Addiko Bank

Annual Report 2020

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

			EUR thousand
Selected items of the Profit or Loss statement	**YE20**	**YE19**	**(%)**
Net banking income	50,875	51,948	-2.1%
Net interest income	40,822	41,067	-0.6%
Net fee and commission income	10,052	10,882	-7.6%
Net result on financial instruments	1,098	1,369	-19.8%
Other operating result	-411	-2,948	-86.1%
Operating expenses	-27,433	-27,673	-0.9%
Operating result	**24,129**	**22,696**	**6.3%**
Other	-345	475	>100%
Credit loss expenses on financial assets	-11,284	1,950	>100%
Tax on income	-1,825	-6,216	-70.6%
Result after tax	**11,020**	**18,434**	**-40.2%**
Performance ratios	**YE20**	**YE19**	**(pts)**
Net interest income/total average assets	2.6%	2.5%	0.1
Return on average tangible equity	5.8%	10.3%	-4.5
Cost/income ratio	53.9%	53.3%	-0.7
Cost of risk ratio	0.8%	-0.1%	0.9
Selected items of the Statement of financial position	**Dec20**	**Dec19**	**(%)**
Loans and advances to customers	1,145,105	1,311,304	-12.7%
o/w gross performing loans	1,077,199	1,184,582	-9.1%
Deposits of customers	1,075,777	1,223,204	-12.1%
Equity	192,238	181,614	5.8%
Total assets	1,448,824	1,617,316	-10.4%
Risk-weighted assets[1)]	915,749	1,044,964	-12.4%
Balance sheet ratios	**Dec20**	**Dec19**	**(pts)**
Loan to deposit ratio	98.9%	96.4%	2.5
NPE ratio	1.5%	1.6%	-0.1
NPE coverage ratio	65.9%	64.3%	1.7
Liquidity coverage ratio	193.9%	205.6%	-11.8
Common equity tier 1 ratio[1)]	18.4%	15.5%	2.8
Total capital ratio[1)]	20.0%	17.0%	3.0

[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 (3.12.2019)

Content

Management Letter for 2020

Dear Shareholders, Customers, Partners and Employees,

2020 was very special for Addiko Bank as besides facing the Covid-19 epidemic that hurt the important part of the economy as well as the society, it was also the first year of the Addiko Bank AG doing business under the conditions of a public company trading on the stock exchange. The successful listing of the shares of Addiko Bank AG on the Official Market of the Vienna Stock Exchange on 12 July 2020 and trading in the ATX Prime market segment had confirmed the demand for a specialist player, challenging the universal banks with a simpler and focused model, serving Consumers and SMEs by offering convenience and speed. The success of "going public" is a result of a business transformation that began in 2015 with a change of ownership, a new specialist business strategy and continued with a new "straightforward" banking brand launch and a significant turnaround of the bank, leading to today's stable foundations. The latter also proved to be the right ones in 2020, which was particularly challenging due to the Covid-19 epidemic.

Through consistent monitoring of business strategies and by focusing on digitalization and innovative market solutions, Addiko Bank successfully completed 2020. Revenues were slightly below the level of 2019 and amounted to EUR 50.9 million. Strict cost management has resulted in a reduction in the cost-to-income ratio (CIR) to 50% despite numerous development activities and projects.

Through its advanced credit risk management approach aimed at long-term sustainability of operations, the Bank achieved very low non-performing loan ratio of 1.5%, with a provision coverage of 65.92%, and ensured a high quality of new lending business in its focus areas of unsecured Consumer loans and SME. In 2020, the Bank managed to maintain an above-average interest margin of 2.63%, regardless of tough competition.

Despite the Covid-19 epidemic, the quality of the Bank's retail loan portfolio did not deteriorate significantly in 2020. The biggest reason is attributed to the measure of waiting for work (reimbursement of compensation of workers on temporary waiting for work) which prevented the growth of the unemployment rate of the population. The positive contribution is also a consequence of various transfers to the population from anti-crown legislation and the fact that in general the consumption of the population in 2020 was lower (higher disposable income). Customers who were directly affected by the epidemic were able to apply for a deferral of payment of their obligations in accordance with the Intervention Measure Act. At the end of 2020 the share of the portfolio that was in the status of deferred payment is 3% in the area of Consumer Banking and 11% in the area of Corporate Banking.

The balanced ratio between profitability and risk enabled the Bank to generate profit after tax in the amount of EUR 11 million, which is a 40% decrease compared to 2019, with the main reason deriving from the formation of impairments. The Bank included its annual year 2019 profit into retained earnings to bolster capital adequacy, which resulted in a total capital ratio of 20% at the end of the year. This provides Addiko Bank with an excellent basis for further growth in accordance with the increasingly ambitious business objectives.

In 2020, the Bank implemented a series of adjustments dictated by the Covid-19 epidemic, while continuing to focus on the important in dealing with customers, ensuring efficiency and communicating in clear, understandable language. In the context of the "new normality", the Bank listened even more to its customers and provided them with easy, convenient and fast access to banking services in both digital and physical channels, and assistance in overcoming liquidity problems caused by restrictive measures due to the Covid-19 epidemic.
The Bank aims to continue to provide banking services where customers need them most and where spontaneous needs for financing often arise. In the latter, further digitalization of banking operations is also important. Digitization enables customers to perform as many banking operations 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 operations.

The Bank continued its already established promotion activities such as Addiko Red Wednesday, which the Bank upgraded to Addiko Red Week at the year end, and thus faced the challenges of changing market conditions and dynamics in an innovative way. With this, the Bank further strengthened its position on the market as an unsecured consumer loan specialist.

In the corporate segment, Addiko Bank expanded the usage of a technologically advanced application for the management of the loan underwriting process, specifically tailored to micro and SME clients, which makes the process of digital lending and transactions more convenient, faster and more efficient. This simplified digitally supported lending process, enabled by end-to-end automated back office processes, allows granting of financing to customers within up to three days, in virtually half the time required previously. The Bank remained present in the segment of large enterprises and public sector and continued their financing in line with its strategy.

Despite the Covid-19 situation, the Bank improved its short- and long-term liquidity position. Due to the active management of financing, the Bank received more diversified funds from the private individuals. As a result the concentration of funds of the 30 largest depositors decreased from 34.8% in 2019 to 26.2% in 2020.

In 2020, the Bank continued to exploit the advantages brought by its operating model. The Bank efficiently used its diversity and geographical dispersion in its current operations and development of banking services via the "Six countries - one winning team" approach, allowing the Bank to leverage synergies in the Addiko Group to deliver higher 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 2020, one of the biggest challenges was to maintain the Bank's business and operations remotely, which the Bank established extremely quickly and successfully in the context of the Covid-19 epidemic by a large number of its personnel working from home, with all necessary information and security measures and systems. Addiko bank's success would not be possible 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 2020, the employees of the Bank were socially responsible, as is the Banks's custom: once again, strong awareness of the social needs in the Bank's operating environment was demonstrated. Within the Addiko Cares project, a voluntary campaign of food, supply and clothing collection for children from less privileged families was carried out. At the beginning of the Covid-19 epidemic, the Bank carried out a campaign to care for several homes for the elderly with protective masks, and also financially supported a number of other charities and charitable initiatives that were even more important at the time.

2021 will be a big challenge for the Bank, as well as its competition, as it will have to adapt its operations to the further fight against the long-term epidemic and the consequences of measures to limit it. Based on the past year experience, we can be moderately optimistic.

We're confident that by pursuing the Bank's business strategy and maintaining an innovative marketing approach, regardless the situation, we will be able to carry our success into the future. Addiko Bank will strive to continuously provide its customers in the focus segments with a remarkable user experience and high-quality financial solutions that are significantly relevant to them.

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

Tadej Krašovec,
Member

The Management Board



ANDREJ ANDOLJŠEK

Responsibilities

- Retail & Micro Banking
- Product Management
- Corporate and SME Banking
- Legal
- Compliance
- Anti - Money Laundering
- Marketing & Public Relations
- Human Resources

ANJA BOŽAC

Responsibilities

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

TADEJ KRAŠOVEC

Responsibilities

- Credit Management
- Retail Risk Management
- Operations
- Risk Controlling
- Information and Physical Security
- Information Technology
- Project, Data and Facility Management

On 31 December 2020, the Management Board comprised of three members:

- Andrej Andoljšek, President of the Management Board (CEO, CMO),
- Anja Božac, Member of the Management Board (CFO),
- Tadej Krašovec, Member of the Management Board (CRO, COO).

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 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 2020, it provides services to approximately 0.8 million customers in CSEE, using a well-dispersed network of 168 branches and modern digital banking channels.

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

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

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 51.08% of the bank's shares are in free float, the rest of the shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Europe and North America.

2. General economic environment

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after Covid-19 pandemic started to spread in the first quarter of 2020. Lockdown measures brought European economies to a halt. While policy measures alleviated some of the pressures, and the summer rebound signalled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through such heavy storm will prove to be quite a challenge, especially for SEE economies due to a rather distinct feature of the crisis that lies not in its intensity, although it is comparable in amplitude only to the last great depression of the 30´s, but in the fact that contraction is more severe in the service sector due to social distancing measures.

Slovenia was impacted by both, external as well as internal crisis developments - including weaker export demand, lower rate of portfolio and remittance inflows, substandard tourists numbers and the imposition of severe lockdown measures. These factors brought down the average growth in Slovenia by -6.7% and the Slovenian governmental Office for macroeconomic research and development (UMAR) forecasts that Slovenia will reach its pre-crisis GDP growth level already within two years at most.

On the other hand, coordinated fiscal response on EU level and ample liquidity provided by ECB stabilized labour market development, helped to keep interest rates low and price dynamics dampened. Slovenia is a eurozone member and this contributes to easier mirroring of the ECB policy effects. Although Slovenia is by far the most open economy, which is likely to be reflected in the macroeconomic final data for 2020, 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. Besides, Slovenia had substantial stimuli packages, reflecting to some degree its ability to borrow on international capital markets.

In Slovenia, the lockdown measures and consumer pessimism contributed to a sharp fall in private spending, while investment contracted together with a shrinking of orders in manufacturing, most noticeably in exporting sectors. Public spending was the only component of

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

3. Earnings performance in brief

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

Addiko Bank reported an improved operating result at EUR 24.1 million at the end of year 2020. This is 5% better compared to the year 2019 (YE19: EUR 22.9 million). The operating result reflects a stable business development despite the Covid-19 crisis, supported by non-recurring income (the sale of debt securities) and a successful cost containment. The result after tax of EUR 11 million (YE19: EUR 18 million) was impacted by a significant increase in risk provisioning predominantly associated with macroeconomic expectations due to Covid-19.

The Bank has successfully maintained its robust asset quality and has tightened underwriting criteria preferring sustainable portfolio quality over new business and volume growth. The loan book in the focus segments remained stable, whereby Consumer and SME amount to 61% of the gross performing loan book (YE19: 57%). The Bank has limited exposure to industry sectors considered as Covid-19 sensitive. The NPE ratio (CRB based) of 1.67% (YE19: 1.71%) and the NPE provision coverage at 66.24% (YE19: 64.45%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the strong receivables collection.

4. Response to the Covid-19 Pandemic

4.1 Supporting clients

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

Customers remain the priority for Addiko Bank through this crisis and a comprehensive range of measures have been implemented to support retail and business customers. Addiko Bank’s communication was aimed to remind clients of the flexibility and service offered by using Addiko Mobile, Addiko Ebank, ATMs and other services available from the comfort of their home. In these times of uncertainty, the Bank strives to maintain a customer-first approach. All Addiko Bank services are tailored to the needs of clients, with an additional focus on health and safety. The Bank offers clients an adequate incentive to do their banking transactions from home through digital services or use their contactless Addiko card.

