Addiko Bank

Annual Report 2021

Key data based on the financial statements drawn up in accordance with IFRS [1)]

			EUR thousand
Selected items of the Profit or Loss statement	**YE21**	**YE20**	**(%)**
Net banking income	51,951	50,845	2.2%
Net interest income	38,638	40,793	-5.3%
Net fee and commission income	13,313	10,052	32.4%
Net result on financial instruments	1,587	1,127	40.8%
Other operating result	-950	-563	68.8%
Operating expenses	-27,580	-27,055	1.9%
Operating result before impairments and provisions	25,008	24,355	2.7%
Other result	-222	-303	-26.7%
Credit loss expenses on financial assets	1,623	-11,207	>-100%
Tax on income	-1,125	-1,825	-38.4%
Result after tax	25,284	11,020	>100%
Performance ratios	**YE21**	**YE20**	**(pts)**
Net interest income/total average assets	2.7%	2.6%	0.1
Return on tangible equity	13.6%	5.8%	7.8
Cost/income ratio	53.1%	53.2%	-0.1
Cost of risk ratio	-0.1%	0.8%	-0.9
Selected items of the Statement of financial position	**Dec21**	**Dec20**	**(%)**
Loans and advances to customers	981,711	1,145,105	-14.3%
o/w gross performing loans	933,011	1,077,199	-13.4%
Deposits of customers	1,022,272	1,075,777	-5.0%
Equity	187,181	192,238	-2.6%
Total assets	1,370,383	1,448,824	-5.4%
Risk-weighted assets[1)]	864,675	915,749	-5.6%
Balance sheet ratios	**Dec21**	**Dec20**	**(pts)**
Loan to deposit ratio	91.0%	98.9%	-7.9
NPE ratio	1.7%	1.4%	0.2
NPE coverage ratio	61.4%	66.2%	-4.9
Valuation adjustments and credit loss provisions/non-performing exposures	57.9%	73.9%	-15.9
Liquidity coverage ratio	236.3%	233.0%	3.3
Common equity tier 1 ratio[1)]	20.2%	18.4%	1.9
Total capital ratio[1)]	21.8%	20.0%	1.8

[1)] The indicators are calculated in accordance with the Instructions for the preparation of the statement of financial position, income statement and statement of comprehensive income and the calculation of indicators of operations of banks and savings banks (29.11.2021)

Content

Letter from the Management for 2021

Dear Shareholders, Clients, Partners and Employees,

The year 2021 was again full of challenges for Addiko Bank, as further confrontation with the Covid-19 pandemic required the bank and its business operations to adapt to the new normality. For the Addiko Group, 2021 was also the second year of business under the conditions of a public listed company, so the adjustment to the new normality was an important part not only of day-to-day operations, but also of Addiko Bank's further strategic orientation towards a specialized bank. In August 2021, under the guidance of the new management team of the Addiko Group, we began implementing an accelerated strategic transformation program, with the aim of becoming the leading specialized banking group in the region.

The business transformation, which began in 2015 with an initial change of ownership and a specialized business strategy, the introduction of a new banking brand and a focus on the essentials, continues with an even simpler and even more focused model. This distinguishes Addiko Bank from universal banks and offers our customers – private individuals and small and medium-sized enterprises - not only efficiency and speed, but also an excellent offer of products and services. At Addiko Bank, we successfully concluded the past business year by consistently following the outlined business strategy and focus on digitalization with innovative marketing solutions. Revenues in 2021 were slightly above the level of 2020 and amounted to EUR 52 million. Strict cost management has led to a reduction in the cost-to-income ratio (CIR) to 53%, despite several developmental activities and projects.

With an advanced approach to credit risk management for the long-term sustainability of operations, the Bank achieved a very low ratio of non-performing loans (1.7%) with 61.4% coverage of provisions. It also ensured the high quality of new lending operations in key areas of its business - unsecured consumer loans and loans for small and medium-sized enterprises. In 2021, the Bank managed to maintain an above-average interest margin of 2.74%, despite strong competition.

The pandemic also marked 2021, which was surprisingly accompanied by high economic growth. The consequences of Covid-19 were visible mainly in tourism (both catering and hospitality), but also in this part the situation has improved significantly compared to 2020. Due to improving economic conditions and a healthy and adequate portfolio, the Bank had high releases of model impairments and low increase in individual impairments in the corporate segment.

The balanced ratio between profitability and risk enabled the Bank to generate a profit after tax of EUR 25.3 million, which is 29.4% more than in 2020. Higher profit than in the previous year is due to both better operating results and net impairment release in the amount of 1.6 million. The Bank paid the annual profit in 2019 and in 2020 to the owners in the form of dividends. Despite the payment of dividends, the total capital ratio at the end of 2021 amounted to 21.8%, which is 1.8 percentage points more than in the previous year. This gives it an excellent basis for further growth in line with increasingly ambitious business goals.

In 2021, the Bank made several additional adjustments dictated by the Covid-19 pandemic, while continuing to focus on the importance of customer service, ensuring efficiency and communicating in clear, understandable language. In the context of the "new normality", the Bank listened even more to its customers, providing them with easy, convenient and fast access to banking services, both digital and physical, and helping to overcome liquidity problems caused by restrictive measures due to the Covid-19 pandemic. The Bank's goal remains to transform the Bank into a pure specialist who will provide those banking services that customers need most and provide them where customers can perform them as quickly and easily as possible. Within the latter, further digitalization of banking operations is also important. Digitalization enables customers to perform as many banking transactions as possible on their own or with minimal assistance from bank employees, which brings a completely new banking experience in terms of quick and easy management of personal and business finances in line with the added value the Bank offers in its business operations.

The Bank continued its already established promotional activities, such as Addiko Red Weeks (upgrading Addiko Red Wednesday activities, which we launched at the end of 2020), and thus faced in an innovative way the challenges brought by the changed situation and new dynamics on the market. This way, the Bank further strengthened its position as a specialist in unsecured consumer lending.

In the corporate segment, the Bank continued to upgrade and apply the digital lending and transactions process with a technologically advanced creditworthiness management application specifically tailored to micro, small and medium-sized enterprises. Simplified digitally supported loan approvals and other transactions provided by automated back-office procedures allow the overall approval process to be more convenient, quick and efficient - in a maximum of three days, which is almost half as short as before. The Bank continued with a limited presence in financing the segment of large companies and the public sector remaining in line with its strategy.

Over the past year, the Bank has improved its short-term and long-term liquidity position despite the situation due to the Covid-19 pandemic. Due to active financing management, the Bank received more diversified funds from consumers and small businesses and the concentration of assets among 30 largest depositors from previous years continued to decline from 26.2% in 2020 to 23.9% in 2021.

In 2021, Addiko Bank continued to reap the benefits of its operating model. In its current operations and development of banking services, it successfully relied on its diversity and geographical dispersion in line with the slogan "Six countries - one winning team!" This approach enabled the Bank to successfully exploit synergies in the Addiko Group and increase efficiency and transparency.

Despite the increased digitalization of its business, the success story of Addiko Bank is based on strong and solid foundations - people. In 2021, one of the biggest challenges was to adjust the bank's business and operations to the new normality, as the organization of day-to-day business and work schedules changed significantly after the first year of the pandemic. In the given situation, the Bank successfully introduced and established a hybrid way of work, in which office work and work from home on remote access are intertwined. The Bank adapted and implemented them extremely quickly and successfully, with all the necessary information and security measures, system solutions and mechanisms including measures to promote positive achievements and a positive working environment, aimed primarily at maintaining a high level of motivation and alleviating feelings of alienation. Addiko Bank would not be successful without its employees, loyal customers and various business partners. The Management Board of the Bank sincerely thanks everyone for their contribution to the Bank's achievements in the past year.

In 2021, the Bank's employees continued to be socially responsible, and once again showed a high level of awareness of social needs in the Bank's operational environment. As part of the Addiko Cares project, the Bank carried out voluntary fundraising campaigns for donating and collecting food, clothing, school supplies, books and funds for children from less privileged families.

The year 2022 will be a great challenge for Addiko Bank, as well as for its competition, as it will have to adapt its business operations even more to the new normality and the consequences of restrictive measures and changed customer habits that accompany the continuation of the Covid-19 pandemic. An additional challenge will be also the potential consequences of the recently enforced law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs. But regardless, we remain moderately optimistic.

We are convinced that by following the Bank's business strategy, repositioning the Addiko Bank brand and maintaining an innovative marketing approach, we will be successful in the future, regardless of the situation. We will strive to continue to provide customers in the focus segment with an exceptional user experience and offer quality financial solutions that are crucial to them.

Andrej Andoljšek, *President of the* *Management Board*	*Anja Božac,* *Member*

The Management Board

ANDREJ ANDOLJŠEK

Responsibilities

- Retail Banking
- Product Management
- Corporate and SME Banking
- Legal
- Compliance
- Anti - Money Laundering
- Marketing & Public Relations
- Human Resources
- Information and Physical Security
- Information Technology

ANJA BOŽAC

Responsibilities

- Accounting and Regulatory Reporting
- Financial Controlling
- Trading & Bank Balance Sheet Management
- Internal Audit
- Procurement
- Credit Management
- Operations
- Risk Controlling

On 31 December 2021, the Management Board comprised of three members:

- Andrej Andoljšek, President of the Management Board (CEO, CMO, CIO),
- Anja Božac, Member of the Management Board (CFO, CRO, COO),
- Barbara Haler, substitute Member of the Management Board.

Management Report

1. Overview of the Bank

Addiko Bank d.d. (hereinafter referred to also as Addiko Bank or the Bank) is owned by Addiko Bank AG (hereinafter referred to also as Addiko Group or the Group).

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed and listed Austrian parent bank registered in Vienna, Austria and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. As of 31 December 2021, it provides services to approximately 0.8 million customers in CSEE, using a well-dispersed network of 155 branches and modern digital banking channels.

Based on its strategy, Addiko Bank 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 gradual growth in its consumer and SME lending.

Addiko Bank 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, reduce risks and maintain asset quality.

2. General economic environment

The 2020 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries which soon morphed into a deep depression and remained therein throughout 2020 reversed in 2021. The pressures on European economies, resulting from Covid-19 pandemic measures were partly alleviated by policy measures which to a large extent consisted of money payments to individuals and bank-payment deferrals of existing obligations to companies. After easing of anti-pandemic measures in 2021, production started to rebound, followed by difficulties in supply chains, accompanied by higher energy prices resulting also from political and geo-strategical tensions in Europe’s East. Higher prices reflected in increased inflation started to emerge in the second half of 2021 and are expected to hold on to the mid of 2022. SEE economies, whose contraction was more severe in the service sector due to social distancing measures, have all started to grow during 2021.

Also for Slovenia 2021 was the year of complete recovery and the country reached its pre-crisis level in the last quarter of 2021. Employment increased to a historical high, signalling almost full employment with production gap closed. Unemployment was lowest since 2008. The Slovenian governmental Office for macroeconomic research and development (UMAR) forecasts that Slovenian GDP will grow by 4,7% in 2022 and by 3,3% in 2023 in real terms with low unemployment and difficulties by companies to acquire their needed labour force. A coordinated fiscal response on EU level and ample liquidity provided by ECB have driven interest rates to their historically lowest levels and encouraged Slovenian consumers to divert their holdings to the real estate market and investments into mutual funds. Despite this, short-term holdings of consumers have increased in banks and thus significantly contributed to high liquidity.

Among SEE countries, Slovenia is by far the most open economy, which is reflected in the macroeconomic data for 2021 and besides, Slovenia is very well equipped to move activities online which smoothed business’s operation during the crisis and lowered the number of interruptions in supply chains.

In Slovenia, almost all components of GDP rose and by now the government responded by adopting several stimulus packages totalling billions. Measures to control unemployment have been removed to a large extent, and new government-issued tourist vouchers have been issued with previous ones remaining in place. All deferrals on loan payments, based on anti-pandemic legislation for companies have run out. Companies are becoming more inclined to risk taking in their investment spending but still run disproportionately higher inventories to hedge against disruptions in supply chains, and Slovenian consumers will continue to discontinue their bank-savings and continue to increase their spending. Prospects for strong growth in 2021 exist, depending of course on the economic situation of its trading partners and stabilizing role of households´ spending. The government will continue its spending, accompanied with private investment in construction and has high hopes for getting the most out of the allocated EU Recovery Fund.

3. Transformation Program

In August 2021, Addiko Bank 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 organizational 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 materialize, the Transformation Program already yielded first results as the loan book transformation was accelerated. Share of focus loan book in the gross performing loans increased from 61% in 2020 to 71% in 2021, while the share of non-focus book decreased from 39% in 2020 to 29% in 2021.

4. Changes in the Management Board

In 2021, there were also changes in the Management Board of the Bank. Tadej Krašovec terminated his position as a member of the Management Board on 31 May 2021 on the basis of a resignation statement as he took over the position of a member of the Management Board of Addiko Bank AG. Thus, Andrej Andoljšek, the President of the Management Board, took over the CIO function in addition to the CEO and CMO function, and Anja Božac, in addition to the CFO function, also the CRO and COO functions.

The Bank's Supervisory Board appointed Barbara Haler as an alternate member of the Management Board for the period from 24 September 2021 until the return of Anja Božac or for a maximum of 6 months.

4.1 Branches

The Bank renovated the branch in shopping center Qlandia Ptuj and relocated the branch in Novo mesto to the Supernova Mercator shopping center. Both branches are now aligned with the Addiko Bank Express branch concept. The Bank will continue to transform its branches into modern ones with added digital content.

At the year end of 2021, Addiko Bank operated a total of 18 branches in 15 major cities in Slovenia and 37 ATMs. This physical distribution is optimally sized to deliver Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customer preference for digital channels.

5. Financial development of the Bank

5.1 Detailed analysis of the reported result

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020	(%)
Net banking income	51,951	50,845	2.2%
Net interest income	38,638	40,793	-5.3%
Net fee and commission income	13,313	10,052	32.4%
Net result on financial instruments	1,587	1,127	40.8%
Other operating result	-950	-563	68.8%
Operating income	**52,588**	**51,410**	**2.3%**
Operating expenses	**-27,580**	**-27,055**	**1.9%**
Operating result	**25,008**	**24,355**	**2.7%**
Other result	-222	-303	-26.7%
Credit loss expenses on financial assets	**1,623**	**-11,207**	**<-100%**
Result before tax	**26,409**	**12,845**	**>100%**
Tax on income	-1,125	-1,825	-38.4%
Result after tax	**25,284**	**11,020**	**>100%**

The result after tax of EUR 25,284 thousand was EUR 14,264 thousand higher than YE20 mainly driven by better result from risk provision resulting from conservative projection on COVID-19 pandemic in 2020.

In 2021 Net banking income increased for EUR 1,106 thousand driven by better performance of net fees as result of better economic environment compared to 2020.

Non-interest income more than compensated decrease of the interest part of income which is a result due to the loan volume decrease in non focus segments of the bank. The reason is primarily the bank's priority goal to become a specialized provider of convenient and responsive banking services that enable higher margins. Digital sales is becoming a priority goal of the Bank. The Bank shifted to the key customer segment, as a specialist in consumer loans and loans to small and medium-sized enterprises, where it achieved growth in 2021, while gradually reducing financing for housing loans, the public sector and large companies (not focus segments).

The net interest income decreased from EUR 40,793 thousand in YE20, by EUR -2,215 thousand (-5.3%), to EUR 38,638 thousand in YE21 mainly resulting from lower loans volume to nonbanking sector by EUR -133,300 thousand vs YE20). Drop of loans is related to downsizing effect of accelerated business transformation and increasing focus business share, mainly digital with higher interest rate. Negative impact on net interest income from lower loan volumes is already partially offset by positive effect from higher interest rate. Compared to the year before the interest margin increased (2021: 2.7%; 2020: 2.6%).

The net fee and commission income increased from EUR 10,052 thousand in YE20, by EUR 3,261 thousand (+32,4%), to EUR 13,313 thousand in year YE20. Growth is mainly a result of higher a-vista charge fees, higher loan fees relate to some one-off developments and better overdrafts fees, guarantees fees, higher cards fees and transaction business.

The net result on financial instruments increased in 2021 by EUR 460 thousand and amounted to EUR 1,587 thousand at the end of the year. The result in 2021 was achieved by positive one off related to sale of one client exposure in amount of EUR 861 thousand which more than offset sale of the bank's bond portfolio and Treasury Sales Business in year 2020.

The other operating result, consisting of other operating income and expenses, decreased from EUR -563 thousand in 2020 by EUR -387 thousand to EUR -950 thousand in 2021. The reason for the decrease is mainly in the costs increase of regulatory expenses to national bank and higher restructuring costs.

The operating expenses increased from EUR -27,055 thousand in YE20, by EUR 525 thousand (1.9%), to EUR -27,580 thousand at the current reporting date:

- Personnel expenses increased compared to the previous period mainly due to higher variable payments. The number of employees expressed in full-time equivalent ('FTE') on 31 December 2021 was 306.5, a decrease of 12.8 from 31 December 2020.
- Other administrative expenses increased from EUR -8,610 thousand in YE20 by EUR 740,9 thousand, or 8,6% to EUR -9,351 thousand in YE21. This development was mainly driven by higher IT costs (additional development of core IT provider, maintenance costs), higher marketing expenses (new segment campaign), new cash supply system and price increases, increase of call centre costs, legislator increase of minimal hourly student salary.
- Depreciation and amortisation decreased from EUR -3,175 thousand in YE20, by EUR 378.5 thousand, to EUR -2,796 thousand in YE21. This decrease is due to less investment in 2021 than in 2020 and because some investments are already amortised.

Other result increase by EUR 81 thousand, from EUR -303 thousand in YE20, to EUR -222 thousand in YE21. The increase was mainly driven by better result from modification gains compared to YE20.

Credit loss expenses on financial assets have amounted to +1,623 EUR thousand in YE21 while in 2020 recorded EUR -11,207 thousand. This development is due to the increased uncertainty caused by the COVID-19 pandemic in 2020 and the consequent conservative approach to the allocation of additional impairments and provisions for credit risks. In accordance with the restrictions of the Bank of Slovenia, which limit the growth of consumer loans, bank adjusted the expected revenue growth and business plan.

Taxes on income amounted at EUR -1,125 thousand compared to EUR -1.825 thousand at the end of YE20. Positive impact is due to deferred taxes, while tax on regular operations is higher due to better net profit in 2021.

5.2 Analysis of the statement of financial position

EUR thousand

	31.12.2021	31.12.2020	Change (%)
Cash reserves	254,446	170,604	49.1%
Financial assets held for trading	819	2,593	-68.4%
Non-trading financial assets mandatorily at fair value through profit or loss	313	313	0.0%
Investment securities	98,575	106,243	-7.2%
Loans and receivables	981,711	1,145,105	-14.3%
Loans and advances to credit institutions	49,930	79,978	-37.6%
Loans and advances to customers	931,781	1,065,127	-12.5%
Tangible assets	9,157	10,102	-9.4%
Intangible assets	2,312	2,456	-5.8%
Tax assets	11,551	10,721	7.7%
Current tax assets	0	671	n.a.
Deferred tax assets	11,551	10,050	14.9%
Other assets	431	620	-30.4%
Non-current assets and disposal groups classified as held for sale	11,068	67	>100%
Total assets	**1,370,383**	**1,448,824**	**-5.4%**

The statement of financial position of Addiko Bank d.d. shows the simple and solid interest-bearing asset structure: more than 68% of the assets are represented by customer loans and majority (71%) of gross performing loans are already in the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and rated bonds. With regard to the statement of financial positions, Addiko's strategy continued to change the business composition from lower margin mortgage lending and public finance towards higher value-added consumer, standard and SME lending. This is shown by the increased share of these two segments to 71.0% of the gross performing loan book (YE20: 61%).

During 2021 the total assets of Addiko Bank, d.d., decreased by EUR 78,440 thousand from EUR 1,448,824 thousand at YE20 to EUR 1,370,383 thousand.

Cash reserve increased by EUR 83,841.5 thousand to EUR 254,446 thousand as of YE21 (YE20: EUR 170,604 thousand) resulting from high liquidity and consequent increase the cash balances at central banks.

Overall loans and receivables decreased to EUR 981,711 thousand from EUR 1,145,105 thousand at year end 2020.

Loans and receivables to credit institutions decreased by EUR 30,048 thousand to EUR 49,930 thousand (YE20: EUR 79,978 thousand).

Loans and receivables to customers decreased by EUR 133,346 thousand to EUR 931,781 thousand (YE20: EUR 1,065,127 thousand).

Loans and receivables decreased by EUR 133,346 thousand to EUR 931,781 thousand (2020: EUR 1,065,127 thousand). The main reasons include the bank's reorientation to the focus customers segment, where the bank achieved growth in 2021 and a reduction in the portfolio of housing loans and exposures to the public sector and large companies (non focus customers segment). The second reason was modest demand or lending in the first half of the year due to the worsening epidemiological situation in the country, however, then improved in the second half year.

The investment securities decreased from EUR 106,243 thousand to EUR 98,575 thousand during YE21. **Decrease is due to repayment of T-bills in December 2021.**

Tangible assets decreased to EUR 9,157 thousand compared to EUR 10,102 thousand at YE20.

Tax assets increased to EUR 11,551 thousand (YE20: EUR 10,721 thousand) due to increase deferred tax assets.

The position non-current assets held for sale mainly includes a portfolio of loans to customers for which a sale agreement has been signed in December 2021. The closing of the transactions subject to certain conditions which are expected to be fulfilled in year 2022.

EUR thousand

	31.12.2021	31.12.2020	Change (%)
Financial liabilities held for trading	1,432	1,874	-23.6%
Financial liabilities measured at amortised cost	**1,172,408**	**1,246,212**	**-5.9%**
Deposits of credit institutions	122,252	144,406	-15.3%
Deposits of customers	1,022,272	1,075,777	-5.0%
Certificates of deposits	50	55	-9.4%
Issued bonds, subordinated and supplementary capital	15,005	15,005	0.0%
Other financial liabilities	12,830	10,970	17.0%
Provisions	5,101	6,249	-18.4%
Tax liabilities	1,373	0	0.0%
Other liabilities	2,888	2,249	28.4%
Equity	187,181	192,238	-2.6%
Total equity and liabilities	**1,370,383**	**1,448,824**	**-5.4%**

On the liabilities' side, financial liabilities measured at amortised cost remained decreased by 5.9% to EUR 1,172,408 thousand compared to EUR 1,246,212 thousand at year end 2020:

Deposits of credit institutions decreased from EUR 144,406 thousand to EUR 122,252 thousand in YE21.

Deposits of customers decrease by EUR 5 % to EUR 1,022,272 thousand (YE20: EUR 1,075,777 thousand).

Share of a-vista increased from 50.2% at the end of 2020 to 62.3% at the end of 2021.

Other financial liabilities increased from EUR 10,970 thousand at YE20 to EUR 12,830 thousand in YE21 mainly due to higher liabilities to vendors while liabilities from financial leases decrease.

Provisions decreased from EUR 6,249 thousand at YE20 to EUR 5,101 thousand in YE21 as a result of decrease of off-balance sheet liabilities.

Other liabilities increased from EUR 2,249 thousand to EUR 2,888 thousand and include accruals for services received but not yet invoiced as well as liabilities for salary compensations not yet paid.

The decrease of equity from EUR 192,238 thousand to EUR 187,181 thousand is mainly related to dividend payment in 2021.

6. Market and operations development

6.1 Consumer Banking

Addiko Bank's consumer segment aims to deliver the promise of consumer landing specialist bank. It serves customers through a network of 18 branches and state of the art digital channels. Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner.

In the Consumer segment the focus is on consumer lending, account packages for salary payments, cards and regular transactions. Addiko Bank also puts significant efforts in building digital capabilities and is recognised in the market as a digital challenger. In the context of the Covid-19 pandemic, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

Consumer YE21 Business review

Addiko bank's operations continued to be strongly affected by restrictive measures to curb the Covid-19 pandemic. The measures resulted in a decrease in branch visits and a consequent lower demand for loans and a lower number of transactions. Throughout 2021, the Bank gradually strengthened its sales activities and tried to reach the level before the Covid-19 pandemic, which they succeeded in the last quarter after a successful business transformation, adjusting the product portfolio, marketing cash loans to new target segments and opening new sales channels through partnerships. Sales channels have also adapted to the new situation, which has enabled customers to access the Bank's products and services remotely.

The consumer segment is divided into two departments, the sales force, covering the complete business network, and the product and segment management, comprising support, services management and sales channel management.

