	-3.6	2.5	985.1	977.9
ECL on FVTOCI debt securities [4]	-2.4	0.3	0.0	0.0	0.0	0.0	-2.4	0.0
Total	**6,573.1**	**-78.3**	**6,494.8**	**194.2**	**-139.5**	**54.7**	**6,767.3**	**6,549.5**
Adjustments [5]	-1.5		-1.5			0.0	-1.5	-1.5
Total credit risk exposure	**6,571.6**	**-78.3**	**6,493.3**	**194.2**	**-139.5**	**54.7**	**6,765.8**	**6,548.0**

[1] The position does not include cash on hand in amount of EUR 126.8 million [2] Including accrued interest [3] Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia [4] For debt securities at FVTOCI the exposure is calculated based on the amortised cost before adjusting for any loss allowance and for this reason it does not include any changes of the fair value of the instruments. For credit risk purposes the fair value of the instruments is considered. For this reason, also the related ECL is not included as this is already reflected in the fair value of the underlying instruments. [5] Adjustments includes reconciliation differences between the gross carrying amount and the carrying amount of the credit risk exposure components

The following table shows the exposure in accordance with IFRS 7.35M 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] [4]	925.1	-2.1	923.0	0.0	0.0	0.0	925.1	923.0
Other Assets - IFRS 5	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

60.6. Allocation of credit risk exposure within the Group

As at 31 December 2021, the overall gross exposure within the Group is reduced by EUR 157.0m compared to YE20. Decreases in the exposures are recognised in Addiko Bank Croatia, Addiko Bank Sarajevo, Addiko Bank Slovenia and Addiko Bank Montenegro, which are partially offset by increased exposure in remaining legal Entities. Due to an executed re-segmentation of clients during first quarter of 2021, a shift of portfolio from Consumer to the SME segment is recognised, with an overall reduction of the non-focus portfolio since beginning of the year, which is partially compensated by an increase within the Consumer and SME portfolio as well as the Corporate Center. Within the Group, credit risk exposure breaks down as presented in the table.

EUR m

	31.12.2021	31.12.2020
Addiko Croatia	2,482.2	2,612.8
Addiko Slovenia	1,615.9	1,689.8
Addiko Serbia	1,070.9	1,059.6
Addiko Bosnia & Herzegovina	1,133.9	1,104.5
Addiko Montenegro	231.3	238.0
Addiko Holding	231.5	217.9
Total	**6,765.8**	**6,922.7**

60.7. Credit risk exposure by rating class

At 31 December 2021 roughly 25.1% (YE20: 24.7%) 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 sovereigns.

During 2021 the NPE Stock reduced by EUR 49.5 million, mainly in the non-focus portfolio in all Legal Entities and within the consumer portfolio (Addiko Bank Banja Luka, Addiko Bank Sarajevo, Addiko Bank Montenegro and Addiko Bank Croatia) as a result of write offs / portfolio sales as well as due to collection effects. These reductions are partially compensated by NPE stock increase in SME portfolio (Addiko Bank Serbia, Addiko Bank Slovenia and Addiko Bank Montenegro) as well as in the Consumer Portfolio (Addiko Bank Serbia and Addiko Bank Slovenia).

The following table shows the exposure by rating classes and market segment as at 31 December 2021:

EUR m

31.12.2021	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	262.2	790.5	293.5	151.2	63.3	18.8	1,579.3
SME	217.3	859.7	476.1	143.6	61.6	7.4	1,765.8
Non Focus	331.5	493.8	156.9	75.6	69.3	1.7	1,128.9
o/w Large Corporate	43.3	224.8	120.3	36.4	11.5	0.8	437.2
o/w Mortgage	273.5	212.4	25.0	23.0	55.6	1.0	590.5
o/w Public Finance	14.7	56.5	11.6	16.2	2.3	0.0	101.3
Corporate Center [1)]	889.9	1,150.0	251.6	0.0	0.0	0.2	2,291.7
Total	**1,700.9**	**3,294.0**	**1,178.2**	**370.4**	**194.2**	**28.1**	**6,765.8**

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

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

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

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

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

Loans and advances to customers at amortised cost:

EUR m

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	557.7	22.2	0.0	0.9	580.8
2A-2E	1,568.9	46.4	0.0	1.9	1,617.2
3A-3E	655.9	84.1	0.0	0.9	741.0
Watch	48.7	300.8	0.7	0.7	350.9
NPE	0.0	0.0	183.3	3.7	187.1
No rating	11.8	0.5	0.0	0.0	12.3
Total gross carrying amount	**2,842.9**	**454.1**	**184.1**	**8.1**	**3,489.2**
Loss allowance	-23.6	-50.9	-133.8	-2.1	-210.5
Carrying amount	**2,819.3**	**403.1**	**50.3**	**6.0**	**3,278.7**

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**

Loans and advances to banks at amortised cost:

EUR m

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	3.8	0.0	0.0	0.0	3.8
2A-2E	1.3	0.0	0.0	0.0	1.3
3A-3E	0.6	0.0	0.0	0.0	0.6
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**5.7**	**0.0**	**0.0**	**0.0**	**5.7**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**5.7**	**0.0**	**0.0**	**0.0**	**5.7**

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**

Debt instruments measured at FVTOCI:

EUR m

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	467.5	0.0	0.0	0.0	467.5
2A-2E	474.9	0.0	0.0	0.0	474.9
3A-3E	30.5	0.0	0.0	0.0	30.5
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	21.9	0.0	0.0	0.0	21.9
Total gross carrying amount	**994.8**	**0.0**	**0.0**	**0.0**	**994.8**
Loss allowance	-0.3	0.0	0.0	0.0	-0.3
Carrying amount	**994.5**	**0.0**	**0.0**	**0.0**	**994.5**

[1)] Starting from 30.06.2021 the accumulated fair value change in other comprehensive income is shown separately from the gross carrying amount.

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**

Commitments and financial guarantees given:

EUR m

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	236.5	1.3	0.0	0.0	237.8
2A-2E	520.1	1.2	0.0	0.0	521.3
3A-3E	185.7	11.4	0.0	0.0	197.1
Watch	5.4	17.4	0.0	0.0	22.8
NPE	0.0	0.0	6.1	0.0	6.1
No rating	0.1	0.0	0.0	0.0	0.1
Total gross carrying amount	**947.8**	**31.3**	**6.1**	**0.0**	**985.1**
Loss allowance	-2.6	-1.1	-3.6	0.0	-7.2
Carrying amount	**945.2**	**30.2**	**2.5**	**0.0**	**977.9**

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**

60.8. 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

	31.12.2021	31.12.2020
SEE	6,089.6	6,197.9
Europe (excl. CEE/SEE)	367.7	420.9
CEE	252.1	247.9
Other	56.4	56.1
Total	**6,765.8**	**6,922.7**

60.9. Exposure by business sector and region

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

The lower-risk business sector groups - financial institutions and the public sector - account for a share of 35.0% at year end 2021 (YE20: 31.8%). The well-diversified private customers sector accounts for a share of 27.8% (YE20: 24.6%).

EUR m

31.12.2021 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.2	1,878.6	0.0	0.1	1,880.8
Financial services	332.4	1,118.0	0.0	44.1	1,494.5
Public sector	11.8	604.1	252.1	5.0	873.0
Industry	14.3	963.7	0.0	0.0	978.1
Trade and commerce	0.0	570.4	0.0	4.5	574.9
Services	0.7	452.0	0.0	0.0	452.7
Real estate business	0.0	69.5	0.0	0.0	69.5
Tourism	0.0	78.5	0.0	0.0	78.5
Agriculture	0.0	51.9	0.0	0.0	51.9
Other	6.2	302.9	0.0	2.8	311.9
Total	**367.7**	**6,089.6**	**252.1**	**56.4**	**6,765.8**

The following table shows the exposure by business sector and region as at 31 December 2020:

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 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.

60.10. Presentation of exposure by overdue days

EUR m

31.12.2021	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,459.1	62.0	8.6	4.3	45.3	1,579.3
SME	1,691.4	41.4	7.2	2.2	23.5	1,765.8
Non-Focus	1,064.8	16.6	3.8	1.5	42.3	1,128.9
o/w Large Corporate	431.3	5.2	0.0	0.0	0.7	437.2
o/w Mortgage	536.8	10.3	2.5	1.5	39.3	590.5
o/w Public Finance	96.8	1.0	1.2	0.0	2.3	101.3
Corporate Center	2,290.3	1.4	0.0	0.0	0.0	2,291.7
Total	**6,505.6**	**121.4**	**19.6**	**8.0**	**111.1**	**6,765.8**

Partially due to still valid 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 a material increase of days past due on the portfolio level.

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**

60.11. Presentation of exposure by size classes

As of 31 December 2021 around 43.6% (YE20: 41.6%) 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 1,618.5 million (YE20: EUR 1,387.9 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	31.12.2021 GoBs	Exposure EUR m	31.12.2020 GoBs
< 10,000	567.2	303,003	551.1	300,339
10,000-50,000	1,312.8	65,554	1,244.9	60,632
50,000-100,000	281.9	4,074	310.6	4,492
100,000-250,000	287.2	1,920	291.7	1,966
250,000-500,000	232.5	662	213.0	601
500,000-1,000,000	268.4	386	268.3	384
1,000,000-10,000,000	1,481.4	538	1,644.9	565
10,000,000-50,000,000	444.9	23	783.3	41
50,000,000-100,000,000	271.0	4	227.1	3
> 100,000,000	1,618.5	6	1,387.9	6
Total	**6,765.8**	**376,170**	**6,922.7**	**369,029**

60.12. Breakdown of financial assets by degree of impairment

Overdue but not impaired financial assets:

EUR m

	Exposure	31.12.2021 Collateral	Exposure	31.12.2020 Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	112.1	17.4	109.9	27.1
- overdue 31 to 60 days	11.8	1.9	24.0	8.4
- overdue 61 to 90 days	3.3	0.4	21.4	14.7
- overdue 91 to 180 days	0.1	0.0	0.5	0.4
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.4	0.4	0.0	0.0
Total	**127.7**	**20.2**	**155.9**	**50.6**

Impaired financial instruments:

EUR m

Loans and advances to customers (on- and off-balance)	31.12.2021	31.12.2020
Exposure	192.6	241.3
Provisions	139.5	179.4
Collateral	95.0	118.2

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation according to note (61.1) “Method of calculating provisions” of the 2021 Group annual report 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.

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 an indicator that financial assets might be credit impaired.