In addition, 2.372 moratoria on payment obligations were granted in the fiscal year, of which 921 were still active as of 31 December 2020. Further details are provided in Note (56) Credit risk (counterparty default risk), under the sub-item Moratorium due to Covid-19.

4.2 Operational stability

The Bank has enabled safe working conditions for its personnel in their workplace and extensive remote working has been implemented already in March, when the number of employees working from home increased to over 200. The home office has been extended voluntary throughout the year, with the goal of incorporating this permanently into Addiko Bank’s operating framework. Most of the branches operated normally in the time of the Covid-19 epidemic and the following measures were taken in the branches: Working hours were decreased in accordance to local regulations. All branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients. Through these measures, Addiko Bank has ensured the availability of critical services to its stakeholders during the Covid-19 crisis.

5. Corporate Governance

5.1 ECB Supervision

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

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

6.1 Great customer experience with efficient distribution transformation

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

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

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

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

The Bank is also capitalising on one of its best capabilities: transforming the classic branch employee role into a more complex one, empowering them to go outside the branch and serve customers at their workplace. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to customers every month, through-out the entire Bank. Customers are receiving advice regarding their financial needs; they can open current accounts, order debit cards, apply for loans or credit cards and obtain credit approval on the spot. Throughout 2020 most Bank@Work activities were performed using alternative channels to safely communicate with customers like email, phone calls and most importantly webinars.

6.2 Digital transformation

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

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

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

Addiko Bank focuses particularly on selling standardised products (unsecured loans and account packages) over digital channels, in line with specific restrictions/limitations of the market. Products are accessible through digital, allowing simulations where appropriate. Content delivery through social media, support of regular communication through digital, and implementation of features such as chatbot, branch designs compatible with the digital age – all such features contribute to the strengthening of the digital dimension of Addiko Bank's brand, customers' accessibility and convenience.

In February 2020 Addiko Bank implemented the Flik Pay application – a mobile app for executing instant payments. Currently the Flik Pay app covers P2P payments, but also POS payments will be offered in the next phase.

In 2Q 2020, Addiko Bank presented a new feature in mobile banking – AML review, through which the customer can update his personal data without physically visiting the branch. UX to execute the task is enriched with camera scanning of personal ID, through which all required data are read and updated in banking core system.

In September 2020 Addiko Bank set an important milestone in digital roadmap with implementation of e-signatures. Initially with e-signature tabs the Bank covered cashier processes but has already started projects for covering other processes as well.

In October the Bank implemented additional new mobile banking functionalities: login with biometrical data and possibility of opening savings and term de-posits fully end-to-end. The Bank thus enabled digital users to use additional channel for opening different savings accounts and term deposits without visiting the branch, which is fully in line with convenience and speed as a core part of Addiko bank’s strategy.

According to legal requirements at the end of the year 2020 Addiko bank implemented new 3D secure system for online card transactions. As an instrument the Bank uses the new Rekono mobile application, which enables confirmation of online purchases through push notifications and is live since the end of December.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of the Bank. Addiko Bank continues to invest in digital solutions as an essential foundation to delivering on the business boosting, convenience and speed-based value proposition. For the Consumer segment the share of consumer loans sold digitally improved to 17% in 2020 (7% in 2019) and the contribution of Bank@Work to 29% (22% in 2019).

6.3 IT Strategy

Addiko Bank’s strong focus for the Information Technology is on the stabilization and optimization of the infrastructure and service providers utilised for the Bank. During 2020 Addiko Bank ran the project for the optimization of all IT resources and the Bank will continue with optimization process in future and will also even more stabilize the IT infrastructure. This will help to improve the customer experience and satisfaction on one hand, but it will also impact the cost bottom line on the other.

Optimization activities in the area of data and data quality will provide the foundation for further data driven innovations for the Bank, allowing better targeted services and products for the core client segments.

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

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

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

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

6.4 Branches

At the year end of 2020, Addiko Bank operated a total of 19 branches in 15 major cities in Slovenia and 38 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.

The Bank renovated and moved its Koper and Celje branches to new locations and aligned them with the new Addiko Bank Express branch concept. The Bank will continue to transform its branches into modern ones with added digital content.

7. Financial development of the Bank

7.1 Detailed analysis of the reported result

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019	(%)
Net banking income	50,846	51,913	-2.1%
Net interest income	40,822	41,067	-0.6%
Net fee and commission income	10,052	10,882	-7.6%
Net result on financial instruments	1,098	1,369	-19.8%
Other operating result	-66	-3,423	-98.1%
Operating income	**51,907**	**49,894**	**4.0%**
Operating expenses	**-27,433**	**-27,673**	**-0.9%**
Operating result	**24,474**	**22,221**	**10.1%**
Other result	-345	475	>100%
Credit loss expenses on financial assets	-11,284	1,950	>100%
Result before tax	**12,845**	**24,646**	**-47.9%**
Tax on income	-1,825	-6,216	-70.6%
Result after tax	**11,020**	**18,434**	**-40.2%**

The **result after tax** of EUR 11,020 thousand was EUR 7,415 thousand lower compared with YE19 due to the epidemiological situation on the macro economic environment. As a result, lower transaction/loans were concluded, and the significant increase of risk provisions is caused mainly by recognition of Covid-19 impact. The impact was included in the ECL calculation model, rising overall ECL coverage for performing loans (stage 1 and stage 2).

The **net interest income** decreased from EUR 41,067 thousand in YE19, by EUR 244 thousand (-0.6%), to EUR 40,822 thousand in YE20 mainly resulting from lower consumer financing.

Compared to the year before the net margin stayed on the similar level (2020: 2.6%; 2019: 2.5%).

The **net fee and commission income** decreased from EUR 10,882 thousand in YE19, by EUR 829 thousand (-7.6%), to EUR 10,052 thousand in year YE20. The fall results from lower volume of payment transactions, guarantees, sale of insurance products (Uniqa) and transfer of tax on financial services within commison income.

The **net result on financial instruments** decreased in 2020 by EUR 271 thousand and amounted to EUR 1,098 thousand at the end of the year (YE19: EUR 1,369 thousand). The result in 2020 was achieved by the sale of part of the bank's bond portfolio and Treasury Sales Business.

The **other operating result** as sum of other operating income and other operating expense decrease from EUR -2,948 thousand in YE19, by EUR 2,537 thousand, to EUR -411 thousand in YE20. The decrease was mainly driven by the following significant items:

- Other extraordinary income regarding overpaid financial services tax in recent years in the amount of EUR 243 thousand.
- Tax on financial services was transfer within commission income as part of business (YE19: EUR 1,779 thousand).
- No restructuring costs in comparison to previous year (YE19: EUR 360 thousand).
- In 2020 transfer of revenues for non-banking services was made to operating expenses (YE19: EUR 771 thousand)

The **operating expenses** decreased from EUR -27,673 thousand in YE19, by EUR 240 thousand (-0.9%), to EUR -27,433 thousand at the current reporting date:

- Personnel expenses increased compared to the previous period mainly due to employment of highly qualified staff and payment for past work period. The number of employees expressed in full-time equivalent ('FTE') at 31 December 2020 was 319.25, a decrease of 7.13 from 31 December 2019.

- Other administrative expenses decreased from EUR -8,431 thousand in YE19 by EUR -1,041 thousand, or 14.1% to EUR -7,390 thousand in YE20. This development was mainly driven by lower marketing expenses, due to the epidemiological situation in the country, the bank was burdened by lower costs of business trips, costs related to vehicles, lower expenses of employee training and the effect by EUR 771 thousand due to transfer of revenues for non-banking services from other operating result.
- Depreciation and amortisation increased from EUR -2,956 thousand in YE19, by EUR -219 thousand, to EUR -3,175 thousand in YE20. This increase included some adjustments of depreciation rates of fixed assets and depreciation from new investments.

Due to net releases developing above expectations, worsen economic environment in connection with the epidemic and higher risk of lower solvency of clients **Credit loss expenses on financial assets** have amounted to EUR -11,284 thousand YE20 (YE19: EUR 1,950 thousand).

In accordance with the restrictions of the Bank of Slovenia, which limit the growth of consumer loans and the introduction of moratoriums, Bank adjusted the expected revenue growth and business plan.

Reported taxes on income amounted at EUR -1,825 thousand compared to EUR -6,216 thousand at the end of YE19.

7.2 Analysis of the statement of financial position

EUR thousand

	31.12.2020	31.12.2019	Change (%)
Cash reserves	170,604	138,306	23.4%
Financial assets held for trading	2,597	1,853	39.9%
Non-trading financial assets mandatorily at fair value through profit or loss	313	313	0.0%
Loans and receivables	1,145,105	1,311,305	-12.7%
Loans and advances to credit institutions	79,978	130,463	-38.7%
Loans and advances to customers	1,065,127	1,180,842	-9.8%
Investment securities	106,243	140,512	-24.4%
Tangible assets	10,102	11,315	-10.7%
Intangible assets	2,456	2,327	5.6%
Tax assets	10,721	10,839	-1.1%
Current tax assets	671	164	>100%
Deferred tax assets	10,051	10,675	-5.8%
Other assets	620	513	20.9%
Non-current assets and disposal groups classified as held for sale	67	35	92.8%
Total assets	**1,448,824**	**1,617,316**	**-10.4%**

The statement of financial position of Addiko Bank, d.d. shows the simple and solid interest-bearing asset structure: more than 73.3% of the assets are represented by customer loans and most of those 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 and SME lending. This is shown by the increased share of these two segments to 61.0% of the gross performing loan book (YE19: 57.2%).

During 2020 the total assets of Addiko Bank, d.d., decreased by EUR 168,492 thousand from EUR 1,617,316 thousand at YE19 to EUR 1,448,824 thousand.

Cash reserve increased by EUR 32,298 thousand to EUR 170,604 thousand as of YE20 (YE19: EUR 138,306 thousand) resulting from high liquidity and consequent increase the cash balances at central banks.
Overall loans and receivables increased to EUR 1,145,105 thousand from EUR 1,311,305 thousand at year end 2019:

Loans and receivables to credit institutions decreased by EUR 50,485 thousand to EUR 79,978 thousand (YE19: EUR 130,463 thousand).

Loans and receivables to customers decreased by EUR 115,715 thousand to EUR 1,065,127 thousand (YE19: EUR 1,180,842 thousand). During the reporting period epidemic occurred and consequently lower demand and lending. The strategy of reducing the Mortgage Business and exposure to public sector, non-focus segment, continued.

The investment securities decreased from EUR 140,512 thousand to EUR 106,243 thousand during YE20. The decrease is due to the sale of part of the portfolio of highly liquid bonds of various maturities and issuers that due to negative return no longer represented a "strategic" investment for the bank.
Tangible assets decreased to EUR 10,102 thousand compared to EUR 11,315 thousand at YE19, which is mainly due to lease cancellation of few branches.

Tax assets decreased to EUR 10,721 thousand (YE19: EUR 10,839 thousand), as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

EUR thousand

	31.12.2020	31.12.2019	Change (%)
Financial liabilities held for trading	1,874	2,163	-13.4%
Financial liabilities measured at amortised cost	1,246,212	1,425,438	-12.6%
Deposits of credit institutions	144,406	172,039	-16.1%
Deposits of customers	1,075,777	1,223,204	-12.1%
Certificates of deposits	55	55	0.1%
Issued bonds, subordinated and supplementary capital	15,005	15,005	0.0%
Other financial liabilities	10,970	15,135	-27.5%
Provisions	6,249	7,161	-12.7%
Other liabilities	2,250	939	>100%
Equity	192,238	181,614	5.8%
Total equity and liabilities	**1,448,824**	**1,617,316**	**-10.4%**

On the liabilities' side, financial liabilities measured at amortised cost remained decreased to EUR 1,246,212 thousand compared to EUR 1,424,438 thousand at year end 2019:

• Deposits of credit institutions decreased from EUR 172,039 thousand to EUR 144,406 thousand in YE20.
• Deposits of customers decreased to EUR 1,075,777 thousand (YE19: EUR 1,223,204 thousand).
• Other financial liabilities decreased from EUR 15,135 thousand at YE19 to EUR 10,970 thousand in YE20, which is mainly due to lower liabilities to vendors as well as liabilities from financial leases.