In the sales network, the Bank continued with activities for boosting the efficiency of sales, the purpose of which was to increase the number of services per client and reduce the time necessary to render a service. The sales results and analysis of the Bank's clients' opinions show that the activities had a positive effect on client satisfaction and have improved the sales network's efficiency.

Through a professional, business and trustworthy relationship, the Bank also continued with intense cross-sales activities within the "Bank@Work" project, aimed at the Bank's business customers' employees, with retail consultants offering them customised financial solutions at their workplace. In 2021 the Bank executed "Bank@Work" activities as the pandemic situation allowed - remotely and on the spot, always in order to keep its staff as well as its clients safe.

The Bank complemented its sales activities through product-oriented campaigns guided by the Marketing & PR Department and the results of individual campaigns have been monitored.

The segment result is driven by the business strategy to focus on consumer lending and payments while reducing the mortgage portfolio. The results of the Bank's strategy are evident in the number of services sold per customer, per employee as well as per branch office.

In 2021 the Bank also continued its progress towards a modern bank by renovating existing branches in the concept and design of so called Addiko Express branches. The Product Management and Marketing & PR department pursued the consumer strategy and strived for uninterrupted processes working with other departments. The activities related to the changed products and processes and the marketing support were aligned with the monthly plans of the branches.

The Product Management and Marketing & PR departments followed the new retail strategy and, in cooperation with other departments, made sure that the processes ran smoothly. Activities related to process product changes and marketing support were coordinated together with monthly branch plans. In the last quarter of year 2021 the Bank started implementing business transformation in the direction of gaining new customers by adapting products and services and targeting smaller consumer segments along with introducing new sales channels through partnerships and point of sale loans.

Simplifying product portfolio, digitalization and exploiting the Bank's synergies

Addiko Bank delivers on its brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers.
Addiko Bank continued to promote personalized lending offers to the existing customer base, in addition to the improved digital experience where Addiko Bank focused the most on gaining new customers and promoting digital channels.

The digital engagement of the mobile customers significantly improved in the context of the Covid-19pandemic, proving the good reputation and capabilities of the mobile app throughout the Bank.
The Bank also aimed to improve processes with an emphasis on rapid response with less documentation and efforts for digital business. In 2021, the Bank implemented a fully automated (E2E) lending process within the Addiko Mobile bank, which enables existing customers to take out a loan via a mobile device and under more favorable conditions.
Standardizing products and processes, and consolidating partners and vendors is another critical element of the Bank's strategy.

In 2022, the Bank will continue to pursue the strategy focused on consumer loans, digitalization of the processes and taking customer experience to a higher level, look for alternative ways of accessing customers and adapt the offer to new, smaller segments of potential customers in order to achieve the set goals and become even more recognizable as a cash loan specialist and digital challenger in the banking market.

6.2 SME and Corporate Banking

In January 2021, Addiko Bank transferred its operations with private entrepreneurs and micro enterprises from retail business segment to corporate business segment. In 2021, operations were mostly focused on the newly created standard segment and further strengthening of cooperation with small and medium-sized enterprises. The standard segment as well as small and medium-sized enterprises are thus becoming the main strategic direction of corporate business segment with an emphasis on the digitalization of banking operations.
With the strengthening of the standard segment and focus on small and medium-sized enterprises, Addiko Bank is gradually withdrawing from the financing of the large enterprise segment, while the provision of documentary business services still remains important also in this segment.

Addiko Bank's strategy is to provide services based on convenience and to develop products that are highly digitalized and offer a competitive advantage. The successful implementation of the new lending platform has enabled customers to obtain a loan in a short time with the minimum required documentation and represents a state-of-the-art user experience for customers. The digitalization of operations continued in 2021, when we also offered companies a solution for the electronic signing of loan documentation and introduced the new e-bank Addiko Business Ebank which is supported by Rekono OnePass authorization.
Digitalization of business operations in order to improve the user experience will be the primary goal of the bank's development also in the coming years.

SME and Corporate YE21 Business review

Year 2021 was successful for the Bank in all strategic areas of business operations. The Bank's greatest success was in the new standard segment, where we exceeded the budgeted goals of increasing the number of new customers and the volume of approved loans.

7. Analysis of non-financial key performance indicators

7.1 Human resource management

In 2021 human resources management was mainly based on the continuation of well-established practices, such as an effective mentoring program, which helped to develop the key employees' competencies, develop a deeper understanding of the Bank's broader operations and, last but not least, strengthen the interconnectedness of departments. In addition, a human resources partnership approach was established to support the Bank's divisions and consequently all directors of departments, addressing various human resources topics (education, planning, promotion, goal setting, finding suitable staff, developing leadership skills, reorganizations…). An important step towards proactive creation, prediction and medium-term planning of team development in the areas and development of skills and competencies needed by teams to work proactively in the coming years, when major changes in the banking market are expected, has been made.

One of the important milestones in 2021 in the field of human resource management was the preparation and initial implementation of the Addiko Bank employer brand, whose main slogan is "Bank for unconventional bankers", which includes three atypical attributes: community culture, supportive environment for development and personal initiative. Community culture means that we are proud of our culture, which is dominated by team spirit, willingness to cooperate, mutual support and trust, and fostering good relationships with co-workers, leaders and management. A stimulating environment for development means maintaining a stimulating, dynamic ecosystem in the regulated structure of the banking sector, in which the individual receives opportunities and challenges with which he can develop and advance professionally, realize his potential and leave his mark. The personal initiative, on the other hand, represents that our team is made up of talented people with a desire to expand their knowledge, improve existing skills and recognize the value of interdisciplinarity. These individuals in the Bank can find an opportunity to innovate, develop their own projects and initiatives, be proactive and take the initiative.

The Bank presented the new employer brand to both internal and external communities, and we strive to ensure that all notices, job advertisements and other communications are prepared in line with the new brand.

The Bank puts employees at the center of its business, as it is aware that employees are the foundation of growth and success. The Bank is determined to continue implementing the planned measures and thus maintain its status of a competitive and attractive employer on the Slovenian market.

The Bank is proud of its full Family-Friendly Company Certificate, which proves that the Bank lives in accordance with the principles of the certificate and trusts its employees and encourages them to act responsibly in many areas.

In 2021, the Bank is especially proud of the Include.All Award, which is awarded by the Women Managers' Section of the Slovenian Manager's Association in order to highlight companies with a sound Inclusion and Diversity Strategy. The Women Managers' Section recognized Addiko Bank as a company which structurally and systematically takes care of a balanced management structure, which is implemented from a top-down approach and results in 43% of women holding managerial positions, not only understanding but also encouraging diversity and inclusion within the company. From the above mentioned facts, it is concluded that the Bank's current strategy for balanced gender treatment and related long-term succession goals for our directors and members of the Management Board has been successful. Further on the Bank implemented it on a daily basis, among all measures also by respecting the principles of equal treatment and opportunities for all employees and by prevention of any discrimination.

Addiko Bank Slovenia Gender Diversity Status in 2021:

Management level	Number of employees based on gender diversity (female to male ratio)
Directors	43.75% : 56.25%
Management Board	50% : 50%
Supervisory Board	20% : 80%
Total Bank	62% : 38%

At the end of 2021, the Bank had 321 employees.

Year	Number of employees on 31.12.	Number of employees based on working hours*	Average number of employees
2021	321	306.5	325.5
2020	336	319.25	343.4

*The number of employees calculated based on working hours shows the real number of employees in the company. There are a certain number of employees who, due to the nature of their work and their responsibilities, have employment contracts with the Bank and the Addiko Group under a specific percentage principle.

7.1.1 Educational structure

The educational structure of the Bank's employees is at a very high level.

Level of education	Number of employees based on educational structure
IV. vocational secondary education	2
V. secondary education	109
VI. non-university higher education courses	18
VII. higher education programs, university programs	176
VIII. university degree specialisation, diploma of Master of Science	16
Total on 31.12.2021	321

7.1.2 Recruitment

Selection and recruitment of new employees is based on the clearly defined needs of individual organisational units and strategic work force planning that is defined during the business planning process each year. The FTE targets are in line with Addiko Bank's matrix Operating Model.

Priority is given to internal recruitment, during which Addiko Bank takes the ambitions of employees into account and thus enables career development of employees with transitions from one job to another.

In 2021, the Bank paid special attention to the renovation and implementation of Addiko employer brand, not only internally but also externally. Whereas in the design of the key component of the employer brand - EVP (Employee Value Proposition) the Bank has formed key points/key values it offers as an employer to existing and future employees, and through these it addresses 3 key attributes of the employer's brand: community culture, a supportive environment for development and personal initiative.

The final selection of candidates is based on a strategy and principles that ensure equal treatment and equal opportunities of all qualified candidates and thus the prevention of discrimination.

The candidate selection is based on their expertise, attitude towards the job, culture fit to the Bank's values and behaviours as well as personal characteristics that are identified during the selection process.

For key functions in the Bank, an assessment of the applicant's ability and suitability (Fit & Proper) is also carried out under an internal procedure complying with all local and European legal and regulatory standards and guidelines.

7.1.3 Education and training

Addiko Bank believes that only highly qualified staff can follow the needs, trends and challenges of the Slovenian financial market. For this reason, the Bank provides constant and comprehensive expert training to all employees. To achieve the Bank's business objectives, there are three exposed areas in the Addiko Academy, which offers several sets of curriculums: Addiko Leader, Addiko Sales, Addiko Risk Management. These key educational areas for development reflect Addiko Bank's strategic needs as the Bank transforms from a universal bank to a specialised, risk-averse and digital bank focused upon Retail, SME and Corporate. Individual development is also promoted through a specific focus upon key employees.

Each year, various internal trainings are organised in accordance with the Bank's needs. In 2021, the focus was extensively on elevating leadership skills of senior leaders and directors of individual departments. Department directors and identified talents attended trainings conducted by Addiko Leadership Academy, some also participated in assessments using the 360 Degree Feedback tool, which provides feedback to plan further leadership development. In addition, many professional, compliance and legally required trainings are continually offered to our employees, ensuring upgrading of their knowledge. In 2021 the Bank accelerated online learning via its own Learning Management System (LMS). All employees participated in training in the field of Data Protection, Information Security for WFH, Raising Awareness of the Importance of Fraud Risk, Anti Money Laundering and Terrorist Financing Detection and Prevention, so in 2021 special emphasis was placed on awareness and preventive detection and operation of employees. All new employees who joined Addiko team in 2021 were systematically introduced to all bank segments and contents through the LMS.

The Bank also enables employees to obtain various finance and insurance licenses that are necessary for professional work; attendees were primarily educated in a virtual environment.

The Bank continued its mentoring program in 2021, which was very well received when it was introduced in 2020. This year also, the response of mentor couples was above expectations, so the Bank will upgrade the program in the future and enable even better internal visibility of the program.

7.1.4 Corporate Social Responsibility projects for employees

Addiko Bank’s employees have once again proved that they are atypical bankers with a big heart who remain faithful to humanitarian activities. In 2021, the Bank continued its charitable activities with various charitable campaigns within the Addiko Cares corporate social responsibility project, in which 60% of employees participated. The Bank promoted social responsibility through donations of food, clothing and school supplies for children from socially disadvantaged families.

At the beginning of the new school year, employees in cooperation with ZPM Ljubljana Moste-Polje participated in the now traditional collection of school supplies and funds for children from socially disadvantaged families. At the end of the year, Addiko bank’s employees raised and donated funds to the organization Slojenčki for programs to improve the conditions for the birth of healthy children. In true Christmas spirit, clothes, toys and books for children were collected in cooperation with the Association of Friends of Youth (ZPM) Ljubljana Moste-Polje to make sure 2022 will be more pleasant for everyone.

Addiko Bank's social responsibility and humanitarian activities also build important foundations for cooperation with the local and wider social environment. When opening the renovated branch in Ptuj, the Bank donated funds to the local Sonček association for co-financing the implementation of rehabilitation and school and family health-therapeutic colonies for children with cerebral palsy. At the end of 2021 when opening the branch at a new location in Novo mesto the Bank donated funds to local Sonček association for children with cerebral palsy in Dolenjska and Bela krajina region for the purchase of educational and therapeutic supplies.

With the Addiko Cares project, Addiko bank maintains its involvement in society through socially responsible behavior on the entire Slovenian market.

7.1.5 Performance and development interviews and target-oriented management

In 2021, the Bank continued the Addiko Performance Management Cycle through which employees are evaluated, calibrated and rewarded. The aim of continual performance feedback and the year-end performance review is to ensure successful individual performance, elevating the operations of the Bank on a long-term basis. The Performance Management Cycle expects that individual targets are set annually, reviewed at least twice during the year and reviewed again at the beginning of the new year. The objective is to provide systematic, professional and personal feedback and development of the managerial staff and employees.

7.1.6 Bonus system

The Bank’s bonuses are awarded within the variable pay framework and are closely linked to target-oriented management. By applying individual bonuses, the Bank would like to reward an individual’s performance when demonstrating the extra-mile. They also aim to motivate teamwork and achievement of targets as a team.

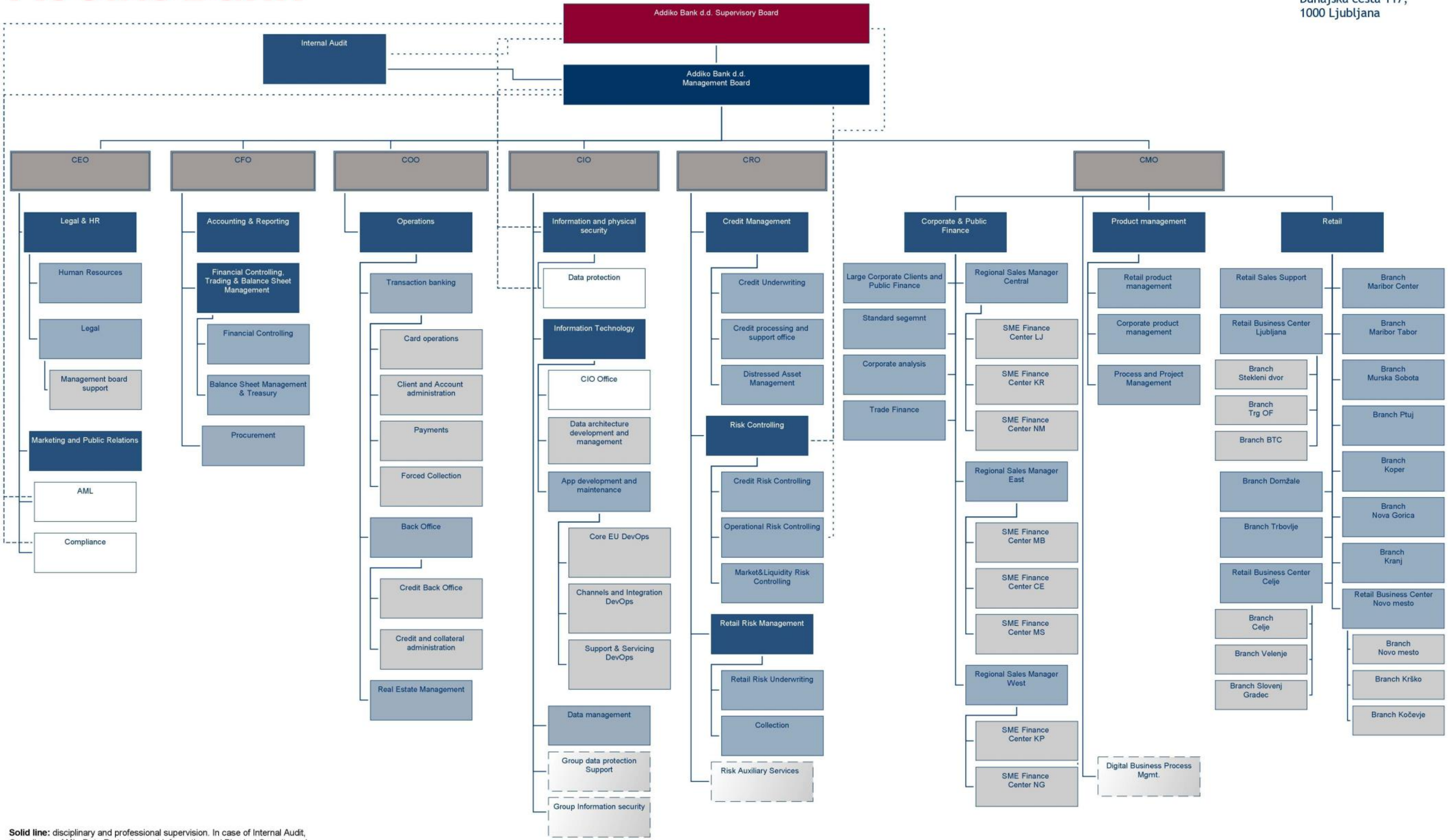
7.1.7 Remuneration policy

The remuneration policy is governed by the provisions of the applicable legislation, the CEBS guidelines, the Bank of Slovenia decisions and EU directives on capital requirements. This policy clearly sets criteria and conditions for the payment of various bonuses to the managerial staff and employees. In accordance with the aforementioned acts the Bank also determines key functions that may, due to the scope of work tasks and activities, significantly influence the Bank’s risk profile.

7.2 Organisation of the Bank

7.2.1 Organisational chart

Addiko Bank, d.d.
Dunajska cesta 117,
1000 Ljubljana



Solid line: disciplinary and professional supervision. In case of Internal Audit, Compliance, AML, Data Protection and Information and Physical Security and Risk Controlling: responsibility for daily operative requests required for smooth operation of the organisational unit, tasks are carried out independently by these functions.

Dotted line: In accordance with relevant legal regulations, it represents direct access and possibility to report to the Supervisory Board and/or Management Board.

Group function

Effective from 5.11.2021

7.2.2 Supervisory Board

The Supervisory Board of the Bank is comprised of six members. On 31 December 2021, the members of the Supervisory Board were:

• Edgar Flaggl, Chairman of the Supervisory Board,
• Joško Mihić, Deputy Chairman of the Supervisory Board,
• Georgiana Grigore, Member of the Supervisory Board,
• Balazs Laszlo Győri, Member of the Supervisory Board,
• Klemen Brenk, Member of the Supervisory Board and
• András Ferenc Matern, Member of the Supervisory Board.

In 2021, member of the Supervisory Board, Mr. Joško Mihić, had resigned from his position as Chairman of the Supervisory Board. Member of the Supervisory Board, Mr. Edgar Flaggl, was appointed as Chairman, whilst Mr. Joško Mihić was appointed as Deputy Chairman.

The Supervisory Board met five times in 2021, of which four times for regular meetings.

The Bank also has two Committees of the Supervisory Board, which are:
• An Audit Committee comprising four members, all members of the Supervisory Board: Edgar Flaggl, Chairman, Joško Mihić, Deputy Chairman and Members Balazs Laszlo Győri and Klemen Brenk. In 2021, they met four times.
• A Risk Committee comprising four members, all members of the Supervisory Board: András Ferenc Matern, Chairman, Edgar Flaggl, Deputy Chairman, Georgiana Grigore and Balazs Laszlo Győri, Members. In 2021, they met five times, of which four times for regular meetings.

7.2.3 Shareholders Assembly

The Management Board of the Bank convenes the Shareholders' Assembly meetings in cases laid down by law or in the Articles of Association or when this benefits the Bank. Three Shareholders' Assembly meetings were convened in 2021.

At the Shareholders' Assembly meeting, the Shareholders exercise their rights in accordance with the provisions of the Companies Act. Addiko bank's Shareholders' Assembly is universal, as the Bank only has one shareholder; it is 100% owned by Addiko Bank AG. The shareholder exercises its rights by proxy voting. The proxy is chosen for each meeting individually.
In 2021, the Shareholders' Assembly was acknowledged with the audited 2020 Annual Report, the 2020 Internal Audit Annual Report and the use of accumulated (net) profit. In addition, the Shareholders' Assembly had appointed one new member of the Supervisory Board of the Bank, namely Mr. András Ferenc Matern.

7.2.4 Committees and Commissions of the Bank:

• Liquidity Commission,
• Bank Credit Committee,
• Assets and Liability Committee – ALCO,
• Risk Executive Committee – RECO,
• Watch Loan Committee,
• Capital Steering Group – CSG,
• Operational Risk Management, Internal Control System and Reputation Risk Management Committee (OpRisk Committee),
• Change Management Committee – CMC,
• Outsourcing Committee
• PPSC - Project portfolio steering committee.

The objectives, tasks, authorisations and composition of the committees and commissions are laid down in the Rules on Organisation and Job Systematisation of the Bank as well as in the Rules on the Powers, Authorisation and Signatories in the Bank, while the operation of the Bank's bodies is governed by various rules of procedure or other internal acts.

8. Internal Control System for accounting procedures

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

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

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

- ensure that corporate strategy is implemented,
- achieve effective and efficient corporate processes,
- safeguard the value of corporate assets,

- ensure the reliability and integrity of accounting and management data,
- ensure that operations comply with all relevant rules and regulations.

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

Regular internal control system monitoring and prompt 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.

9. Non-financial report

In line with the EU regulation, Addiko Bank fully complies with the Directive 2014/95/EU and the rules on disclosure of non-financial and diversity information. The Bank operates and manages social and environmental related topics by continuously further developing its responsible approach to business. Accordingly, the Bank’s non-financial report includes policies it implemented in relation to: environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity. The non-financial report is prepared as an independent report and is published online on Addiko bank's website www.addiko.si.

10. Other disclosures

10.1 Supplementary information required by the Bank of Slovenia

In compliance with the Bank of Slovenia Decision on business ledgers (Ur. l. RS, št. 67/17,73/19, 164/20)and annual reports of commercial and savings banks (29. 11. 2021), the following additional data are presented below for a period of three years:

EUR thousand

INDICATORS	2021	2020	2019
1. STATEMENT OF FINANCIAL POSITION			
Total assets	1,370,383	1,448,824	1,617,316
Total deposits by the non-banking sector, measured at amortised cost	1,022,462	1,075,777	1,222,793
a) by legal and other persons carrying out economic activity	561,857	623,020	776,990
b) by retail sector	460,605	452,757	445,803
Total loans to the non-banking sector	941,237	1,063,541	1,179,304
a) legal and other persons carrying out economic activity	419,327	511,357	570,473
b) retail sector	521,909	552,184	608,831
Total capital	187,181	192,238	181,614
Valuation adjustments and credit loss provisions	31,660	36,449	29,526
Off-balance sheet operations	472,096	748,581	830,069
2. INCOME STATEMENT			
Net interest	38,638	40,793	41,033
Net non-interest income	15,751	12,046	9,765
Labour costs, overhead and administrative costs	26,588	25,526	24,717
Amortisation and depreciation	2,796	3,175	2,956
Impairments and provisions (credit losses)	1,618	-11,216	1,526
Pre-tax profit or loss from continuing and discontinued operations	26,409	12,845	24,651
Corporate income tax from continuing and discontinued operations	1,125	1,825	6,216
Other comprehensive income, before tax	-1,104	-487	-737
Corporate income tax from other comprehensive income	216	90	142
Number of branches	18	19	19
3. INDICATORS			
a) Capital			
Common Equity Tier 1 ratio	20.2%	18.4%	15.5%
Core Tier 1 ratio	20.2%	18.4%	15.5%
Total capital ratio	21.8%	20.0%	17.0%
Financial leverage ratio	11.8%	10.8%	9.5%
b) Profitability			
interest margin	2.7%	2.6%	2.5%
margin of financial intermediation	3.9%	3.4%	3.1%
return on assets after tax	1.8%	0.7%	1.1%
return on equity before tax	13.5%	6.9%	13.9%
return on equity after tax	12.9%	5.9%	10.4%
c) Operating costs			
operating costs/average assets	2.1%	1.8%	1.7%
e) Credit risk			
Non-performing (balance sheet and off-balance-sheet) exposures/classified balance sheet and off-balance sheet exposures	1.7%	1.4%	1.5%
Non-performing loans and other financial assets/classified loans and other financial assets (26.)[1]	2.2%	1.4%	1.3%
Non-performing loans and other financial assets/classified loans and other financial assets (27)[1]	1.9%	1.3%	1.3%
Valuation adjustments and credit loss provisions/non-performing exposures (28.)	57.9%	73.9%	70.6%
Valuation adjustments and credit loss provisions/non-performing exposures (29.)	57.9%	73.9%	70.6%
Received collateral/non-performing exposures	36.5%	22.0%	21.6%

EUR thousand

INDICATORS	2021	2020	2019
4. EMPLOYEES			
at year-end	321	336	336
5. SHARES AT YEAR-END			
number of shareholders	1	1	1
number of shares	41,706	41,706	41,706
share book value (EUR)	4.5	4.6	4.4
Nominal value of share	2.1	2.1	2.1

[1]) The indicators are calculated in accordance with the Instructions for the preparation of the statement of financial position, income statement and statement of comprehensive income and the calculation of indicators of operations of banks and savings banks (29.11.2021)

		1.-3. 2021	4.-6. 2021	7.-9. 2021	10.-12. 2021
	Liquidity				
37.	Liquidity coverage ratio	248,4%	253,9%	246,0%	196,9%
38.	Net stable funding ratio	130,1%	129,7%	127,9%	125,8%

10.2 Events after the business year 2021

On 2 February 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 come into effect on 26 February 2022 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 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 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.