During 2020 and during the first half of 2021, 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 majority 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. Such moratoria granted to clients impacted by Covid-19, and fulfilling the conditions of regulation stated above was not considered an automatic 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 2021. The off-balance positions only include loan commitments:

EUR m

	01.01.2021	Classified as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2021
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	1.7	0.0	-0.2	0.0	0.0	0.0	1.5
Credit institutions	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
Non-financial corporations	67.9	42.5	-21.0	0.0	0.1	-8.8	80.7
Households	46.4	24.0	-6.9	0.0	0.1	-1.7	61.9
Loans and advances	**116.0**	**66.5**	**-28.1**	**0.0**	**0.2**	**-10.5**	**144.1**
Loan commitments given	0.7	0.4	-0.5	0.0	0.0	0.1	0.7

The following table shows the forbearance status in the course of the year 2020:

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 forbearance exposure as of December 2021:

EUR m

	31.12.2021	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	1.5	0.0	1.5	0.0
Credit institutions	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0
Non-financial corporations	80.7	45.7	2.0	33.1
Households	61.9	33.4	6.2	22.3
Loans and advances	**144.1**	**79.1**	**9.7**	**55.4**

The forbearance exposure was as follows as of December 2020:

EUR m

	31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	1.7	0.0	1.7	0.0
Credit institutions	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0
Non-financial corporations	67.9	28.0	9.2	30.7
Households	46.4	22.4	4.8	19.2
Loans and advances	**116.0**	**50.3**	**15.7**	**49.9**

The following table shows the collateral allocation for the forbearance exposure at the YE21:

EUR m

	ICV	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	3.4	3.4	0.0	0.0	0.0	0.0
Large Corporate	5.5	5.5	0.0	0.0	0.0	0.0
Medium and Small Corporate	53.9	33.7	3.7	0.2	9.8	6.5
Retail	30.8	8.6	20.3	0.0	1.7	0.2
Total	**93.6**	**51.2**	**24.0**	**0.2**	**11.4**	**6.8**

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	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	3.9	3.9	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**

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 during 2020 and 2021 granted 75,698 such moratoria of which 111 accounts (103 customers) were still active at 31.12.2021.

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 and 2021 thus, did not result in an automatic triggering of forbearance or default classification. However, Addiko Group continues to perform individual assessments whether there are other or additional circumstances that would lead to forbearance or default classification. In addition, exposures where moratoria is expired are under additional monitoring for signs of deterioration.

Following table shows the amount of exposure under moratoria per market segment at YE21:

EUR m

31.12.2021	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	0.6	0.1	0.4	0.3	1.0	0.4
SME	0.0	0.0	0.5	0.4	0.5	0.4
Non Focus	0.4	0.0	0.4	0.2	0.9	0.2
o/w Large Corporate	0.0	0.0	0.0	0.0	0.0	0.0
o/w Mortgage	0.4	0.0	0.4	0.2	0.9	0.2
o/w Public Finance	0.0	0.0	0.0	0.0	0.0	0.0
Corporate Center	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.1**	**0.1**	**1.3**	**0.9**	**2.4**	**1.0**

Following table shows the amount of exposure under moratoria per market segment at YE20:

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**

Following table shows the amount of exposure under moratoria per country at YE21:

EUR m

31.12.2021	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Addiko Croatia	0.5	0.0	0.3	0.1	0.7	0.2
Addiko Slovenia	0.1	0.0	0.4	0.4	0.5	0.4
Addiko Serbia	0.0	0.0	0.0	0.0	0.0	0.0
Addiko Bosnia & Herzegovina	0.1	0.0	0.0	0.0	0.1	0.0
Addiko Montenegro	0.4	0.0	0.6	0.4	1.0	0.4
Addiko Holding	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.1**	**0.1**	**1.3**	**0.9**	**2.4**	**1.0**

Following table shows the amount of exposure under moratoria per country at YE20:

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 & 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 Holding	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**

(61) Risk provisions

61.1. 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.

The risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies (wiiw). In general, market expectations continuously improve as demonstrated also by overall upward revisions of publicly available forecasts up to December 2021, however uncertainty remains relatively high. Addiko still perceives uncertainty levels to be historically high remaining elevated in relation to the pre-Covid cycle, and risks weighting down significantly on baseline trajectories. Strong rebound amid current short-term and medium-term risks obviously provides less chance of additional improvement. Therefore, scenario-probabilities used to assign weights to a particular scenario were adjusted in favor of negative scenario as depicted in table below. These probabilities are defined in a joint review process. By default, the scenario probabilities stay the same as in the previous delivery. In case there is a strong argument for a revision, any expert team member can propose to amend the probability distribution. The proposal is reviewed jointly by the research team. If the argument is strong enough, wiiw´s team adopts the change.

Scenario probabilities[1)]	Baseline case	Optimistic case	Pesimistic case
May 2021 wiiw forecast report	55%	20%	25%
October 2021 wiiw forecast report	55%	10%	35%

1) wiiw calibrates also adverse scenario that reflects extreme severity of calibrated shocks, used for static and dynamic stress testing purposes. No probability is assigned to this type of scenario, considered to be highly unlikely, yet plausible.

The following table provides quantitative aspects of the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information/variables used to estimate the ECL for 31.12.2021 The values shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

Scenario	Historical	Baseline case			Optimistic case	Pessimistic case
Sample period	2020	2021	2022-2024			
Sub-sample			First 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)						
Croatia	-8.0	7.2	5.0	4.2	6.2	2.8
Slovenia	-4.2	5.2	4.1	3.0	5.1	1.7
Bosnia & Herzegovina	-3.2	3.7	3.1	3.3	4.5	1.9
Serbia	-1.0	6.6	4.6	4.4	5.8	3.2
Montenegro	-15.3	8.4	4.8	3.0	4.9	2.2
Euroarea	-6.3	4.8	4.4	2.1	4.3	1.4
Unemployment Rate (ILO, average %)						
Croatia	7.5	7.0	6.8	6.5	3.1	10.0
Slovenia	5.0	4.7	4.3	4.1	1.4	7.0
Bosnia & Herzegovina	15.9	16.9	16.5	15.7	13.8	17.9
Serbia	9.0	11.0	10.0	8.8	7.2	11.2
Montenegro	17.9	16.0	15.5	15.2	13.1	17.2
Euroarea	7.9	8.1	7.8	7.2	5.2	9.5
Real-Estate (% of change)						
Croatia	7.7	5.0	4.0	4.0	7.5	0.5
Slovenia	4.6	3.0	2.2	2.2	5.1	-0.7
Serbia	1.8	6.0	5.5	5.0	9.2	1.1
Euroarea	5.2	5.5	3.5	3.0	6.1	0.2
CPI Inflation (average % YoY)						
Croatia	0.0	1.9	1.8	1.5	1.9	1.3
Slovenia	-0.3	1.8	1.6	1.6	1.8	1.4
Bosnia & Herzegovina	-1.1	1.3	1.0	1.6	1.5	1.3
Serbia	1.6	3.5	3.0	2.4	2.6	2.9
Montenegro	-0.3	1.9	1.3	1.5	1.5	1.3
Euroarea	0.3	2.1	1.6	1.5	1.7	1.3

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

Projections for the euro area and Addiko countries of operation use a starting point of wiiw's Autumn 2021 forecasts, which had a cut-off data of 24 September 2021. wiiw country experts have checked these forecasts and updated where necessary, with a cut-off date for the updated assessments of September 24th. The scenarios are differentiated by the severity and duration of the associated economic impact of Covid-19, country-specific rebound patterns and the effectiveness of monetary and fiscal stimulus assumed. Baseline forecast is the outcome of wiiw´s expert team assessment of current economic developments, medium-term outlooks in real and financial sector, and risks surrounding them. Additionally, for specific Addiko requirements, scrutinizing initial conditions, narrative shaping and baseline projections takes form of joint expert meetings between wiiw and Addiko teams, mutually challenging the rationale behind specific trajectories. The calibration of shocks that leads to alternative scenarios is implicitly derived from EBA´s stress testing assumptions, i.e. any factor of conservativism that affected original deviation from the baseline path in EBA´s exercise is indirectly transposed into internal framework. Technically, adverse scenario depends on EBA´s deviation of adverse

to baseline, which is imposed to wiiw´s baseline as well. Optimistic and pessimistic cases are ½ of deviation used as described above.

This leads to a quite dispersed distribution of potential outcomes, conditional on risk assessment and its materialization. For example, in comparison to ECB´s positive and negative scenarios from December 2021, in terms of GDP growth, wiiw´s corresponding alternative scenarios are roughly three times distance from baseline than it is in ECB´s case of calibrated dispersion. For the same reason, this is a source of confidence that selected 3 scenarios, in conjunction with probability assessment provided, cover the range of potential developments that should constitute a basis for Addiko´s ECL computation scheme.

The respective narratives are as follows:

- Baseline: Strong fiscal stimuli and loose monetary policy in major advanced economies continue supporting positive economic outlook despite bottlenecks in international supply chains and uncertainty about effectiveness of vaccines. The main driver of growth during the first half of 2021 has been delayed consumption, although with the re-opening of the economies and fiscal stimuli gradually being repelled amid economic recovery, greater employment levels and consumer credit will become main channels supporting consumption. Euroarea GDP is expected to exceed pre-crisis levels already in 2022, slowly converging to long-term path in subsequent years. On average, real growth will come close to 3% over three-year horizon. Although inflation has spiked due to described imbalances between supply and demand, which was anticipated in previous forecasting cycle, most of signals point to transitory nature of these developments. Thus, inflation rate should be more moderate in 2022, around 1,6% and dampened in years to follow. Countries where Addiko concentrates its operations experienced much stronger recovery dynamics than expected, with overall stabile labour market conditions. Supported by foreign demand recovery, these trends should continue. Pre-crisis levels of GDP are expected to be exceeded in all the countries in the sample by 2022, except Montenegro that requires slightly longer horizon (2023). On average, 2022-2024 period will probably bring strong growth in Serbia and Croatia, about 4,5%, while other observed countries in the region will lag somewhat, but still notably growing 3,5% annually. The recovery pace and mid-term developments will depend mostly on the structural reforms that the countries will undertake, on investment in infrastructure and on FDI inflows. Of course, depending on foreign demand reimaging robust and no surprises from mutating virus.