Provisions decreased from EUR 7,161 thousand at YE19 to EUR 6,249 thousand in YE20 as a result of decrease of off-balance sheet liabilities.
Other liabilities increased from EUR 939 thousand to EUR 2,250 thousand and include accruals for services received but not yet invoiced as well as liabilities for salary compensations not yet paid.
The development of equity from EUR 181,614 thousand to EUR 192,238 thousand is related to retained earnings from previous years.

8. Market and operations development

8.1 Consumer Banking

Addiko Bank's Consumer segment includes both the consumer finance as well as the micro subsegment including private entrepreneurs and profit-oriented legal entities with less than EUR 0.5 million annual gross revenue. It serves customers through a network of 19 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 account packages for salary payments, regular transactions and consumer lending. In the micro subsegment priority is set on the offer of transactional services. Addiko Bank also puts significant efforts in building digital capabilities and is recognized in the market as a digital challenger. In the context of the Covid-19 crisis, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

Consumer YE20 Business review

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

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 2020 the Bank executed "Bank@Work" activites remotely in order to keep its staff as well as its clients safe. Also, micromarketing activities were planned, but were not executed due to the Covid-19 epidemic restrictions and social distancing requirements.

The Bank complemented its sales activities through sales staffs' 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 2020 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.

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 the digitalization of processes. The digital engagement of the mobile customers significantly improved in the context of the Covid-19 crisis, proving the good reputation and capabilities of the mobile app throughout the Bank. The Bank also aimed to improve processes with an emphasis on rapid response with less documentation and efforts for digital business. Towards the end of 2020, the digital contribution to the sales results increased as the Bank was able to respond well to social distancing requirements.

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

In 2021, the Bank will continue to pursue the strategy focused on consumer loans, digitalisation of the processes and taking customer experience to a higher level, look for alternative ways of accessing customers in order to achieve the set goals and be recognisable as an expert in the field of consumer loans and a digital challenger.

8.2. SME and Corporate Banking

Addiko Bank offers the full product suite to SME clients (companies with annual turnover between EUR 0.5 million and EUR 50 million) in Slovenia. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the "real economy" with working capital loans, investment loans and a strong focus on trade finance products.

All SME clients are served by relationship managers, located in 8 dedicated SME centres across Slovenia integrated in Addiko's Retail branch network. The role of the relationship managers is not restricted to selling banking products but aims at being the trusted financial advisor to the client and active partner in decision-making about financing.

The Large Corporates segment comprises Addiko Bank's business activities relating to offering a full suite of products, focusing on lending products, deposit products as well as other complementary products to its large corporate customers, i.e. companies with annual turnover of over EUR 50 million. The Bank aims to provide its customers with a seamless financing service in a straightforward and efficient manner and to provide its customers convenient access to those services.

Addiko's strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are highly digitalized and having competitive advantage. In recent years Addiko Bank has started a group-wide project to build up a new digital platform which will cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. The underlying application process has therefore been redesigned from scratch resulting in a state-of-the-art customer experience combined with transparent and tangible process and performance metrics for the Bank.

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

SME and Corporate YE20 Business review

2020 influenced by lower disbursements as consequence of continued lock-downs across the country, tightened lending criteria and deteriorated investment sentiment, due to Covid-19. Therefore, the year was largely marked by focusing on helping customers overcome the liquidity problems that have arisen as a result of the restrictive measures. The Bank helped customers with both legal moratoriums and the granting of bridging liquidity loans. In 2020 the investment activity of customers also decreased markedly, which resulted in a lower volume of lending.

The SME and Corporate Banking segment is also 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.

Throughout the year, the Bank continued to optimize and further develop applications that enable modern and fast financing solutions for clients. In the last quarter of the year, the Bank intensively worked on activities needed to transfer the Bank's micro customers from the area of Consumer banking to the SME and Corporate segment.

In 2021, the main goal in the field of SME and Corporate business is to increase its share in the segment of micro customers and the share of business done through digital channels.

9. Analysis of non-financial key performance indicators

9.1 Human resource management

In 2020 Human Resources Management was mainly focused on the adaptation to the "new normality" as the result of situation related to the Covid-19 epidemic, the need to establish mechanisms for working from home, provide assistance in adapting to work from home, train employees and managers about this type of work and provide assistance in how to lead teams with empathy and understanding, how to monitor the effectiveness and work-life balance. At the same time, it was necessary to provide employees who worked in the Bank (especially employees in branches) with appropriate protective equipment, to inform them about the measures in a timely manner and to provide them with assistance so that everyone would feel safe in the workplace and could provide services that are key for our customers and the wider community.

Addiko Bank has repeatedly checked the employee pulse in terms of whether employees are satisfied with the adjustments adopted by the Bank in response to the epidemiological situation in the country. The results of the surveys show that most employees are satisfied with work from home, despite the necessary technical and procedural adjustments, that they had enough information to take appropriate measures, and that the Bank addressed some of the challenges employees have exposed during the Covid-19 pandemic. Majority of employees expressed a wish that in the future they would work partly in the Bank's premises and partly from home, so the Bank will pay special attention to this in the future.

In 2020, the Bank continued to intensively promote its values and behaviors, which are considered a pillar of professional and ethical standards in the Bank. These values and behaviors are embedded in all of the Bank's internal processes, including performance management and leadership development.
Performance review and employee skills development are key processes used to identify, develop, reward, and recognize highly efficient and talented employees. Both processes enable the establishment of a healthy working environment, as the Bank wants to become a desirable employer, attract talented staff and offer employees opportunities to develop their professional path.

Addiko Bank will continue to put employees at the heart of its business, as the employees are the foundation of the Bank's growth and success. The Bank is determined to continue implementing the planned measures and thus maintain its status as a competitive and attractive employer on the Slovenian market.

Addiko Bank is a proud holder of permanent Family-Friendly Company Certificate, which proves that the Bank identifies with the principles of the certificate, believes in its employees and encourages them to act responsibly in many areas.

The Bank successfully implemented the Addiko Bank Diversity and Inclusion Policy. The female to male ratio is listed in the table below. By implementing a Gender Balanced strategy and related long-term succession targets for our directors and Boards, the Bank commits to building a diverse and inclusive workforce. This will also be achieved by following the principles of Addiko Bank of equal treatment and opportunities for all employees and prevention of any discrimination.

Addiko Bank Slovenia Gender Diversity Status in 2020:

Management level	Number of employees based on gender diversity (female to male ratio)
Directors	43.75% : 56.25%
Management Board	33.3% : 66.7%
Supervisory Board	20% : 80%
Total Bank	61.34% : 38.66%

At the end of 2020, the Bank had 336 employees.

Year	Number of employees on 31.12.	Number of employees based on working hours*	Average number of employees
2020	336	319.25	343.4
2019	355	326.4	368.6

*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.

9.1.1 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	3
V. secondary education	116
VI. non-university higher education courses	20
VII. higher education programs, university programs	183
VIII. university degree specialisation, diploma of Master of Science	14
Total on 31.12.2020	336

9.1.2 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'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.

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.

9.1.3 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 2020, the focus was extensively on elevating leadership skills of senior leaders and directors of individual departments. All directors were taken through leadership trainings from Addiko Leader Academy, and the third of all was taken through the 360 Degree Assessment tool, which resulted in further development aligned with the assessment findings. In addition, many professional, compliance and legally required trainings are continually offered to our employees, ensuring upgrading of their knowledge. In 2020 the Bank accelerated online learning via its own Learning Management System (LMS) and offered e-learnings in the fields of GDPR, Compliance, Conflict of Interest and Operational Risk Awareness. All new employees who joined Addiko team in 2020 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 educated in a virtual environment from March 2020 onwards.

In the last quarter of 2020, Addiko Bank also introduced a mentoring program, which was welcomed and the response of mentoring couples is above expectations, so the Bank will continue and upgrade the program in the future.

9.1.4 Corporate Social Responsibility projects for employees

Addiko Bank's employees remain faithful to humanitarian activities, through which they are able to show their kind hearts. In 2020, Addiko Bank continued long-standing charity work through various Addiko Cares charity campaigns in which 56% of employees participated. The Bank's trademark CSR activity was promoted through donations of food, clothing and school supplies for underprivileged children. In order to facilitate distance schooling during the epidemic, the Bank donated used computers and equipment to The Primary School Bršljin in Novo mesto. In the spring part of the epidemic, the Bank came to the aid of the most deprived group of elderly people and donated 10,000 protective masks to 13 homes for elderly people in Slovenia. In addition, the Bank donated funds to Palčica Pomagalčica in dobrodelni škratki for the "Catch Your Dreams" project when opening the renovated branch in Koper. When opening the renovated branch in Celje, the Bank donated funds to the Primary School Glazija in Celje for the purchase of therapeutic devices for children with special needs.

Employee satisfaction is very important to Addiko Bank

The involvement of employees and their opinions are extremely important for Addiko Bank. In 2020, the Bank conducted several short employee satisfaction surveys during the Covid-19 epidemic and a more extensive Group-wide employee satisfaction survey that included categories such as leadership, culture, strategy, employee satisfaction index (ESI) and employee loyalty was conducted. The latter showed that employees are very satisfied with their work in the Bank, believe that they understand their contribution to the vision and plans of the Bank and trust the Bank's management. The results of all conducted surveys thus confirm the efforts to create a friendly working environment in which highly motivated employees and competent managers participate.

Various informal online get togethers were organised by the Bank throughout the year; more formal ones were termed Addiko Masterclass, where employees had a chance to explore different work-life segments and talk to renowned experts from various fields. Masterclasses importantly contribute to the well-being and team spirit of the employees. In 2020, the Bank continued with the activities promoting health within the framework of the Addiko Sports and Culture Association.

9.1.5 Performance and development interviews and target-oriented management

In 2020, 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.

9.1.6 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.
In line with the ECB recommendation and macroprudential restrictions from Banka Slovenije the Bank decided not to recognize any variable remuneration based provisions for the year 2020.