Nine banks have filed an initiative with the Constitutional Court to assess the constitutionality of the law to regulate the issue of loans in Swiss francs. At his session on 10 March 2022, the Constitutional Court suspended the implementation of the "Law on the limitation and distribution of currency risk among borrowers and lenders in Swiss francs".

The ongoing military operation in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. Addiko bank does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economical situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets including the Bank's on-balance and off balance exposure to credit given (in the amount of EUR 24,752 thousand) to undertakings which are proprietary or business-related to the countries listed above, within the next financial year. At this stage management do not recognise any of exposures as potentially highly impacted but is not able to reliably estimate the impact as events are unfolding day-by-day.

The longer-term impact may also affect trading volumes, cash flows and profitability. The risk arising from market interest rate movements is closely monitored, as is the impact on the positions of the Bank's interest rate sensitive instruments. Cyber risk to which banks are exposed has increased due to these events.

Addiko is monitoring them and has response plans prepared if such incidents would occur. Nevertheless, at the date of these financial statements the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Since 31 December 2021, there were no other events that would materially affect the financial statements herein.

11. Research & Development

Addiko Bank does not conduct any Research & Development activities.

12. Outlook 2022

12.1 Outlook 2022

The uncertainty caused by the Covid-19 pandemic has begun to diminish, but forecasting future developments is still difficult, especially in terms of business and government action. The ability of borrowers to repay their loan obligations has increased despite the expiry of deferrals in principal payments, but with the continued presence of state aid. Increased risks to the ability of borrowers to repay liabilities will be present in those activities that are most affected by the measures (catering, entertainment, etc.) or feel the consequences of re-establishing supply chains, which is reflected in their competitiveness in the market with high demand.

In 2022, we also expect increased inflation in the first half of the year, which will decrease in the second half of the year and will amount to around 2% in the euro area, according to the European Central Bank. The impact of inflation will be partially mitigated by the expected high economic growth in Slovenia, both in 2022 and in 2023. High energy prices, which are the main driver of inflationary pressures, are partly related to political and geostrategic events outside Slovenia due to which we expect increased energy prices being a major source of an otherwise lower inflation. Short-term forecasts show increased private consumption amid favorable developments in the labor market, which already in early 2022 recorded almost full employment and almost closed the production gap. The question of the amount of new consumer borrowing remains open, given the expected increase in private consumption, while we estimate that exporting part of the economy will increase its indebtedness across all segments.

Addiko Bank's operations are inextricably linked to the state of the Slovenian economy, which returned to pre-crisis levels in the last quarter of 2021 and will record additional growth in 2022. After increasing the volume of lending in Slovenia again in 2021, it will further strengthen its activity, focusing next year on small and medium-sized enterprises, where it is already strengthening its activity. The expected higher lending activity will alleviate the constant competitive pressure on lending interest rates, which may increase if the central bank limits or even eliminates programs to provide additional liquidity and starts pursuing a more restrictive monetary policy. On the other hand, the Bank will ensure that the trend of low operating costs is maintained through strict cost discipline and continuous optimization.

After despite an expected deterioration in the quality of the loan portfolio, except in some of the areas already mentioned, the Bank expects a trend of growth in the quality of the loan portfolio and its maintenance at a high level. The Bank's focus on consumer and SME lending ("focus areas") and payment services and its commitment to further digital transformation will make a decisive contribution to this.

In terms of liquidity, the Bank maintains its extremely strong position and the effects of the pandemic did not lead to any significant outflows. Even if a very unfavorable liquidity scenario materializes in the future, in which the bank would have to transfer funds to those borrowers in Swiss francs who took out these loans between 2004 and 2010, under the Currency Risk Limitation and Allocation Act between lenders and borrowers in Swiss francs, the Bank has sufficient liquidity reserves and resources. The Bank's liquidity and solvency are and will not be jeopardized in any way.

12.2 Environmental, Social and Governance (ESG) risk

On 6 July 2021, the European Commission adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation (“the Disclosures Delegated Act”), which requires large financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities.

Acting in an environmentally responsible way is both the responsibility and legal duty of each and every person and organization. Although a direct impact of banks on the environment may be regarded as rather limited and not as significant as in other industries, Addiko Bank recognizes its responsibility in preserving the environment. Addiko Bank addresses environmental matters and is committed to reducing its own consumption of natural resources, mainly in terms of electricity and heating as well as fuel and paper consumption.

Protection of the environment is an important part of Addiko Bank's strategy, which aims to achieve sustainable improvement of living and working environment conditions. In 2021, there were no cases of non-compliance with environmental regulations.

Addiko Bank's current activities in connection with environmental issues are in the following area: space optimization, continues promotion to reduce energy consumption and to purchase renewable energy, continues reduction of $C0_2$ emissions, travel management, document management system (saving resources, especially paper, use digital sources where possible), paper reduction and sustainable printing (saving also on toners and energy consumption – the bank uses multifunctional large-scale printers, classified as energy efficiency category “A”), continues work to increase banks general awareness, defining bank expectation in this area of suppliers.

13. Report of the President of the Supervisory Board of the Bank

In 2021, the Supervisory Board of Addiko Bank d.d. supervised the business of the Bank, its financial results and the performance of its Management Board.

At its meetings, the Supervisory addressed different aspects of Addiko's current operations and development and adopted appropriate decisions as well as supervised their fulfilment. The decisions of the Supervisory Board were based on the findings, suggestions and the diligent assessments of the Audit and Risk Committees of the Supervisory Board, as well as the reports of the Management Board of the Bank. One of the key activities of the Supervisory Board was also the monitoring of the implementation and fulfilment of the Bank's strategy.

The Supervisory Board performed in accordance with its powers and competences, determined by laws, the Articles of Association and the Rules of Procedure of the Supervisory Board.

In 2021, the Supervisory Board had four regular meetings and one extraordinary meeting. The Supervisory Board has two committees: The Risk Committee and the Audit Committee. Both committees perform tasks set forth in the relevant laws and the Rules of procedure.

The decisions of the Supervisory Board were unanimous, the members of the Supervisory Board expressed their opinions with arguments and actively participated in the discussions. The Supervisory Board has adopted and confirmed the following in 2021: the Annual report of the Bank for the year 2021 and the allocation of profits, the appointment of a procurator, the prolongation of the mandate of Mr. Andrej Andoljšek as the president of the Management Board and Mrs. Anja Božac as a Member of the Management Board, the work plans for the Internal Audit and Compliance departments, the report on the Internal Capital Adequacy Assessment (ICAAP), the risk appetite framework and the framework for the remediation of the Bank. Further, the Supervisory Board had acquainted itself with the five-year budget of the Bank as well as the annual reports of the Internal Audit, Compliance and Anti-Money laundering departments.

The Audit Committee of the Supervisory board had four regular meetings in 2021. The Audit Committee helps the Supervisory Board with the fulfilment of its duties and competences regarding the adequacy and efficiency of internal controls, which includes risk management, compliance, the adequacy of accounting standards used for the preparation of the financial statements, and the suitability and independence of external auditors.

The Risk Committee had four regular meetings and one extraordinary meeting in 2021 The Risk Committee counsels the Supervisory Board regarding the risk appetite of the Bank and its risk management strategy, and monitors whether the remuneration system takes into account risk, capital, liquidity, the probability and timeline of the Bank's income, as well as whether the Bank's product pricing is compatible with its business model and risk management strategy. The Risk Committee also addresses and monitors the reports on various types of risk and acquaints itself with pending topics regarding risk management.

The Supervisory Board assesses that it has performed its duties in 2021 with quality, responsibly, with the highest ethical standards, due diligence and in compliance with the relevant legislation and internal rules.

President of the Supervisory Board

Edgar Flaggl,
President

Activities of the Supervisory Board

In the financial year 2021, the Supervisory Board of Addiko Bank d. d. held four regular and one extraordinary meeting.

The Supervisory Board operated in accordance with the Bank's Statute and the Rules of Procedure of the Supervisory Board. The prepared materials and notes on meetings enabled an efficient supervision of the Bank's operations in line with the Slovenian and Austrian legislation. The Bank of Slovenia submitted to the Supervisory Board the results from the regular audits of the Bank’s operations.

The Bank's Management Board regularly informed the Supervisory Board members about the Bank's operations. In accordance with Article 282 of the Companies Act and based on the current monitoring of the Bank's operations, periodical reports by the Internal Audit department and the unqualified opinion issued by the audit firm DELOITTE REVIZIJA d.o.o., the Supervisory Board analysed the Business Report of Addiko Bank in 2021.

The Report will also be presented at the Bank's Shareholders’ Assembly. In accordance with Article 230 of the Companies Act, the Supervisory Board approved the proposal by the Management Board regarding the allocation of accumulated profit and proposed to the Meeting of Shareholders to adopt it. In line with its tasks and responsibilities, the Supervisory Board supervised the internal controls and risk management activities.

In order to achieve a high level of transparency in governance and based on the exception from point 2 of paragraph 5 of Article 70 of the Companies Act, Addiko Bank d.d. provides the following within the scope of the business section of its Annual Report

Statement on internal governance arrangements

As at 31.12.2021, Addiko Bank d.d. is not a public company in terms of the Takeover Act because it has no financial instruments included in any organised trading or quoted on the stock market.

Based on the above as well as the exception noted in the second point of the fifth paragraph of Art. 70 of the Companies Act, Addiko Bank d.d. implements the internal governance arrangements, including corporate governance, in accordance with the legislation in force in the Republic of Slovenia, taking into account its internal acts. Addiko Bank d.d. also fully complies with the acts referred to in Paragraph 2 of Article 9 of the Banking Act (Zban 3). In order to strengthen the internal governance arrangements, the Bank operates particularly in accordance with the following:

1) Provisions of the applicable Banking Act (Zban-3), which define internal governance arrangements, in particular the provisions of Chapter 7.2 (Organisation of the bank) and Chapter 6 (Internal governance) in the requirements applicable to a bank/ savings bank or members of a management board;

2) Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks; and

3) EBA guidelines governing internal governance, assessment of the suitability of the members of the management body and key function holders as well as remuneration policies and practices on the basis of the relevant decisions of the Bank of Slovenia on the application of these guidelines.

At the same time, we are striving to the greatest extent possible to act in accordance with the non-binding recommendations stated in the Letter of the Bank of Slovenia (ref. 38.20-0288/15-TR dated 23 October 2015) and the recommendations given by the Bank of Slovenia based on the conducted inspection of banks in respect of disclosures of information for 2017.

The Bank provides disclosures of important information in the Management Report:

1) a description of the main characteristics of internal control and risk management systems and mechanisms of the Bank in Chapter 8. Internal Control System for accounting procedures. The Bank keeps books and other records that enable financial reporting and ongoing monitoring of the Bank's effectiveness and compliance of risk management

2) data on the activities of the General Meeting and its key competences and the description of the rights of the shareholders in Chapter 7.2. Organisation of the Bank

3) data on the activities of management and supervisory bodies and their committees in Chapter 7.2. Organisation of the Bank

4) policies for the selection of management board members, the diversity policy upon such selection, the remuneration policy and other information in Chapter 7.1. Human resource management

By signing this Statement, we also commit ourselves to further proactive action to enhance and promote adequate internal governance arrangements and corporate integrity in the wider professional, financial, economic and other public.

Ljubljana, 15.3.2022

Management Board of the Bank

Andrej Andoljšek, President of the Management Board	Anja Božac, Member

Supervisory Board of the Bank

Edgar Flaggl,
President

[1] Banking Act (ZBan-3), Official Gazette of the Republic of Slovenia, no.92/21.

[2] The Bank of Slovenia Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, Official Gazette of the Republic of Slovenia, no. 73/15, 49/16, 68/17, 33/18 and 81/18.

Declaration on the adequacy of risk management

In accordance with Article 435(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the governance bodies of Addiko Bank d.d.

the Management Board represented by Members Andrej Andoljšek, Anja Božac

and

the Supervisory Board represented by President Edgar Flaggl,

confirm, by signing this Declaration, the adequacy of the risk management system, which represents an independent area in the organisational scheme of the Bank.
The risk management system is in line with the Bank's risk profile and the Bank's strategy and risk-taking capabilities.

Ljubljana, 15.3.2022

Management Board of the Bank

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

Supervisory Board of the Bank
Edgar Flaggl,
President

14. Independent auditor's report

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of Addiko Bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Addiko Bank d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Emphasis of matter

We draw attention to Note 10.2: *Events after the business year 2021* to the financial statements, which describes the possible effects of the new law on CHF loans on the profit and loss. Our opinion is not modified in respect of 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 financial statements of the year ended 31 December 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2021 the Bank presented loans to non-bank customers in the net amount of EUR 930 million and total expected credit loss in the amount of EUR 26,4 million.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowance for expected credit losses on loans to non-bank customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including utilised applications and information technology tools • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample

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• Assessment of the forward-looking information, including the impact of the COVID-19 pandemic • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31 December 2021. Management has provided further information about the impairment allowance on loans from customers in notes *13.1 – Financial instruments, Classification and measurement', 13.2 – Financial instruments – Impairment; 39 – Loans and receivables; 56 – Credit risk.*	selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk, including the impact of COVID-19 iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information, including the impact of COVID-19. vii. re-performing calculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be

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materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the audited financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Report on the requirements of the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Regulation EU 537/2014)

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 19 December 2019. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 14.3.2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

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Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich.

DELOITTE REVIZIJA d.o.o.

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DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 14. March 2022

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial report

Statement of Management's responsibility

The Management Board has approved the financial statements for the year ended 31 December 2021, the accounting policies and estimates used and the notes to the financial statements.

The Management Board is responsible for the preparation of financial statements that give a true and fair presentation of the financial position of the Bank and of its financial performance for the year ended 31 December 2021. The Management Board is also responsible for proper management of the Bank's accounts and adoption of measures to secure the Bank's assets and to prevent and detect fraud and other irregularities.

The management confirms to have consistently applied the appropriate accounting policies and made the accounting estimates according to the principle of prudence and due diligence. The Management Board also confirms that the financial statements, along with the notes, were prepared based on the going concern assumption and in accordance with applicable legislation and International Financial Reporting Standards effective in the EU.

Tax authorities may, at any time within a period of five years after the end of the period for which tax assessment was made, inspect the Bank's operations, which may lead to additional tax liabilities, default interest and penalties with regard to corporate income tax or other taxes and levies. The Bank's Management Board is not aware of any circumstances that may result in a significant tax liability in this respect.

Ljubljana, 15. 3. 2022

Management Board of the Bank

Andrej Andoljšek, President of the Management Board	Anja Božac, Member

CONTENTS

I. Income statement

EUR thousand

	Note	01.01.-31.12.2021	01.01.-31.12.2020
Interest income	26	43.139	46.383
Interest expenses	26	-4.501	-5.590
Net interest income		**38.638**	**40.793**
Dividend income		21	29
Fee and commission income	27	16.339	13.047
Fee and commission expenses	27	-3.026	-2.994
Net fee and commission income		**13.313**	**10.053**
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	28	1.237	810
Net gains or losses on financial assets and liabilities held for trading	28	-1.285	-316
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	0	11
Net exchange differences	28	1.613	592
Net gains and losses on derecognition of non-financial assets	28	0	-10
Other net operating income	29	855	1.083
Administrative expenses	30;31	-25.543	-24.258
Cash contributions to resolution funds and deposit guarantee schemes	32	-1.045	-1.268
Depreciation	33	-2.796	-3.175
Modification gains/losses	34	45	-289
Provisions	35	1.184	922
Impairments	35	221	-12.215
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		-49	83
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**26.409**	**12.845**
Tax expense or income related to profit or loss from continuing operations	36	-1.125	-1.825
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		**25.284**	**11.020**
PROFIT OR LOSS FOR THE FINANCIAL YEAR		**25.284**	**11.020**

The accompanying notes from 1 to 76 form an integral part of the financial statements and should be read in conjunction with them.

II. Statement of other comprehensive income

EUR thousand

	01.01.-31.12.2021	01.01.-31.12.2020
Result after tax	**25.284**	**11.020**
Other comprehensive income	**-887**	**-395**
Items that will not be reclassified to profit or loss	-58	32
Actuarial gains or (-) losses on defined benefit pension plans	33	-13
Fair value reserve - equity instruments	-92	45
Net change in fair value	-113	55
Income tax	22	-10
Items that may be reclassified to profit or loss	**-829**	**-427**
Fair value reserve - debt instruments	-829	-427
Net change in fair value	-647	282
Net amount transferred to profit or loss	-376	-810
Income tax	194	100
Total comprehensive income for the year	**24.397**	**10.624**

The accompanying notes from 1 to 76 form an integral part of the financial statements and should be read in conjunction with them.

III. Statement of financial position

EUR thousand

	Note	31.12.2021	31.12.2020
Cash, cash balances at central banks and other demand deposits at banks	37	254.446	170.604
Financial assets held for trading	38	819	2.593
Non-trading financial assets mandatorily at fair value through profit or loss	40	313	313
Financial assets at fair value through other comprehensive income	40	98.575	106.243
Financial assets at amortised cost	39	981.711	1.145.105
Loans and advances to credit institutions		49.930	79.978
Loans and advances to customers		930.168	1.063.541
Other financial assets		1.613	1.586
Tangible assets	41	9.157	10.102
Intangible assets	42	2.312	2.456
Tax assets	36	11.551	10.721
Current tax assets	36	0	671
Deferred tax assets	36.1	11.551	10.050
Other assets	44	431	620
Non-current assets and disposal groups classified as held for sale	45	11.068	67
Total assets		**1.370.383**	**1.448.824**
Financial liabilities held for trading	46	1.432	1.874
Financial liabilities measured at amortised cost	47	1.172.408	1.246.212
Deposits of credit institutions		698	831
Deposits of customers		1.022.272	1.075.777
Loans of banks and central banks		136.558	158.579
of which subordinated loans		15.005	15.005
Debt securities issued		50	55
Other financial liabilities		12.830	10.970
Provisions	48	5.101	6.249
Tax liabilities		1.373	0
Current tax liabilities		1.373	0
Deferred tax liabilities		0	0
Other liabilities	49	2.888	2.250
Total liabilities		**1.183.202**	**1.256.585**
Capital	50	89.959	89.959
Share premium		18.814	18.814
Accumulated other comprehensive income		124	1.012
Retained earnings (including profit or loss for the financial year)		78.285	82.454
Total equity		**187.181**	**192.238**
Total liabilities and equity		**1.370.383**	**1.448.824**

The accompanying notes on pages from 1 to 76 an integral part of the financial statements and should be read in conjunction with them.

IV. Statement of changes in equity

EUR thousand

	Subscribed capital	Capital reserves	Fair value reserve	Cumulated result and other reserves	Total
Equity as at 01.01.2021	**89.959**	**18.814**	**1.012**	**82.453**	**192.238**
Result after tax	**0**	**0**	0	25.284	25.284
Other comprehensive income	0	0	-887	0	-887
Total comprehensive income	0	0	-887	25.284	24.397
Dividends paid	0	0	0	-29.454	-29.454
Other changes	0	0	-1	0	-1
Equity as at 31.12.2021	**89.959**	**18.814**	**124**	**78.285**	**187.181**

EUR thousand

	Subscribed capital	Capital reserves	Fair value reserve	Cumulated result and other reserves	Total
Equity as at 01.01.2020	**89.959**	**18.814**	**1.409**	**71.432**	**181.614**
Result after tax	**0**	**0**	0	11.020	11.020
Other comprehensive income	0	0	-395	0	-395
Total comprehensive income	0	0	-395	11.020	10.624
Capital increases	0	0	0	0	0
Other changes	0	0	-1	1	0
Equity as at 31.12.2020	**89.959**	**18.814**	**1.012**	**82.453**	**192.238**

The accompanying notes on pages from 1 to 76 form an integral part of the financial statements and should be read in conjunction with them.

V. Statement of cash flows

EUR thousand

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit or loss before tax	26.409	12.845
Depreciation	2.796	3.175
Impairments / (reversal of impairments) of loans and other financial assets measured at fair value through other comprehensive income	-222	227
Impairments / (reversal of impairments) of loans and other financial assets measured at amortised cost	-211	11.911
Impairments of tangible assets (including investment property), intangible assets and other assets	26	77
Net (gains) / losses from exchange differences	-1.613	-592
Modification gains/losses	-45	289
Net (gains) / losses from sale of tangible assets	0	7
Net (gains) / losses from sale of intangible assets	0	0
Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	0	0
Other adjustments to total profit or loss before tax	**0**	**0**
Cash flow from operating activities before changes in operating assets and liabilities	**27.139**	**27.939**
(Increases) / decreases in operating assets (excluding cash & cash equivalents)	**153.410**	**166.567**
Net (increase) / decrease in financial assets held for trading	1.773	-740
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income	6.921	33.557
Net (increase) / decrease in loans and receivables measured at amortised cost	155.529	133.889
Net (increase) / decrease in non-current assets and disposal groups classified as held for sale	-11.002	-32
Net (increase) / decrease in other assets	189	-107
Increases / (decreases) in operating liabilities	**-75.240**	**-178.071**
Net increase / (decrease) in financial liabilities held for trading	-443	-289
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost	-74.283	-176.767
Net increase / (decrease) in issued debt securities measured at amortized cost	-5	0
Net increase / (decrease) in other liabilities	-509	398
Cash flow from operating activities	**105.310**	**16.434**
Income taxes (paid) / refunded	**-366**	**-1.618**
Net cash flow from operating activities	**104.944**	**14.816**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from the sale of tangible assets	282	17
Receipts from the disposal of investments in debt securities measured at amortized cost	0	0
Receipts from non-current assets or related liabilities held for sale	0	0
Other receipts from investing activities	0	0
Cash payments on investing activities	**-1.543**	**-2.018**
(Cash payments to acquire tangible assets)	**-795**	**-551**
(Cash payments to acquire intangible assets)	**-749**	**-1.467**
Net cash flow from investing activities	**-1.261**	**-2.001**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments on financing activities	0	0
(Dividends paid)	-29.454	0

EUR thousand

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
(Cash repayments of subordinated liabilities)	0	0
(Lease payments)	-1.300	-1.414
Net cash flow from financing activities	**-30.754**	**-1.414**
Effects of change in exchange rates on cash and cash equivalents	786	-352
Net increase in cash and cash equivalents	**72.928**	**12.815**
Opening balance of cash and cash equivalents	**180.799**	**168.336**
Closing balance of cash and cash equivalents	**254.514**	**180.799**

EUR thousand

	2021	2020
CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	1.968	2.654
Interest received	38.700	45.369
Dividends received	21	29
TOTAL	**40.688**	**48.052**

EUR thousand

	2021	2020
CASH AND CASH EQUIVALENTS		
Cash on hand and cash balances with the central bank	254.514	170.799
Loans to banks with maturity up to three months	0	10.000
TOTAL	**254.514**	**180.799**

The accompanying notes from 1 to 76 from an integral part of the financial statements and should be read in conjunction with them.

VI. Notes

Company

Addiko Bank d.d. is a Slovenian Public Limited company, registered for providing universal banking services on the Slovenian market.

Full address of the Bank: Addiko Bank d.d., Dunajska cesta 117, Ljubljana, Slovenia

The Bank is 100% owned by Addiko Bank AG. The Addiko Bank AG headquarters is located at Wipplingerstraße 34, 1010 Vienna, Austria.

The consolidated financial statements can be obtained at the headquarters and the following websites: www.addiko.si and www.addiko.com.

Accounting policies

(1) Accounting principles

The financial statements of Addiko Bank were prepared for the reporting period from 01.01.2021 to 31.12.2021 in accordance with the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRS/SIC) as adopted by the European Union (EU) as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation).

The financial statements consist of the statement of profit or loss, 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 realisable within twelve or more than twelve months after the reporting date are described in note (66) Analysis of remaining maturities.

The financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 1, please refer to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

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

On 15 March 2022, the Management Board of Addiko Bank d.d. approved the financial statements as of 31 December 2020 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as of 31 December 2021.

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Company is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Company.

(2) Covid-19 disclosures

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

- Note (5) Accounting topics affected by Covid-19, discusses the accounting and measurement methods affected by Covid-19.
- Note (56) 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 (57) Risk provisions contain a separate sub-chapter "Method of calculating risk provisions" which explains the considerations of the pandemic on the ECL measurement and sensitivity analyses.

(3) 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

3.1 Amendments to IFRS 16 Leases: Covid-19 Related Rent

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 bank chose not to apply the practical expedient.

3.2 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 bank 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 Bank did not have any transactions for which the benchmark rate had been replaced with an alternative benchmark rate on 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.

The bank 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 of 31 December 2021, it is known that the remaining USD LIBOR tenors will be ceased on 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.

The Bank 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. The main risks to which the Bank 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 Bank's IBOR exposures to non-derivative financial assets of 31 December 2021 were Loans and advances indexed to EURIBOR and LIBOR. The Bank's IBOR exposures to non-derivative financial liabilities as of 31 December 2021 were deposits indexed to EURIBOR. The Bank holds interest rate derivatives with floating legs that are indexed to EURIBOR.

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 focus of the Addiko Bank during 2021 was the transition of CHF LIBOR. In Slovenia, which is located in European Union, there is a statutory solution based on EU Commission implementing act therefore annexes of customer's contracts are not needed.

EURIBOR was so far reformed (the calculation methodology was changed) rather than being replaced. The Bank 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.

The Bank 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. The Bank 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 on 1 January 2022 and which are referenced to LIBOR held on 31 December 2021:

in thousand EUR .

	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	1,012	42,911	0	0	0	0
Total	1,012	42,911	0	0	0	0

3.3 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 bank.

3.4 New standards not yet effective

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

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 Bank 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 Bank.

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 Bank.

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 Bank.

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 Bank.

3.5 New standards and interpretations not yet 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	Classification of liabilities as current or non-current
IAS 1	Amendments to IAS 1 Presentation of Financial	Disclosure of Accounting policies
IAS 8	Amendments to IAS 8 Accounting policies,	Definition of Accounting Estimates
IAS 12	Income Taxes	Deferred Tax related to Assets and liabilities arising

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 in the Addiko Bank.

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 Bank.

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 Bank.

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 Bank.

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 Bank.

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

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

Credit risk provisions
Addiko Bank 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, 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 (13) Financial instruments as well as to the Risk Report under note (57) Development of provisions.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 year tax plans. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. The Bank 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 (36) Taxes on income.

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

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. For further details regarding provisions refer to note (48) Provisions.

Lease contracts
The application of IFRS 16 requires Addiko Bank to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Bank comprises non-cancellable period of lease contracts,

periods covered by an option to extend the lease if Addiko Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if Addiko Bank is reasonably certain not to exercise that option.
Addiko Bank reassesses lease terms whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control, especially with regards to extension or termination options. For lease contracts with indefinite term, the Bank estimates the length of the contract using the planning models.

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

For further details regarding lease contracts, please refer to note (8).

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 (13) Financial instruments.

(5) Accounting topics affected by Covid-19

The Covid-19 pandemic and its effect on the global economy have continued to impact at different times and to varying degrees 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.

Slovenia has taken in 2020 a variety of measures, aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays up to twelve months. Further, Addiko Bank is offering renegotiations of repayment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

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 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 (58) Method of calculating risk provisions.

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.

Based on the set of criteria developed by Addiko Bank to assess whether or not a modification is substantial, described in the Note (14.3.) *Derecognition and contract modification*, public moratoria and payment holidays applied in the year 2020 in Bank did not lead to derecognition. In particular this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase.

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 (56) Credit risk.

(6) Basis of measurement

The 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	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	Fair value
Provision for pensions and other post employment defined	Present value of defined benefit obligations

(7) Foreign currency translation

Foreign currency translation within Addiko Bank 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.

(8) Leases

8.1 Leases in which Addiko Bank is a lessee

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 Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Addiko Bank 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 Bank also assess the right of use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the “right-of-use” approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases Addiko Bank 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. Non lease components have to be separated from lease components (Bank do not use expedient not to separate non-lease components).

Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (4) “Use of estimates and assumptions/material uncertainties in relation to estimates”).

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

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

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities.

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

8.2 Presentation in the financial statements

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

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 Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of financing activities.

(9) 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 the 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 the 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 (except for 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”.

(10) Net fee and commission income

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

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Bank 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 that are expensed as the services are received.

(11) 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 and foreign exchange gains and losses on monetary assets and liabilities. The Bank 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.

Net result on financial instruments includes gains and losses from derecognition of instruments at fair value through other comprehensive income and includes gains and losses from derecognition of financial assets and liabilities at amortised cost.

(12) Other net operating income

Other net operating income reflects all other income and expenses not directly attributable to ordinary activities, as expenses for restructuring or income from operating lease assets. Other taxes and certain regulatory charges are from year 2020 included in Administrative expenses. The contributions to the deposit guarantee scheme and to the Single Resolution Fund are presented in separate item Cash contributions to resolution funds and deposit guarantee schemes.

(13) 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 that 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.

13.1 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 Bank, two subsidiaries have classified part of their bond portfolios under Other business model; as such instruments are connected with the trading activities of the Bank, 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 the profit margin.

In assessing whether the contractual cash flows are SPPI, Addiko Bank 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 such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank'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.

SPPI compliance is assessed as follows:

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

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is one with the same credit quality and the same contractual terms except for the modification, either a 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 that 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 that 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 Bank classifies financial instruments 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 where 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). The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

A financial asset is recognised at trade date 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 Addiko Bank 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 new expected credit loss (ECL) model.

Interest income is presented in the line "Interest income calculated using the effective interest rate method". Impairment is presented in the line "Credit loss expense on financial assets". The difference between fair value and amortised cost is presented in "Fair value reserve" in the consolidated statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. 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 Bank has designated a small portfolio of equity instruments as FVTOCI investments. 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 Bank may use option to designate some financial assets as measured at FVTPL. Interest income is presented in the line "Other interest income". Dividend 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 Bank 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 a case in Addiko Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

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

Financial liabilities

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

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

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

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

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. Addiko Bank didn´t make a use of the option to design some financial liabilities as measured at FVTPL during 2021 and 2020.

Subordinated liabilities represent subordinated loans for which it is contractually agreed to be repaid in the event of bankruptcy or liquidation of the Bank. The subordinated debt is shown in the financial statements at amortised costs.

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

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

13.2 Impairment

While applying the forward-looking ECL model, Addiko Bank d.d. 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank 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 (40) Investment securities – fair value through other comprehensive income.

Overview ECL calculation

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

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

The PD (probability of default) parameters reflect the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology that were developed by Addiko Bank internal model development units. Generally, the models are country (Slovenia) specific and segment specific whenever possible and plausible. For certain parts of the portfolio, Group wide models (for all countries, including Slovenia) 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 the 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 (Slovenia) and segment level is applied. For Corporate a simplified approach is chosen: the Bank uses expertly determined overall LGD values in that segment. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

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

Significant increase in credit risk

The 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 is 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 the Banks' staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank 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 Bank.

The Bank uses the definition of default according to CRR Article 178, as this is the industry standard and it allows consistency between entities in Addiko Bank Group 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, the 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 portfolios types. The staging indicators are classified as follows:

Qualitative staging criteria:
- 30 days past due: the Bank identifies a staging criterion trigger when contractual payments are more than 30 days past due.
- Forborne exposures: are those exposures where the 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 thresholds of PD changes. 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

The 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. The 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 level (Slovenia specific) 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 the bank’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 the Bank 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.

The Bank 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 delivers reports to local Risk controlling unit, which after performed review, further delivers reports to local management.

Write-offs

When the Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the Bank'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.

13.3 Derecognition and contract modification

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired; or
- Addiko Bank 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 derecognition of original financial asset and to origination of 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, favourable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:

- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument by 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 derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

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

(14) Fiduciary transactions

Fiduciary transactions concluded by the Bank 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.

(15) Financial guarantees

Financial guarantees are contracts that oblige the Bank 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 less 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 unamortised balance of initially recognised premium.

(16) Cash, cash balances at central banks and other demand deposits at banks

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due and 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 (part of cash balances at central banks) 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.

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

Land and buildings used by Addiko Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment.
Property, plant and equipment is measured at amortised 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)	2.5 - 5 %	20 - 40 yrs
for movable assets (plant and equipment)	5 - 50 %	2 - 20 yrs

The depreciation rates and expected useful lives were the same also in 2021.

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Bank 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 as well as current lease proceeds from investment properties are reported under "other operating income" or "other operating expenses".

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

(18) 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:

Depreciation rate or useful life	in percent	in years
for software	14 -33%	3 -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.

(19) 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 Slovenia.

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 that 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 Bank 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 Bank'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.

(20) Other assets

Other assets mainly consist of deferred assets and real estate held as a current asset, but no financial instruments.

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

(21) 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 it's 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 item “Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations”

For detailed information, please refer to note (45 Non-current assets and disposal groups classified as held for sale.

(22) Provisions

22.1 Provisions for retirement benefits and similar obligations

Addiko Bank 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 are an actuarial interest rate of 0.9% as of 31 December 2021 (2020: 1.15%) and a salary increase of 1.5% p.a. (2020: 1.5% p.a.) for active staff members. Biometric basic data are taken into account for generation of mortality tables for salaried employees. Non-current personnel provisions are calculated on the basis of the earliest possible legal retirement age.

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

22.2 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 the 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”.

22.3 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.

22.4 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.

(23) Other liabilities

This item includes deferred income and non-financial liabilities. The deferrals are recognised at their nominal value, the liabilities at amortised cost.

(24) Share-based payments

Cash-settled share-based payments
Liabilities for the bank'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.

(25) Equity

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

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

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 and actuarial gains and losses.

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

Notes to the profit or loss statement

(26) Net interest income

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest income calculated using the effective interest method	**42,566**	**45,668**
Financial assets at fair value through other comprehensive income	615	967
Financial assets at amortised cost	41,597	44,295
Negative interest from financial liabilities	**355**	406
Other interest income	**573**	**715**
Financial assets held for trading	572	713
Other assets	1	2
Total interest income	**43,139**	**46,383**
Financial liabilities measured at amortised cost	-3,244	-4,460
o/w lease liabilities	-137	-137
Financial liabilities held for trading	-500	-615
Other liabilities	-7	-37
Negative interests on financial assets	-751	-478
Total interest expense	**-4,501**	**-5,590**
Net interest income	**38,638**	**40,793**

Interest expense of financial liabilities in the amount of EUR -4,501 thousand (YE20: EUR -5,590 thousand) includes expenses measured at amortised cost of EUR -3,244 thousand (YE20: EUR -4,460 thousand).The negative interest income on TLTRO III financial liabilities amounts to EUR 279 thousand (YE20: EUR 123 thousand).

Interest and similar income break down by instrument and sector as follows:

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives - Trading	**572**	**713**
Debt securities	**615**	**967**
Governments	250	604
Credit institutions	129	72
Other financial corporations	0	0
Non-financial corporations	235	292
Loans and advances	**41,597**	**44,295**
Central banks	0	0
Governments	698	680
Credit institutions	250	570
Other financial corporations	119	209
Non-financial corporations	10,361	10,821
Households	30,169	32,015
Other assets	1	**2**
Negative interest from financial liabilities	**354**	**406**
Central banks	354	406
Total	43,139	46,383

Interest expenses break down by instrument and sector as follows:

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives - Trading	**-500**	**-615**
Deposits	**-3,242**	**-4,028**
Central banks	0	0
Governments	-95	-182
Credit institutions	-2,163	-1,745
Other financial corporations	-134	-258
Non-financial corporations	-327	-495
Households	-523	-1,348
Issued bonds, subordinated and supplementary capital	**-2**	**-2**
Negative interest from financial assets	**-660**	**-478**
Debt securities	**-91**	**-32**
Central banks	-91	-32
Loans and advances	**0**	**-398**
Central banks	0	-266
Credit institutions	0	-132
Other assets	**-7**	**-37**
Total	**-4,501**	**-5,590**

(27) Net fee and commission income

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Accounts and Packages	3,794	3,692
Transactions	2,918	2,728
Cards	2,571	2,226
Foreign exchange & Dynamic currency conversion	82	75
Bankassurance	842	474
Loans	3,159	1,971
Trade finance	1,702	1,367
Depozits	903	151
Other	369	363
Fee and commission income	**16,339**	**13,047**
Cards	-1,532	-1,347
Transactions	-840	-1,194
Client incentives	0	0
Securities	-10	-7
Accounts and Packages	-365	-347
Other	-279	-100
Fee and commission expenses	**-3,026**	**-2,994**
Net fee and commission income	**13,313**	**10,052**

The fees and commission presented in this note include income of EUR 16,339 thousand (YE20 EUR 13,047 thousand) and expenses of EUR -3,026 thousand (YE20: EUR -2,994 thousand) relating to financial assets and liabilities not measured at FVTPL.

(28) Net result on financial instruments

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Held for trading financial instruments	328	276
o/w exchange difference	1,613	592
o/w gain or losses on financial instruments	-1,285	-316
Non trading financial assets	0	11
Financial assets at fair value through other comprehensive income	376	810
Financial liabilities measured at amortised cost	861	0
From derecognition of non financial assets, net	0	-10
Total	**1,565**	**1,087**

The exchange differences shown in the table above refer to financial assets and liabilities measured at amortised cost. Exchange differences arising from financial instruments measured at fair value are presented among net gains (losses) on financial assets and liabilities held for trading.

28.1 Gains or losses on financial instruments held for trading, net

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Derivatives	-1,285	-316
Total	**-1,285**	**-316**

The "derivatives" item shows the net losses arising from foreign exchange and interest rate swaps and foreign exchange futures and options.

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

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Interest rate instruments and related derivatives	-2	-33
Foreign exchange trading and derivatives related to foreign exchange and gold	-1,283	-283
Total	**-1,285**	**-316**

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

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Gains or losses on financial assets measured at fair value through other comprehensive income	376	810
Total	**376**	**810**

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

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Debt securities	376	810
Total	**376**	**810**

In 2021, the gains on financial assets measured at FVOCI amounted to EUR 376 thousand (YE20 EUR 810 thousand).

(29) Other net operating income

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Other operating income	915	**1,221**
Direct income arising from legal cases	81	0
Other income	834	1,221
Other operating expenses	**-60**	**-137**
Other expenses	-60	-137
Total	855	1,083

(30) Personnel expenses

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Wages and salaries	-10,658	-11,011
Social security	-817	-834
Variable rumeneration	-951	-402
Bonuses and sales incentives	-866	-402
Cash-settled share-based payments	-83	0
Other personal tax expenses	0	0
Voluntary social expenses	-2,036	-2,008
Expenses for retirement benefits	-924	-953
Expenses for severance payments	-35	-62
Other personnel expenses	-262	0
Total	**-15,683**	**-15,270**

In line with the ECB recommendation and restrictions of Banka of Slovenija the Bank did not recognise any variable remuneration based provisions for the year 2020. The expenses recognised under the line item - variable expenses - relate to the recognition of the difference between the 2019 bonus provisions and the final approved amount for year 2019.

(31) Other administrative expenses

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
IT expense	-3,878	-3,779
Premises expenses (other building expenses)	-1,782	-1,716
Legal and advisory costs	-1,035	-474
Advertising costs	-1,036	-932
Banking levies and other taxes	-715	-589
Other administrative expenses	-1,414	-1,498
Total	**-9,860**	**-8,988**

(32) Recovery and resolution fund

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Recovery and resolution fund	-534	-731
Deposit guarantee schemes	-512	-537
Total	**-1,045**	**-1,268**

(33) Depreciation and amortisation

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Property, plant and equipment	-1,904	-1,837
Intangible assets	-892	-1,338
Total	-2,796	-3,175

(34) Modification

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Modification gains or (-) losses, net	45	-289
Financial assets at amortised cost	45	-289
Total	**45**	**-289**

(35) Credit loss expenses on financial assets

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

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Change in CL on financial instruments at FVTOCI	222	**-227**
Change in CL on financial instruments at amortised cost	211	**-11,911**
Net allocation to risk provision	-1,552	-13,004
Proceeds from loans and receivables previously impaired	1,775	1,109
Directly recognised impairment losses	-11	-16
Net allocation of provisions for commitments and guarantees given	1,189	**931**
Total	**1,623**	**-11,207**

The provision bookings in 2021 were significantly below the amount recognised in the prior year of EUR -12,122 thousand, which included risk model adjustments in connection to changed macroeconomic parameters that incorporated estimated impacts of the Covid-19 pandemic.

(36) Taxes on income

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Current tax	-2,409	-1,111
Deferred tax	1,284	-714
Total	**-1,125**	**-1,825**

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

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Operating result before tax	**26,409**	**12,845**
Theoretical income tax expense based on Slovenian corporate tax rate of 19%	5,018	2,441
Tax effects	-2,609	-1,337
from foreign income and other tax-exempt income	140	166
from investment related tax relief and other reducing the tax burden	-2,676	-1,454
from non-tax deductibel expenses	-74	-49
Actual income tax (effective tax rate: 9.12% (2020:8.59%)	**2,408**	**1,103**

In 2021, the income tax was EUR 2,408 thousand (2020: EUR 1,103 thousand).

In 2021, the Bank derecognised the deferred tax assets of EUR -1,500 thousand (2020: EUR -624 thousand), of which in the amount of EUR -1,284 thousand through the profit and loss and in the amount of 216 thousand through other comprehensive income. In 2020, the Bank derecognised deferred tax assets of EUR -624 thousand, of which -714 thousand through the profit and loss and in the amount of 90 thousand through other comprehensive income.

In the current tax, item tax non-deductible income arises from the disposal (utilisation) of provisions and dividends received. The majority of tax non-deductible expenses is represented by the expenses arising from the impairment of investments, interest expenses from loans received from related parties, transfer prices between related parties, expenses for providing bonuses and other payments related to employment, and the non tax-deductible part of the expenses arising from the creation of provisions.

In 2021, when calculating corporate income tax, the Bank took into account EUR 14,086 thousand (2020: EUR 7,655 thousand) of tax deductions arising from transferred tax loss, investment relief, relief from the employment of disabled people, relief for voluntary supplementary pension insurance and donation relief. Due to higher profit in 2021 compared to 2020, the Bank was able to take into account EUR 6,649 thousand of tax relief from transferred tax loss

The effective tax rate for 2021 stood at 9.12% (2020: 8.59%).

36.1 Tax assets

EUR thousand

	01.01. - 31.12.2021	01.01. - 31.12.2020
Current tax assets	0	671
Deferred tax assets	11,551	10,050
Total	**11,551**	**10,722**

For 2021 the Bank will have to pay additional EUR 1,283 thousand of corporate income tax after the submission of the final income tax return.

36.1.1 DEFERRED TAX ASSETS/LIABILITIES

In the financial year 2021, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

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

EUR thousand

	1			2020		
	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)
Accelerated depreciation for tax purposes /Accelerated capital allowances	75	75	0	53	53	0
Financial assets designated at fair value through profit or loss	230	230	0	272	272	0
Other liabilities	-20	0	-20	-236	0	-236
Deferred revenue fee income	91	91	0	70	70	0
Existing taxable losses	11,175	11,175	0	9,892	9,892	0
Total deferred Tax	**11,551**	**11,571**	**-20**	**10,050**	**10,286**	**-236**

The total YoY change in deferred taxes in the financial statements is EUR 1,500 thousand. Of this, EUR 1,284 thousand is reflected in the current income statement as deferred tax expense, and an amount of EUR 216 thousand shown in other comprehensive income in equity.

In Year 2021, the bank recognised EUR 1.3 million in deferred taxes from the loss generated in the previous years.

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

EUR thousand

	2021	2020
Balance at start of period (01.01.)	10,050	**10,675**
Impact of adopting IFRS 9	**0**	**0**
Tax income/expense recognised in profit or loss	1,284	-714
Tax income/expense recognised in OCI	216	90
Balance at end of period (31.12.)	**11,551**	**10,050**

EUR thousand

	2021	2020
Deferred tax assets	11,551	10,050
Deferred tax liabilities	0	0
Total	**11,551**	**10,050**

As at 31 December 2021, the Bank had EUR 167,645 thousand of unused tax losses from previous years (EUR 181,090 thousand as of 31 December 2020); for 117,635 thousand in unused tax losses, the Bank has already recognised the deferred tax assets, for the remaining 50.010 thousand of unused tax losses DTA was unrecognized.

Notes to the statement of financial position

(37) Cash, cash balances at central banks and other demand deposits at banks

EUR thousand

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash	8,204	0	8,204
Cash balances at central banks	198,659	0	198,659
Other demand deposits	47,651	-68	47,583
Total	**254,514**	**-68**	**254,446**

EUR thousand

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash	7,724	0	7,724
Cash balances at central banks	150,240	0	150,240
Other demand deposits	12,836	-195	12,641
Total	**170,799**	**-195**	**170,605**

Cash balances at central bank and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central bank also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 8,434 thousand (YE20: EUR 9,817 thousand). The Bank has the amount of EUR 2,284 thousand deposited (in 2020: 1,456 thousand EUR) in the Margin account as collateral for trading with derivatives.

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

EUR thousand

	Stage 1
Gross carrying amount at 01.01.2021	**170,799**
Changes in the gross carrying amount	83,714
Transfer between stages	0
Write-offs	0
Gross carrying amount at 31.12.2021	**254,514**

EUR thousand

	Stage 1
Gross carrying amount at 01.01.2020	**138,338**
Changes in the gross carrying amount	32,461
Transfer between stages	0
Write-offs	0
Gross carrying amount at 31.12.2020	**170,799**

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

EUR thousand

	Stage 1
ECL allowance as at 01.01.2021	**-195**
Changes in the loss allowance	127
Transfer between stages	0
Write-offs	0
ECL allowance as at 31.12.2021	**-68**

EUR thousand

	Stage 1
ECL allowance as at 01.01.2020	**-37**
Changes in the loss allowance	-157
Transfer between stages	0
Write-offs	0
ECL allowance as at 31.12.2020	**-195**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (12-month ECL). The increase of gross carrying amount of cash reserves at central banks and other demand deposits did not incur increase of ECL because cash deposits at central banks are considered low risk business and central banks have very low probability of default.

(38) Financial assets held for trading

EUR thousand

	31.12.2021	31.12.2020
Derivatives	**819**	**2,593**
Total	**819**	**2,593**

The contractual values of derivative financial instruments are presented in Note 70.

(39) Loans and receivables

Addiko Bank measures all loans and receivables at amortised cost.

EUR thousand

31.12.2021	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Credit institutions	51,095	-225	0	0	0	50,870
Households	551,594	-1,313	-5,102	-7,043	0	538,136
Non-financial corporations	387,478	-1,662	-4,433	-6,862	0	374,521
Governments	13,500	-13	0	0	0	13,487
Other financial corporations	4,722	-22	-2	0	0	4,697
Total	1,008,389	-3,235	-9,538	-13,905	0	981,710

EUR thousand

31.12.2020	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount (net)
Credit institutions	81,278	-209	-225	0	0	80,844
Households	578,616	-1,993	-6,900	-6,557	0	563,166
Non-financial corporations	474,874	-3,185	-5,575	-6,247	0	459,867
Governments	31,154	-130	-15	0	0	31,009
Other financial corporations	10,304	-82	0	-2	0	10,219
Total	1,176,226	-5,600	-12,714	-12,807	0	1,145,105

39.1 Loans and advances to Credit institutions

EUR thousand

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	51,095	-225	50,870
Credit institutions	51,095	-225	50,870
Total	**51,095**	**-225**	**50,870**

EUR thousand

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	81,278	-434	80,844
Credit institutions	81,278	-434	80,844
Total	**81,278**	**-434**	**80,844**

Loans and advances to Credit institutions – development of gross carrying amount

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	31,030	0	0	0	81,278
Changes in the gross carrying amount	20,065	0	0	0	20,065
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Gross carrying amount as at 31.12.2021	51,095	0	0	0	51,095

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	131,675	0	0	0	131,675
Changes in the gross carrying amount	-50,387	-10	0	0	-50,397
Transfer between stages	-50,258	50,258	0	0	0
Write-offs	0	0	0	0	0
Gross carrying amount as at 31.12.2020	31,030	50,248	0	0	81,278

Loans and advances to credit institutions – development of ECL allowance

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-210	**-225**	0	0	-435
Changes in the loss allowance	-15	225	0	0	210
Transfer between stages	0	0	0	0	0
ECL allowance as at 31.12.2021	-225	0	0	0	-225

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	-244	0	0	0	-244
Changes in the loss allowance	191	0	0	0	191
Transfer between stages	225	-225	0	0	0
ECL allowance as at 31.12.2020	-210	-225	0	0	-435

39.2 Loans and advances to customers

EUR thousand

31.12.2021	Gross carrying amount	ECL			**POCI**	**Carrying amount (net)**
		Stage 1	Stage 2	Stage 3		
Households	551,594	-1,313	-5,102	-7,043	0	538,136
Non-financial corporations	387,478	-1,662	-4,433	-6,862	0	374,521
Governments	13,500	-13	0	0	0	13,487
Other financial corporations	4,722	-22	-2	0	0	4,697
Total	957,294	-3,010	-9,538	-13,905	0	930,840

EUR thousand

31.12.2020	Gross carrying amount	ECL			**POCI**	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	578,616	-1,993	-6,900	-6,557	0	563,166
Non-financial corporations	474,874	-3,185	-5,575	-6,247	0	459,867
Governments	31,154	-130	-15	0	0	31,009
Other financial corporations	10,304	-82	0	-2	0	10,219
Total	1,094,948	-5,390	-12,489	-12,807	0	1,064,261

The total value of pledged loans for long-term financing operations amounted to EUR 14,877 thousand at the end of the year (in 2020: 44,963 thousand).