- Optimistic: Although the virus remains in the population, it does not constitute danger to global health anymore in this scenario. A combination of partial immunity from either having had the virus or been vaccinated (vaccination rates are expected to continue increasing and reach 60% in Western Balkans and 80% European Union of the total population on average), plus a shot of an updated vaccine each year, will make SARS-CoV-2 into another virus that we live with. Social and economic life and mobility patterns reach pre-pandemic levels during 2022, with medium-term prospects depending on implementation of a digital recognition system of international vaccine certificates. International labour markets remain constrained until then. Economies close the output gap quicker than expected. This is above all because of a drawdown in pent up (forced) savings faster than in the baseline scenario, due to better confidence. Furthermore, emerging markets will generally enjoy increased capital flows and appreciation of domestic currencies. Nevertheless, inflation exceeds the targets quicker than expected so that central banks proceed with abolishing quantitative easing and tighter monetary policy ahead of schedule. Margin squeezes can be expected with firms struggling to pass the full impact of higher input costs onto consumers amid fragile demand. However, serious turmoil is not to be expected, credit risks will not materialise in neither low-income nor high-income countries, while financial institutions will remain healthy and still seen essential in supporting the recovery, not facing additional capital charges. Euroarea growth could potentially end up 1,4 p.p. above the baseline in 2022-2024. Similar pattern should then be seen in Addiko´s countries of operation, with Croatia and Slovenia deviating as much as 1,7 p.p. from the baseline, and the remaining markets in the sample 1,3 p.p.

- Pessimistic: The negative scenario involves the emergence of one or more mutations which spread more quickly and cannot be brought under control using existing vaccines. As a result, governments are pushed to combine soft-containment measures against vaccination sceptics with occasional regional lockdowns (right up until 2024, various 'lockdown' conditions will have to remain in place to try to prevent healthcare systems being overwhelmed). The implementation of the international digital recognition system of vaccine certificate occurs only in 2023. However, while estimates showed that in the first wave of 2020 the hit to economic growth from negative public health outcomes and lockdowns was very strong, the second/third wave showed this relationship is becoming less pronounced, indicating that societies and economies can adapt. Therefore, over time we would expect the negative impact on economic growth from further lockdowns to diminish. Nevertheless, emerging markets face capital outflows simultaneously producing depreciation pressures. Fragile recovery indeed would result in slower consumption dynamics, fortunately relieving part of existing inflationary pressures amid persisting supply constraints. Credit risks materialise in low-income countries but no negative externalities to high-income markets. International financial institutions face additional capital charges but withstand the pressure. Thus, central banks would continue to extend the period of loose monetary policy until 2024 to support the economy. Full blown recession would still be avoided, but real GDP growth rates would stay well below baseline, in this scenario symmetrically to optimistic case in terms of absolute deviations (in opposite direction). This would bring down the expectations of average growth in the region to 2,4% over the next three years, with the stable pattern of growth diffusion within the sample (Serbia and Croatia still exhibiting relatively stronger growth in comparison to other countries in the observed sample).

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where stage 1 and stage 2 ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management overlay, which is included in the total ECL stock after probability weighting the ECL of each scenario (compared to similar sensitivity analysis shown in financial disclosures for YE20, where management overlay was included in ECL for each scenario). The assumed distribution of scenario probabilities (baseline 55%, optimistic 10% and pessimistic 35% vs baseline 60%, optimistic 10% and pessimistic 30% at YE20) allows the Group to cover the broad range of future expectations.

The provisions in the 2021 consolidated financial statements include also a post model overlay of EUR 9.0 million, which is EUR 2.0 million higher compared with the EUR 7.0 million recognised in the previous year consolidated financial statements.

The main reasons for the necessity of the post model overlay are the following:

- the models currently applied for estimation of PD used in ECL calculation have been calibrated based on a historical period which does not include the unprecedented crisis conditions of the Covid-19 pandemic as seen in the current environment. In particular the existing models are not designed to integrate the effects on government interventions, such as full or partial lockdowns, quarantines, moratoria, supplier chain effects, inflation on the future probability of default.
- the dynamic and the type of change of macro-economic conditions, under influence of constant cropping-up of Covid-19 variants and different reactions by various involved sovereigns and regulators is too swift and unpredictable to be accurately captured in macroeconomic scenarios and timely implemented in the ECL calculation.

The post model overlay has been determined by performing a critical assessment of the most recent available macroeconomic projections and adjusting the probabilities for the individual scenario to indicate a less positive outcome. The adjustments were done qualitatively (specific expert-based assumptions), and the difference between the ECL calculation performed with modified scenario probabilities versus the ECL calculation performed based on scenario probabilities forecasted by Addiko's external vendor, the Vienna Institute for International Economic Studies (wiiw), is taken as the post-model overlay.

The post-model overlay is booked across IFRS 9 stages 1 and 2 in the segment Corporate Center. Allocation is based on the pre-post model overlay ECL amounts. There is no allocation of post-model overlay across different industry segments, due to the fact that PD models in use in Addiko do not discriminate clients according to the industry.

EUR m

31.12.2021	ECL incl. Post model overlay	ECL excl. Post model overlay	Optimistc Case	Base Case	Pessimistic Case
Retail	41.6	41.6	36.4	40.4	45.1
Non-Retail	27.5	27.5	20.9	25.8	32.1
Corporate Center	9.1	0.1	0.0	0.1	0.2
Total	**78.3**	**69.3**	**57.3**	**66.2**	**77.5**

EUR m

31.12.2020	ECL incl. Post model overlay	ECL excl. Post model overlay	Optimistc Case	Base Case	Pessimistic Case
Retail	51.2	51.2	49.6	50.9	52.4
Non-Retail	37.2	37.2	33.7	36.5	39.8
Corporate Center	10.0	3.0	2.2	2.8	3.8
Total	**98.5**	**91.5**	**85.5**	**90.2**	**96.0**

61.2. Development of risk provisions

The development of risk provisions in 2021 is mainly influenced by provision requirements in the consumer and SME portfolio, mainly driven by allocations in the NPE Portfolio. On the other hand the overall ECL coverage for performing loans (stage 1 and 2) decreased during 2021 especially due to consideration of updated macro-economic outlook within the ECL calculation. 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 during 2021 (no material increase in NPE and related risk provisions).

61.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Addiko Group, updates are performed regularly to make sure that the latest available information is considered. In 2021 a refinement/recalibration of all segments and subsidiaries was performed, with a full review of the PD model for consumer segment in Montenegro subsidiary. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, a reassessment of the quantitative staging thresholds and an update of the macro forecasts to reflect latest available information.

61.4. Development of the coverage ratio

The coverage ratio 1 decreased (71.9%) compared to the YE20 (73.6%). Decreases are recognised in Addiko Bank Serbia, Addiko Bank Slovenia and Addiko Bank Montenegro - and is mainly driven by collection activities as well as by executed write offs during 2021.

The following tables show the NPE and coverage ratios at YE21 and YE20:

EUR m

31.12.2021	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Ratio (On-balance loans)	Coverage Ratio 1	Coverage Ratio 3
Consumer	1,579.3	63.3	49.9	2.7	4.0%	4.3%	78.8%	83.1%
SME	1,765.8	61.6	39.5	40.3	3.5%	5.0%	64.1%	129.5%
Non Focus	1,128.9	69.3	50.2	53.1	6.1%	7.5%	72.4%	149.0%
o/w Large Corporate	437.2	11.5	6.1	9.5	2.6%	4.4%	53.5%	136.8%
o/w Mortgage	590.5	55.6	43.1	41.4	9.4%	9.4%	77.6%	152.0%
o/w Public Finance	101.3	2.3	0.9	2.2	2.3%	2.8%	40.6%	136.4%
Corporate Center	2,291.7	0.0	0.0	0.0	0.0%	0.0%	85.0%	85.0%
Total	**6,765.8**	**194.2**	**139.5**	**96.1**	**2.9%**	**4.0%**	**71.9%**	**121.4%**
o/w Credit Risk Bearing	**4,605.1**	**194.2**	**139.5**	**96.1**	**4.2%**	**5.2%**	**71.9%**	**121.4%**

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%**	**4.7%**	**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) as at YE20 is restated compared to the financial statements as of 31 December 2020 and also considers exposure to national bank within the denominator.

(62) 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 prices to decrease. Since prices on the market still don't show significant negative trend and Addiko is using conservative haircuts at calculation internal collateral values, which buffer potential losses, a re-assessment of the market values for collaterals was not considered to be necessary in the preparation of the financial statements.

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 2021 as well as 31 December 2020:

EUR m

Collateral Distribution	31.12.2021	31.12.2020
Exposure	6,765.8	6,922.7
Internal Collateral Value (ICV)	1,279.5	1,639.4
thereof CRE	484.1	663.6
thereof RRE	474.1	562.9
thereof financial collateral	29.0	29.0
thereof guarantees	219.7	267.7
thereof other	72.5	116.3
ICV coverage rate	**18.9%**	**23.7%**

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 reduces (18.9%) compared to YE20 (23.7%).

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

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

EUR m

31.12.2021	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	**187.9**	**0.0**	**0.0**	**38.4**	**0.9**	**0.0**	**1.3**	**40.6**	**147.2**	**-136.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1
Non-financial corporations	65.8	0.0	0.0	24.4	0.9	0.0	1.3	26.6	39.1	-40.0
Households	122.0	0.0	0.0	14.0	0.0	0.0	0.0	14.0	108.0	-95.9
Commitments and financial guarantees	**6.1**	**0.0**	**0.0**	**0.7**	**0.0**	**0.2**	**0.0**	**0.9**	**5.1**	**3.6**
Loan commitments given	1.3	0.0	0.0	0.2	0.0	0.0	0.0	0.2	1.1	0.6
Financial guarantees given	3.7	0.0	0.0	0.3	0.0	0.2	0.0	0.5	3.2	2.1
Other commitments given	1.1	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.9	0.9

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	Off-setting	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

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.

(63) Market risk

63.1. 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.

63.2. 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. The VaR methodology employed to estimate daily risk numbers is a Monte Carlo simulation with 10,000 runs, or a simulation under Variance-Covariance method. While the latter method is used to estimate interest rate risk for non-trading activities, the Monte Carlo approach is then used to estimate potential losses of other market risk types. The bank uses VaR to capture potential losses arising from changes in the risk free rates, security issuers' credit margins, foreign exchange rates, equity prices and commodity prices. All VaR methods in place rest on assumption of exponentially weighted moving averages and correlations in the market risk factors collected for the historical series of 250 days.

63.3. Overview – market price risk

INTEREST RATE RISK

The value at risk of the interest rate risk (including the interest rate risk of the trading book) for the Addiko Group per 31.12.2021 is EUR 1.3 million (comparable VaR figure as at 31 December 2020: EUR 0.7 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 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%, with the relevant risk estimation at 6.6% at 31.12.2021 versus 2.7% at 31.12.2020.