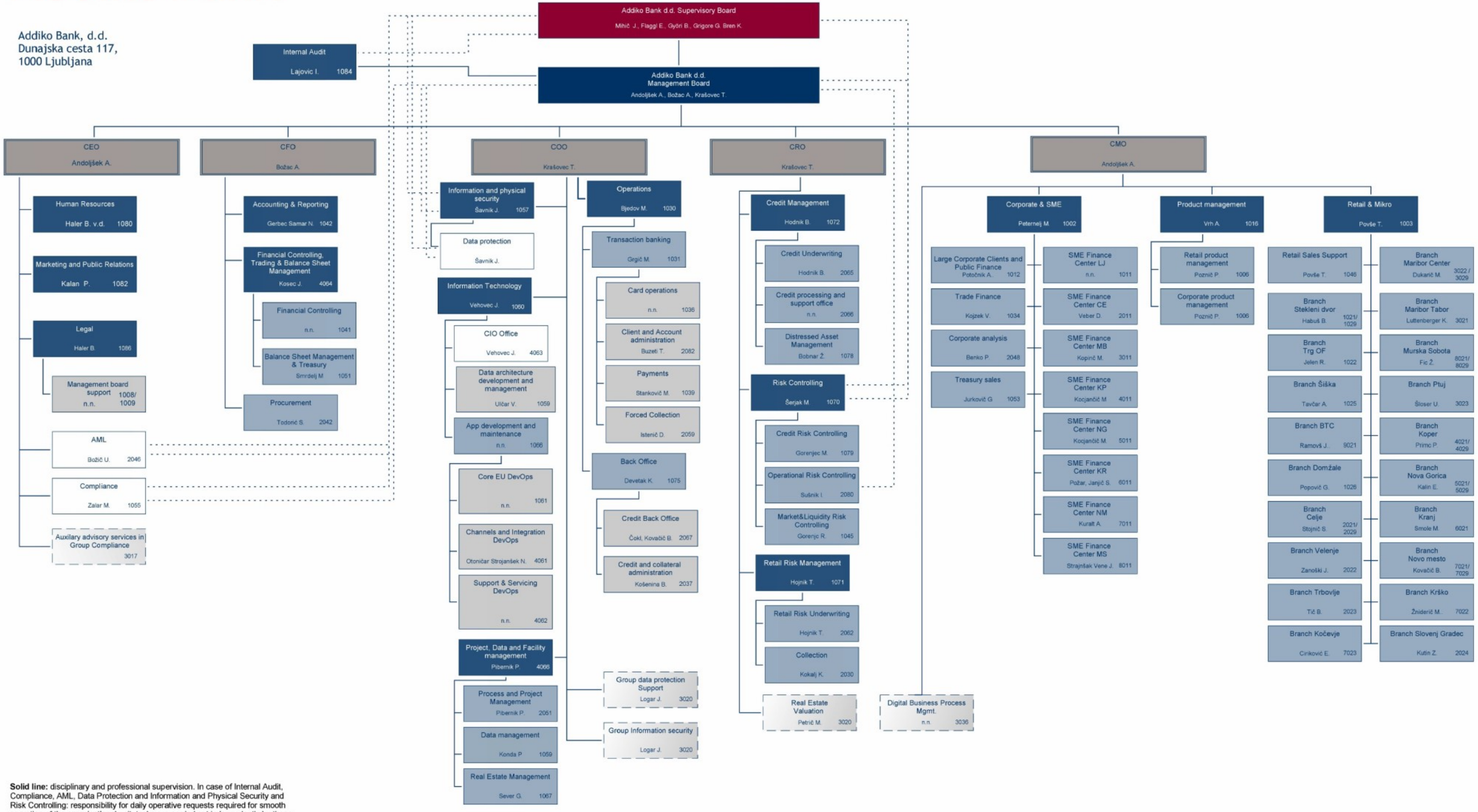
9.1.7 Remuneration policy

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.

9.2 Organisation of the Bank

9.2.1 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 1.10.2020

Contact: Process and Project Management (PPM)

9.2.2 Supervisory Board

The Supervisory Board of the Bank is comprised of five members. On 31 December 2020, the members of the Supervisory Board were:

• Joško Mihić, Chairman of the Supervisory Board,
• Edgar Flaggl, 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.

In 2020, two members of the Supervisory Board, Mr. Johannes Leopold Proksch and Mr. Henning Herbert Gerhard Giesecke, had resigned from their positions. Subsequently, the Shareholders' Assembly appointed two new members of the Supervisory Board, Mr. Edgar Flaggl and Mr. Klemen Brenk, each with a mandate until 26 June 2022. Existing Member of the Supervisory Board, Mr. Joško Mihić, was appointed as Chairman, whilst Mr. Edgar Flaggl was appointed as Deputy Chairman.

The Supervisory Board met five times in 2020, of which four times for regular meetings.

The Bank also has two Committees of the Supervisory Board, which are:

• An Audit Committee comprising three members, all members of the Supervisory Board: Edgar Flaggl, Chairman, and Members Balazs Laszlo Győri and Joško Mihić. In 2020, they met five times, of which four times for regular meetings.

• A Risk Committee comprising three members, all members of the Supervisory Board: Georgiana Grigore, Chairwoman, Edgar Flaggl, Deputy Chairman, and Balazs Laszlo Győri, Member. In 2020, they met four times for regular meetings.

9.2.3 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 2020.

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 2020, the Shareholders' Assembly was acknowledged with the audited 2019 Annual Report, the 2019 Internal Audit Annual Report and the use of accumulated (net) profit. In addition, the Shareholders' Assembly had appointed two new members of the Supervisory Board of the Bank, namely Mr. Edgar Flaggl and Mr. Klemen Brenk.

9.2.4 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.

10. Internal Control System for accounting procedures

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

The aim of 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.

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

11. 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.

12. Other disclosures

12.1 Supplementary information required by the Bank of Slovenia

In compliance with the Bank of Slovenia Decision on business ledgers and annual reports of commercial and savings banks, the following additional data are presented below for a period of three years:

EUR thousand

	INDICATORS	2020	2019	2018
	1. STATEMENT OF FINANCIAL POSITION			
1.	Total assets	1,448,824	1,617,316	1,618,114
2.	Total deposits by the non-banking sector, measured at amortised cost	1,075,777	1,222,793	1,159,198
2a.	a) by legal and other persons carrying out economic activity	623,020	776,990	730,638
2b.	b) by retail sector	452,757	445,803	428,560
3.	Total loans to the non-banking sector	1,063,541	1,179,304	1,114,822
3a	a) legal and other persons carrying out economic activity	511,357	570,473	513,322
3b.	b) retail sector	552,184	608,831	601,499
4.	Total capital	192,238	181,614	173,776
5.	Valuation adjustments and credit loss provisions	36,449	29,526	35,708
6.	Off-balance sheet operations	748,581	830,069	919,229
	2. INCOME STATEMENT			
7.	Net interest	40,793	41,033	38,936
8.	Net non-interest income	12,046	9,765	15,345
9.	Labour costs, overhead and administrative costs	25,526	24,717	25,272
10.	Amortisation and depreciation	3,175	2,956	1,344
11.	Impairments and provisions (credit losses)	-11,207	1,986	2,055
12.	Pre-tax profit or loss from continuing and discontinued operations	12,845	24,651	27,735
13.	Corporate income tax from continuing and discontinued operations	1,825	6,216	9,512
14.	Other comprehensive income, before tax	-487	-737	5,986
15.	Corporate income tax from other comprehensive income	90	142	1,406
	3. INDICATORS			
	a) Capital			
21.	Common Equity Tier 1 ratio	18.4%	15.5%	13.5%
22.	Core Tier 1 ratio	18.4%	15.5%	13.5%
23.	Total capital ratio	20.0%	17.0%	14.9%
	b) Profitability			
28.	interest margin	2.6%	2.5%	2.5%
29.	margin of financial intermediation	3.4%	3.1%	3.5%
30.	return on assets after tax	0.7%	1.1%	2.4%
31.	return on equity before tax	6.9%	13.9%	18.3%
32.	return on equity after tax	5.9%	10.4%	24.6%
	c) Operating costs			
33.	operating costs/average assets	1.8%	1.7%	1,7 %
	e) Credit risk			
24.	Non-performing (balance sheet and off-balance-sheet) exposures/classified balance sheet and off-balance sheet exposures	1.4%	1.5%	1.9%
25.	Non-performing loans and other financial assets/classified loans and other financial assets	1.4%	1.3%	1.9%
25.a	Non-performing loans and other financial assets/classified loans and other financial assets	1.3%	1.3%	1.9%
26.	Valuation adjustments and credit loss provisions/non-performing exposures	73.9%	70.6%	55.8%
26.a	Valuation adjustments and credit loss provisions/non-performing exposures	73.9%	70.6%	55.8%
27.	Received collateral/non-performing exposures	22.0%	21.6%	31.2%

	4. EMPLOYEES			
16.	at year-end	336	355	369
	5. SHARES AT YEAR-END			
17.	number of shareholders	1	1	1
18.	number of shares	41,706	41,706	41,706
20.	share book value (EUR)	4.6	4.4	4.2
19.	Nominal value of share	2.1	2.1	2.2

[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 (3.12.2019)

EUR thousand

		1.–3. 2020	4.–6. 2020	7.–9. 2020	10.-12. 2020
	Liquidity				
34.	Liquidity coverage ratio	204.8%	221.8%	293.7%	211.7%
35.	Liquidity buffer	158,220	164,083	180,595	184,360
36.	Net liquidity outflows	79,966	73,786	66,312	87,941

12.2 Event after the business year 2020

Since 31 December 2020, there were no events that would materially affect the financial statements herein.

13. Research & Development

Addiko Bank does not conduct any Research & Development activities.

14. Mid-Term Targets and Outlook

14.1 Mid-Term Targets

Addiko Bank has updated its Mid-Term Targets to reflect Covid-19 related impacts, whereby it is expected that the Mid-Term Targets will be affected by the Covid-19 pandemic in terms of delays in timing rather than in substance.

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

- Continuous shift of the loan book from the “non-focus” to the “focus areas” of ca. 75% (prev.> 66%),
- Net interest margin ca. 3.3% (prev. ca. 2.5%),
- Net fee and commission income growth ca. 9% (CAGR) 2021 to Mid-term (prev. ca. 5%),
- Cost income ratio ca. 42% (prev. ca. 44.7%),
- Cost of risk (net loans) ca. 0.7% (prev. ca. 0.8%),
- Return on tangible equity ca. 11.0% (prev. ca. 5.6%),
- Total capital ratio ca. 17.0% (unchanged),
- Loan/deposit ratio ca. 99.5% (prev. ca. 97.5%).

14.2 Outlook 2021

The Covid-19 pandemic brought about high levels of uncertainty that does not merely make it extremely difficult to forecast future developments, but detrimentally affects business decisions of private agents and policy responses in attempt of adjusting to new unexpected outcomes. This has a potential to threaten the ability of debtors to service their loans and to have difficulties to anchor their expectations, likely leading to a rise in tensions on the financial markets. While there is evidence that supply chain constraints across Europe have quickly vanished, demand will not string back as quickly, and there is a concern that poor capacity utilization could hamper investment, contributing to fear of dampened economic activity even without lock-down measures renewed.

In general, a relatively firm and uniform bounce-back is expected by the second half of 2021, bringing annual rate of growth to average 4,7% in Slovenia. The medium-term outlook will bring marginal slowing of this pick-up in the rate of growth and convergence to a longer-run path, stabilizing labor market indicators and consequently private consumption. These developments will mirror to some extent the cyclical pattern of the eurozone economies, and while on average there still will be some positive difference between the regional growth and growth in the eurozone, that gap will be narrowed in the recovery phase. This also means no demand pressures are to be expected and with continuously accommodative monetary framework, inflationary dynamics will stay modest.

Addiko Bank's performance is inextricably linked to the health of the economy in Slovenia. Hence, concurrently with the modest growth expectations in the country, Addiko Bank expects that the activity on new loan generation will start to recover in the financial year 2021. However, the lower activity of loan disbursements in the financial year 2020 and the continuously challenging interest environment will put additional pressure on operational income. On the other hand, the Bank's cost discipline will assure that the operating expenses for 2021 will continue on the downwards trend of the past years.

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

From the liquidity perspective the Bank continues to hold a very strong position and the impacts of the pandemic did not cause any material liquidity outflows. Even if a very unfavorable liquidity scenario would materialize going forward, the Bank has sufficient liquidity reserves and resources.

The Bank is convinced that the continuous focus on Consumer and SME lending activities as well as payment services ("focus areas") and its rigorous commitment to digital transformation, will minimize the negative impacts from the current economic situation.

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

In 2020, the Supervisory Board of Addiko Bank d.d. had supervised the business of the bank, its financial results and the performance of the Management Board of the Bank.

At its meetings, the Supervisory had 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 had 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 2020, the Supervisory Board had 4 regular meetings and 1 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 had expressed their opinions with arguments and actively participated in their discussions. The Supervisory Board has adopted and confirmed the following in 2020: the Annual report of the Bank for the year 2019 and the allocation of profits, the appointment of a procurator, the appointment of a new chairman and deputy chairman of the Supervisory 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 4 regular meetings in 2020. 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 financial statements, and the suitability and independence of external auditors.