39.2.1 LOANS AND ADVANCES TO HOUSEHOLDS

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**490,703**	**79,305**	**8,608**	**0**	**578,616**
Changes in the gross carrying amount	-9,814	-12,419	-244	0	-22,477
Transfer between stages	-11,576	6,574	5,002	0	0
Write-offs	-1	-5	-2,163	0	-2,169
Changes due to modifications that did not result in derecogni-	2	2	3	0	6
Changes in models/risk parameters					
Foreign exchange and other movements	-584	-205	-1,592	0	-2,382
Gross carrying amount at 31.12.2021	**468,729**	**73,251**	**9,613**	**0**	**551,594**

EUT thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	561,614	63,752	11,252	0	636,619
Changes in the gross carrying amount	-42,302	-9,594	-346	0	-52,242
Transfer between stages	-28,603	25,170	3,433	0	0
Write-offs	-4	-11	-22	0	-38
Foreign exchange and other movements	-1	-4	-2,113	0	-2,119
Gross carrying amount at 31.12.2020	490,703	79,305	8,608	0	578,616

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-1,993	-6,900	-6,557	0	-15,450
Changes in the loss allowance	5,243	-2,468	-3,485	0	-711
Transfer between stages	-4,636	4,238	398	0	0
Write-offs	0	5	2,163	0	2,169
Changes due to modifications that did not result in derecognition	0	0	-1	0	-1
Changes in models/risk parameters	0	0	0	0	0
Foreign exchange and other movements	73	23	439		535
ECL allowance as at 31.12.2021	-1,313	-5,102	-7,043	0	-13,458

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-1,675**	**-5,197**	**-8,431**	**0**	**-15,303**
Changes in the loss allowance	6,120	-7,396	-4,088	0	-5,364
Transfer between stages	-6,437	5,684	753	0	0
Write-offs	1	7	3,596	0	3,604
Foreign exchange and other movements	-1	4	1,598		1,600
ECL allowance as at 31.12.2020	**-1,993**	**-6,900**	**-6,557**	**0**	**-15,450**

39.2.2 LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	409,209	56,935	8,730	0	474,874
Changes in the gross carrying amount	-52,046	-19,589	-1,418	0	-73,053
Transfer between stages	-8,294	-2,458	10,753	0	0
Write-offs	-1	0	-3,693	0	-3,695
Changes due to modifications that did not result in derecognition	2	35	1	0	38
Foreign exchange and other movements	-10,903	219	-2	0	-10,686
Gross carrying amount at 31.12.2021	337,968	35,141	14,370	0	387,478

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**500,899**	**5,265**	**7,186**	0	**513,349**
Changes in the gross carrying amount	-32,292	-3,490	-1,722	0	-37,503
Transfer between stages	-59,185	55,183	4,002	0	0
Write-offs	0	0	-721	0	-721
Changes due to modifications that did not result in derecognition	-211	-26	-14	0	-251
Foreign exchange and other movements	-1	2	-1	0	0
Gross carrying amount at 31.12.2020	**409,209**	**56,935**	**8,730**	**0**	**474,874**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-3,185	-5,575	-6,247	0	-15,007
Changes in the loss allowance	1,916	-1,069	-2,214	0	-1,367
Transfer between stages	-389	2,223	-1,834	0	0
Write-offs	0	0	3,685	0	3,685
Changes due to modifications that did not result in derecognition	0	-7	0	0	-7
Foreign exchange and other movements	-3	-6	-252	0	-261
ECL allowance as at 31.12.2021	-1,662	-4,433	-6,862	0	-12,957

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	-2,696	-452	-4,507	0	-7,654
Changes in the loss allowance	-1,346	-4,261	-2,476	0	-8,083
Transfer between stages	856	-863	7	0	0
Write-offs	0	0	721	0	721
Changes due to modifications that did not result in derecognition	2	0	8	0	10
Foreign exchange and other movements	-1	2	-1	0	-1
ECL allowance as at 31.12.2020	-3,185	-5,575	-6,247	0	-15,007

39.2.3 LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**30,500**	**0**	**0**	0	**30,500**
Changes in the gross carrying amount	-17,497	0	0	0	-17,497
Transfer between stages	595	0	0	0	595
Foreign exchange and other movements	-99	0	0	0	-99
Gross carrying amount at 31.12.2021	**13,500**	**0**	**0**	0	**13,500**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**37,889**	**0**	**0**	0	**37,889**
Changes in the gross carrying amount	-6,725	-10	0	0	-6,735
Transfer between stages	-663	663	0	0	0
Gross carrying amount at 31.12.2020	**30,500**	**654**	**0**	0	**31,154**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-130**	**0**	**0**	0	**-130**
Changes in the loss allowance	130	0	0	0	130
Transfer between stages	-13	0	0	0	-13
ECL allowance as at 31.12.2021	**-13**	**0**	**0**	**0**	**-13**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-102**	**0**	**0**	0	**-102**
Changes in the loss allowance	-35	-8	0	0	-43
Transfer between stages	**7**	**-7**	**0**	0	0
ECL allowance as at 31.12.2020	**-130**	**-15**	**0**	**0**	**-145**

39.2.4 LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**10,302**	**0**	**0**	0	**10,302**
Changes in the gross carrying amount	-5,654	30	0	0	-5,624
Transfer between stages	1	0	0	0	1
Changes due to modifications that did not result in derecognition	1	0	0	0	1
Foreign exchange and other movements	43	0	0	0	43
Gross carrying amount at 31.12.2021	**4,692**	**30**	**0**	**0**	**4,722**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	15,162	0	261	0	15,423
Changes in the gross carrying amount	-4,860	0	15	0	-4,845
Write-offs	0	0	-274	0	-274
Foreign exchange and other movements	0	0	1	0	1
Gross carrying amount at 31.12.2020	**10,302**	**0**	**2**	**0**	**10,304**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-82	0	-2	0	-85
Changes in the loss allowance	61	-2	2	0	61
Transfer between stages	-3	0	3	0	0
Foreign exchange and other movements	1	0	-3	0	-1
ECL allowance as at 31.12.2021	**-22**	**-2**	**0**	**0**	**-24**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	-87	0	-261	0	-348
Changes in the loss allowance	5	0	-16	0	-11
Write-offs	0	0	274	0	274
ECL allowance as at 31.12.2020	**-82**	**0**	**-2**	**0**	**-85**

39.3 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 thousand

	2021		2020	
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
Other financial corporations	0	0	0	0
Non-financial corporations	9,933	7	10,527	-39
Households	7,073	36	11,111	-34
Total	17,006	43	21,637	-73

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 67 thousand on as at 31 December 2020 (2020: EUR 2,487 thousand).

(40) Investment securities

EUR thousand

	31.12.2021	31.12.2020
Fair value through other comprehensive income (FVTOCI)	98,575	106,243
Mandatorily at fair value through profit or loss (FVTPL)	313	313
Total	98,888	106,555

40.1 Fair value through other comprehensive income (FVTOCI)

EUR thousand

	31.12.2021	31.12.2020
Debt securities	**85,439**	**92,994**
Governments	46,420	54,736
Credit institutions	29,544	29,864
Other financial corporations	0	0
Non-financial corporations	9,475	8,393
Equity instruments	**13,136**	**13,249**
Governments	13,1360	13,2490
Total	98,575	106,243

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

EUR thousand

	31.12.2021	31.12.2020
Slovenian Bank Resolution Fund	13,136	13,249
Total	13,136	13,249

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

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**92,124**	0	0	0	**92,124**
Changes in the gross carrying amount	-6,754	0	0	0	-6,754
Gross carrying amount at 31.12.2021	**85,370**	**0**	**0**	**0**	**85,370**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**127,318**	0	0	0	**127,318**
Changes in the gross carrying amount	-34,324	0	0	0	-34,324
Transfer between stages	0	0	0	0	**0**
Gross carrying amount at 31.12.2020	**92,944**	**0**	**0**	**0**	**92,944**

Investment securities - development of ECL allowance

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-272	0	0	0	-272
Changes in the loss allowance	222	0	0	0	222
ECL allowance as at 31.12.2021	-49	0	0	0	-49

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	-44	0	0	0	-44
Changes in the loss allowance	-227	0	0	0	-227
ECL allowance as at 31.12.2020	-272	0	0	0	-272

No loss allowance is recognised in the statement of financial position for debt securities measured at FVOCI as the carrying amount is at fair value.

Hierarchy of the fair value of financial instruments measured at fair value through other comprehensive income are disclosed in Note 70.

The total value of pledged financial assets measured at fair value through other comprehensive income for long term financing operations amounted to EUR 45,197 thousand at the end of the year (in 2020: EUR 79,429 thousand).

40.2 Mandatorily at fair value through profit or loss (FVTPL)

EUR thousand

	31.12.2021	31.12.2020
Equity instruments	313	313
Non-financial corporations	313	313
Total	313	313

(41) Tangible assets

EUR thousand

	31.12.2021	31.12.2020
Owned property, plant and equipment	3,502	3,712
Land and buildings	2,261	2,375
Plant and equipment	1,241	1,337
Right of use assets	5,655	6,390
Land and buildings	5,523	6,191
Plant and equipment	132	199
Total	9,157	10,102

As at 31 December 2021, the Bank had no property, plant or equipment pledged as collateral.

(42) Intangible assets

EUR thousand

	31.12.2021	31.12.2020
Purchased software	2,312	2,456
Total	2,312	2,456

As of 31 December 2021, the Bank had no intangible fixed assets pledged as collateral.

(43) Development of tangible and intangible assets

43.1 Development of cost and carrying amounts

EUR thousand

31.12.2021	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment
Acquisition cost 01.01.2021	4,734	8,811	8,369	373
Additions	255	540	567	40
Disposals	-52	-1,586	-162	-44
Other changes	0	0	-81	0
Acquisition cost 31.12.2021	4,937	7,764	8,693	369
Cumulative depreciation and impairment 31.12.2021	-2,676	-6,523	-3,170	-237
Carrying amount 31.12.2021	2,261	1,241	5,523	132

EUR thousand

31.12.2020	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment
Acquisition cost 01.01.2020	4,493	8,729	8,441	311
Foreign exchange differences				
Additions	266	286	497	93
Disposals	-25	-204	-570	-32
Other changes	0	0	0	0
Acquisition cost 31.12.2020	4,734	8,811	8,369	373
Cumulative depreciation 31.12.2020	-2,359	-7,474	-2,178	-174
Carrying amount 31.12.2020	2,375	1,834	6,191	199

EUR thousand

31.12.2021	Purchased software
Acquisition cost 01.01.2021	**14,391**
Additions	749
Disposals	0
Other changes	0
Acquisition cost 31.12.2021	15,140
Cumulative depreciation and impairment 31.12.2021	-12,828
Carrying amount 31.12.2021	**2,312**

EUR thousand

31.12.2020	Purchased software
Acquisition cost 01.01.2020	**12,936**
Additions	1,467
Disposals	0
Other changes	-12
Acquisition cost 31.12.2021	14,391
Cumulative depreciation and impairment 31.12.2020	-11,936
Carrying amount 31.12.2020	**2,455**

43.2 Development of depreciation and amortisation

EUR thousand

31.12.2021	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Pland and equipment
Cumulative depreciation 01.01.2021	-2,359	-7,474	-2,178	-174
Disposals	52	1,304	120	32
Scheduled depreciation	-369	-353	-1,087	-95
Impairment	0	0	-28	0
Other changes	0	0	0	0
Write-ups	0	0	2	0
Cumulative depreciation 31.12.2021	-2,676	-6,523	-3,170	-237

EUR thousand

31.12.2020	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Pland and equipment
Cumulative depreciation 01.01.2020	-2,078	-7,339	-1,151	-92
Disposals	4	202	167	18
Scheduled depreciation	-285	-336	-1,116	-100
Impairment	0	0	-77	0
Other changes	0	0	0	0
Write-ups	0	0	0	0
Cumulative depreciation 31.12.2020	-2,359	-7,474	-2,177	-174

EUR thousand

31.12.2020	Purchased software
Cumulative depreciation 01.01.2021	**-11,936**
Disposals	0
Scheduled depreciation	-892
Impairment	0
Other changes	0
Write-ups	0
Cumulative depreciation 31.12.2021	**-12,828**

EUR thousand

31.12.2020	Purchased software
Cumulative depreciation 01.01.2020	-10,609
Disposals	11
Scheduled depreciation	-1,338
Impairment	0
Other changes	0
Write-ups	0
Cumulative depreciation 31.12.2020	**-11,936**

(44) Other assets

EUR thousand

	31.12.2021	31.12.2020
Prepayments and accrued income	420	603
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4	4
Other remaining assets	8	13
Total	431	620

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

In the current reporting period, this position mainly includes loans classified as held for sale.

EUR thousand

	31.12.2021	31.12.2020
Loans and receivables	11,068	67
Total	11,068	67

The bank allocates financial assets of 11,068 as non-current assets held for sale at 31.12.2021 because on 29.12.2021 it signed a sales contract with suing terms. If the suing conditions are met, the bank will sell the assets at an agreed price in 2022.

(46) Financial liabilities held for trading

EUR thousand

	31.12.2021	31.12.2020
Derivatives	1,432	1,874
Total	1,432	1,874

The contractual values of derivative financial instruments are presented in Note 71.

(47) Financial liabilities measured at amortised cost

EUR thousand

	31.12.2021	31.12.2020
Deposits and borrowings	1,159,529	1,235,187
Deposits and borrowings of credit institutions	698	831
Deposits and borrowings of customers	1,022,272	1,075,777
Subordinated loan	15,005	15,005
Issued bonds, subordinated and supplementary capital	50	55
Debt securities issued	50	55
Other financial liabilities	12,830	10,970
o/w lease liabilities	6,001	6,708
Total	1,172,408	1,246,212

The carrying amount of TLTRO III liabilities (presented in line “Deposits of credit institutions”) amounted to EUR 54,651 thousand as of 31 December 2021 (2020: EUR 74,877 thousand).

47.1 Deposits and borrowings of credit institutions

EUR thousand

	31.12.2021	**31.12.2020**
Current accounts / overnight deposits	0	831
Deposits with agreed terms	698	0
Borrowings of central bank and credit institutions	121,554	143,575
Total	**122,252**	**144,406**

47.2 Deposits of customers

EUR thousand

	31.12.2021	31.12.2020
Current accounts / overnight deposits	642,095	545,984
Governments	769	677
Other financial corporations	15,377	4,927
Non-financial corporations	260,356	236,654
Households	365,592	303,725
Deposits with agreed terms	370,991	522,612
Governments	52,822	51,382
Other financial corporations	43,307	76,997
Non-financial corporations	152,068	218,570
Households	122,795	175,662
Deposits redeemable at notice	9,186	7,182
Governments	978	971
Other financial corporations	0	3,083
Non-financial corporations	8,179	3,115
Households	28	13
Total	1,022,272	1,075,777

47.3 Debt securities issued

EUR thousand

	31.12.2021	31.12.2020
Certificates of deposit	50	55
Total	50	55

47.4 Subordinated loans

EUR thousand

	31.12.2021	31.12.2020
Subordinated loans	15,005	15,005
Total	15,005	15,005

The Bank discloses subordinated liabilities in the amount of EUR 15,005 thousand. Subordinated liabilities take the form of a borrowed loan from the parent company in the amount of 15,005 thousand with a maturity of 10 years, which is fully due on 29.07.2026. The Bank obtained the Bank of Slovenia's approval for the loan to be included in the calculation of additional capital in its entirety.

Subordinated debt is subordinated to all other liabilities of the Bank. The Bank of Slovenia may as a supervisory measure, which may be used in the event that it is determined that the Bank would not be able to settle its liabilities with its assets, in accordance with statutory provisions, stipulate that subordinated liabilities partially or fully terminate or that subordinate liabilities of the Bank convert partly or wholly into new ordinary shares of the Bank on the basis of an increase in the share capital of the Bank by paying an in-kind contribution in the form of claims of creditors representing subordinated liabilities.

(48) Provisions

EUR thousand

	31.12.2021	31.12.2020
Pending legal disputes	50	83
Commitments and guarantees granted	3,674	4,863
Other long term employee benefits	543	702
Pensions and other post employment defined benefit obligations	584	565
Restructuring measures	250	37
Total	5,101	6,249

The line item "other longterm employee benefits" include long- and short-term bonus provision for key management.

The calculated amount for provisions for restructuring measures, pending legal disputes is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties that are expected with regard to the fulfilment of the obligation. Estimates take into account risks and uncertainties.

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

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2021	304,295	13,157	7,542	0	324,994
Changes in the nominal value	-6,348	-6,396	-1,808	0	-14,552
Transfer between stages	3,963	-1,907	-2,056	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	1	7	0	8
Nominal value at 31.12.2021	301,910	4,854	3,685	0	310,450

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2020	293,114	3,838	9,449	0	306,400
Changes in the nominal value	21,295	-714	-1,988	0	18,594
Transfer between stages	-10,114	10,033	81	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Nominal value at 31.12.2020	304,295	13,157	7,542	0	324,994

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	-788	-472	-3,603	0	-4,863
Changes in the loss allowance	566	113	511	0	1,189
Transfer between stages	-262	247	15	0	0
ECL allowance as at 31.12.2021	-484	-112	-3,077	0	-3,674

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	-702	-190	-4,901	0	-5,793
Changes in the loss allowance	-40	-256	1,227	0	931
Transfer between stages	-45	-26	72	0	0
Write-offs	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2020	-788	-472	-3,603	0	-4,863

48.2 Provisions - development of other provisions

EUR thousand

	Carrying amount 01.01.2021	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2021
Pensions and other postemployment defined benefit obligations	565	60	-11		-30	584
Other longterm employee benefits	134	13	-15	0	-8	123
Restructuring measures	37	250	-37	0	0	250
Pending legal disputes	83	5	-38	0	0	50
Provision for variable payments	568	0	0	-44	0	525
Other provisions	0	0	0	0	0	0
Total	1,387	328	-101	-44	-37	1,533

EUR thousand

	Carrying amount 01.01.2020	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2020
Pensions and other postemployment defined benefit obligations	503	62	-17		16	565
Other longterm employee benefits	126	15	-9	0	2	134
Restructuring measures	186	0	-149	0	0	37
Pending legal disputes	87	24	-12	-15	0	83
Provision for variable payments	467	102	0	0	0	568
Other provisions	0	0	0	0	0	0
Total	1,368	203	-187	-15	18	1,387

48.3 Provisions - development of provisions for retirement benefits and severance payments

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

EUR thousand

	2021	2020
Present value of the defined benefit obligations as of 01.01	565	565
+ Current service cost	64	66
+ Contributions paid to the plan	-11	-17
+/- Actuarial gains/losses	0	0
+/- Actuarial gains/losses arising from changes in demographic assumptions	0	0
+/- Actuarial gains/losses arising from changes in financial assumptions	-22	9
+/- Actuarial gains/losses arising from changes from experience assumptions	-11	4
- Payments from the plan	0	0
+ Past service cost	0	0
+/- through business combinations and disposals	0	0
+/- Other changes		
Present value of the defined benefit obligations as of 31.12	584	626

Details regarding assumptions used in calculation are presented in note (23.1) Provisions for retirement benefit and similar obligations. Due to the low amount of personnel provisions for Addiko Bank as at 31 December 2021, further disclosures according to IAS 19 are omitted.

(49) Other liabilities

EUR thousand

	31.12.2021	31.12.2020
Deferred income	501	529
Accruals and other liabilities	2,387	1,720
Total	2,888	2,249

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

(50) Equity

EUR thousand

	31.12.2021	31.12.2020
Equity holders of parent	187,181	192,238
Subscribed capital	89,959	89,959
Capital reserves	18,814	18,814
Fair value reserve	124	1,012
Cumulated result and other reserves	78,284	82,453
Total	187,181	192,238

The subscribed capital is based on the financial statements as of 31 December 2021. The total amount of EUR 187,181 thousand (2020: EUR 192,238 thousand) corresponds to that fully paid up by the owner, which is divided into 141,706,318 no-par value shares.
The capital reserves include contributions from shareholders that do not represent subscribed capital. Capital reserves amounted to EUR 18,814 thousand (2020: 18,814 thousand).

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. At the end of 2021, the revaluation surplus amounted to EUR 124 thousand (2020: EUR 1,012 thousand).

Revenue reserves can only be created from net profit for the financial year and retained earnings. They are mainly intended for covering potential future losses. They are mandatorily broken down into legal reserves, reserves for own interests, own shares, statutory reserves and other revenue reserves.

Pursuant to the Companies Act, the Bank shall set aside legal reserves in such an amount that the sum of legal reserves and capital surplus amounts to 10% of the nominal capital or to a higher amount that is prescribed in the Articles of Association. If the legal reserves and capital surplus do not reach the percentage of share capital stated in the previous sentence, the Bank, when compiling the balance sheet, shall pay into the legal reserves 5% of the amount of net profit less the amount used to cover any transferred losses.

Capital surplus and legal reserves (tied-up reserves) may only be used under the following conditions.
a. If the total amount of these reserves falls short of the statutory percentage of share capital, they may only be used for:

- coverage of net loss for the financial year if it cannot be offset against retained earnings or other revenue reserves;
- coverage of transferred loss if it cannot be offset against the net profit for the financial year or other revenue reserves.

b. If the total amount of these reserves exceeds the statutory percentage of share capital, the surplus amount of these reserves may only be used for:

- increasing the share capital from company assets;
- coverage of net loss for the financial year if it cannot be offset against retained earnings and if no revenue reserves are used for the payment of profit to the shareholders; or
- coverage of transferred net loss if it cannot be offset against the net profit for the financial year and if the revenue reserves are not used for the payment of profit to the shareholders.

The Bank has no legal reserves; retained earnings from the previous years amounted to 78,284 thousand at the end of the year (2020: EUR 82,453 thousand).

In 2021, the Bank recognised profit in the amount of EUR 25,284 thousand (2020: EUR 11,020 thousand).

(51) Statement of cash flows

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

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

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

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

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

Risk Report

(52) Risk control and monitoring

The Bank 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 principles apply 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 Slovenian Banking Act.
- The Bank 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.

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

The Bank'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 Bank'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 Bank's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives that 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 Bank has established a Risk Appetite Framework (RAF) that 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 appropriate internal steering and surveillance.

(54) Risk organisation

The Bank has a single organisational structure, which is to great extent aligned with the group structure. The responsibilities of individual risk management segments are divided into three areas. All risk management segments report directly to a Member of the Management Board responsible for risks (CRO). The CRO acts independently of market and trading units, which is in line with the banking regulation.

In risk management, the Bank pays attention to all significant risks. The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans and 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 Management;
- Retail Bank Risk Management;
- Risk Controlling.

Retail Bank Risk Management oversees all the Retail Risk and Collections departments. It monitors and manages credit risk in Retail portfolio. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. 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. This enables that the risk appetite of the lending products is in line with the risk appetite of the Bank.