Under the EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02, the impact may not exceed 15% of Tier 1 capital, with the relevant risk estimation at 7.8% at 31.12.2021 versus 4.0% at 31.12.2020.

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 2021 amounts to EUR -0.3 million (entire aggregated effect of this interest rate simulation), which is slightly higher than the aggregated effect of EUR -0.2 million as at 31 December 2020.

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 as well as positions arising from 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 is at EUR 646.7 million as of 31 December 2021, which was slightly higher than the volume of EUR 607.0 million per 31 December 2020. The value at risk for foreign exchange risk was EUR 0.8 million per day as at 31 December 2021 versus EUR 0.4 million value at risk as at 31 December 2020, with both figures at a confidence interval of 99.0%. The limit of EUR 1.9 million was adhered to as at 31 December 2021.

Aside from foreign exchange risk from operating activities, majority of the Addiko Group's exposure to foreign exchange risk implicitly arises from the parent company's participations in the companies Addiko Bank d.d. Zagreb and Addiko Bank a.d. Beograd, where the share capital is booked in the local currency and secondly invested in the same currency in the local asset-side business. 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.

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. Exposure to equity risk under the standard VaR methods implemented in Addiko Group is estimated at EUR 0.1 million as of 31 December 2021 against the estimation of EUR 0.01 million as of 31 December 2020. Size of risk exposure to movements in equity market prices is seen as low given that Addiko Group's strategy is, in general, not to invest into such asset classes. If the comparison is done on each separate risk type, equity risk exposure thus displays that no major concentration risk arises from therein.

CREDIT SPREAD RISK

The credit spread risk within the Addiko Group stood at EUR 0.7 million at 31 December 2021 with a one-day value at risk and a confidence level of 99.0%, versus value at risk of EUR 0.8 million as at 31 December 2020. The limit of EUR 2.9 million was adhered to as at 31 December 2021. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities. 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.

The following table shows the estimated values of market risks, which Addiko uses for internal risk management:

EUR m

	31.12.2021	31.12.2020
Interest Rate Risk (Banking and Trading Book)	23.6	12.3
Credit Spread Risk	13.7	14.8
Foreign Exchange Risk	14.4	8.2
Equity Risk - Investments	2.1	0.0
Equity Risk - Client Default	0.1	0.1

Total market risk exposure was higher at end of the year 2021 compared with the of the year 2020 largely on the back of higher volatility in the financial markets in H2 2021 feeding into higher interest rate risk. The latter mostly reflect increased movements in risk free rates amid growing inflationary pressures and the resultant influences on the key central banks' response via monetary policy tools.

(64) Liquidity risk

64.1. 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.

64.2. General requirements

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

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

64.3. 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 2021, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 203.7% and its peak of 255.2%.

The counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Counterbalancing Capacity	31.12.2021	31.12.2020
Coins and bank notes	126.8	116.3
Withdrawable central bank reserves	826.5	653.4
Level 1 tradable assets	678.1	631.4
Level 2A tradable assets	4.5	4.6
Level 2B tradable assets	26.3	35.5
Total Counterbalancing Capacity	**1,662.2**	**1,441.2**

64.4. Overview – liquidity situation

The liquidity situation of the Addiko Group in 2021 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

During the financial year 2021, the Addiko Group recorded a stable level of deposits around EUR 4.9 billion. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2022.

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 65% 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

31.12.2021	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	4,933.6	4,953.2	3,327.3	497.7	601.1	447.3	79.7
Deposits and borrowings of customers	4,708.2	4,712.1	3,294.9	477.6	579.8	327.7	32.2
Deposits and borrowings of credit institutions	174.6	189.8	6.6	1.6	20.8	115.5	45.1
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Other financial liabilities	50.8	51.3	25.8	18.5	0.5	4.1	2.4
Derivatives	**2.3**	**2.3**	**0.3**	**1.3**	**0.3**	**0.4**	**0.0**
Loan commitments	0.0	504.5	504.5	0.0	0.0	0.0	0.0
Financial guarantees	0.0	211.7	87.9	0.1	9.1	78.0	36.6
Other commitments	0.0	269.0	265.1	0.0	3.9	0.0	0.0
Total	**4,935.9**	**5,940.7**	**4,185.1**	**499.1**	**614.4**	**525.7**	**116.3**

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**

(65) Operational risk

65.1. 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.

65.2. 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.

65.3. 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.

65.4. 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.

(66) 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.

(67) Other risks

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

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

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

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.

As described in the Non Financial Statement 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 drivers for other risk types (e.g. credit risk or operational risk).

As a first step, and in line with available regulatory inputs, Addiko concentrates on environmental risk management.
During 2021 Addiko performed a Climate & Environmental risks materiality assessment, paying attention both to physical as well as transmission risks, with the results indicating that, due to the granularity and diversification of Addiko Group's loan portfolio, there is no immediate material threat to quality of Assets of Addiko Group, while potential impact on the macroeconomy in the area of Addiko operation means Addiko Group will be mainly impacted via macroeconomic transmission channels.
Acute and chronic climate and environmental risks already impact macroeconomic indicators, whereby the severity of this impact over the medium- to long term is highly dependent on the measures taken to curb climate change.
While no immediate danger for Addiko Group was identified, the urgency and uncertainty of the ESG risks require the continuous monitoring.

Addiko has already identified industries which are and might in the future be impacted by climate and environmental risk, but at end of 2021, Addiko Group's loan portfolio does not show any concentration in these industries, and measures are being put in place to monitor and limit such exposures.

Within operational credit-granting process, Addiko has defined measures to recognise the potential impact of climate and environmental risk on the asset quality of the clients in affected industries. 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.

(68) Legal risk

68.1. Historical unilateral interest change and Suisse Frank clause risk

As at 31 December 2021 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 80.5 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 between 2004 and 2009, 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 were void. 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 favour.

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 59 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. Nevertheless, the subsidiary bank in Slovenia started offering voluntary conversion of CHF loans (no retroactive effects) to clients. Until YE21 approximately 21%, i.e. 106 clients, of the contacted clients agreed. Conversion offers will be continued to other CHF clients during 2022. On 4 February 2022 the Slovenian National Assembly voted in favour of a retroactive CHF Law which will be in force from 26 February 2022. Addiko is working closely with the regulators and will pursue any legal remedy available. Despite the difficulties banks are facing in interpreting the law's terms and the retroactivity of up to 17 years, Addiko Bank AG has conducted a preliminary impact assessment, according to which it assessed a negative impact caused by the implementation of the new law in the range of approximately EUR 100 to 110 million, based on its own interpretation and assuming a worst-case scenario.

In Bosnia & Herzegovina, the lawfulness of foreign currency clauses used at the subsidiary banks in Mostar and Banja Luka was confirmed by further final verdicts. In its 2017 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 2021, approx. 90% of the CHF loans were converted. In the Republika Srpska 94 % of the former CHF portfolio were settled or closed. The number of claims in this respect has therefore decreased considerably. In Bosnia & Herzegovina, only regulatory recommendations have been is-sued on handling foreign currency loans so far. As a consequence of the increasing number of regulations in the neighbouring countries, there are currently also tendencies in Bosnia & Herzegovina to legally regulate this area. In a letter of intent to the International Monetary Fund, the government stated that it will not support the adoption of the law because it may have negative effects on the banking sector and the budget of the Bosnia & Herzegovina entity,

which was emphasised by the Bosnian government besides the danger of BIT proceedings costs as in Croatia and Montenegro. 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 favour of the motion to introduce the Draft it requested the petioner 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 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 con-verted 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. 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.

EUR m

		31.12.2021		31.12.2020
	Exposure	thereof CHF	Exposure	thereof CHF
Addiko Bank Croatia	2,482.2	30.0	2,612.8	35.3
Addiko Bank Slovenia	1,615.9	43.3	1,689.8	58.1
Addiko Bank Serbia	1,070.9	2.7	1,059.6	4.1
Addiko Bank Sarajevo	597.1	3.6	621.7	7.1
Addiko Bank Banja Luka	536.8	6.2	482.8	6.1
Addiko Bank Montenegro	231.3	3.5	238.0	4.0
Addiko Holding	231.5	0.0	217.9	0.0
Total	**6,765.8**	**89.2**	**6,922.7**	**114.6**

During the business year 2021, CHF portfolio decreased from EUR 114.6 million at the end of 2020 to EUR 89.2 million at YE21.

68.2. Passive legal disputes

The overall number of passive legal disputes increased in 2021. 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 2021 although the numbers are decreasing since September 2021 as a consequence of a new opinion by the Serbian Supreme Court which states that loan processing fees are valid if banks provided written offers to the clients before signing of the loan agreement.

The significant increase in the numbers of pending cases is due to the Croatian F/X ruling by the Croatian Supreme Court in 2019. 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.

68.3. 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. Group wide monitoring of foreign currency legal disputes has been intensified as a consequence of the increasing number of regulations and rulings 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.

Beside in Croatia, the amount in dispute for consumer Swiss franc unilateral interest rate change and Swiss franc currency clauses claims is stable or decreasing. The provisioning for existing un-converted consumer Swiss franc unilateral interest rate change and Swiss franc currency clauses claims in Croatia has been back tested in the process of preparation of the year end report.

In Serbia Addiko faced an increase of claims against its Serbian local bank regarding loan pro-cessing fees (total amount in dispute as of 31.12.2021 approximately EUR 1.8 million for approx 5,500 cases). On 16 September 2021 the Serbian Supreme Court issued a new opinion on the validity of loan processing fees in essence finding thee fees to be valid with some carve outs which led to a significant lower number of new claims, i.e. 26 claims filed and received after 16 September 2021. All banks in Serbia are confronted with these kinds of claims and joint initiatives via the Serbian Banking Association were made and are envisaged for the future.

In September 2017, the Group filed a Requests for Arbitration with the ICSID in Washington, DC against the Republic of Croatia and the Republic of Montenegro regarding the Conversion Laws claiming EUR 165 million respectively EUR 8.1 million. The Group claims that the Bilateral Investment Treaties (BIT) regarding the fair and equivalent treatment under the respective BIT was violated. The tribunal in the case against Montenegro rejected Addiko's claim in its award rendered on 23 November 2021. In the proceedings against Croatia the main hearing was conducted in March 2021 and parties are waiting for the final award. If the action is unsuccessful, then court fees and legal costs could amount up to ca. EUR 10 million. Based on legal advice, management believes that the action will be successful.