The Risk Committee had 4 regular meetings and 1 extraordinary meeting in 2020. 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 2020 with quality, responsibly, with the highest ethical standards, due diligence and in compliance with relevant legislation and internal rules.

President of the Supervisory Board

Joško Mihić,
President

Activities of the Supervisory Board

In the financial year 2020, 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 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 2020.

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 31.12.2020, Addiko Bank d.d. is not a public company in terms of the Takeovers 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 Act1. In order to strengthen the internal governance arrangements, the Bank operates particularly in accordance with the following:

1) the provisions of the applicable Banking Act, which define internal governance arrangements, in particular the provisions of Chapter 3.4 (Governance system of a bank) and Chapter 6 (Internal governance arrangements and internal capital adequacy) in the requirements applicable to a bank/ savings bank or members of a management body;

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 at the Bank in Chapter 10. 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 the 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 9.2. Organisation of the Bank

3) data on the activities of management and supervisory bodies and their committees in Chapter 9.2. 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 9.1. 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, 16.3.2021

Management Board of the Bank

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

Supervisory Board of the Bank

Joško Mihić,
President

[1]Banking Act (ZBan-2), Official Gazette of the Republic of Slovenia, no. 25/15, 44/16, 77/16, 41/17 and 77/18.[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 Tadej Krašovec,
and
the Supervisory Board represented by President Joško Mihić,
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, 16.3.2021

Management Board of the Bank

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

Tadej Krašovec,
Member

Supervisory Board of the Bank
Joško Mihić,
President

16. Independent auditor's report

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085
Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

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 2020, and the income statement, statement of other comprehensive income, statement of changes in equity, 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 2020, and their 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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.

Key Audit Matters

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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 2020. 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 2020 the Company presented loans to non-bank customers in the net amount of EUR 1,095 million and total expected credit loss in the amount of EUR 31 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 • 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	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 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:

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(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 2020. Management has provided further information about the impairment allowance on loans from customers in notes: *14.1 Financial instruments Classification and measurement, 14.2 Financial instruments – Impairment, 39 Loans and receivables, 35 Credit loss expenses on financial assets and 56 Credit risk.*	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. viii. analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance ix. assessment of appropriateness of staging transition and allocation of exposures with granted moratoria • 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 ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19 iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance i. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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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 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 the Group and their 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 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.

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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.
- 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 Company 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.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the 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

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 5 years.

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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 16 March 2021 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.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 16 March 2021

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

Financial report

Statement of Management's responsibility

The Management Board has approved the financial statements for the year ended 31 December 2020, 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 2020. 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, 16. 3. 2021

Management Board of the Bank

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

CONTENTS

I. Income statement

EUR thousand

	Note	01.01.-31.12.2020	01.01.-31.12.2019
Interest income	26	46,383	47,907
Interest expenses	26	-5,590	-6,874
Net interest income		**40,793**	**41,033**
Dividend income		29	34
Fee and commission income	27	13,047	14,278
Fee and commission expenses	27	-2,994	-3,397
Net fee and commission income		**10,053**	**10,881**
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	28	810	924
Net gains or losses on financial assets and liabilities held for trading	28	-316	-1,881
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	11	0
Net exchange differences	28	592	2,326
Net gains and losses on derecognition of non-financial assets	28	-10	-47
Other net operating income	29	1,083	-1,487
Administrative expenses	30;31	-24,258	-24,717
Cash contributions to resolution funds and deposit guarantee schemes	32	-1,268	-1,209
Depreciation	33	-3,175	-2,956
Modification gains/losses	34	-289	5
Provisions	35	922	350
Impairments	35	-12,215	1,212
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		83	220
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**12,845**	**24,651**
Tax expense or income related to profit or loss from continuing operations	36	-1,825	-6,216
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		**11,020**	**18,434**
PROFIT OR LOSS FOR THE FINANCIAL YEAR		**11,020**	**18,434**

The accompanying notes on pages from 45 to 138 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.-31.12.2020	01.01.-31.12.2019
Result after tax	**11,020**	**18,434**
Other comprehensive income	**-395**	**-595**
Items that will not be reclassified to profit or loss	32	60
Actuarial gains or (-) losses on defined benefit pension plans	-13	11
Fair value reserve - equity instruments	45	48
Net change in fair value	55	60
Income tax	-10	-11
Items that may be reclassified to profit or loss	**-427**	**-654**
Fair value reserve - debt instruments	-427	-654
Net change in fair value	282	116
Net amount transferred to profit or loss	-810	-924
Income tax	100	153
Total comprehensive income for the year	**10,624**	**17,840**

The accompanying notes on pages from 45 to 138 form an integral part of the financial statements and should be read in conjunction with them.

III. Statement of financial position

EUR thousand

	Note	31.12.2020	31.12.2019
Cash, cash balances at central banks and other demand deposits at banks	37	170,604	138,306
Financial assets held for trading	38	2,593	1,853
Non-trading financial assets mandatorily at fair value through profit or loss	40.2	313	313
Financial assets at fair value through other comprehensive income	40.1	106,243	140,512
Financial assets at amortised cost	39	1,145,105	1,311,304
Loans and advances to credit institutions	39.1	79,978	130,219
Loans and advances to customers	39.2	1,063,541	1,179,304
Other financial assets	39	1,586	1,781
Tangible assets	41, 43	10,102	11,314
Intangible assets	42, 43	2,456	2,327
Tax assets	37	10,721	10,839
Current tax assets	37	671	164
Deferred tax assets	36.1	10,050	10,675
Other assets	44	620	513
Non-current assets and disposal groups classified as held for sale	45	67	35
Total assets		1,448,824	1,617,316
Financial liabilities held for trading	46	1,874	2,163
Financial liabilities measured at amortised cost	47	1,246,212	1,425,438
Deposits of credit institutions	47.1	831	10,961
Deposits of customers	47.2	1,075,777	1,223,204
Loans of banks and central banks	47.4	158,579	176,083
of which subordinated loans	47.4	15,005	15,005
Debt securitites issued	47.3	55	55
Other financial liabilities	49	10,970	15,135
Provisions	48	6,249	7,161
Tax liabilities		0	0
Other liabilities	49	2,250	939
Total liabilities		1,256,585	1,435,701
Capital	50	89,959	89,959
Share premium	50	18,814	18,814
Accumulated other comprehensive income	50	1,012	1,409
Retained earnings (including profit or loss for the financial year)	50	82,454	71,432
Total equity	50	192,238	181,614
Total liabilities and equity		1,448,824	1,617,316

The accompanying notes on pages from 45 to 138 form an integral part of the financial statements and should be read in onjunction 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 01.01.2020	**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
Other changes	0	0	-1	1	0
Equity as at 31.12.2020	**89,959**	**18,814**	**1,012**	**82,453**	**192,238**

EUR thousand

	Subscribed capital	Capital reserves	Fair value reserve	Cumulated result and other reserves	Total
Equity as at 01.01.2019	**89,959**	**18,814**	**2,007**	**62,996**	**173,776**
Result after tax	**0**	**0**	0	18,434	18,434
Other comprehensive income	0	0	-595	0	-595
Total comprehensive income	0	0	-595	18,434	17,840
Dividends paid	0	0	0	-10,001	-10,001
Other changes	0	0	-3	3	0
Equity as at 31.12.2019	**89,959**	**18,814**	**1,409**	**71,432**	**181,614**

The accompanying notes on pages from 45 to 138 form an integral part of the financial statements and should be read in conjunction with them.

V. Statement of cash flows

EUR thousand

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit or loss before tax	12,845	24,651
Depreciation	3,175	2,956
Impairments / (reversal of impairments) of loans and other financial assets measured at fair value through other comprehensive income	227	-12
Impairments / (reversal of impairments) of loans and other financial assets measured at amortised cost	11,911	-1,201
Impairments of tangible assets (including investment property), intangible assets and other assets	77	36
Net (gains) / losses from exchange differences	-592	-2,326
Modification gains/losses	289	-5
Net (gains) / losses from sale of tangible assets	7	-17
Net (gains) / losses from sale of intangible assets	0	65
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	**27,939**	**24,148**
(Increases) / decreases in operating assets (excluding cash & cash equivalents)	**166,567**	**-10,645**
Net (increase) / decrease in financial assets held for trading	-740	-461
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income	33,557	80,523
Net (increase) / decrease in loans and receivables measured at amortised cost	133,889	-91,034
Net (increase) / decrease in non-current assets and disposal groups classified as held for sale	-32	29
Net (increase) / decrease in other assets	-107	297
Increases / (decreases) in operating liabilities	**-178,071**	**-16,834**
Net increase / (decrease) in financial liabilities held for trading	-289	195
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost	-178,180	-15,750
Net increase / (decrease) in debt securities issued	0	-1,008
Net increase / (decrease) in other liabilities	398	-271
Cash flow from operating activities	**16,434**	**-3,331**
Income taxes (paid) / refunded	**-1,618**	**-3,377**
Net cash flow from operating activities	**14,816**	**-6,708**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	17	22
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	**-2,018**	**-2,038**
(Cash payments to acquire tangible assets)	**-551**	**-708**
(Cash payments to acquire intangible assets)	**-1,467**	**-1,330**
Net cash flow from investing activities	**-2,001**	**-2,016**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments on financing activities	0	0
(Dividends paid)	0	-10,001

(Cash repayments of subordinated liabilities)	0	0
Net cash flow from financing activities	**0**	**-10,001**
Effects of change in exchange rates on cash and cash equivalents	-352	179
Net increase in cash and cash equivalents	**12,815**	**-18,726**
Opening balance of cash and cash equivalents	**168,336**	**186,883**
Closing balance of cash and cash equivalents	**180,799**	**168,336**

EUR thousand

	2020	2019
CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	2,654	6,359
Interest received	45,369	51,599
Dividends received	29	34
TOTAL	**48,052**	**57,992**

EUR thousand

	2020	2019
CASH AND CASH EQUIVALENTS		
Cash on hand and cash balances with the central bank	170,799	138,336
Loans to banks with maturity up to three months	10,000	30,000
TOTAL	**180,799**	**168,336**

The accompanying notes on pages from 45 to 138 form 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 01.01.2019 to 31.12.2019 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 (65) 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 16 March 2021, the Management Board of Addiko Bank d.d. approved the financial statements as at 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 at 31 December 2020.

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. Changes in the presentation of financial statements

Compared to the presentation of the financial statements for the year ended 31 December 2019, the scheme for the presentation of the Profit and Loss Account was amended in accordance with the regulations of Banka Slovenije. These changes were also adapted by the Bank to present comparative data.

EUR thousand

	01.01. - 31.12.2019		
	old	new	change
Recovery and resolution fund		-609	-609
Deposit guarantee		-600	-600
Other	-2,776	819	3.595
Administative costs	-8,804	-11,190	-2,386
Banking levies and other taxes		-2,386	-2,386

Costs related to contribution to the resolution fund and deposit guarantee scheme are included in a separate item of the Income statement, they were included under other operating expenses before the change.
Expenditure related to payments of taxes, other duties, membership fees and similar expenses are included in the administrative cost item, before the change they were included under the Other operating expenses.

In comparison with the presentation of the financial statements for the year ended 31 December 2019, the scheme for the presentation of the Financial Statement was amended. The Bank excluded the liabilities arising from salaries, contributions, unpaid bonuses from the item Other Financial Liabilities and included them in Other liabilities.