Corporate Credit Risk Management has the responsibility for credit risk management for all non-Retail customer segments, i.e. Standard, SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns) and Financial Institution. That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications, early warning system, management of non-performing exposures and real estate valuations. Strategically it defines policies, procedures, manuals, guidelines, and all other documents for above mentioned segments of credit risk management.

Risk Controlling operates as the independent risk management function, identifying, monitoring, controlling, and reporting of all material risks to Management and Supervisory Board, proposing of mitigation measures, initiating escalation in case defined limits are breached and defining methodology for risk measurement and assessment together with the Group. Risk Controlling 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, risk budgeting, tracking of risk exposure and steering of the processes related to ICAAP, SREP and recovery plan as well reports on them to the Management and Supervisory Board.
Risk Controlling includes three units:

- Market and Liquidity Risk Controlling
- Credit Risk Controlling
- Operational Risk Controlling

Market & Liquidity Risk Controlling is involved in identifying, monitoring, controlling and reporting of market and liquidity risks, cooperates in defining methodology for risk measurement and assessment of the Bank, limit setting process, initiating escalation in case defined limits are breached and proposing of mitigation measures within the defined risk appetite and regulatory limitations.

Credit Risk Controlling deals with identifying, measuring, managing, monitoring and reporting credit risk and oversees the credit risk model landscape from a portfolio management perspective and supervises development of portfolio dependent and -business-related credit risk models as well as validation and regular monitoring of credit risk and IFRS 9. It makes sure that applied models fulfil expected quality standards while fitting within the model architecture also in terms of budget and strategy. The unit also deals with credit risk reporting. The validation function is outsourced to Risk Validation team within Addiko Group; however, the local team is strongly involved in the performed validation and review the validation results and reports.

Operational Risk Controlling provides strategic direction with a robust framework of operational risk management, which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience. The unit also deals with the Fraud Risk management with the goal of ensuring a consistent approach to the entire process of Fraud Risk Management. Fraud risk manager operates by means of a risk management assessment for supporting fraud risk identification, assessment, and control implementation in business processes; they support early identification of fraud risk in business products and proposing anti-fraud controls.

Local Data Office (LDO) is the main responsible function for the business aspects of enterprise data management. LDO implements and maintains group-wide methods, standards and definitions to achieve a common and harmonized view on enterprise data. In operational matters the LDO team is supporting business functions in regular and ad-hoc reporting, common/central data transformations and calculations and data quality monitoring and reporting.

(55) Internal risk management guidelines

The Bank implements Group wide standard risk management guidelines to ensure that risks are dealt with in a standardised manner and in line with local legislation. 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 Bank has clearly defined responsibilities for all risk guidelines, including preparation, review and update. Each group guideline must be implemented at the local level 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.

(56) Credit risk

56.1 Definition

In terms of scale, credit risk constitutes the most significant risks for Addiko Bank. 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.

56.2 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 Board, credit decisions are made by the Supervisory Board, Management Board and Credit Committee as well as by key staff in the credit risk management units.

The Credit Committee is a permanent institution of Addiko Bank and the highest body for making credit decisions, subordinated only to the Management Board. All methodological matters relating to credit risk are accepted by the Management Board.

The Risk Executive Committee (RECO) is responsible for monitoring and managing credit risk.

56.3 Risk measurement

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

56.4 Risk limitation

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

At Addiko, limits within the financial institutions segment are set and monitored independently by a responsible unit. If limits are exceeded, this is communicated immediately to the operative risk unit as well as front office and reported to the Risk Executive Committee. In all other segments, limit control is carried out through a Bank policy for Financial institutions, Sovereigns and Sub-Sovereigns Intra Group limits. At the portfolio level, there are country limits to prevent the formation of risk concentrations; limit breaches are escalated to the Risk Executive Committee, 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 that 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.

56.5 Reconciliation between Financial instrument 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, while on the other hand excluding the financial assets held for trading (derivatives).

Breakdown of net exposure within Addiko Bank in accordance with IFRS 7.36 as at 31 December 2021

EUR thousand

31.12.2021		Performing			Non Performing			Total
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1]	246,310	-68	246,242	0	0	0	246,310	246,242
Financial assets held for trading[2]	819	0	819	0	0	0	819	819
Loans and advances to customers	984,402	-12,773	971,628	23,987	-13,905	10,082	1,008,389	981,710
of which credit institutions	51,095	-225	50,870	0	0	0	51,095	50,870
of which customer loans	933,307	-12,548	920,759	23,987	-13,905	10,082	957,294	930,841
Investment securities[3]	98,625	-49	98,575	0	0	0	98,625	98,575
Other Assets - IFRS 5[4]	11,068	0	11,068	0	0	0	11,068	11,068
On balance total	**1,341,224**	**-12,890**	**1,328,334**	**23,987**	**-13,905**	**10,082**	**1,365,211**	**1,338,416**
Off balance	306,764	-597	306,166	3,679	-3,077	601	310,442	306,768
Total credit risk exposure	**1,647,988**	**-13,488**	**1,634,500**	**27,666**	**-16,982**	**10,684**	**1,675,654**	**1,645,183**

1) The position does not include cash on hand in amount of EUR 8,2 million. 2) The position consists of on-balance exposure on derivatives - it is excluded from every other table in this report, unless specifically stated otherwise. 3) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 4) The position includes only loans and receivables.

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2020:

EUR thousand

31.12.2020	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1)]	163,075	-195	162,881	0	0	0	163,075	162,881
Financial assets held for trading[2)]	2,593	0	2,593	0	0	0	2,593	2,593
Loans and advances to customers	1,158,898	-18,327	1,140,571	17,328	-12,794	4,534	1,176,226	1,145,105
of which credit institutions	81,278	-434	80,844	0	0	0	81,278	80,844
of which customer loans	1,077,619	-17,892	1,059,727	17,328	-12,794	4,534	1,094,947	1,064,261
Investment securities[3)]	106,514	-272	106,243	0	0	0	106,514	106,243
Other Assets - IFRS 5[4)]	1	0	1	423	-357	66	424	67
On balance total	**1,431,081**	**-18,793**	**1,412,288**	**17,751**	**-13,151**	**4,600**	**1,448,832**	**1,416,888**
Off balance	317,452	-1,260	316,192	7,542	-3,602	3,939	324,994	320,131
Total credit risk exposure	**1,748,534**	**-20,054**	**1,728,480**	**25,293**	**-16,753**	**8,539**	**1,773,826**	**1,737,019**

1) The position does not include cash on hand in amount of EUR 7.7 million. 2) The position consists of on-balance exposure on derivatives - it is excluded from every other table in this report, unless specifically stated otherwise. 3) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 4) The position includes only loans and receivables.

56.6 Credit risk exposure by rating class

At 31 December 2021, roughly 38.5% (YE20: 33.9%) of the exposure is categorised as rating classes 1A to 1E. This exposure primarily relates to receivables from financial institutions, small and medium companies and private individuals.

The overall NPE stock development in 2021 has mainly been influenced by a regular debt sale process on the Consumer segment, repayments, internal write-offs according to Slovenian legislation and collection effects. Still taking all these effects into consideration, the overall non-performing exposure increased during 2021 by EUR 2.4 million, mainly due to increase in Consumer Portfolio and SME portfolio.

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

EUR thousand

31.12.2021	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	35,296	228,867	79,251	43,297	7,373	0	394,084
SME	97,841	262,544	74,624	38,363	18,053	0	491,424
Non-Focus	178,480	179,643	17,320	7,824	2,240	0	385,507
o/w Large Corporate	30,180	128,837	11,633	4,780	0	0	175,431
o/w Mortgage	134,689	29,632	4,746	3,040	2,240	0	174,346
o/w Public Finance	13,612	21,173	941	4	0	0	35,730
Corporate Center[1]	333,253	66,990	3,576	0	0	0	403,819
Total	**644,870**	**738,044**	**174,770**	**89,483**	**27,666**	**0**	**1,674,834**

1) Corporate Center includes financial institutions comprising also the exposure towards Bank of Slovenia, Investment securities and Intragroup business

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

EUR thousand

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	32,045	241,278	67,504	44,391	6,655	0	391,873
SME	69,670	287,702	85,171	31,199	12,966	0	486,709
Non-Focus	237,773	241,319	44,756	11,946	5,672	0	541,466
o/w Large Corporate	45,715	180,013	38,013	8,071	3,181	0	274,993
o/w Mortgage	159,952	38,388	5,844	3,876	2,490	0	210,550
o/w Public Finance	32,105	22,918	900	0	0	0	55,923
Corporate Center[1]	260,346	88,791	2,049	0	0	0	351,186
Total	**599,833**	**859,090**	**199,481**	**87,536**	**25,293**	**0**	**1,771,233**

1) Corporate Center includes financial institutions comprising also the exposure towards Bank of Slovenia, Investment securities and Intragroup business

The classification of credit assets into risk grades is based on the Bank's 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 that 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.

Addiko Bank applies the customer view to all customer segments, including retail clients. An obligor defaults on every deal and is classified as non-performing if an internal or regulatory threshold is met at the customer level. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	206,837	10,936	0	0	217,773
2A-2E	476,391	6,106	0	0	482,497
3A-3E	134,144	14,288	0	0	148,432
Watch	7,513	77,092	0	0	84,605
NPE	1	0	23,987	0	23,987
No rating	0	0	0	0	0
Total gross carrying amount	824,886	108,422	23,987	0	957,294
Loss allowance	-3,010	-9,538	-13,905	0	-26,453
Carrying amount	**821,876**	**98,884**	**10,081**	**0**	**930,841**

EUR thousand

31.12.2020 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	268,421	12,987	0	0	281,408
2A-2E	542,822	4,762	13	0	547,597
3A-3E	125,795	40,108	0	0	165,904
Watch	3,674	79,037	0	0	82,711
NPE	1	0	17,327	0	17,328
No rating	0	0	0	0	0
Total gross carrying amount	940,713	136,894	17,341	0	1,094,947
Loss allowance	-5,390	-12,489	-12,807	0	-30,686
Carrying amount	**935,322**	**124,405**	**4,534**	**0**	**1,064,261**

Loans and advances to banks at amortised cost:

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	113	0	0	0	113
2A-2E	50,980	0	0	0	50,980
3A-3E	2	0	0	0	2
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	51,095	0	0	0	51,095
Loss allowance	-225	0	0	0	-225
Carrying amount	**50,870**	**0**	**0**	**0**	**50,870**

EUR thousand

31.12.2020 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	184	0	0	0	184
2A-2E	30,847	50,248	0	0	81,095
3A-3E	0	0	0	0	0
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	31,030	50,248	0	0	81,278
Loss allowance	-209	-225	0	0	-434
Carrying amount	**30,821**	**50,023**	**0**	**0**	**80,844**

Debt instruments measured at FVTOCI:

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	89,100	0	0	0	89,100
2A-2E	7,329	0	0	0	7,329
3A-3E	2,146	0	0	0	2,146
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Fair value	**98,575**	**0**	**0**	**0**	**98,575**

No loss allowance is recognised in the statement of financial position for debt securities measured at FVOCI as the carrying amount is at fair value.

EUR thousand

31.12.2020 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	97,850	0	0	0	97,850
2A-2E	6,380	0	0	0	6,380
3A-3E	2,013	0	0	0	2,013
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Fair value	**106,243**	**0**	**0**	**0**	**106,243**

No loss allowance is recognised in the statement of financial position for debt securities measured at FVOCI as the carrying amount is at fair value.

Commitments and financial guarantees given:

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	99,949	55	0	0	100,003
2A-2E	177,553	141	0	0	177,695
3A-3E	23,138	1,049	0	0	24,187
Watch	1,270	3,609	0	0	4,879
NPE	0	0	3,679	0	3,679
No rating	0	0	0	0	0
Total gross carrying amount	301,910	4,854	3,679	0	310,442
Loss allowance	-485	-112	-3,077	0	-3,674
Carrying amount	**301,425**	**4,741**	**601**	**0**	**306,768**

EUR thousand

31.12.2020 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	58,204	35	0	0	58,239
2A-2E	222,709	151	1	0	222,861
3A-3E	22,997	8,531	0	0	31,528
Watch	320	4,505	0	0	4,824
NPE	0	0	7,542	0	7,542
No rating	0	0	0	0	0
Total gross carrying amount	304,230	13,222	7,542	0	324,994
Loss allowance	-788	-472	-3,603	0	-4,863
Carrying amount	**303,442**	**12,750**	**3,939**	**0**	**320,131**

56.7 Credit risk exposure by region

Addiko Bank's country portfolio focuses on South Eastern Europe, especially on the domestic market. The following table shows the breakdown of exposure by region within the Bank's portfolio (at customer level):

EUR thousand

	31.12.2021	31.12.2020
SEE	1,525,890	1,592,796
Europe (excl. CEE/SEE)	103,427	124,219
CEE	40,492	46,753
Other	5,026	7,465
Total	**1,674,834**	**1,771,233**

56.8 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 26.1% at YE21 (YE20: 23.3%). The well-diversified private customers sector accounts for a share of 33.9% (YE19: 33.7%).

EUR thousand

31.12.2021 **Business sector**	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	511	567,859	0	0	568,370
Financial services	95,6	276,599	0	76	372,471
Public sector	1,009	18,866	40,462	4,950	65,286
Industry	4,974	316,342	0	0	321,316
Trade and commerce	0	102,234	0	0	102,234
Services	1,137	153,833	30	0	155,000
Real estate business	0	51,607	0	0	51,607
Tourism	0	34,838	0	0	34,838
Agriculture	0	3,621	0	0	3,621
Other	0	92	0	0	92
Total	**103,427**	**1,525,890**	**40,492**	**5,026**	**1,674,834**

EUR thousand

31.12.2020 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	503	596,335	0	0	596,838
Financial services	109,155	213,982	0	3,126	326,263
Public sector	8,020	31,062	46,723	0	85,805
Industry	5,005	348,204	0	4,339	357,548
Trade and commerce	0	107,386	0	0	107,386
Services	1,536	186,254	30	0	187,820
Real estate business	0	56,115	0	0	56,115
Tourism	0	49,663	0	0	49,663
Agriculture	0	3,691	0	0	3,691
Other	0	103	0	0	103
Total	**124,219**	**1,592,796**	**46,753**	**7,465**	**1,771,233**

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

56.9 Presentation of exposure by overdue days

EUR thousand

31.12.2021	No Overdue	Overdue				Total
		to 30 days	from 31 to 60 days	from 61 to 90 days	more than 90 days	
Consumer	383,601	4,870	845	448	4,321	394,084
SME	486,062	937	1,022	177	3,226	491,424
Non-Focus	383,933	63	31	0	1,480	385,507
o/w Large Corporates	175,431	0	0	0	0	175,431
o/w Mortgage	172,772	63	31	0	1,480	174,346
o/w Public Finance	35,730	0	0	0	0	35,730
Corporate Center	403,816	3	0	0	0	403,819
Total	**1,657,412**	**5,873**	**1,898**	**625**	**9,027**	**1,674,834**

EUR thousand

31.12.2020	No Overdue	Overdue				Total
		to 30 days	from 31 to 60 days	from 61 to 90 days	more than 90 days	
Consumer	382,639	4,526	1,018	734	2,956	391,873
SME	478,381	4,946	29	0	3,353	486,709
Non-Focus	539,768	9	47	83	1,559	541,466
o/w Large Corporates	274,993	0	0	0	0	274,993
o/w Mortgage	208,851	9	47	83	1,559	210,550
o/w Public Finance	55,923	0	0	0	0	55,923
Corporate Center	269,542	81,644	0	0	0	351,186
Total	**1,670,329**	**91,126**	**1,094**	**817**	**7,867**	**1,771,233**

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

56.10 Presentation of exposure by size class

As 31 December 2021, around 47.8% (YE20: 43.7%) 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 211.8 million (YE19: EUR 163.5 million) of exposure in the range > EUR 100 million is entirely attributable to exposure towards the national bank. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments. The presentation is based on the group of borrowers (GoBs).

EUR thousand

	31.12.2021		31.12.2020	
Size classes	Exposure	No of GoBs	Exposure	No of GoBs
< 10,000	79,992	26,883	70,807	24,446
10,000-50,000	375,534	16,961	340,119	15,084
50,000-100,000	106,667	1,513	120,814	1,737
100,000-250,000	93,821	649	110,196	777
250,000-500,000	64,826	186	59,418	167
500,000-1,000,000	82,225	121	73,056	103
1,000,000-10,000,000	464,399	160	538,407	159
10,000,000-50,000,000	143,335	10	212,551	15
50,000,000-100,000,000	52,239	1	82,378	2
> 100,000,000	211,795	1	163,489	1
Total	**1,674,834**	**46,485**	**1,771,233**	**42,491**

56.11 Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR thousand

	31.12.2021		31.12.2020	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	644,764	91,182	599,833	128,504
2A-2E	737,005	138,870	776,472	186,488
3A-3E	173,803	42,957	194,374	63,662
Watch	85,369	24,199	83,074	22,436
NPL	1,869	1,850	6	1
No rating	0	0	0	0
Total	**1,642,810**	**299,058**	**1,653,760**	**401,091**

The non-performing exposure stated in the table above primarily result from the fact that high primary and secondary cash flow expectations result in no requirement for specific risk provisions.

Overdue but not impaired financial assets:

EUR thousand

Loans and advances to customers (on- and off-balance)	31.12.2021 Exposure	Collateral	31.12.2020 Exposure	Collateral
- overdue to 30 days	5,373	22	9,177	2,447
- overdue 31 to 60 days	622	9	715	6
- overdue 61 to 90 days	227	0	636	57
- overdue 91 to 180 days	1	0	0	0
- overdue 181 to 365 days	4	0	0	0
- overdue over 1 year	1	0	3	0
Total	**6,228**	**32**	**10,531**	**2,510**

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

Impaired financial instruments:

EUR thousand

Loans and advances to customers (on- and off-balance)	31.12.2021	31.12.2020
Exposure	25,793	24,875
Provisions	16,982	16,410
Collateral	11,362	10,513

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 (13.2) “Impairment” 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.

56.11.1 FORBEARANCE

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

During the 2020, payment moratoria were granted on a significant number of exposures to a significant number of clients, due to special circumstances related to Covid-19. The majority of payment moratoria granted fulfil the conditions as defined in the EBA 2020/02/20 from April 2020 (including updates), and also with local regulation issued specifically for this purpose. As a consequence moratoria granted to clients impacted by Covid-19 was not considered an 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 Addiko Bank in the course of the financial year 2021. The off-balance positions only include loan commitments.

EUR thousand

	01.01.2021	Classified as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2021
Central banks	0	0	0	0	0	0	0
General governments and government related entities	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Non-financial corporations	14,229	12,474	-393	0	0	-3,924	22,387
Households	11,383	7,905	-354	0	0	-1,430	17,504
Loans and advances	**25,612**	**20,379**	**-747**	**0**	**0**	**-5,353**	**39,891**
Loan commitments given	**299**	**4**	**-140**	**0**	**0**	**47**	**210**

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

EUR thousand

	01.01.2020	Classified as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2020
Central banks	0	0	0	0	0	0	0
General governments and government related entities	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	258	0	0	0	0	-258	0
Non-financial corporations	4,304	11,170	-510	0	0	-735	14,229
Households	6,757	6,176	-711	0	0	-838	11,383
Loans and advances	**11,318**	**17,346**	**-1,222**	**0**	**0**	**-1,831**	**25,612**
Loan commitments given	**102**	**180**	**0**	**0**	**0**	**17**	**299**

The forbearance exposure was as follows in 2021:

EUR thousand

	31.12.2021	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets
General governments and government related entities	0	0	0	0	0
Credit institutions	0	0	0	0	0
Other financial corporations	0	0	0	0	0
Non-financial corporations	22,387	11,577	114	10,697	71
Households	17,504	11,772	3,311	2,421	106
Loans and advances	**39,891**	**23,349**	**3,425**	**13,118**	**177**

Following table shows the collateral allocation for the forbearance exposure at the year 2021:

EUR thousand

Internal Collateral Value (ICV) in respect of forborne assets	Internal Collateral Value (ICV)	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporates	3,961	3,961	0	0	0	0
Medium and Small Corporate	11,875	9,416	288	125	1,750	297
Retail	5,113	1,005	4,003	0	9	96
Total	**20,950**	**14,382**	**4,291**	**125**	**1,759**	**393**

The forbearance exposure was as follows in 2020:

EUR thousand

	31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets
General governments and government related entities	0	0	0	0	0
Credit institutions	0	0	0	0	0
Other financial corporations	0	0	0	0	0
Non-financial corporations	14,229	6,389	3,303	4,537	98
Households	11,383	7,944	1,524	1,915	124
Loans and advances	**25,612**	**14,333**	**4,827**	**6,452**	**222**

Following table shows the collateral allocation for the forbearance exposure at the year 2020:

EUR thousand

Internal Collateral Value (ICV) in respect of forborne assets	Internal Collateral Value (ICV)	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporates	0	0	0	0	0	0
Medium and Small Corporate	9,178	8,084	293	59	433	310
Retail	3,748	46	3,664	0	0	38
Total	**12,926**	**8,130**	**3,957**	**59**	**433**	**348**

56.11.2 MORATORIA DUE TO COVID-19

The systemic solution on Slovenian level represents the Emergency Deferral of Borrowers' Liabilities Act, adopted in March 2020, which offered the deferral of credit liabilities for firms, sole traders, cooperatives, farmers and also other individuals. Loan restructuring, which to date has been an option available by agreement between banks and borrower, is thus made mandatory by the law (subject to criteria defined by law).

Most of Covid moratoriums were concluded in April and May of 2020, and then in November and December of 2020 during the 2nd wave of Covid-19. Addiko Banka d.d. adopted in line with legislation an approach in which the decision to grant the moratoria is on the bank, based on client´s request.

The moratorium applied to a large group of obligors predefined on the basis of broad criteria within national legislation and envisaged only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time. Moratoriums were granted for the period up to 12 months, subject to applicable government measure.

Bank granted moratoria in 2020 that fulfilled the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic triggering of forbearance or default classification. However, the Bank continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

Most of the Covid moratorium expired on the 31.12.2021, residual exposure under Covid moratoria is immaterial.

The following table shows the amount of exposure under moratoria per market segment on 31.12.2021:

EUR thousand

31.12.2021	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	118	-8	44	-32	162	-40
SME	0	0	382	-336	382	-336
Non Focus	4	0	0	0	4	0
o/w Large Corporate	0	0	0	0	0	0
o/w Mortgage	4	0	0	0	4	0
o/w Public Finance	0	0	0	0	0	0
Corporate Center	0	0	0	0	0	0
Total	**122**	**-8**	**426**	**-368**	**548**	**-376**

EUR thousand

31.12.2020	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	11,271	-658	1,459	-1,046	12,730	-1,704
SME	57,656	-3,914	1,293	-555	58,949	-4,469
Non Focus	21,555	-372	304	-60	21,859	-431
o/w Large Corporate	15,713	-214	0	0	15,713	-214
o/w Mortgage	5,843	-158	304	-60	6,146	-218
o/w Public Finance	0	0	0	0	0	0
Corporate Center	0	0	0	0	0	0
Total	**90,482**	**-4,944**	**3,055**	**-1,661**	**93,537**	**-6,605**

(57) Risk provisions

57.1 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 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), Addiko bases its assumptions on the collateral's market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

Model timeseries (under the same overall methodological framework used in the preparation of the 2021 financial statements) were prolonged taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

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, accompanied by modest, but quite evident decrease in uncertainty. However, Addiko perceives uncertainty levels to be historically high, still remaining elevated in relation to pre-Covid shock, and risks weighing 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	Pessimistic 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, %)						
Slovenia	-4.2	5.2	4.1	3.0	5.1	1.7
Euroarea	-6.3	4.8	4.4	2.1	4.3	1.4
Unemployment Rate (ILO, average %)						
Slovenia	5.0	4.7	4.3	4.1	1.4	7.0
Euroarea	7.9	8.1	7.8	7.2	5.2	9.5
Real-Estate (% of change)						
Slovenia	4.6	3.0	2.2	2.2	5.1	-0.7
Euroarea	5.2	5.5	3.5	3.0	6.1	0.2
CPI Inflation (average % YoY)						
Slovenia	-0.3	1.8	1.6	1.6	1.8	1.4
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. Slovenia 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 by 2022. On average, 2022-2024 period will probably bring growth of 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 materialize 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 Slovenia, deviating as much as 1.7 p.p. from the baseline.

- 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 materialize 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.

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 Bank to cover the broad range of future expectations.