In 2021 Addiko could close high volume damage claims related to two plaintiffs with amounts in dispute of approx. EUR 24 million overall, the amount in dispute for passive legal disputes despite the increase of number of cases in Croatia and Serbia was reduced as of 31.12.2021 (EUR 261 million) versus 31.12.2020 (EUR 299 million) by EUR 38 million.

Supplementary information required by IFRS

(69) Analysis of remaining maturities

EUR m

31.12.2021	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	1,092.6	262.1	4.9	0.9	1.2	1,359.6	2.1	1,361.7
Financial assets held for trading	0.8	2.0	0.2	26.9	2.7	3.0	29.6	32.6
Financial assets mandatorily at fair value through profit or loss	0.3	2.7	0.0	0.0	0.0	3.0	0.0	3.0
Financial assets at fair value through other comprehensive income	61.6	37.1	103.4	409.3	397.8	202.1	807.0	1,009.2
Financial assets at amortised cost	105.7	243.9	528.3	1,441.1	965.4	877.9	2,406.5	3,284.4
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	70.6	70.6
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	26.7	26.7
Tax assets	0.0	0.0	0.0	0.0	0.0	26.2	0.7	26.9
Current tax assets	0.0	0.0	0.0	0.0	0.0	2.7	0.0	2.7
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	23.5	0.7	24.1
Other assets	0.0	0.0	0.0	0.0	0.0	14.9	0.0	14.9
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	12.3	0.0	12.3
Total	**1,261.1**	**547.7**	**636.8**	**1,878.2**	**1,367.0**	**2,499.1**	**3,343.3**	**5,842.3**
Financial liabilities held for trading	0.3	1.1	0.0	0.6	0.2	1.4	0.9	2.3
Financial liabilities measured at amortised cost	3,322.8	567.5	546.1	432.2	64.9	4,436.5	497.1	4,933.6
Provisions	0.0	0.0	0.0	0.0	0.0	65.0	4.8	69.9
Tax liabilities	0.0	0.0	0.0	0.0	0.0	5.8	0.0	5.8
Current tax liabilities	0.0	0.0	0.0	0.0	0.0	5.8	0.0	5.8
Other liabilities	0.0	0.0	0.0	0.0	0.0	25.4	0.3	25.7
Total	**3,323.2**	**568.6**	**546.1**	**432.9**	**65.1**	**4,534.1**	**503.1**	**5,037.2**

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.

EUR m

Analysis of remaining maturity as at 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	0.0	0.0	0.0	0.0	0.0	78.8	78.8
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	26.4	26.4
Tax assets	0.0	0.0	0.0	0.0	0.0	21.9	3.3	25.2
Current tax assets	0.0	0.0	0.0	0.0	0.0	3.9	0.0	3.9
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	18.0	3.3	21.3
Other assets	0.0	0.0	0.0	0.0	0.0	18.4	0.0	18.5
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	48.1	10.1	58.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	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**

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

70.1. Finance leases

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

EUR m

	31.12.2021	31.12.2020
Minimum lease payments (agreed instalments + guaranteed residual value)	4.6	7.5
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	4.6	7.5
up to 1 year	2.9	2.7
from 1 year to 2 years	1.8	3.0
from 2 year to 3 years	0.0	1.8
from 3 year to 4 years	0.0	0.0
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0
Unrealised financial income (interest) (-)	-0.1	0.0
Net investment value (=)	4.5	7.5
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	4.5	7.5
up to 1 year	2.7	2.7
from 1 year to 2 years	1.7	3.0
from 2 year to 3 years	0.0	1.8
from 3 year to 4 years	0.0	0.0
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

	31.12.2021	31.12.2020
Movable Assets	4.5	7.5
Total	**4.5**	**7.5**

70.2. 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

	31.12.2021	31.12.2020
up to 1 year	0.3	0.3
from 1 year to 2 years	0.1	0.2
from 2 year to 3 years	0.0	0.1
from 3 year to 4 years	0.0	0.1
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0
Total	**0.5**	**0.7**

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

EUR m

	31.12.2021	31.12.2020
Investment properties	0.3	0.5
Land and buildings	0.2	0.2
Total	**0.5**	**0.7**

Rental income recognised by the Group during the year 2021 is EUR 0.2 million (2020: EUR 0.3 million).

(71) 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 (5) 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 -8.2 million in 2021 (2020: EUR -8.9 million).

EUR m

	31.12.2021	31.12.2020
Payments for principal portion of lease liability	-6.1	-6.5
Payments for interest portion of lease liability	-0.4	-0.4
Payments for short-term, low value assets and variable lease payments not included in the measurement of the lease liability	-1.7	-1.9
Total	**-8.2**	**-8.9**

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

EUR m

Maturity analysis - contractual undiscounted cashflow	31.12.2021	31.12.2020
up to 1 year	3.8	4.7
from 1 year to 5 years	15.3	14.7
more than 5 years	0.9	3.1
Total undiscounted lease liabilities	**20.0**	**22.5**

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

EUR m

	31.12.2021	31.12.2020
Short-term leases	-0.3	-0.4
Leases of low value assets	-1.0	-1.0
Variable lease payments	-0.3	-0.4
Total	**-1.6**	**-1.8**

Addiko Group has commitments for future cash outflows which are not reflected in the measurement of lease liabilities. As of 31 December 2021, the total undiscounted cash flow amounts to EUR 1.4 million (2020: EUR 0.1 million), mainly relating to a rental agreement signed in 2021 with commencement date April 2022 and lease term of 7 years.

(72) Assets/liabilities denominated in foreign currencies

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

EUR m

	31.12.2021	31.12.2020
Assets	2,494.9	2,330.3
Liabilities	1,788.9	1,513.1

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.

(73) Transfer of financial assets - repurchase agreements

At the current and previous reporting date, no financial assets have been transferred under repurchase agreements.

(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

	31.12.2021	31.12.2020
Loan commitments given	504.5	588.8
Financial guarantees given	211.7	178.2
Other commitments, given	269.0	251.0
Total	**985.1**	**1,018.1**

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 is party to legal proceedings in a number of jurisdictions arising out of its normal business operations. The recognition of provisions is determined in accordance with the accounting policies set out in note (28). While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2021. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for Addiko legal proceedings as a class of contingent liabilities.

(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 inputs when available and the lowest priority to unobservable inputs. Addiko Group considers relevant and observable inputs in its valuations, where possible. The fair value hierarchy comprises the following levels:

- **Level 1 - Quoted prices in active markets**: 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.
- **Level 2 - Value determined using observable parameters**: 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.
- **Level 3 - Value determined using non-observable parameters**: This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

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 factors used.

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

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

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

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

- Present value of the future cash flows (discounted cash flow method) - Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.
- Option measurement models - The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items:

- Volatilities and correlations - Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.
- Risk premiums - Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer’s country and sector. This applies to the risk premium of the Addiko Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.
- Loss given default - The loss given default is a parameter that is never directly observable before an entity defaults.
- Probability of default - Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments - Credit value adjustment (CVA) and debt value adjustment (DVA)

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

discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

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

31.12.2021	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	14.7	18.0	0.0	32.6
Derivatives	0.0	1.1	0.0	1.1
Debt securities	14.7	16.8	0.0	31.5
Investment securities mandatorily at FVTPL	0.0	2.7	0.3	3.0
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	0.0	2.7	0.0	2.7
Investment securities at FVTOCI	812.9	191.1	5.2	1,009.2
Equity instruments	16.0	0.0	0.7	16.7
Debt securities	796.9	191.1	4.5	992.4
Total	**827.5**	**211.7**	**5.5**	**1,044.8**
Liabilities				
Financial liabilities held for trading	0.0	2.3	0.0	2.3
Derivatives	0.0	2.3	0.0	2.3
Total	**0.0**	**2.3**	**0.0**	**2.3**

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**

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 current and the previous reporting period no transfer of debt securities at FVTOCI from level I to level II took place. At year end 2020 debt securities at FVTOCI with a book value of EUR 66.1 million and debt securities held for trading with a book value of EUR 10.5 million were moved from level II to level I due to a more liquid market. No such transfer took place in 2021.

Unobservable inputs and sensitivity analysis for Level III measurements

For investment securities classified in level III, which are illiquid unlisted corporate bonds, 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 2021 would have decreased by EUR 0.1 million (2020: 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 2021 would have increased by EUR 0.1 million (2020: EUR 0.1 million).

The development of level III is presented as follows:

EUR m

2021	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into/out of other Levels	31.12.
Assets							
Investment securities mandatorily at FVTPL	0.3	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	0.3
Investment securities at FVTOCI	2.6	0.0	0.0	2.6	0.0	0.0	5.2
Equity instruments	0.6	0.0	0.0	0.1	0.0	0.0	0.7
Debt securities	2.0	0.0	0.0	2.5	0.0	0.0	4.5
Total	**2.9**	**0.0**	**0.0**	**2.6**	**0.0**	**0.0**	**5.5**

EUR m

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

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

31.12.2021	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]	1,361.7	1,361.7	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,284.4	3,421.3	136.9	0.0	0.0	3,421.3
Loans and receivables	3,284.4	3,421.3	136.9	0.0	0.0	3,421.3
Non-current assets held for sale	12.3	12.3	0.0	0.0	0.0	12.3
Total	**4,658.4**	**4,795.3**	**136.9**	**0.0**	**0.0**	**3,433.6**
Liabilities						
Financial liabilities measured at amortised cost	4,933.6	4,938.6	-5.0	0.0	0.0	4,938.6
Deposits	4,882.8	4,887.8	-5.0	0.0	0.0	4,887.8
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1
Other financial liabilities	50.8	50.8	0.0	0.0	0.0	50.8
Total	**4,933.6**	**4,938.6**	**-5.0**	**0.0**	**0.0**	**4,938.6**

[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

31.12.2020	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

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 31 December 2021 the carrying amount of investment properties amounts to EUR 5.1 million (2020: EUR 4.7 million), whereas the fair value amounts to EUR 5.3 million (2020: EUR 5.0 million). All investment properties are classified in level III (2020: 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

31.12.2021	Derivatives	Reverse repo	Total
ASSETS			
a) Gross amounts of recognised financial instruments (I and II)[1)]	**0.1**	**2.7**	**2.7**
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**	**2.7**	**2.7**
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)	0.1	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	2.7	2.7
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

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

31.12.2021	Derivatives	Direct repo	Total
LIABILITIES			
a) Gross amounts of recognised financial instruments (I and II)[1)]	**1.8**	**0.0**	**1.8**
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)	**1.8**	**0.0**	**1.8**
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)	0.1	0.0	0.1
Amounts related to financial collateral (including cash collateral);	1.8	0.0	1.8
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

31.12.2020	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

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

	31.12.2021			31.12.2020		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**155.6**	**0.9**	**1.1**	**332.7**	**2.3**	**3.8**
OTC options	20.2	0.0	0.0	27.9	0.0	0.0
OTC other	135.4	0.8	1.1	304.8	2.3	3.8
b) Foreign exchange and gold						
OTC-products	**118.2**	**0.2**	**1.2**	**183.7**	**0.8**	**1.0**
OTC other	118.2	0.2	1.2	183.7	0.8	1.0
c) Credit derivatives	**0.0**	**0.0**	**0.0**	**8.1**	**0.0**	**0.1**
Credit default swap	0.0	0.0	0.0	8.1	0.0	0.1

(78) Related party disclosures

As of the reporting date, there are therefore no companies with significant influence, as around 62.9% (2020: 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.