EUR thousand

	01.01. - 31.12.2019		
	old	new	change
Financial liabilities measured at amortised cost	1,425,438	1,423,578	1,860
Other financial liabilities	15,135	13,276	1,859
Other liabilities	939	2,798	-1,859

3. Application of new standards and amendments

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

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2020:

Standard	Name	Description	Effective for financial year
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework	2020
IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	New definition of materiality	2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures	Interest rate benchmark reform	2020
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of business	2020

3.1. Conceptual Framework

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

3.2. IAS 1 and IAS 8

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

3.3. IFRS 9, IAS 39 AND IFRS 7

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

3.4. IFRS 3

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendments to **IFRS 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 recognized in profit or loss in accordance with the relevant standards. It is therefore no longer permissible to offset the net proceeds against the cost of the item of property, plant and equipment. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes within the Addiko Group.

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

4. Standards used for comparative periods

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

5. 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.

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 (48) Development of provisions.

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

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

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

For further details regarding the measurement of financial instruments, see note (14) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (82.1) Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (39) Loans and receivables as well as note (40) Investment securities.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 year tax plans. 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. Details on provisions are presented in note (48).

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 (12).

6. Accounting topics affected by Covid-19

In the beginning of March, the World Health Organisation declared the Covid-19 outbreak as a global pandemic which is having a massive impact on world trade, leading to sudden supply- and demand shocks and market volatility. Slovenia has taken a variety of measures, aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays 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.

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

Based on the set of criteria developed by Addiko Bank to assess whether or not a modification is substantial, described in the Note (13.3.) *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.

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. Revenue from contracts with customers

Under the core principle of **IFRS 15** "Revenue from Contracts with Customers" model, Addiko Bank recognises revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognised at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to leases within the scope of IFRS 16, insurance contracts within the scope of IFRS 4 financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”.

9. Leases

9.1. 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 operating activities.

9.2. Leases in which Addiko Bank is a lessor

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

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

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

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

Addiko bank has no contract in which Bank is a lessor in the financial statements.

9.3. 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 operating activities.

10. Net interest income

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

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using 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”.

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

11. Net fee and commission income

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

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

12. Net result on financial instruments

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

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

13. Other operating income and other operating expenses

Other operating income and other operating expenses reflects all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property, release and allocation for legal cases and income from operating lease assets. In year 2020 expenses for other taxes and certain regulatory charges bank levy were part of Administrative expenses. The contribution to the deposit guarantee scheme and to the Single Resolution Fund) is disclosed separately under Administrative expenses (see note (2)).

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

14. Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason. the classes have been defined according to those items in the statement of financial position 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.

14.1. Classification and measurement

Business models

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

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above. In Addiko 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 2018 and 2019, 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).

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.

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

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

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

Addiko 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 and dividend income are presented in the line "Other interest income". Gains and losses from revaluation and derecognition are presented in the line "Net result on financial instruments". In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model. Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, Addiko 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 is performed, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.

In March 2019, ECB launched long-term funding for banks “Targeted Longer-Term Refinancing Operations” (TLTRO III). During 2020, ECB decided on modifications to the terms and conditions by further reduction of interest rates in order to support further the provision of loans to customers. Interest rate depends on rate applied for the Eurosystem´s main refinancing operation and on achieving of specific volume of customer loans. If the target is achieved, interest rate is reduced. Periodically Addiko 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 2020 and 2019.

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 2020 and 2019.

14.2. 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).

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 three outcomes in total: Base case, optimistic case and pessimistic case, while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (cf. 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 Group Data Services 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, external data from rating agencies is also applied for the same reason mentioned before. Methodology wise, an indirect modelling 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 while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames).

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

A simplified approach is chosen for the credit conversion factor (CCF) for off balance exposures. The Bank uses expert judged estimations for CCF calculations which varies by product type.

In addition to the generalised ECL calculation based on internal estimated risk parameters/methodology, a portfolio approach is applied for certain circumstances that cannot not be appropriately differently considered 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 time series 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 as per 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 equal to CRR Article 178, as this is the industry standard and it allows consistency between entities in Addiko Bank Group and risk management processes. Determination that a financial asset is credit-impaired is achieved through tracking of default criteria defined in Default detection and recovery policy.

In the year 2020 the bank used the following definition of default - if the client is late with the payment according to the criteria bellow (the bank uses the stricter rule among those two):
a) more than 2,5% of total credit line and as a minimum 250 EUR as threshold are in delay more 90 days
b) more than 2,5% of total exposure or 50.000 EUR (but not less than 200 EUR) are in delay more than 90 days.

With 2021 the bank uses new definition of default, where there the client is in default if is late with the payment for more than 90 days and fulfils at the same time absolute and relative materiality thresholds, which are defined in the following way:
a) for Retail clients: 1% relative threshold (the amount of past due is the sum of all amounts past due divided by the total on-balance exposure) and €100 EUR as an absolute threshold
b) for Non-retail: 1% relative (the amount of past due is the sum of all amounts past due divided by the total on-balance exposure) and 500 EUR absolute threshold.

The impact of the implementation of new definition of default is 702 thousand EUR, which may be contributed to the fact that the bank already in the past used strict definition of default.

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 that 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 around 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-month probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed by different thresholds of PD changes for different portfolios. These thresholds are regularly evaluated from a qualitative and/or quantitative point of view to ensure reasonable stage criteria (cf. chapter "Validation"). In addition, for some parts of the portfolios leverage is applied as an additional stage criterion to reflect changes in exposure caused by macro-economic circumstances that were not foreseeable at initial recognition and/or are not directly reflected in the PD at the reporting date. Due to limited time series, 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 undergo a constant validation and monitoring process to ensure their appropriateness and applicability over time (cf. 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 macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates. GDP growth rates, real estate prices, industrial production. All variables incorporated are at the country level (Slovenia specific) and portfolio level whenever possible and plausible.

Forecasts of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from both internal and 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 also includes 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 and currently available public information. They do not guarantee 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 constantly undergo 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 basis.

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 unit that deliver reports to local Risk controlling unit, which after performed review, further deliver 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 the period of one year on an 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 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 that have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations;
- Financial asset for which the bank's right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement;
- Other triggers were defined for financial assets that are treated as non-recoverable.

14.3. Derecognition and contract modification

A financial asset is derecognised when:
- The contractual rights to receive cash flows from the asset have expired; or
- Addiko 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.

15. 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.

16. 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.

17. Cash reserves

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.

18. 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. Standards used for comparative periods. Real estate acquired to generate returns is reported under investment properties.

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

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

The depreciation rates and expected useful lives were the same also in 2020.

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

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

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

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

19. 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. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “other operating income” or " other operating expenses".

20. 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.

21. 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.

22. 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. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (45) Non-current assets and disposal groups classified as held for sale.

23. Provisions

23.1. 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 0.75% as at 31 December 2019 (2018: 1.15%) and a salary increase of 1.5% p.a. (2018: 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.

23.2. 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”.

23.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected. For disclosure of restructuring expenses, see note (29) Other operating income and other operating expenses.

23.4. 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.

24. Other liabilities

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

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. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	**45,668**	**47,141**
Financial assets at fair value through other comprehensive income	967	1,674
Financial assets at amortised cost	44,295	44,831
Negative interest from financial liabilities	**406**	636
Other interest income	**715**	**765**
Financial assets held for trading	713	762
Other assets	2	4
Total interest income	**46,383**	**47,907**
Financial liabilities measured at amortised cost	-4,460	-5,511
o/w lease liabilites	-137	-158
Financial liabilities held for trading	-615	-666
Other liabilities	-37	-167
(Interest expense on financial assets)	-478	-530
Total interest expense	**-5,590**	**-6,874**
Net interest income	**40,793**	**41,033**

Interest expense of financial liabilities in the amount of EUR -5,590 thousand (YE19: EUR - 6,874 thousand) includes expenses measured at amortised cost of EUR -4,460 thousand (YE19: EUR -5,511 thousand).

The negative interest income on TLTRO III financial liabilities amounts to EUR -123 thousand (YE19: EUR 0 thousand).

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

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**713**	**762**
Debt securities	**967**	**1,674**
Governments	604	1,371
Credit institutions	72	63
Other financial corporations	0	5
Non-financial corporations	292	235
Loans and advances	**44,295**	**44,831**
Governments	680	1,497
Credit institutions	570	0
Other financial corporations	209	321
Non-financial corporations	10,821	10,195
Households	32,015	32,818
Other assets	2	**4**
Negative interest from financial liabilities	**406**	**636**
Central banks	406	636
Total	**46,383**	**47,907**

Interest expenses break down by instrument and sector as follows:

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**-615**	**-666**
Deposits	**-4,028**	**-5,005**
Central banks	0	0
Governments	-182	-231
Credit institutions	-1,745	-1,608
Other financial corporations	-258	-304
Non-financial corporations	-495	-646
Households	-1,348	-2,216
Issued bonds, subordinated and supplementary capital	**-2**	**-5**
Negative interest from financial assets	**-478**	**-530**
Debt securities	**-32**	**-70**
Central banks	-32	-70
Loans and advances	**-398**	**-430**
Central banks	-266	-399
Credit institutions	-132	-31
Other assets	**-37**	**-167**
Total	**-5,590**	**-6,874**

27. Net fee and commission income

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Accounts and Packages	3,692	3,245
Transactions	2,879	3,710
Cards	2,226	2,569
FX & DCC	75	79
Bankassurance	474	1,052
Loans	1,971	1,585
Trade finance	1,367	1,571
Other	363	465
Fee and commission income	**13,047**	**14,278**
Cards	-1,347	-1,328
Transactions	-1,194	-1,296
Client incentives	0	0
Securities	-7	-14
Accounts and Packages	-347	-489
Bancassurance	0	0
Other	-100	-270
Fee and commission expenses	**-2,994**	**-3,397**
Net fee and commission income	**10,052**	**10,881**

The fees and commission presented in this note include income of EUR 13,047 thousand (YE19 EUR 14,278 thousand) and expenses of EUR -2,994 thousand (YE19: EUR -3,397 thousand) relating to financial assets and liabilities not measured at FVTPL.

In year 2020 tax on financial services was recognized on a net basis. Interest income and interest like income was smaller than in year 2019, because of tax (please refer to Note 30). Financial Services Tax is payable on the basis of the Financial Services Tax Act, which was published on 10.12.2012 (H. L. RS. 94/2012). From 1.1.2015, the tax rate is 8.5% of the tax base (H. L. RS. 90/2014.

28. Net result on financial instruments

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Held for trading financial instruments	277	445
o/w exchange difference	592	2,326
o/w gain or losses on financial instruments	-316	-1,881
Non trading financial assets	11	0
Financial assets at fair value through other comprehensive income	810	924
From derecognition of non financial assets, net	-10	0
Total	**1,088**	**1,369**

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

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives	-316	-1,881
Total	**-316**	**-1,881**

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

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest rate instruments and related derivatives	-33	-23
Foreign exchange trading and derivatives related to foreign exchange and gold	-283	-1,858
Total	**-316**	**-1,881**

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

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Gains or losses on financial assets and liabilites, measured at fair value through other comprehensive income	810	924
Total	**810**	**924**

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. - 31.12.2020	01.01. - 31.12.2019
Debt securities	810	924
Total	**810**	**924**

In 2020, the gains on financial assets measured at FVOCI amounted to EUR 810 thousand (YE19 EUR 924 thousand).

29. Other operating income and other operating expenses

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Other operating income	1,221	**1,213**
Other income	1,221	1,213
Other operating expenses	**-137**	**-394**
Restructuring expenses	0	-231
Other expenses	-137	-163
Total	**1,083**	819

The line item “Restructuring expenses” in the amount of EUR -231 thousand at YE19 includes an ongoing restructuring plan as well as restructuring costs due to outsourcing activities.