EUR thousand

31.12.2021	Probability weighted	Optimistic Case	Base Case	Pessimistic Case
Retail	6.234	5.987	6.177	6.392
Non-retail	6.891	5.285	6.486	7.985
Corporate center	313	71	208	547
Total	**13.437**	**11.343**	**12.872**	**14.924**

EUR thousand

31.12.2020	Probability weighted	Optimistic Case	Base Case	Pessimistic Case
Retail	8.841	8.619	8.801	8.997
Non-retail	10.311	9.035	10.047	11.263
Corporate center	630	397	565	838
Total	**19.782**	**18.051**	**19.413**	**21.097**

57.2 Development of risk provisions

The decrease of risk provisions in 2021 is driven by lower overall ECL coverage for performing loans (Stage 1 and 2) 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).

57.3 Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Addiko Bank, updates are performed regularly to make sure that the latest available information is considered. In 2021 a refinement/recalibration of all segments was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs and retail LGDs, and an update of the macro forecasts to reflect the latest available information.

57.4 Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) has decreased in 2021 (61.4%) compared to YE20 (66.2%).

The following table shows the NPE and coverage ratio (NPE coverage ratio considers Stage 3 allowances, while NPE coverage ratio (including collateral) additionally considers collaterals) according to the internal segmentation valid as of 31 December 2021:

EUR thousand

31.12.2021	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	394,084	7,373	-5,815	968	1.9%	78.9%	92.0%
SME	491,424	18,053	-9,918	11,217	3.7%	54.9%	117.1%
Non Focus	385,507	2,240	-1,250	1,027	0.6%	55.8%	101.7%
o/w Large Corporate	175,431	0	0	0	0.0%	0.0%	0.0%
o/w Mortgage	174,346	2,240	-1,250	1,027	1.3%	55.8%	101.7%
o/w Public Finance	35,730	0	0	0	0.0%	0.0%	0.0%
Corporate Center	403,819	0	0	0	0.0%	0.0%	0.0%
Total	**1,674,834**	**27,666**	**-16,982**	**13,212**	**1.7%**	**61.4%**	**109.1%**
o/w Credit Risk Bearing	**1,377,551**	**27,666**	**-16,982**	**13,212**	**2.0%**	**61.4%**	**109.1%**

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

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2020:

EUR thousand

31.12.2020	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	391,873	6,655	-5,431	1,074	1.7%	81.6%	97.8%
SME	486,709	12,966	-9,642	5,316	2.7%	74.4%	115.4%
Non Focus	541,466	5,672	-1,680	4,124	1.0%	29.6%	102.3%
o/w Large Corporates	274,993	3,181	-103	2,760	1.2%	3.2%	90.0%
o/w Mortgage	210,550	2,490	-1,577	1,363	1.2%	63.3%	118.1%
o/w Public Finance	55,923	0	0	0	0.0%	0.0%	0.0%
Corporate Center	351,186	0	0	0	0.0%	0.0%	0.0%
Total	**1,771,233**	**25,293**	**-16,753**	**10,515**	**1.4%**	**66.2%**	**107.8%**
o/w Credit Risk Bearing	**1,514,479**	**25,293**	**-16,753**	**10,515**	**1.7%**	**66.2%**	**107.8%**

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

(58) Measurement of real estate collateral and other collateral

The real estate market in Slovenia is closely monitored from the beginning of the Covid-19 crisis. During the lock down, the real estate market was completely inactive, but from end of lock downs the real estate market activity picked up again and we see a lot of transactions. There is a lot of demand for real estate, so the Bank is not expecting negative trend in prices. Addiko is also using conservative haircuts for the calculation of the 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 year end financial statements.

Pursuant to Addiko Bank's Collateral management Policy and also Real Estate Valuation Policy, all the 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. Real estates that are collateral for NPE are also re-evaluated annually. 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 Real Estate Valuation Policy. The market value of those 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 the capital city and to EUR 400,000 if the RRE 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 thousand

Collateral Distribution	31.12.2021	31.12.2020
Exposure	1,674,834	1,771,233
Internal Collateral Value (ICV)	310,451	414,444
thereof CRE	173,222	236,455
thereof RRE	75,329	104,337
thereof financial collateral	11,496	14,776
thereof guarantees	30,442	27,777
thereof other	19,961	31,099
ICV coverage rate	**18.5%**	**23.4%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). Residential real estate given as collaterals as well as CRE collaterals decreased in 2021. Collateral coverage also decreased in the portfolio overall to 18.5% compared to YE20 (23.4%).

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 are 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 are not individually determined but estimated based on a portfolio approach, as collateral is not used in portfolio Stage 3 ECL calculation.

EUR thousand

31.12.2021	Gross exposure	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	**23,983**	**0**	**0**	**9,202**	**920**	**12**	**1,349**	**11,482**	**12,501**	**-13,905**
Central banks	0	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	14,370	0	0	7,874	920	2	1,310	10,105	4,264	-6,862
Households	9,613	0	0	1,327	0	10	39	1,376	8,237	-7,043
Commitments and financial guarantees	**3,679**	**0**	**0**	**352**	**0**	**231**	**0**	**583**	**3,096**	**-3,078**
Loan commitments given	363	0	0	50	0	0	0	50	313	-299
Financial guarantees given	2,531	0	0	302	0	231	0	533	1,998	-1,998
Other commitments given	784	0	0	0	0	0	0	0	784	-780

EUR thousand

31.12.2020	Gross exposure	Fair value of collateral held under the base case scenario: Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	**17,340**	**0**	**0**	**4,467**	**417**	**22,231**	**0**	**27,114**	**9,774**	**-12,807**
Central banks	0	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0	0
Other financial corporations	2	0	0	0	0	21,795	0	21,795	21,793	-2
Non-financial corporations	8,730	0	0	2,400	405	435	0	3,241	-5,489	-6,247
Households	8,608	0	0	2,067	12	0	0	2,079	-6,529	-6,557
Commitments and financial guarantees	**7,542**	**0**	**0**	**635**	**0**	**22,180**	**0**	**22,815**	**15,273**	**-3,603**
Loan commitments given	172	0	0	255	0	0	0	255	83	-139
Financial guarantees given	3,241	0	0	380	0	385	0	765	-2,476	-2,460
Other commitments given	4,130	0	0	0	0	21,795	0	21,795	17,665	-1,004

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.

(59) Market risk

59.1 Definition

Market risks consist of potential losses arising from a change in market prices. The Bank structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Bank 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.

59.2 Risk measurement

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

59.3 Overview - market price risk

59.3.1 INTEREST RATE RISK

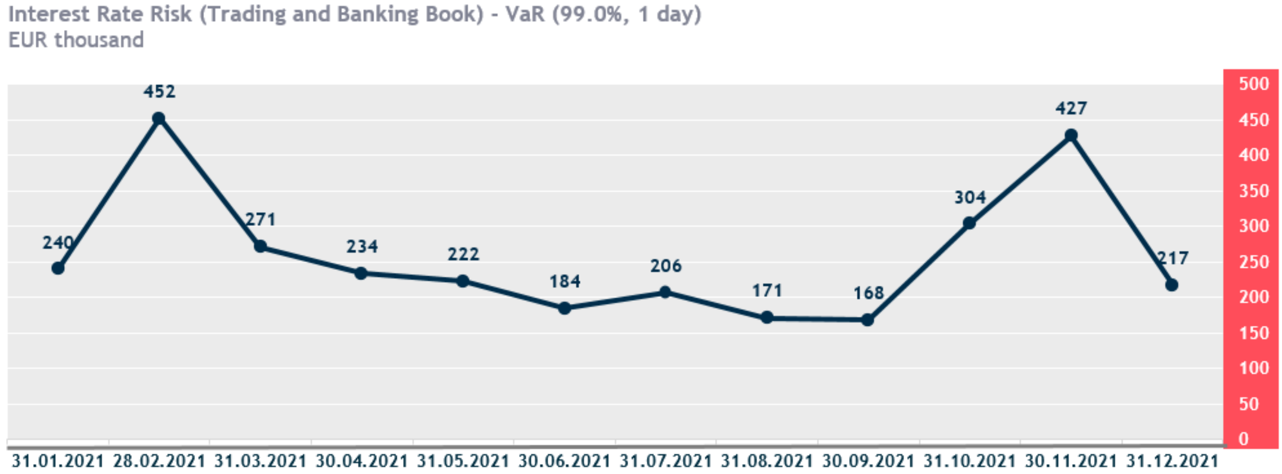
The value at risk is shown in the table below:

EUR thousand

	31.12.2021	31.12.2020
Interest Rate Risk (Banking Book)	216,447	195,155
Interest Rate Risk (Trading Book)	318	133

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31.12.2021 is EUR 217 Thousand (comparable VaR figure as at 31 December 2020: EUR 195 Thousand).
The interest rate gap profile of the Bank 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.

Development in interest risk for Addiko Bank d.d. in 2021:



The trading items of the Bank were decreasing during the year 2020. At the end of year the VaR in the trading book amounted to EUR 318.

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).

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis point shift of the yield curve in total own fund may not exceed 20.0% (5.1% at 31.12.2021 versus 2.0% at 31.12.2020) and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital (5.4% at 31.12.2021 and 2.1% at 31.12.2020).

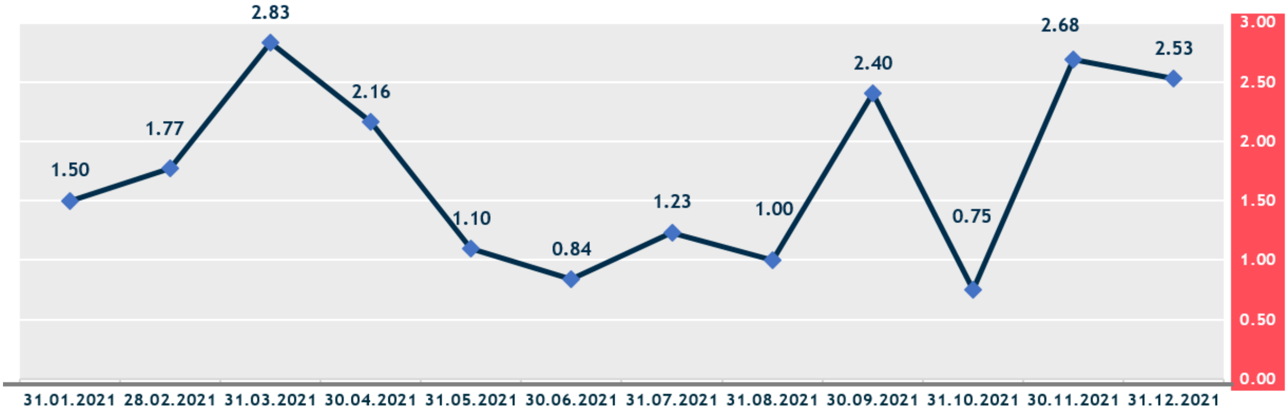
The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bonds and currencies as at 31 December 2021 amounts to EUR 25 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2020 was EUR 11 thousand.

59.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk covers the entire FX risk of the Bank. The main foreign exchange risk drivers are the CHF and USD currencies. The total volume of open currency positions as at 31 December 2021 is roughly EUR 826 thousand (volume as of 31 December 2020 of approx. EUR 664 thousand), with the majority attributed to the currencies CHF and USD. The value at risk for foreign exchange risk was approximately EUR 2.53 thousand per day as at 31 December 2021 (value at risk as at 31 December 2020: EUR 3.10 thousand), at a confidence interval of 99.0 %. The limit of EUR 20.0 thousand was adhered in year 2021.

Development in foreign exchange risk of Addiko Bank d.d. in 2021:

Open Foreign Currency Position Risk - VaR (99.0%, 1 day)
EUR thousand



In addition to monitoring VaR in respect of foreign currency, the Bank also monitors any concentration of relevant single foreign exchange positions at the single currency level - this is reported on a quarterly basis within the Asset Liability Committee.

Exposure to currency risk:

EUR thousand

	31.12.2021	EUR	USD	CHF	other	31.12.2020	EUR	USD	CHF	other
Cash, cash balances at central banks and other demand deposits at banks	**254,446**	247,269	330	424	6,423	**170,604**	164,348	3,975	773	1,508
Financial assets held for trading	**819**	680	117	0	22	**2,593**	2,186	407	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	**313**	313	0	0	0	**313**	313	0	0	0
Financial assets at fair value through other comprehensive income	**98,575**	93,590	4,986	0	0	**106,243**	106,243	0	0	0
Financial assets at amortised cost	**981,711**	939,079	2	42,618	11	**1,145,105**	1,084,388	3,995	56,711	10
Loans and advances to credit institutions	**49,930**	49,930	0	0	0	**79,978**	79,978	0	0	0
Loans and advances to customers	**930,168**	887,548	2	42,618	0	**1,063,541**	1,002,835	3,995	56,711	0
Other financial assets	**1,613**	1,602	0	0	11	**1,586**	1,576	0	0	10
Tangible assets	**9,157**	9,157	0	0	0	**10,102**	10,102	0	0	0
Intangible assets	**2,312**	2,312	0	0	0	**2,456**	2,456	0	0	0
Tax assets	**11,551**	11,551	0	0	0	**10,721**	10,721	0	0	0
Current tax assets	**0**	0	0	0	0	**671**	671	0	0	0
Deferred tax assets	**11,551**	11,551	0	0	0	**10,050**	10,050	0	0	0
Other assets	**431**	431	0	0	0	**620**	620	0	0	0
Non-current assets and disposal groups classified as held for sale	**11,068**	11,068	0	0	0	**67**	67	0	0	0
Total assets	**1,370,383**	1,315,451	5,435	43,042	6,456	**1,448,824**	1,381,443	8,377	57,484	1,518
Financial liabilities held for trading										
Financial liabilities measured at amortised cost	**1,432**	541	68	803	20	**1,874**	1,484	390	0	0
Deposits of credit institutions	**1,172,408**	1,155,307	7,199	3,481	6,422	**1,246,212**	1,230,134	11,493	3,257	1,329
Deposits of customers	**698**	698	0	0	0	**831**	824	7		
Loans of banks and central banks	**1,022,272**	1,006,185	6,206	3,480	6,401	**1,075,777**	1,059,850	11,442	3,192	1,293

EUR thousand

	31.12.2021	EUR	USD	CHF	other	31.12.2020	EUR	USD	CHF	other
of which subordinated loans	**136,558**	136,558	0	0	0	**158,579**	158,579	0	0	0
Debt securities issued	**15,005**	15,005	0	0	0	**15,005**	15,005	0	0	0
Other financial liabilities	**50**	50	0	0	0	**55**	55	0	0	0
Provisions	**12,830**	11,816	993	1	21	**10,970**	10,826	44	65	35
Tax liabilities	**5,101**	5,101	0	0	0	**6,249**	6,249	0	0	0
Current tax liabilities	**1,373**	1,373	0	0	0	**0**	0	0	0	0
Deferred tax liabilities	**1,373**	1,373	0	0	0	**0**	0	0	0	0
Other liabilities	**0**	0	0	0	0	**0**	0	0	0	0
Total liabilities	**2,888**	2,888	0	0	0	**2,250**	2,250	0	0	0
Capital	**1,183,202**	1,165,211	7,267	4,283	6,441	**1,256,585**	1,240,117	11,883	3,257	1,329
Share premium	**89,959**	89,959	0	0	0	**89,959**	89,959	0	0	0
Accumulated other comprehensive income	**18,814**	18,814	0	0	0	**18,814**	18,814	0	0	0
Retained earnings (including profit or loss for the financial year)	**124**	124	0	0	0	**1,012**	1,012	0	0	0
Total equity	**78,285**	78,285	0	0	0	**82,454**	82,454	0	0	0
Total liabilities and equity	**187,181**	187,181	0	0	0	**192,238**	192,238	0	0	0
Net off-balance-sheet liabilities arising from spot transactions and derivatives	**1,370,383**	1,352,392	7,267	4,283	6,441	**1,448,824**	1,432,355	11,883	3,257	1,329
Other off balance exposures	**52,400**	39,566	2,109	-40,091	20	**-50,572**	0	3,506	-54,087	10

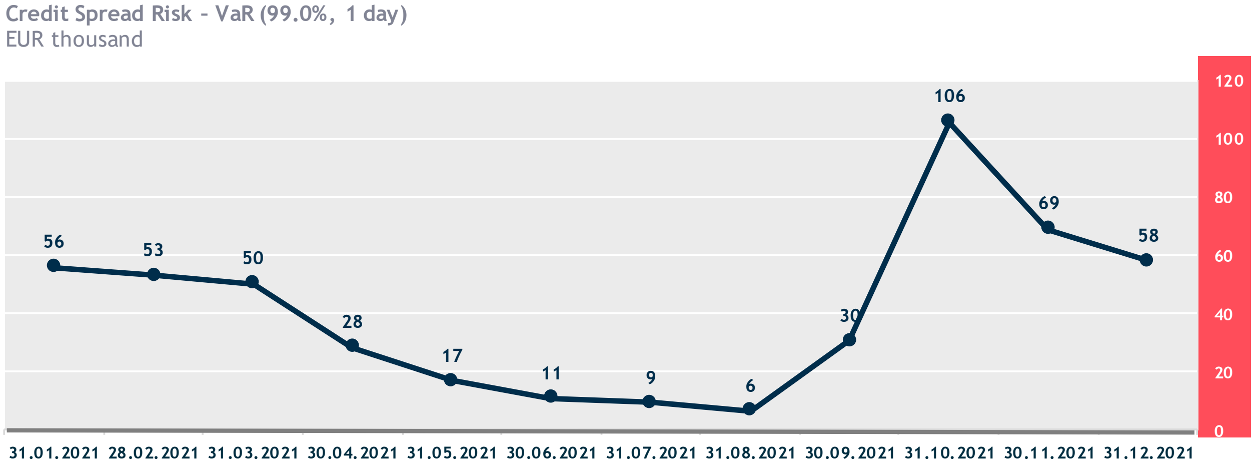
59.3.3 EQUITY RISK

Equity risk arises from the uncertainty about the future value of these assets (fluctuations in share prices, investments funds, etc.). The equity risks arise from utilising collateral related to credit risk transactions where utilisation is not currently possible for reasons of illiquidity or because of regulations or agreements (customer default). The value at risk for the equity risk (customer default) at the Bank amounted to EUR 5 thousand as at 31 December 2021 (value at risk as at 31 December 2020: EUR 5 thousand) with a one-day holding period and a confidence level of 99.0%, which is why the Bank has a negligible level of risk from share items as at 31 December 2021, and therefore also no major concentration risk exists. Equity risk arises from the uncertainty about the future value of these assets (fluctuations in share prices, investments funds, etc.).

59.3.4 CREDIT SPREAD RISK

The credit spread risk within the Bank stood at EUR 58 thousand at 31 December 2021 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2020: EUR 90 thousand). The limit of EUR 501 thousand 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 at the Bank. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio over the whole Bank's total assets as well as concentrations of bonds within the categories of government bonds, financial bonds and corporate bonds.

Development in credit spread risk at Addiko Bank d.d. in 2021:



(60) Liquidity risk

60.1 Definition

Addiko Bank d.d. 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.

60.2 General requirements

At Addiko Bank d.d., liquidity controlling, and management are the responsibility of Balance Sheet Management & Treasury. The unit is responsible for operational liquidity steering and liquidity offset. The liquidity risk control is the responsibility of Market and liquidity risk controlling, where risk measurement and mitigation as well as timely and consistent reporting are carried out there.

The Bank has emergency liquidity planning in place that has been set out in writing. It sets out the processes and control or hedging instruments that 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.

60.3 Risk control

A bundle of different liquidity reserves ensures Addiko bank can reduce liquidity risk and meet its payment obligations even during crisis situations. Sustainable liquidity buffers containing high liquid ECB-eligible bonds, cash locked with the central bank, committed credit lines and other short term liquefiable assets are established to face unexpected outflows.

In 2021, the Liquidity Coverage Ratio (LCR), which is the main metric for assessing monitoring the adequacy of the bank stock of high liquid assets (HQLA) under stress for a short-term horizon of up to 30 days, was around 250% during first three quarters of 2021, in last quarter the LCR was lower, on average 197%. LCR peak was reached in March 2021 at 276%.

The counterbalancing capacity at the Addiko Bank d.d. was structured as follows:

EUR thousand

Counterbalancing Capacity	31.12.2021	31.12.2020
Coins and bank notes	8,204	7,724
Withdrawable central bank reserves	190,225	140,423
Level 1 tradable assets	14,644	52,904
Level 2A tradable assets	-	-
Level 2B tradable assets	-	-
Total Counterbalancing Capacity	213,072	**201,050**

Liquidity Controlling for the bank is carried out locally by Risk Controlling and centrally through the Group Holding. A Cash-flow classification are composed of deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

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

Besides ongoing structural controlling activities, it is ensured as well that general regulatory requirements are adhered too.

60.4 Overview of the liquidity situation

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

During the financial year, the Bank recorded a stable level of deposits around EUR 1.2 billion. Based on anticipated inflows and outflows, a stable liquidity situation in the year 2021 is also expected.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding is EUR. Both products and currencies are tracked through different time buckets and time frames.
In addition, the Bank is monitoring the impact of customers with high volume business: the biggest ten counterparties that 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 Bank.

EUR thousand

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2021	Carrying amount	Contractual cash flows	thereof: daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised costs	1,156,706	1,171,693	683,149	89,194	149,188	212,276	37,887
Deposits of customers	1,022,272	1,022,272	676,337	89,194	149,164	104,639	2,938
Deposits of credit institutions	121,554	136,546	-12	0	0	102,878	33,680
Issued bonds, subordinated and supplementary capitals	50	50	0	0	0	50	0
Other financial liabilities	12,830	12,825	6,824	0	24	4,708	1,269
Derivatives	343	343	343	0	0	0	0
Loan commitments	0	122,941	122,941	0	0	0	0
Financial guarantees	0	43,794	43,794	0	0	0	0
Other commitments	0	143,656	143,656	0	0	0	0
Total	**1,157,049**	**1,482,427**	**993,882**	**89,194**	**149,188**	**212,276**	**37,887**

EUR thousand

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2020	Carrying amount	Contractual cash flows	thereof: daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised costs	1,230,134	1,265,720	591,649	177,867	234,417	165,828	95,959
Deposits of customers	1,075,777	1,076,962	579,856	177,864	231,269	86,150	1,823
Deposits of credit institutions	143,575	169,405	831	0	1,766	75,110	91,698
Issued bonds, subordinated and supplementary capitals	55	55	0	0	0	55	0
Other financial liabilities	10,727	19,298	10,962	3	1,383	4,513	2,438
Derivatives	1,032	1,032	1,032	0	0	0	0
Loan commitments	0	151,741	151,741	0	0	0	0
Financial guarantees	0	30,163	30,163	0	0	0	0
Other commitments	0	142,933	142,933	0	0	0	0
Total	**1,231,166**	**1,591,588**	**917,517**	**177,867**	**234,417**	**165,828**	**95,959**

(61) Operational risk

61.1 Definition

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

61.2 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 proactive 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 that 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, enables analysis of complex issues and facilitates tailored risk mitigation actions.

Operational risk management is a continuous cyclic process that 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.

61.3 Risk monitoring

Operational Risk Management reports on a quarterly basis to the Operational Risk Committee and to the Bank 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 operational risk management into the bank processes.

61.4 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 Basic Indicator Approach based on operating income (using relevant indicator and multiplier). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes operational risk sub-types that the Bank considers material under Pillar 2.

(62) Object risk

Object risk at the Addiko Bank 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.

(63) 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.

The bank 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. The bank does not treat the ESG risks as a separate risk type but integrates them in the existing risk classification and into the existing risk management framework.

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

The Credit Policy defines industries that are sensitive to environmental and social criteria or are forbidden to finance from the standpoint of ESG. During the credit approval process, special attention is taken when analysing the aspects of the potential ESG risks that the company might face in its business performance or related to the specific project. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.
After aspects above being analysed and in case that transaction is being supported adequate mitigating and monitoring system is implemented/established which will ensure the control over the transaction.

(64) Legal Risk

65.1 Monitoring and provisioning of legal risks

Legal provisions for the legal risk inherent in passive legal proceedings, specifically the risk of losing the proceeding and having to bear the associated costs, are generally calculated in accordance with international accounting principles. Accordingly, no legal provision is required if the Bank is very likely to prevail in the proceedings. The Bank extensively monitors its effectiveness in each legal proceeding, including the Bank’s likeliness to prevail, with the engagement of external legal experts and lawyers if necessary. The same criteria apply to the passive legal proceedings that have been initiated by plaintiffs in relation to loans with F/X clauses.