In relation to the 2021 changes in the Group Management Board mutual severance agreements were concluded with the two Board members in the amount of EUR 1.5 million.

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

EUR m

Key personnel of the institution or its parent	31.12.2021	31.12.2020
Financial assets (loans and advances)	0.1	0.0
Financial liabilities (deposits)	3.0	1.8

The compensation received by key management personnel in the Addiko Group is presented as follows:

EUR m

	31.12.2021	31.12.2020
Short term employee benefits	-8.8	-7.0
Other long term benefits	0.0	-0.4
Termination benefits	-1.6	-1.3
Share-based payments	-1.2	0.0
Total	**-11.7**	**-8.6**

The amounts disclosed represent estimated payments as of the balance sheet date and may differ from those ultimately paid.

The relationships with members of the Management Board and Supervisory Board of Addiko Bank AG are shown in detail in note (88) Relationships with members of the Company's Boards.

(79) Share-based payments

In 2021 the Group established, in addition to the annual bonus, a Performance Acceleration Incentive Framework (PAIF) based on which Addiko granted to defined employees (including management board) variable remuneration components in the form of share-based payments. The program is intended to closely align the interests of the participants with those of the shareholders. The amount paid is dependent on the average share price of Addiko Bank AG during the month of December 2021. In addition, in alignment with EBA guidelines, the program is activated only if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a predefined timeframe. According to the remuneration policy of Addiko Group, the remuneration program included both share-settled and cash-settled share-based payments.

The PAIF program is accounted for in accordance with IFRS 2.

Equity-settled share-based payments: Under the PAIF scheme, Group Board members receive 50% of the annual variable remuneration achieved in cash and 50% in the form of issued shares of Addiko bank AG deferred over six years in tranches. Rewards are granted in the current year when employee render services and performance conditions are met and vest at the end of current reporting period. The executives do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period and until the settlement. The deferred shares are acquired on market are held as treasury shares until such time as they are transferred to executives. Shares with a value equal to fixed cash amount are granted. The granted amount is determined based on the estimation the achievement of PAIF criteria. This amount will be converted in 1Q22 based on the average volume weighted share price in the month preceding the month in which the Supervisory Board will confirm the 2021 results.

For the total equity-settled share-based payments see the consolidated statement of changes in equity and for expense see the note (36). There were no settlements during 2021 and 2020.

Cash-settled share-based payments: Under the Addiko Group's PAIF scheme, executives and selected managers receive an additional variable remuneration in the form of issued cash payments based on the average price of Addiko Bank AG during the month of December 2021. In case the overall amount of the normal bonus and the remuneration granted under the PAIF program exceeds pre-defined limits, the payments are deferred over a period of six years in tranches.

For the total carrying amount of liabilities arising from cash-settled share based payments, see the note (52) Provisions and for expense see the note (36) Personnel expenses. There were no settlements during 2021 and 2020. All share-based payments (cash-settled, equity-settled) can only be paid out if regulatory requirements in respect of own funds and liquidity are met and no breaches of specific risk indicators took place within a pre-defined timeframe.

(80) Capital management

80.1. 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) – amended by the Regulation (EU) No. 2019/876 (CRR II) - and the Capital Requirements Directive (Regulation (EU) No. 2019/878 - CRD V). The CRD V 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

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 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.

80.2. ICAAP – Internal Capital Adequacy Assessment Process

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

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

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.

80.3. 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 2021 and 31 December 2020 amount to:

	31.12.2021			31.12.2020		
	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)[1)]	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined Buffer Requirements (CBR)	**2.50%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**
Overall Capital Requirement (OCR)	**11.10%**	**12.60%**	**14.60%**	**11.10%**	**12.60%**	**14.60%**
Pillar 2 guidance (P2G)[1)]	**4.00%**	**4.00%**	**4.00%**	**4.00%**	**4.00%**	**4.00%**
OCR + P2G	**15.10%**	**16.60%**	**18.60%**	**15.10%**	**16.60%**	**18.60%**
Temporary requirements after capital relief by ECB (without CCB + P2G)[1)]	**8.60%**	**10.10%**	**12.10%**	**8.60%**	**10.10%**	**12.10%**

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 1 minimum capital ratios, institutions also have to fulfil other capital requirements that are being imposed by the supervisory institution or by the legislation:

- Pillar 2 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). The 2020 SREP assessment has been performed by the FMA using a pragmatic approach in the light of the Covid-19 pandemic. The Pillar 2 requirement from the 2020 SREP process remained unchanged at 4.1%. The SREP 2021 decision specifies a P2R of 3.25% (at least 56.25% must be held in CET1 and at least 75% in Tier 1), which will apply from 1 March 2022.
- 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 22 (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.

- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital. At the beginning of January 2020, Addiko Bank AG received as part of the 2019 SREP decision a Pillar 2 guidance (P2G) in the amount of 4%. The 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. The SREP 2021 decision now includes a P2G of 2.00% to be fully met by CET1, which will apply from 1 March 2022.

As response to the Covid-19 pandemic, ECB communicated on the 12 March 2020 temporary capital relief measures with regard to the full usage of the capital conservation buffer as well as the P2G, allowing institutions temporarily to operate below these requirements. In its announcement letter from 28 July 2020, the ECB clarified that banks do not need to start refilling combined buffer requirements and P2G before the end of 2022. Given its solid capital structure Addiko had no need to make use of these options.

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 2021 and 31 December 2020 pursuant to CRR applying IFRS figures.

EUR m

Ref[1]		31.12.2021	31.12.2020
	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 [2]	270.8	305.8
3	Accumulated other comprehensive income (and other reserves) [2]	325.2	349.6
5a	Eligible profits net of any foreseeable charge or dividend	13.6	-45.3
5aa	o/w eligible profit of the current year	13.6	1.4
5ab	o/w Foreseeable charge or dividend	0.0	-46.6
6	**CET1 capital before regulatory adjustments**	**804.6**	**805.2**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.1	-1.0
8	Intangible assets (net of related tax liability)	-16.1	-19.2
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)	-10.4	-11.6
27a	Other regulatory adjustments (including IFRS 9 transitional rules)	27.1	50.1
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-0.4**	**18.4**
29	**Common Equity Tier 1 (CET1) capital**	**804.3**	**823.5**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**804.3**	**823.5**
60	Total risk weighted assets	3,624.9	4,053.1
	Capital ratios and buffers %		
61	CET1 ratio	22.2%	20.3%
63	TC ratio	22.2%	20.3%
64	Institution CET1 overall capital requirement	11.1%	11.1%
65	o/w capital conservation buffer requirement	2.5%	2.5%
66	o/w countercyclical buffer requirement	0.0%	0.0%
68	CET 1 available to meet buffer (as % of risk exposure amount)	10.1%	8.2%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Not significant direct and indirect holdings of own funds and eligible liabilities of financial sector entities (amount below 10% threshold and net of eligible short positions)	3.3	18.8
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	13.8	9.7

[1] The references identify the lines prescribed in the EU template, which are applicable and where there is a value. The structure is based on the technical standards included in (EU) 2021/637 of 15 March 2021. [2] In Group Annual Report 2020 other reserves in the amount of EUR 344.6 million were shown in retained earnings. The shift was done to be in line with the current disclosure requirements.

Total capital decreased by EUR 19.2 million during the reporting period, reflecting the net impact of the following components:

- A decrease by EUR 14.1 million of the other comprehensive income due to market related movements (EUR -13.1 million) and from the net amount transferred to profit or loss (EUR -3.3 million) from debt instruments measured at FVTOCI. These developments were partially compensated by an EUR 1.8 million increase of the foreign currency reserves, the positive market development of equity instruments in the amount of EUR 0.4 million and other positive effects (EUR 0.2 million);
- A negative impact of EUR 23.0 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 2021, the portion of the ECL from initial application of IFRS 9 which could be added back decreases from 70% to 50%, leading to EUR 8.0 million negative impact on capital. The dynamic component of the IFRS 9 transitional rules as amended on the 24 June 2020 by the regulation (EU) 2020/873, which allows to add back to capital 100% of the risen stock of stage 1 and stage 2 ECL since 1 January 2020, decreased by EUR 15 million;
- A decrease in regulatory deduction items in the amount of EUR 4.3 million due to less investments in intangible assets and less software in use connected with the Draft Regulatory Standards on the prudential treatment on software assets – EBA/CP/2020/11 (EUR 3.1 million), a decrease in deferred tax assets on existing taxable losses (EUR 1.2 million) and a neglectable decrease in the prudential valuation adjustments connected with assets/liabilities measured at fair value (below EUR 0.1 million);
- Consideration of the audited result in the amount of EUR 13.6 million. In light of the enacted law in Slovenia with the purpose to restructure consumer loans denominated in CHF no dividends are expected to be paid out for the financial years 2021 and 2022.

After the initial dividend payment of EUR 7.0 million (36 Eurocents per share) executed on the 4 May 2021 the European Central Bank lifted the recommended dividend ban from last year on 23 July 2021. In line with the General Assembly decision from the 26 April 2021 the Group paid also the second tranche of dividend of EUR 39.6 million on 11 November 2021.

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, which partly explains a relatively high risk density, measured by comparing RWA to assets, of 62% at the end of 2021 (2020: 69%), while the bank's focus on unsecured consumer lending and SME business is another important source of the reported risk density.