30. Personnel expenses

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Wages and salaries	-11,938	-12,292
Social security	-1,787	-1,804
Voluntary social expenses	-401	-576
Expenses for retirement benefits	-953	-294
Expenses for severance payments	-62	0
Income from release of other employee provisions		
Other personnel expenses	-796	-918
Total	**-15,937**	**-15,885**

In line with the ECB recommendation and restrictions of Banka Slovenije 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 this year. It should be noted that no payments for 2019 have been yet executed for the management board and key management.

31. Other administrative expenses

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
IT expense	-3,779	-3,085
Premises expenses (rent and other building expenses)	-1,716	-1,383
Legal and advisory costs	-474	-583
Advertising costs	-932	-1,318
Banking levies and other taxes	-589	-2,386
Other administrative expenses	-1,498	-2,435
Total	**-8,988**	**-11,190**

In line item "Banking levies and other taxes", the most important part of expenses in YE19 represents the paid tax on financial services of amount of EUR -1,779 thousand. In year 2020 tax on financial services was recognized od net basis. Financial Services Tax is payable on the basis of the Financial Services Tax Act, which was published on 10.12.2012 (H. L. RS. 94/2012). From 1.1.2015, the tax rate is 8.5% of the tax base (H. L. RS. 90/2014),

32. Recovery and resolution fund

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Recovery and resolution fund	-731	-609
Deposit guarantee schemes	-537	-600
Total	**-1,268**	**-1,209**

33. Depreciation and amortisation

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Property, plant and equipment	-1,837	-1,800
Intangible assets	-1,338	-1,156
Total	**-3,175**	**-2,956**

34. Modification

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Modification gains or (-) losses, net	-289	5
Financial assets at amortised cost	-289	5
Total	**-289**	**5**

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. - 31.12.2020	01.01. - 31.12.2019
Change in CL on financial instruments at FVTOCI	-227	**12**
Change in CL on financial instruments at amortised cost	-11,911	**1,201**
Net allocation to risk provision	-13,004	-749
Proceeds from loans and receivables previously impaired	1,109	2,019
Directly recognised impairment losses	-16	-69
Net allocation of provisions for commitments and guarantees given	931	**773**
Total	**-11,207**	**1,986**

36. Taxes on income

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax	-1,111	-2,330
Deferred tax	-714	-3,887
Total	**-1,825**	**-6,216**

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

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Operating result before tax	**12,845**	**24,651**
Theoretical income tax expense based on Slovenian corporate tax rate of 19%	2,441	4,684
Tax effects	-1,337	-2,362
from foreign income and other tax-exempt income	166	176
from investment related tax relief and other reducing the tax burden	-1,454	-2,480
from non-tax deductibel expenses	-49	-58
Actual income tax (effective tax rate: 8.59% (2019: 9.42%)	**1,103**	**2,322**

In 2020, the income tax was EUR 1,103 thousand (2019: EUR 2,322 thousand).

In 2020, the Bank derecognised the deferred tax assets of EUR -624 thousand (2019: EUR 3,766 thousand), of which in the amount of EUR -714 thousand through the profit and loss and in the amount of 90 thousand through other comprehensive income, namely EUR 135 thousand in respect of fixed assets, provisions, impairment of securities and EUR -759 thousand in respect of the tax loss transferred. In 2019, the Bank derecognized deferred tax assets of EUR -3,766 thousand, of which -3,887 thousand through the profit and loss and 121 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 2020, when calculating corporate income tax, the Bank took into account EUR 7,655 thousand (2019: EUR 13,052 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.

The effective tax rate for 2020 stood at 8.59% (2019: 9.42%).

36.1. Tax assets

EUR thousand

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax assets	671	164
Deferred tax assets	10,050	10,675
Total	**10,722**	**10,839**

In 2020, on the basis of the estimated prepayment, the Bank overpaid tax of EUR 671 000, which will be refunded after the submission of the final income tax return for 2020.

36.1.1. Deferred tax assets/liabilities

In the financial year 2020, 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

	2020			2019		
	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	70	70	0	43	43	0
Financial assets designated at fair value through profit or loss	272	272	0	234	234	0
Other liabilities	-236	0	-236	-330	0	-330
Deferred revenue fee income	53	53	0	77	77	0
Existing taxable losses	9,892	9,892	0	10,651	10,651	0
Total deferred Tax	**10,050**	**10,286**	**-236**	**10,675**	**11,005**	**-330**

The total YoY change in deferred taxes in the financial statements is EUR -624 thousand. Of this, EUR -714 thousand is reflected in the current income statement as deferred tax expense, and an amount of EUR 90 thousand shown in other comprehensive income in equity.

In Year 2020, 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

	2020	2019
Balance at start of period (01.01.)	10,675	**14,441**
Impact of adopting IFRS 9	**0**	**0**
Tax income/expense recognised in profit or loss	-714	-3,887
Tax income/expense recognised in OCI	90	121
Balance at end of period (31.12.)	**10,050**	**10,675**

EUR thousand

	2020	2019
Deferred tax assets	10,050	10,675
Deferred tax liabilities	0	0
Total	**10,050**	**10,675**

As at 31 December 2020, the Bank had EUR 181,090 thousand of unused tax losses from previous years (EUR 187,756 thousand as at 31 December 2019); for 107,478 thousand in unused tax losses, the Bank has already recognised the deferred tax assets.

Notes to the statement of financial position

37. Cash reserves

EUR thousand

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

EUR thousand

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	10,435		10,435
Cash balances at central banks	112,555		112,555
Other demand deposits	15,354	-38	15,316
Total	**138,344**	**-38**	**138,306**

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 9,817 thousand (YE19: EUR 10,533 thousand). The Bank has the amount of EUR 1,456 thousand deposited 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 01.01.2020	**138,338**
Changes in the gross carrying amount	32,461
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2020	**170,799**

EUR thousand

	Stage 1
Gross carrying amount at 01.01.2019	**133,391**
Changes in the gross carrying amount	4,947
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2019	**138,338**

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

EUR thousand

	Stage 1
ECL allowance as at 01.01.2020	**-37**
Changes in the loss allowance	-157
Transfer between stages	0
Write-offs	0
Changes due to modifications that did not result in derecognition	0
Changes in models/risk parameters	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2019	**-195**

EUR thousand

	Stage 1
ECL allowance as at 01.01.2019	**-36**
Changes in the loss allowance	**-2**
Transfer between stages	**0**
Write-offs	**0**
Changes due to modifications that did not result in derecognition	**0**
Changes in models/risk parameters	**0**
Foreign exchange and other movements	**0**
ECL allowance as at 31.12.2019	**-38**

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).

38. Financial assets held for trading

EUR thousand

	31.12.2020	31.12.2019
Derivatives	**2,593**	**1,853**
Total	**2,593**	**1,853**

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

31.12.2020	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**

EUR thousand

31.12.2019	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount (net)
Credit institutions	131,675	-244	0	0	0	131,431
Households	636,618	-1,675	-5,197	-8,431	0	621,315
Non-financial corporations	513,349	-2,696	-452	-4,507	0	505,695
Governments	37,889	-102	0	0	0	37,787
Other financial corporations	15,424	-87	0	-261	0	15,076
Total	**1,334,956**	**-4,804**	**-5,649**	**-13,198**	**0**	**1,311,305**

39.1. Loans and advances to Credit institutions

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**

EUR thousand

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	131,675	-244	131,431
Credit institutions	131,675	-244	131,431
Total	**131,675**	**-244**	**131,431**

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 01.01.2020	**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 at 31.12.2020	**31,030**	**50,248**	**0**	**0**	**81,278**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	125,007	0	0	0	125,000
Changes in the gross carrying amount	6,668	0	0	0	6,675
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Gross carrying amount at 31.12.2019	**131,675**	**0**	**0**	**0**	**131,675**

Loans and advances to credit institutions – development of ECL allowance

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-244**	**0**	**0**	**0**	**-244**
Changes in the loss allowance	-259	0	0	0	-259
Transfer between stages	225	-225	0	0	0
ECL allowance as at 01.01.2020	**-210**	**-225**	**0**	**0**	**-435**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-352**	**0**	**0**	**0**	**-352**
Changes in the loss allowance	108	0	0	0	108
Transfer between stages	0	0	0	0	0
ECL allowance as at 01.01.2019	**-244**	**0**	**0**	**0**	**-244**

39.2. Loans and advances to customers

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**

EUR thousand

31.12.2019	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	636.618	-1.675	-5.197	-8.431	0	621.315
Non-financial corporations	513.349	-2.696	-452	-4.507	0	505.695
Governments	37.889	-102	0	0	0	37.787
Other financial corporations	15.424	-87	0	-261	0	15.076
Total	**1.203.281**	**-4.560**	**-5.649**	**-13.198**	**0**	**1.179.874**

The total value of pledged loans for long-term financing operations amounted to EUR 44,963 thousand at the end of the year (in 2019: 44,569 thousand).

39.2.1. Loans and advances to Households

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**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	-1	-7	-3,596	0	-3,604
Changes due to modifications that did not result in derecognition	-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
Gross carrying amount at 01.01.2019	**557,185**	**58,916**	**13,498**	**0**	**629,599**
Changes in the gross carrying amount	21,598	-7,883	-1,491	0	12,225
Transfer between stages	-17,130	12,719	4,411	0	0
Write-offs	0	-1	-3,712	0	-3,713
Foreign exchange and other movements	-39	1	-1,454	0	-1,493
Gross carrying amount at 31.12.2019	**561,614**	**63,752**	**11,252**	**0**	**636,618**

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
Changes due to modifications that did not re-sult in derecognition	-1	-1	15	0	13
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**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1,885**	**-3,926**	**-10,094**	0	**-15,905**
Changes in the loss allowance	5,272	-5,553	-4,054	0	-4,335
Transfer between stages	-5,063	4,280	782	0	-1
Write-offs	0	1	3,712	0	3,713
Foreign exchange and other movements	0	1	1,224	0	1,224
ECL allowance as at 31.12.2019	**-1,675**	**-5,197**	**-8,431**	**0**	**-15,303**

39.2.2. Loans and advances to Non-financial corporations

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**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
Gross carrying amount at 01.01.2019	**434,523**	**4,579**	**12,015**	0	**451,117**
Changes in the gross carrying amount	78,858	-9,172	-5,813	0	63,874
Transfer between stages	-12,522	9,856	2,667	0	0
Write-offs	0	0	-1,680	0	-1,680
Foreign exchange and other movements	41	2	-3	0	39
Gross carrying amount at 31.12.2019	**500,899**	**5,265**	**7,186**	**0**	**513,349**

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 de-recognition	2	0	8	0	10
Changes in models/risk para-meters	0	0	0	0	0
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**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1,921**	**-476**	**-9,572**	**0**	**-11,970**
Changes in the loss allowance	-802	50	3,387	0	2,635
Transfer between stages	28	-26	-2	0	1
Write-offs	0	0	1,680	0	1,680
Changes due to modifications that did not result in de-recognition	0	0	0	0	0
Changes in models/risk para-meters	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2019	**-2,696**	**-452**	**-4,507**	**0**	**-7,654**

39.2.3. Loans and advances to General governments

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**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
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	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
Gross carrying amount at 01.01.2019	**45,270**	**0**	**0**	0	**45,270**
Changes in the gross carrying amount	-7,381	0	0	0	-7,381
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
Gross carrying amount at 31.12.2019	**37,889**	**0**	**0**	0	**37,889**

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
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0		0
ECL allowance as at 31.12.2020	**-130**	**-15**	**0**	**0**	**-145**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-99**	**0**	**0**	0	**-99**
Changes in the loss allowance	-3	0	0	0	-3
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0		0
ECL allowance as at 31.12.2019	**-102**	**0**	**0**	**0**	**-102**

39.2.4. Loans and advances to other financial corporations

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**15,162**	**0**	**261**	0	**15,423**
Changes in the gross carrying amount	-4,860	0	15	0	-4,845
Transfer between stages	0	0	0	0	0
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
Gross carrying amount at 01.01.2019	**17,645**	**7**	**249**	0	**17,901**
Changes in the gross carrying amount	-2,479	-2	10	0	-2,471
Transfer between stages	-2	-5	7	0	0
Write-offs	-2	0	-5	0	-7
Foreign exchange and other movements	0	0	1	0	1
Gross carrying amount at 31.12.2019	**15,162**	**0**	**261**	**0**	**15,424**

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
Transfer between stages	0	0	0	0	0
Write-offs	0	0	274	0	274
Changes due to modifications that did not result in de-recognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2020	**-82**	**0**	**-2**	0	**-85**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-114**	**0**	**-249**	**0**	**-363**
Changes in the loss allowance	24	0	-16	0	8
Transfer between stages	0	0	0	0	0
Write-offs	2	0	5	0	7
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2019	**-87**	**0**	**-261**	**0**	**-348**

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

	2020		2019	
	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	10,527	-39	0	0
Households	11,111	-34	0	0
Total	**21,637**	**-73**	**0**	**0**

The total gross carrying amount of debt financial assets measured at amortised costs, which were impacted by contractual modifications that did not result in derecognition at a time when they were assigned to stage 2 or stage 3 and reassigned to stage 1 during the year 2020 amounted to EUR 2,487 thousand on as at 31 December 2020 (2019: EUR 0 thousand).