65.2 Overview of legal disputes – Possible subsequent invalidity of agreed foreign currency

Particularly during 2004-2008, numerous private customers in Slovenia took out foreign currency loans or loans with F/X clauses (especially CHF loans). Since 2015, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, in particular by associations of borrowers, who began to file claims for the nullity of loan contracts against the banks. The main allegation is that customers were not provided with enough information on the consequences of such agreements at the time when they were concluded, and/or that the foreign currency clauses applied ran contrary to the terms of the agreement.

The Bank has several ongoing legal disputes in connection with CHF loans, however the Bank is optimistic as regards the outcome of the proceedings, as first- and second-instance courts have passed multiple verdicts in favour of the banks, and the Slovenian Supreme Court rendered verdicts that give clearer guidance regarding the information and notification duty of banks regarding currency risks. No measures were adopted against the Bank by the regulator with regard to CHF loans. 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.

In 2021, there were no significant changes in court practice that would have an impact on the Bank.

EUR thousand

		31.12.2021		31.12.2020
	Exposure	Of which CHF	Exposure	Of which CHF
Addiko Bank Slovenia	1,674,834	43,710	1,771,233	58,419

In 2021, the bank was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from 58.4 million EUR at the end of 2020 to 43.7 million EUR at the end of 2021.

65.3 Legal risks

The total number of passive legal disputes has remained the same in 2021 compared to 2020. The significant majority as well as new proceedings are related to consumer loans with F/X clauses.

Due to the Covid-19 pandemic, the resolution of legal disputes in courts of law has slowed down compared to previous years.

Supplementary information required by IFRS

(65) Analysis of remaining maturities of carrying amount (undiscounted)

EUR thousand

Analysis of remaining maturity as at 31.12.2021	daily due or without maturity	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	254,446	0	0	0	0	254,446	0	254,446
Financial assets held for trading	819	0	0	0	0	819	0	819
Financial assets mandatorily at fair value through profit or loss	313	0	0	0	0	313	0	313
Financial assets at fair value through other comprehensive income	13,136	13,140	17,989	42,125	12,186	44,265	54,311	98,575
Financial assets at amortised cost	50,099	50,960	149,510	481,692	249,449	250,569	731,141	981,711
Tangible assets	9,157	0	0	0	0	9,157	0	9,157
Intangible assets	2,312	0	0	0	0	2,312	0	2,312
Tax assets	11,551	0	0	0	0	11,551	0	11,551
Other assets	431	0	0	0	0	431	0	431
Non-current assets and disposal groups classified as held for sale, financial instruments	11,068	0	0	0	0	11,068	0	11,068
Total	**353,332**	**64,101**	**167,499**	**523,817**	**261,635**	**584,932**	**785,452**	**1,370,383**
Financial liabilities held for trading	1,432	0	0	0	0	1,432	0	1,432
Financial liabilities measured at amortised cost	689,570	89,248	149,255	207,694	36,641	928,074	244,335	1,172,408
Provisions	5,101	0	0	0	0	5,101	0	5,101
Tax liabilities	1,373	0	0	0	0	1,373	0	1,373
Other liabilities	2,888	0	0	0	0	2,888	0	2,888
Total	**700,364**	**89,248**	**149,255**	**207,694**	**36,641**	**938,867**	**244,335**	**1,183,202**

EUR thousand

Analysis of remaining maturity as at 31.12.2020	daily due or without maturity	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	170,604	0	0	0	0	170,604	0	170,604
Financial assets held for trading	2,593	0	0	0	0	2,593	0	2,593
Financial assets mandatorily at fair value through profit or loss	313	0	0	0	0	313	0	313
Financial assets at fair value through other comprehensive income	13,249	0	11,215	51,607	30,172	24,464	81,779	106,243
Financial assets at amortised cost	33,017	86,550	202,163	494,399	328,976	321,730	823,375	1,145,105
Tangible assets	10,102	0	0	0	0	10,102	0	10,102
Intangible assets	2,456	0	0	0	0	2,456	0	2,456
Tax assets	10,721	0	0	0	0	10,721	0	10,721
Other assets	620	0	0	0	0	620	0	620
Non-current assets and disposal groups classified as held for sale, financial instruments	1	0	0	0	65	1	65	66
Total	**243,676**	**86,550**	**213,378**	**546,006**	**359,213**	**543,604**	**905,219**	**1,448,823**
Financial liabilities held for trading	1,874	0	0	0	0	1,874	0	1,874
Financial liabilities measured at amortised cost	584,946	177,867	233,036	161,288	89,075	995,849	250,363	1,246,212
Provisions	6,249	0	0	0	0	6,249	0	6,249
Tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2,250	0	0	0	0	2,250	0	2,250
Total	**595,320**	**177,867**	**233,036**	**161,288**	**89,075**	**1,006,223**	**250,363**	**1,256,585**

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.

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

The Bank leases the majority of its offices and branches under various rental agreements. The Bank also leases 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. 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.

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

In the year 2021 the Bank had total cash outflows for leases of EUR 1,296 thousand, thereof the principal EUR 1,178 thousand and interest portion EUR 118 thousand.

As at 31 December 2021, lease costs not included in lease liabilities amounted to EUR 4 thousand (EUR 6 thousand in 2020).

As at 31 December 2021, the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

EUR thousand

Maturity analysis - contractual undiscounted cashflow	31.12.2021	31.12.2020
up to 1 year	1,254	1,380
from 1 year to 5 years	4,488	4,782
more than 5 years	392	1,321
Total undiscounted lease liabilities	6,134	7,483

(67) Assets/liabilities denominated in foreign currencies

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

EUR thousand

	31.12.2021	31.12.2020
Assets	54,933	67,379
Liabilities	17,992	16,469

The majority of the difference between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

(68) 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 existing at the reporting date:

EUR thousand

	31.12.2021	31.12.2020
Loan commitments, given	122,941	151,741
Financial guarantees, given	43,794	30,163
Other commitments, given	143,707	143,090
Total	310,442	324,994

The item other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee and L/C frames.

(69) 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. The bank 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. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. Addiko considers relevant and observable market prices in its valuations, where possible. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorised under the three levels of the fair value hierarchy:

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

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

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

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

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

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

determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items:

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

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

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

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

OIS discounting

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

69.1 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 thousand

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	0	819	0	**819**
Derivatives	0	819	0	**819**
Debt securities	0	0	0	**0**
Investment securities mandatorily at FVTPL	0	0	313	**313**
Equity instruments	0	0	313	**313**
Debt securities	0	0	0	**0**
Investment securities at FVTOCI	13.136	80.959	4.480	**98.575**
Equity instruments	13.136	0	0	**13.136**
Debt securities	0	80.959	4.480	**85.439**
Total	**13.136**	**81.778**	**4.793**	**99.707**
Liabilities				
Financial liabilities held for trading	0	1.432	0	**1.432**
Derivatives	0	1.432	0	**1.432**
Total	**0**	**1.432**	**0**	**1.432**

EUR thousand

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	0	2.593	0	2.593
Derivatives	0	2.593	0	2.593
Debt securities	0	0	0	0
Investment securities mandatorily at FVTPL	0	0	313	313
Equity instruments	0	0	313	313
Debt securities	0	0	0	0
Investment securities at FVTOCI	13.249	90.992	2.002	106.243
Equity instruments	13.249	0	0	13.249
Debt securities	0	90.992	2.002	92.994
Total	**13.249**	**93.585**	**2.314**	**109.148**
Liabilities	0	0	0	0
Financial liabilities held for trading	0	1.874	0	1.874
Derivatives	0	1.874	0	1.874
Total	**0**	**1.874**	**0**	**1.874**

Transfers between level I and level II

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

There were no transfers between level I and level II in 2021 and 2020.

Unobservable inputs and sensitivity analysis for Level 3 measurements

For investment securities classified in level III, which is an illiquid unlisted corporate bond, the main input parameter is the discount factor. If the credit spreads used in the calculation of the fair value increased by 100 basis points, the cumulative valuation result as of 31 December 2021 would have decreased by EUR 69 thousand. 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 69 thousand. The development of Level III is presented as follows.

The reconciliation of the assets reported under level III as at 31 December 2021 was as follows:

EUR thousand

2021	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into level III	Transfer into/out of other levels	Other (+/-)	31.12.
Assets									
Investment securities mandatorily at FVTPL	313	0	0	0	0	0	0	0	313
Equity instruments	313	0	0	0	0	0	0	0	313
Investment securities at FVTOCI	2.002	0	0	2.479	0	0	0	0	4,480
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	2.002	0	0	2.479	0	0	0	0	4,480
Total	2.314	0	0	2.479	0	0	0	0	4.793

The reconciliation of the assets and liabilities reported under level III as at 31 December 2020 was as follows:

EUR thousand

2020	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into level III	Transfer into/out of other levels	Other (+/-)	31.12.
Assets									
Investment securities mandatorily at FVTPL	313	0	0	0	0	0	0	0	313
Equity instruments	313	0	0	0	0	0	0	0	313
Investment securities at FVTOCI	2,000	2	0	0	0	0	0	0	2,002
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	2,000	2	0	0	0	0	0	0	2,002
Total	**2,313**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**2,314**

69.2 Fair value of financial instruments and assets not carried at fair value

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

EUR thousand

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*	254,446	254,446	0	254,446	0	0
Financial assets at amortised cost	981,711	1,032,646	50,936	0	0	1,032,646
Loans and receivables	981,711	1,032,646	50,936	0	0	1,032,646
Non-current assets and disposal groups classified as held for sale	11,068	11,643	574	0	0	11,643
Total	**1,247,225**	**1,298,735**	**51,510**	**254,446**	**0**	**1,044,289**
Liabilities						
Financial liabilities measured at amortised cost	1,172,408	1,167,588	-4,820	0	0	1,167,588
Deposits	1,144,524	1,139,818	-4,706	0	0	1,139,818
Issued bonds, subordinated and supplementary capital	15,055	14,993	-62	0	0	14,993
Other financial liabilities	12,830	12,777	-53	0	0	12,777
Total	**1,172,408**	**1,167,588**	**-4,820**	**0**	**0**	**1,167,588**

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

EUR thousand

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*	170,604	170,604	0	170,604	0	0
Financial assets at amortised cost	1,145,105	1,227,841	82,737	0	0	1,227,841
Loans and receivables	1,145,105	1,227,841	82,737	0	0	1,227,841
Non-current assets and disposal groups classified as held for sale	67	71	5	0	0	71
Total	**1,315,775**	**1,398,517**	**82,741**	**170,604**	**0**	**1,227,912**
Liabilities						
Financial liabilities measured at amortised cost	1,246,212	1,252,501	6,289	0	0	1,252,501
Deposits	1,220,182	1,226,340	6,158	0	0	1,226,340
Issued bonds, subordinated and supplementary capital	15,060	15,136	76	0	0	15,136
Other financial liabilities	10,970	11,026	55	0	0	11,026
Total	**1,246,212**	**1,252,501**	**6,289**	**0**	**0**	**1,252,501**

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

Financial instruments not carried at fair value are not managed on a fair value basis, and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower, taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no issues of Addiko Bank or 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 are as similar to that of Addiko Bank as possible.

The management assessed that cash positions are approximate to their carrying amounts largely due to the short-term maturities of these instruments.

(70) Derivative financial instruments

70.1. Derivatives held for trading

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

EUR thousand

	31.12.2021			31.12.2020		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**95,111**	**661**	**-528**	**143,650**	**1,901**	**-1,702**
OTC options	10,299	47	-43	14,164	13	-11
OTC other	84,811	614	-486	129,486	1,887	-1,691
b) Foreign exchange and gold	**57,297**	**148**	**-894**	**64,925**	**679**	**-160**
OTC-products	**0**	**0**	**0**	**0**	**0**	**0**
OTC other	57,297	148	-894	64,925	679	-160
c) Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Credit default swap	0	0	0	0	0	0

(71) Related party disclosures

Addiko bank d.d. is 100-percent owned by Addiko bank AG.

Related parties as defined by the Bank are other entities within the Addiko Group, Management Board and the Supervisory Board members and members of their families and Key management personnel with individual contract.

The Bank conducts business in the areas of loans and deposits, issuance of letters of credit and guarantees, which is also presented in the table below.

Pursuant to Article 545 of the Companies Act, we declare that the Bank, in circumstances known to it, performs the transactions between connected persons under normal market conditions.

In 2021, in all transactions held with the parent bank and other related parties, the bank received adequate payments and repayments and was not disadvantaged on the basis of any transactions.

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

EUR thousand

31.12.2021	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	1,412	7,029	0	0
Financial assets held for trading	11	0	0	0
Financial assets	50,593	7	2	0
Debt securities	0	0	0	0
Loan and advances	50,593	7	2	0
Financial liabilities held for trading	1,088	0	0	0
Financial liabilities	15,005	698	636	0
Deposits	15,005	698	636	
Other financial liabilities	0	0	0	
Other liabilities	0	0	0	0
Loan commitments, financial guarantees and other commitments received	0	52	8	0

EUR thousand

31.12.2020	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	560	566	0	0
Financial assets held for trading	536	0	0	0
Financial assets	81,095	11	4	0
Debt securities	0	0	0	0
Loan and advances	81,095	11	4	0
Other financial liabilities	842	0	0	0
Financial liabilities	15,135	943	296	0
Deposits	15,135	831	296	
Other financial liabilities	0	112	0	
Other liabilities	0	0	0	0
Loan commitments, financial guarantees and other commitments received	0	158	1	0

EUR thousand

31.12.2021	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Interest and similar income	250	0	0	0
Interest expenses	-1,994	-3	-2	0
Fee and commission income	0	10	1	0
Fee and commission expenses	-3	-5	0	0
Other administrative expenses	-196	-462	0	0
Other expenses/income	782	2	1	0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	349	-6	0	0
Total	**-812**	**-464**	**0**	**0**

EUR thousand

31.12.2020	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Interest and similar income	571	0	0	0
Interest expenses	-2,141	-2	-2	0
Fee and commission income	0	13	0	0
Fee and commission expenses		-3	0	0
Other administrative expenses	-145	-377	0	0
Other expenses/income	723	0	0	0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	-313	-6	0	0
Total	**-1,305**	**-375**	**-2**	**0**

(72) Capital management

72.1 Own funds and capital management

The capital management of Addiko Bank d.d. is based on own funds as defined by the Regulation on prudential requirements for credit institutions and investment firms (CRR), the corresponding national regulations and the economic capital management approach related to the Internal Capital Adequacy Assessment Process (ICAAP). The capital requirements were implemented within the EU with Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms - Capital Requirements Directive (CRD). The CRD V was enacted in national law in the Slovenian Banking Act.

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

- Standardised Approach for credit and market risk and
- Basic indicator Approach for operational risk.

The Bank continuously monitors the development of the Bank's business, analyses changes in its risk-weighted assets and own funds and fulfil all the time the required level of capital adequacy in line with regulatory requirement. Capital management is also part of the 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 Bank. In addition to the minimum capital ratios required by the regulators, the Bank defines early warning and recovery levels in the Addiko Group's recovery plan and the corresponding processes, where all relevant ratios are set also for Addiko Bank d.d. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared in line with Bank Recovery and Resolution Directive (BRRD).

Additionally, also all new regulatory changes have been followed, e.g. Minimum requirement for own funds and eligible liabilities (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.

72.2 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, amount to:
- 7.000% for CET1 (4.5% CET1, +2.5% capital conservation buffer and +0.00% countercyclical capital buffer),
- 8.500% for Tier 1 capital (sum of CET1 and AT1) and
- 10.500% for Total Capital.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2020 amount to:
- 7.000% for CET1 (4.5% CET1, +2.5% capital conservation buffer and +0.00% countercyclical capital buffer),
- 8.500% for Tier 1 capital (sum of CET1 and AT1) and
- 10.500% for Total Capital.

In addition to Pillar I minimum capital ratios, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). A breach of the combined buffer would induce constraints in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times.

The bank during the year 2021 and 2020 did not use any transitional rules when calculating capital adequacy.

In the table below the composition of the own funds of the bank is presented as of 31.12.2021 and 31.12.2020.

EUR thousand

	31.12.2021	31.12.2020
Available capital		
1 Common Equity Tier 1 (CET1) capital	174,950	168,190
5 Total capital (TC)	188,677	183,190
Risk-weighted assets		
7 Total RWAs	864,675	915,749
Capital ratios %		
9 CET1	20.23%	18.37%
13 TC	21.82%	20.00%
Leverage ratio (LR)		
15 LR total exposure measure	1,481,810	1,560,029
16 LR	11.81%	10.78%

Total capital increased by EUR 5.5 million during the reporting period, reflecting the net impact of the following components:

- inclusion of profit of 2021 in the amount of EUR 25.3 million in common equity,
- a decrease by 18.4 million of the retained earnings due to dividend payoff,
- a decrease by 1.3 million of the TIER2 due to amortisation,
- a decrease by EUR 0.9 million of the other comprehensive income mainly due to the valuation and sale of debt instruments,
- an increase in regulatory deduction items in the amount of EUR 0.8 million as net impact of increase in deferred tax assets on existing taxable losses (EUR -1.3 million) and decrease of deduction item for additional allocation of provisions for credit risk (EUR +2.1 million based on Commission Delegated Regulation (Eu) No 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on

prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments).

The table below shows the components of capital.

EUR thousand

	31.12.2021	31.12.2020
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1 Capital instruments and the related share premium accounts	108.773	108.773
2 Retained earnings	78.284	71.432
3 Accumulated other comprehensive income (and other reserves)	85	1.005
5a Independently reviewed interim profits net of any foreseeable	0	0
6 CET1 capital before regulatory adjustments	**187.141**	**181.210**
CET1 capital: regulatory adjustments		
7 Additional value adjustments	-101	-111
8 Intangible assets (net of related tax liability)	-914	-959
10 Deferred tax assets that rely on future profitability excluding	-11.175	-9.892
12 Negative amounts reulting from the calculation of expected loss amounts	0	-2.058
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-12.191**	**-13.021**
29 Common Equity Tier 1 (CET1) capital	**174.950**	**168.190**
Tier 2 (T2) capital: instruments and provisions		
58 Tier 2 (T2) capital	13.727	15.000
59 Total capital (TC = T1 + T2)	188.677	183.190
60 Total risk weighted assets	864.675	915.749
Capital ratios and buffers %		
61 CET1 ratio	20,23%	18,40%
63 TC ratio	21,82%	20,00%

72.3 Capital requirements (risk-weighted assets)

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, the Bank uses the standardized approach for credit and market risk and basic indicator approach for operational risk. Risk weighted assets decreased by EUR 51.1 million during the reporting period, which is mainly connected with the decrease in the amount of granted loans during 2021.

EUR thousand

	31.12.2021	31.12.2020
1 Credit risk	765,648	820,674
6 Counterparty credit risk	1,191	4
19 Market risk	1,173	1,019
23 Operational risk	96,664	94,052
Total risk exposure amount (RWA)	**864,675**	**915,749**

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

72.4 Leverage ratio

The leverage ratio calculated in accordance with the CRR was 11.81% at 31 December 2021 and 10.78% at 31 December 2020.

EUR thousand

		31.12.2021	31.12.2020
20	Tier 1 capital	174,950	168,190
21	Total leverage ratio exposure	1,481,810	1,560,029
22	**Leverage ratio %**	**11.81%**	**10.78%**

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

Supplementary information required by ZGD

(73) Expenses for the auditor

The following expenses for the auditor Deloitte Revizija d.o.o. were incurred in the reporting period:

EUR thousand

	31.12.2021	31.12.2020
Audit fees for the annual financial statements	**-75**	**-81**
Expenses for the current year	-75	-81
Expenses relating to the previous year	0	0
Fees for other services	**-3**	**0**
Other assurance services	-3	0
Other services	0	0
Total services	**-78**	**-81**

(74) Remuneration received by Management Board members, Supervisory Board members and Key management

EUR thousand

2021	Fixed ongoing payments	Variable ongoing payments	Payments of variable remuneration from previous year	Cost reimbursment	Supplementary pension insurance	Other payments	Total
Management board	-372	-145	-143	-3	0	-6	-526
Supervisory Board	0	0	0	0	0	0	0
Former members of management Board	-78	-159	-159	0	0	-2	-239
Key management personnel with individual contracts (B1)	-1,327	-130	-110	-26	0	-39	-1,522
Total	**-1,777**	**-434**	**-412**	**-29**	**0**	**-47**	**-2,287**

EUR thousand

2020	Fixed ongo-ing payments	Variable ongoing payments	Re-payments of variable remunera-tion from previous year	Cost reim-bursement	Supple-mentary pension in-surance	Other payments	Total
Management board:	-587	0	0	-13	-1	0	-601
Supervisory Board:	-13	0	0	0	0	0	-13
Ex members of management Board	0	0	0	0	0	0	0
Key management personnel with individual contracts	-1,373	0	0	-65	0	0	-1,438
Total	**-1,973**	**0**	**0**	**-78**	**-1**	**0**	**-2,052**

(75) Events after the business year 2021

On 2 February 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 come into effect on 26 February 2022 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 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 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.

Nine banks have filed an initiative with the Constitutional Court to assess the constitutionality of the law to regulate the issue of loans in Swiss francs. At his session on 10 March 2022, the Constitutional Court suspended the implementation of the “Law on the limitation and distribution of currency risk among borrowers and lenders in Swiss francs”.

The ongoing military operation in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. Addiko bank does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economical situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets including the Bank's on-balance and off balance exposure to credit given (in the amount of EUR 24,752 thousand) to undertakings which are proprietary or business-related to the countries listed above, within the next financial year. At this stage management do not recognise any of exposures as potentially highly impacted but is not able to reliably estimate the impact as events are unfolding day-by-day.

The longer-term impact may also affect trading volumes, cash flows and profitability. The risk arising from market interest rate movements is closely monitored, as is the impact on the positions of the Bank's interest rate sensitive instruments. Cyber risk to which banks are exposed has increased due to these events. Addiko is monitoring them and has response plans prepared if such incidents would occur. Nevertheless, at the date of these financial statements the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Since 31 December 2021, there were no other events that would materially affect the financial statements herein.

(76) Accumulated profit

Net profit for the financial year may be used for:
- setting aside legal reserves.
- setting aside reserves for own interests.
- setting aside statutory reserves and
- setting aside other revenue reserves.

Addiko Bank d.d. generated a result after tax in the amount of EUR 25,284,100 in the financial year 2021.

The Bank will propose at the General Meeting the distribution of the total accumulated profit of the year 2021 in amount of EUR 78,284 thousand, which includes a net profit for the financial year 2021 of EUR 25,284 thousand and the retained profit of EUR 53,000 thousand, for the following purposes :

- EUR 78,284 thousand remains unallocated and represents the retained earnings

The accumulated profit is shown in the table below:

EUR thousand

	31.12.2021	31.12.2020
Profit for the financial year	25,284	11,020
Retained earnings	53,000	71,434
Total accumulated profit	**78,284**	**82,453**

Glossary

Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams regularly visit large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers apply for a loan
CDS	Credit default swap; a financial instrument that securitises credit risks, for example those associated with loans or securities
CL	Credit loss
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures (not annualised)
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR (“undertaking the business of taking deposits or other repayable funds from the public and granting credits for its own account”) and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non-performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
General governments	Central governments, state or regional governments and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non-performing loans
Gross performing loans	Exposure of on balance loans without accrued interest but including gross amount of provisions of performing loans
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 that serve households (“NPISH”) and that 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
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households
Net banking income	The sum of net interest income and net fee and commission income
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 fulfil 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 what extent defaulted non-performing exposures have been covered by impairments (individual and portfolio-based loan loss provisions), thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between 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
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Risk-weighted assets	On-balance and off-balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as annualised adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
Return on tangible equity (@14.1% CET1 Ratio)	Calculated as adjusted result after tax (pre-tax result adjusted for non-recurring items, assuming a theoretical tax rate and costs for T2) over average tangible equity (i.e. shareholder equity reduced by intangible assets), excluding excess capital over 14.1% CET1 ratio.

SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to the Large Corporates subsegment
Stage 1	Impairment stage that 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 that relates to financial instruments for which expected credit loss model applies and which are subject to significant increase in credit risk that has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage that relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	All the eligible own fund according to Article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Article 62 to 71. Tier 2 means instruments or subordinated loans with an original maturity of at least five years and that do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity

Business Centres and Branch Offices

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Transaction account: SI56 3300 0330 0000 034
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