The risk-weighted assets (RWA) decreased by EUR 428.3 million during the reporting period:

- The RWA for credit risk decreased by EUR 366.5 million. The European Commission's decision (EU) 2021/1753 from 1 October 2021 to include Bosnia in the list of equivalent third countries affected Bosnian Sovereign exposure, which - in local currency - received a risk weight of 0%, resulting in a reduction of RWA by EUR 180 million. The implementation of (EU) 2019/876, which affected exposure calculation of derivative portfolio, brought an RWA increase of EUR 6 million. The following changes occurred in the portfolio: The year 2021 led to a sharp decline in the exposure to Large Corporates, resulting in lower RWA in the amount of EUR 247 million, mainly in Addiko Croatia, Slovenia and Serbia. While the decrease in mortgages, mainly in Addiko Croatia and Slovenia, reduced RWA by EUR 56 million, this was partly offset by the loss of collateral in Addiko Slovenia (RWA increase of EUR 10 million). There was also a decrease in SMEs (RWA EUR -50 million) as well as write-offs and higher provisions for defaulted portfolios (RWA EUR -10 million), both mainly in Addiko Croatia. Higher exposures in the Financial Institutions segments, mainly in the two Bosnian subsidiaries, were partly offset by a decline in Public Finance,

resulting in an increase in RWA of EUR 32 million. Growth in the Consumer and SME portfolio resulted in an RWA increase of EUR 159 million. The residual RWA decrease in the amount of EUR 30 million was mainly connected with the application of the IFRS 9 transitional capital rules described in total capital above (RWA decrease of EUR 23 million) and other assets (EUR 7 million).

- The RWAs for market risk went down by EUR 62.0 million. After the market values of the relevant trading book positions fall below the threshold values from Article 94 CRR, according to paragraph 2, no more own funds need to be backed in market risk for the trading book positions (EUR 53.6 million RWA decrease). Lower open positions in the currencies BAM and USD led to a EUR 8.4 million RWA decrease.

- The RWA for operational risks diminished marginally by EUR 0.8 million compared to the previous year. The RWA for operational risks is based on the three-year average of relevant income, which represents the basis for the calculation. RWA for counterparty credit risk (CVA) raised due to the switch from the mark-to-market method to the new Original Exposure Method required by CRRII for calculating derivative exposure (EUR 1.0 million higher RWA).

EUR m

Ref[1]	31.12.2021	31.12.2020
1 Credit risk pursuant to Standardised Approach	3,126.9	3,493.4
6 Counterparty credit risk	4.1	3.1
20 Market risk	89.9	151.8
23 Operational risk	404.0	404.8
29 Total risk exposure amount	**3,624.9**	**4,053.1**

[1] The references identify the lines prescribed in the EU 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, down to 12.9% at 31 December 2021. The development was driven by the described reduction in Tier 1 capital and in the total leverage exposure.

EUR m

Ref[1]	31.12.2021	31.12.2020
2 Tier 1 capital	804.3	823.5
13 Total leverage ratio exposure	6,227.9	6,286.9
14 Leverage ratio %	**12.9%**	**13.1%**

[1] The references identify the lines prescribed in the EU template, which are applicable and where there is a value

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

EUR m

Ref[1]	31.12.2021	31.12.2020
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	804.3	823.5
2 CET1 capital as if IFRS 9 had not been applied	777.1	773.4
5 Total capital (TC)	804.3	823.5
6 TC as if IFRS 9 transitional rules had not been applied	777.1	773.4
Risk-weighted assets		
7 Total RWAs	3,624.9	4,053.1
8 Total RWAs as if IFRS 9 transitional rules had not been applied	3,597.7	4,003.0
Capital ratios %		
9 CET1	22.2%	20.3%
10 CET1 as if IFRS 9 transitional rules had not been applied	21.6%	19.3%
13 TC	22.2%	20.3%
14 TC as if IFRS 9 transitional rules had not been applied	21.6%	19.3%
Leverage ratio (LR)		
15 LR total exposure measure	6,227.9	6,286.9
16 LR	12.9%	13.1%
17 LR as if IFRS 9 transitional rules had not been applied	12.5%	12.4%

[1] The references identify the lines prescribed in the EU 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 IFRS 9 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 3 March 2021, Addiko received the decision from the Single Resolution Board (SRB) relating to the future MREL requirement, which is not defined anymore for the whole Addiko Group, but only for Addiko Bank d.d. (Croatia). Consequently based on the new decision no additional external own funds and eligible liabilities needed to be generated at the level of Addiko Group. The required MREL target defined at the level of Addiko Bank d.d. (Croatia) in amount of 26.13% of TREA (total risk exposure amount) and 5.91% of LRE (leverage ratio exposure) is already covered by the local own funds and eligible liabilities.

This SRB decision supersedes the previous SRB decision on MREL requirement dated 17 December 2019, which included an MREL requirement in amount of 20.58% of TLOF (total liabilities and own funds) on consolidated level of Addiko Bank AG to be 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).

Supplementary information required by Austrian Law

(81) 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. The carrying amount of financial assets pledged as collaterals is presented in the following table:

EUR m

	31.12.2021	31.12.2020
Cash, cash balances at central banks and other demand deposits	6.7	8.4
Financial assets at fair value through other comprehensive income	45.2	38.2
Financial assets at amortised cost	22.6	45.0
Total	**74.4**	**91.5**

Cash collaterals were pledged in relation to derivatives. Financial assets at fair value through other comprehensive income and financial assets at amortised costs were pledged as collateral for liabilities arising from refinancing transactions and other collateral arrangements. No collaterals (debt securities) were pledged in connection with repurchase agreements.

The fair value of debt securities received as collateral, that Addiko Group is permitted to sell or repledge irrespective of the default of the owner of the collateral, amounts to EUR 5.2 million as of YE21 (YE20: EUR 4.1 million) and primarily relates to reverse repurchase agreements. All transactions were conducted under terms which are usual and customary to standard repurchase agreements.

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

EUR m

	31.12.2021			31.12.2020		
	thereof listed	thereof unlisted	Total	thereof listed	thereof unlisted	Total
Financial assets held for trading						
Debt securities	14.7	16.8	31.5	16.7	16.7	33.4
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	2.7	2.7	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income						
Equity instruments	0.0	16.7	16.7	0.0	19.0	19.0
Debt securities	907.0	85.4	992.4	816.7	93.0	909.7

(83) Return on total assets

As at 31 December 2021, the return on total assets pursuant to Section 64 (1) No. 19 BWG amounts to 0.2% (2020: 0.02%). The ratio is calculated by dividing the result after tax for the year by total assets at the reporting date.

(84) Expenses for the auditor

In the reporting period, the following expenses for the group auditor KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna incurred. For the previous period the expenses of the former auditor Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna are presented:

EUR m

	31.12.2021	31.12.2020
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	**-0.1**	**0.0**
Other assurance services	0.0	0.0
Other services	-0.1	0.0
Total services	**-0.3**	**-0.2**

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.

(85) Trading book

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

EUR m

	31.12.2021	31.12.2020
Derivatives in trading book (nominal)	155.7	516.4
Debt securities (carrying amount)	31.5	33.4
Trading book volume	**187.2**	**549.7**

(86) Employee data

	31.12.2021	31.12.2020
Employees at closing date (Full Time Equivalent - FTE)	2,475	2,675
Employees average (FTE)	2,600	2,714

(87) Expenses for severance payments and pensions

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

in TEUR

	31.12.2021		31.12.2020	
	Severance payments	Pensions	Severance payments	Pensions
Members of Management Board	-1,511.5	0.0	-36.6	0.0
Key management personnel	-44.2	-10.0	-45.4	-6.5
Other employees	-126.6	-52.0	-232.7	-50.3
Total	**-1,682.3**	**-62.0**	**-314.7**	**-56.8**

Expenses for severance payments and pensions contain contributions to defined contribution plans totaling EUR 259.2 thousand (2020: EUR 232.7 thousand).

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

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

As at 31 December 2021, 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.

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

in TEUR

	31.12.2021	31.12.2020
Management Board	-3,008.0	-2,054.8
Supervisory Board	-743.7	-335.8
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	-1,485.1	-1,263.8
Total	**-5,236.8**	**-3,654.4**

The amounts disclosed correspond to the estimated disbursement as of the balance sheet date and may deviate from the ones which will be finally paid

The members of the Management Board and Supervisory Board are stated in note (89) Boards and Officers of the Company.

(89) Boards and Officers of the Company

1 January to 31 December 2021

Supervisory Board

Chairman of the Supervisory Board:
Kurt Pribil

Deputy Chairman of the Supervisory Board:
Herbert Juranek (from 02.12.2020 until 26.04.2021)
Pieter van Groos (since 28.04.2021)

Members of the Supervisory Board:
Dragica Pilipović-Chaffey
Sebastian Prinz Schoenaich-Carolath
Monika Wildner
Frank Schwab

Delegated by the Works Council:
Christian Lobner
Thomas Wieser

Federal Supervisory Authorities

State Commissioner:
Vanessa Koch

Deputy State Commissioner:
Lisa-Maria Haas

Management Board

Herbert Juranek, Chairman of the Management Board
Tadej Krašovec, Member of the Management Board
Ganesh Krishnamoorthi, Member of the Management Board

(90) Scope of consolidation

The consolidated group of companies as defined under IFRS as at 31 December 2021 includes the following direct 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	31.12.2021	CI
Addiko Bank d.d.	Zagreb	100.0	31.12.2021	CI
Addiko Bank a.d. BEOGRAD	Beograd	100.0	31.12.2021	CI
ADDIKO BANK A.D. PODGORICA	Podgorica	100.0	31.12.2021	CI
Addiko Bank d.d.	Sarajevo	100.0	31.12.2021	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.9	31.12.2021	CI

(91) Events after the reporting date

On 25 January 2022 the National Assembly of Slovenia passed the "Law on limiting and distributing currency risk among creditors and borrowers of loans in Swiss francs". The law will come into effect 15 days after publication in the official gazette and requires all affected banks to prepare the necessary documentation and calculation for a potential reimbursement to customers within 60 days thereafter.

The purpose of the proposed law is to restructure consumer loans denominated in CHF (or containing a currency clause in CHF) that were concluded up to 17 years ago, between 28 June 2004 and 31 December 2010. Inter alia, lenders are required to retroactively introduce an exchange rate cap clause in relation to all such agreements for CHF loans concluded in the aforementioned period. This means that almost all currency developments that are disadvantageous for the borrower must be borne by the lending banks. The rule would apply from the time of the conclusion of the loan and would be applicable to any fluctuation in the exchange rate of more than 10%.

Despite the difficulties banks are facing in interpreting the law's terms and the retroactivity of up to 17 years, Addiko Bank AG has conducted a preliminary impact assessment, according to which it assessed a negative impact caused by the implementation of the new law in the range of approximately EUR 100 to 110 million, based on its own interpretation and assuming a worst-case scenario. Such negative impact would result in a net loss for the financial year 2022. Consequently, no regular dividends are expected to be paid out for the financial years 2021 and 2022. The management commits to mitigation measures, aiming to reduce the law's negative impact on the CET 1 capital ratio by more than 0.75% (IFRS 9 fully-loaded) until the year-end 2022, based on the planned development in risk weighted assets, associated with the accelerated run-down of the non-focus portfolio, and the expected organic profit generation.

Vienna, 22 February 2022
Addiko Bank AG

MANAGEMENT BOARD

Herbert Juranek
Chairman

Tadej Krašovec
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

Statement of all legal representatives

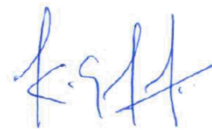
We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view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

Vienna, 22 February 2022
Addiko Bank AG

MANAGEMENT BOARD

Herbert Juranek
Chairman

Tadej Krašovec
Member of the Management Board



Ganesh Krishnamoorthi
Member of the Management Board

Audit Opinion

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the Consolidated financial statements of

Addiko Bank AG,
Vienna, Austria,

and its subsidiaries ("the Group"), which comprise the the consolidated Statement of Financial Position as at 31 December 2021, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) as well Section § 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Emphasis of Matter

We refer to note 91 "Events after the reporting date" in the notes, where it is described that a law passed in 2022 regarding Swiss franc loans granted in Slovenia may lead to expenses of up to EUR 110 million and to necessary capital measures at the Slovenian subsidiary bank. This would probably result in a loss for the year 2022. Our audit opinion is not qualified with respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

Risk for the Consolidated Financial Statements

Loans and advances to customers are included in the balance sheet item "Loans and adavnces to customers" with a total amount of EUR 3,278.7 million after deduction of loan loss allowances. They are mainly comprised loans and advances to households and non-financial corporations in South-Eastern European countries.

Loan loss allowances of EUR 210.4 million were recognized for these loans and advances to customer as of the balance sheet date.

The Management Board describes the approach for determining loan loss allowances in section 18.2 "Impairment" and section 61.1 "Method of calculating risk provisions" in the notes to the consolidated financial statements.

As part of the loan monitoring process, the Group assesses whether there are any credit defaults and therefore whether loan loss allowances need to be recognized. This also includes the assessment of whether customers are able to make the contractually agreed repayments in full.

The calculation of the loan loss allowances for defaulted individually significant loans is based on an analysis of estimated and scenario-weighted future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collaterals and the estimated amount and timing of future cash flows.

For defaulted loans that are not individually significant, the Group performs a collective assessment of loan loss allowances based on common risk characteristics. The parameters used in the collective assessment are based on statistical expectations and assumptions about future risk.

For all other loans, a portfolio loan loss allowance is recognized for the expected credit loss ("ECL"). The 12-month ECL (Stage 1) is generally used for this purpose. In the event of a significant increase in credit risk, the lifetime ECL is calculated (Stage 2). Extensive estimates and assumptions are required in determining the ECL. These include rating-based probabilities of default and loss rates that take into account present and forward-looking information.

As the loan loss allowance model used to date cannot adequately reflect extraordinary circumstances such as the COVID 19 crisis, an increase in the provision amount ("post model overlay") has been applied by the Group in addition to the model results on the basis of internal bank estimates using external forecasts of economic developments.

This means that the stage transfers and the loan loss allowances taking into account the post model overlay are depend on the assumptions and estimates stated above, leading to margins of discretions and estimate uncertainty with regard to the amount of the loan loss allowances. For the consolidated financial statements, this results in the risk of a possible misstatement regarding the amount of the required loan loss allowances.

Our Response

We audited valuation of loans and advances to customers as following:

- We obtained the existing documentation of the Group's processes for monitoring and assessment of loan loss allowances for loans and advances to customers, and assessed whether these processes are appropriate for identifying defaults and adequately reflecting loan loss allowances. We tested the key internal controls with regard to their design and implementation and tested their effectiveness on a sample basis.
- On the basis of samples from different loan portfolios, we examined whether indicators for loan defaults exist. The samples were selected on a risk-oriented basis, taking particular account of rating levels and local market characteristics. In the case of defaults of individually significant loans, the assumptions made by the local banks were examined on a sample basis with regard to conclusiveness and consistency of the timing and amount of the assumed recoveries.
- For all other loans for which specific or portfolio-based loan loss allowances were calculated, we analyzed the Group's methodological documentation for consistency with the requirements of IFRS 9. Furthermore, on the basis of internal bank validations, we tested the models and the parameters used therein to determine whether they are adequate for calculating appropriate amount of loan loss allowances. We assessed the appropriateness of the 12-months and lifetime default probabilities as well as loss rates. In addition, the selection and measurement of forward-looking estimates and scenarios were analyzed and their consideration in parameter estimation was verified. We also assessed the derivation and rationale of the post model overlay, as well as the underlying assumptions with regard to their appropriateness. We have verified the mathematical accuracy of the loan loss allowances on a sample basis. We have involved financial risk management specialists in these audit procedures.

Recognition and valuation of legal risks provisions in connection with consumer loans in Croatia

Risk for the Consolidated Financial Statements

The Group recognizes provisions related to existing and potential litigation in Croatia under the balance sheet item "Provisions", thereof "Provisions for pending legal disputes". The legal risks are related to consumer complaints regarding unilateral interest rate adjustment clauses and the CHF currency clauses in CHF loan agreements.

The Management Board describes the process for monitoring and providing for legal risks in Note 68 "Legal risks".

The amount of the provision is estimated by the Group taking into account ongoing litigation developments. These estimates relate to the duration and costs of the proceedings and the outcome of the proceedings. In assessing the amount of the provision and the related uncertainties, the Group relies on opinions and estimates of external legal counsel, who have been engaged to provide legal representation, as well as opinions of the Group's internal legal department and analyses of court opinions.

The risk to the Group' s financial statements arises from uncertainties and judgments associated with the assessment of the above factors, in particular the prospects of success of the ongoing proceedings and the amount and timing of payments due under the proceedings.

Our audit procedures

In our audit of the recognition and determination of provisions for legal risks related to consumer loans in Croatia, we performed the following key audit procedures:

- As part of our audit, we assessed the methodology used to determine the amount of provisions related to existing and potential litigation in Croatia for appropriateness and compliance with accounting standards.
- We assessed the appropriateness of the Group's assumptions and estimates used in connection with existing and potential litigation. This included assessing the likelihood of an unfavorable outcome of litigation as well as the reliability of estimated damage claims and legal fees; this was done by inspecting, for example, individual court files, decisions of superior courts, opinions and analyses of the Group's internal and external lawyers. Furthermore, we analyzed developments in court practice in Croatia in order to assess the reasonableness of management's key estimates in the restitution process.
- We inspected the minutes of the Management Board and Supervisory Board meetings of the Croatian bank and the Group parent in Austria in order to compare the reporting of these legal risks with the key judgment and estimation assumptions made by management in the provisioning process, as well as to identify additional potential liabilities.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor’s report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

If we conclude that there is a material misstatement of fact in other information, we must 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 and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) as well as Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also 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 intents 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

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 audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in 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 the AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor’s report unless laws or

other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 10 July 2020 and were appointed by the supervisory board on 10 July 2020 to audit the financial statements of Company for the financial year ending on that date.

During the Annual General Meeting on 26 April 2021, we have been elected as auditors for the following financial year ending 31 December 2022 and appointed by the supervisory board on 27 April 2021.

We have been auditors of the Company, without interruption, since the consolidated financial statements at 31 December 2021.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner is Mr Christian Grinschgl.

Vienna, 24 February 2022

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Christian Grinschgl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

Report of the Supervisory Board

Dear Shareholders,

despite the changed economic, social and global circumstances due to the ongoing Covid-19 crisis in 2021, Addiko Group kept its focus on its activities Consumer and SME financing in Central and South-Eastern Europe and on providing payment services. In 2021 Addiko Group focused even more intensively on its digital products offering convenient and fast banking services to its customers As mentioned in our 2020 report the global pandemic accelerated clients willingness to switch their banking services to digital and it showed that Addiko Group was ready to provide the services as requested by the clients. Online & mobile banking services for the aforementioned focus segments were further improved in the course of the ongoing digitization of business processes. The loan books of the so-called strategic non-focus segments mortgage financing and loans to public institutions as well as large corporates was further reduced as planned during the financial year 2021.

Addiko Group kept its course of further driving sustainable cost efficiency and maintaining a balanced risk profile. 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 2021, such prudent approach aims to ensure to minimize risks for the bank.

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 fourteen meetings in total in the financial year 2021, adopted eleven 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 addition, the Supervisory Board conducted thirteen Working Group sessions in which specific strategic measures were discussed in detail with 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 six meetings and adopted two circular decisions in 2021),
- the Credit & Risk Committee (which is a merger of the former Credit and the Risk Committee held nine meetings and adopted six circular decisions in 2021),
- the newly established Digitalization & IT Committee (which held one meeting in 2021),
- the Nomination & Remuneration Committee (which held seven meetings and adopted one circular decisions in 2021) and
- the Committee for Management Board Matters (which held six meetings and adopted two circular decision in 2021).

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. Csongor Nemeth and Mr. Markus Krause stepped down from their mandates and Mr. Herbert Juranek and Mr. Tadej Krasovec were appointed as management board members. Hence, the management board consists of three members.

In 2021, the Supervisory Board of Addiko Bank AG changed in such a way that Mr. Herbert Juranek (resigned as of 26 April 2021) and Mr. Pieter van Groos was appointed to the Supervisory Board by the General Meetings on 26 April 2021. Accordingly, the Supervisory Board consists of eight members, thereof two delegated by the Workers Council.

Consolidated Corporate Governance Report, Austrian Code of Corporate Governance
Since in 2020 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, the Corporate Governance Report 2021 was not audited since under C-62 Rule Austrian Corporate Governance Codex such audit is only necessary every three years. Nevertheless, 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 2021. 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 2021
KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited the separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of the Addiko Group as at 31 December 2021, 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 2021 – all prepared by the Management Board – were discussed in detail with KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft at the meeting of the Audit and Compliance Committee held on 7 March 2022.

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 8 March 2022. At this meeting, the separate and Consolidated Financial Statements were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and appropriate.

The Management Report of Addiko Bank AG as well as that of the Addiko Group, the Consolidated Corporate Governance Report and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 38,8 Mio. in the financial year 2021.In the next General Assembly the proposal for a full carry forward of the net accumulated profits will be made.

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 8 March 2022 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 2021.

On behalf of the Supervisory Board

Dr. Kurt Pribil m.p.
Chairman of the Supervisory Board

Vienna, 8 March 2022

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
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
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

Imprint

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