40. Investment securities

EUR thousand

	31.12.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	106,243	140,512
Mandatorily at fair value through profit or loss (FVTPL)	313	313
Total	**106,555**	**140,825**

40.1. Fair value through other comprehensive income (FVTOCI)

EUR thousand

	31.12.2020	31.12.2019
Debt securities	**92,994**	**127,318**
Governments	54,736	99,893
Credit institutions	29,864	17,096
Other financial corporations	0	0
Non-financial corporations	8,393	10,329
Equity instruments	**13,249**	**13,194**
Governments	0	0
Other financial corporations	13,249	13,194
Non-financial corporations	0	0
Total	**106,243**	**140,512**

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

EUR thousand

	31.12.2020	31.12.2019
Slovenian Bank Resolution Fund	13,249	13,194
Total	**13,249**	**13,194**

Hirearhy of the fair value of financial instruments measured at fair value through other comprehensive income are disclosed in Note 64.

The total value of pledged financial assets measured at fair value through other comprehensive income for long term financing operations amounted to EUR 79,429 thousand at the end of the year (in 2019: EUR 74,024 thousand).

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

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**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**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**208,518**	0	0	0	**208,518**
Changes in the gross carrying amount	-81,200	0	0	0	**-81,200**
Transfer between stages	0	0	0	0	**0**
Gross carrying amount at 31.12.2019	**127,318**	**0**	**0**	**0**	**127,318**

Investment securities - development of ECL allowance

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
Transfer between stages	0	0	0	0	0
ECL allowance as at 31.12.2020	**-272**	**0**	**0**	**0**	**-272**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-56**	0	0	0	**-56**
Changes in the loss allowance	12	0	0	0	12
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
ECL allowance as at 31.12.2019	**-44**	**0**	**0**	**0**	-44

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

EUR thousand

	31.12.2020	31.12.2019
Equity instruments	**313**	**313**
Non-financial corporations	313	313
Total	**313**	**313**

41. Tangible assets

EUR thousand

	31.12.2020	31.12.2019
Owned property, plant and equipment	3,712	**3,805**
Land and buildings	2,375	2,415
Plant and equipment	1,337	1,390
Right of use assets	**6,390**	**7,509**
Land and buildings	6,191	7,290
Plant and equipment	199	219
Total	**10,102**	**11,315**

As at 31 December 2020, the Bank had no property, plant or equipment pledged as collateral.

42. Intangible assets

EUR thousand

	31.12.2020	31.12.2019
Purchased software	2,456	2,327
Total	**2,456**	**2,327**

As at 31 December 2020, 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

31.12.2020	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**
Additions	266	782	497	93
Disposals	-25	-204	-570	-32
Other changes	0	0	0	0
Acquisition cost 31.12.2019	4,734	9,308	8,369	373
Cumulative depreciation and impairment T31.12.2019	-2,359	-7,474	-2,178	-174
Carrying amount 31.12.2019	**2,375**	**1,834**	**6,191**	**199**

EUR thousand

31.12.2019	Owned property, plant and equipment		Right of use assets	
	Land and buil-dings	Plant and equipment - in-ternally used	Land and buildings	Plant and equipment
Acquisition cost 01.01.2019	**4,256**	**8,699**	**0**	**0**
Initial IFRS 16	0		8,308	173
Additions	237	470	136	232
Disposals	0	-441	-3	-93
Other changes	0	0	0	0
Acquisition cost 31.12.2019	4,493	8,728	8,441	312
Cumulative depreciation 31.12.2019	-2,078	-7,339	-1,151	-92
Carrying amount 31.12.2019	**2,415**	**1,389**	**7,290**	**220**

43.2. Development of depreciation and amortisation

EUR thousand

31.12.2020	Owned property, plant and equipment		Right of use assets	
	Land and buil-dings	Plant and equipment - in-ternally 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 31.12.2019	**-2,359**	**-7,474**	**-2,177**	**-174**

EUR thousand

31.12.2019	Owned property, plant and equipment		Right of use assets	
	Land and buil-dings	Plant and equipment - in-ternally used	Land and buildings	Pland and equipment
Cumulative depreciation 01.01.2019	-1,851	-7,452	0	0,0
Disposals	0	436	0	7
Scheduled depreciation	-227	-323	-1,151	-99
Impairment	0	0	0	0
Other changes	0	0	0	0
Write-ups	0	0	0	0
Cumulative depreciation 31.12.2019	**-2,078**	**-7,339**	**-1,151**	**-92**

44. Other assets

EUR thousand

	31.12.2020	31.12.2019
Prepayments and accrued income	603	493
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4	4
Other remaining assets	13	16
Total	**620**	**513**

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

	31.12.2020	31.12.2019
Loans and receivables	67	35
Total	**67**	**35**

46. Financial liabilities held for trading

EUR thousand

	31.12.2020	31.12.2019
Derivatives	1,874	2,163
Total	**1,874**	**2,163**

The contractual values of derivative financial instruments are presented in Note 65.

47. Financial liabilities measured at amortised cost

EUR thousand

	31.12.2020	31.12.2019
Deposits	**1,235,187**	**1,410,247**
Deposits of credit institutions	144,406	172,039
Deposits of customers	1,075,777	1,223,204
Subordinated loan	15,005	15,005
Issued bonds, subordinated and supplementary capital	**55**	**55**
Debt securities issued	55	55
Other financial liabilities	**10,970**	**13,276**
o/w lease liabilities	6,708	7,806
Total	**1,246,212**	**1,423,578**

The carrying amount of TLTRO III liabilities (presented in line “Deposits of credit institutions”) amounted to EUR 74,877 thousand as at 31 December 2020 (2019: EUR 0.0 thousand).

47.1. Deposits of credit institutions

EUR thousand

	31.12.2020	31.12.2019
Current accounts / overnight deposits	831	959
Deposits with agreed terms	143,575	171,079
Total	**144,406**	**172,039**

47.2. Deposits of customers

EUR thousand

	31.12.2020	31.12.2019
Current accounts / overnight deposits	**545,984**	**423,659**
Governments	677	52
Other financial corporations	4,927	5,289
Non-financial corporations	236,654	192,029
Households	303,725	226,289
Deposits with agreed terms	**522,612**	**759,269**
Governments	51,382	106,473
Other financial corporations	76,997	120,491
Non-financial corporations	218,570	292,643
Households	175,662	239,662
Deposits redeemable at notice	**7,182**	**40,276**
Governments	971	3,265
Other financial corporations	3,083	10,751
Non-financial corporations	3,115	26,237
Households	13	23
Total	**1,075,777**	**1,223,204**

47.3. Debt securities issued

EUR thousand

	31.12.2020	31.12.2019
Certificates of deposit	55	55
Total	**55**	**55**

47.4. Subordinated loans

EUR thousand

	31.12.2020	31.12.2019
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

	31.12.2020	31.12.2019
Pending legal disputes and tax litigation	-83	-87
Commitments and guarantees granted	-4,863	-5,793
Other long term employee benefits	-702	-592
Pensions and other post employment defined benefit obligations	-565	-503
Restructuring measures	-37	-186
Total	**-6,249**	**-7,161**

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

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

Details regarding restructuring measures are presented in note (23.3) Provisions for restructuring.

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 01.01.2020	**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**
Gross carrying amount at 31.12.2020	**304,295**	**13,157**	**7,542**	**0**	**324,994**

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EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2019	**293,346**	**6,755**	**9,910**	0	**310,010**
Changes in the nominal value	-2,089	-1,368	-153	0	**-3,610**
Transfer between stages	1,857	-1,549	-308	0	**0**
Write-offs	0	0	0	0	**0**
Foreign exchange and other movements	0	0	0	0	**0**
Gross carrying amount at 31.12.2019	**293,114**	**3,838**	**9,449**	**0**	**306,400**

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**

EUR thousand

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-682**	**-625**	**-5,260**	0	**-6,567**
Changes in the loss allowance	619	-57	212	0	**773**
Transfer between stages	-639	493	146	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 31.12.2019	**-702**	**-190**	**-4,901**	**0**	**-5,793**

48.2. Provisions - development of other provisions

EUR thousand

	Carrying amount 01.01.2020	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2020
Pensions and other post employment defined benefit obligations	503	62	-17		16	565
Other long term employee benefits	126	15	-9	0	2	134
Restructuring measures	186	0	-149	0	0	37
Pending legal disputes and tax litigation	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**

EUR thousand

	Carrying amount 01.01.2019	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2019
Pensions and other post employment defined benefit obligations	515	0	0	-17	6	503
Other long term employee benefits	131	4	-9	0	0	126
Restructuring measures	183	360	-333	-25	0	186
Pending legal disputes and tax litigation	29	85	-28	0	0	87
Provision for variable payments	222	324	-80	0	0	467
Other provisions	0	0	0	0	0	0
Total	**1,080**	**773**	**-449**	**-42**	**6**	**1,368**

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

	2020	2019
Present value of the defined benefit obligations as of 01.01	**565**	**515**
+ Current service cost	66	62
+ Contributions paid to the plan	-17	0
+/- 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	9	31
+/- Actuarial gains/losses arising from changes from experience assumptions	4	-43
- Payments from the plan	0	0
+ Past service cost	0	-62
+/- through business combinations and disposals	0	0
+/- Other changes		
Present value of the defined benefit obligations as of 31.12	**626**	**503**

Details regarding assumptions used in calculation are presented in note (20.1) Provisions for retirement benefit and similar obligations. Due to the low amount of personnel provisions for Addiko Bank as at 31 December 2019, further disclosures according to IAS 19 are omitted.

49. Other liabilities

EUR thousand

	31.12.2020	31.12.2019
Deferred income	529	449
Accruals and other liabilities	1,720	2,349
Total	**2,249**	**2,798**

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

	31.12.2020	31.12.2019
Equity holders of parent	192,238	181,614
Subscribed capital	89,959	89,959
Capital reserves	18,814	18,814
Fair value reserve	1,012	1,409
Cumulated result and other reserves	82,453	71,432
Total	192,238	181,614

The subscribed capital is based on the financial statements as at 31 December 2020. The total amount of EUR 192,238 thousand (2019: EUR 181,614 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 (2019: 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 2020, the revaluation surplus amounted to EUR 1,012 thousand (2019: EUR 1,409 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 82,453 thousand at the end of the year (2019: EUR 52,998 thousand).

In 2020, the Bank recognised profit in the amount of EUR 11,020 thousand (2019: EUR 18,434 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 2019, 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 that is in line with the Group. 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 2020, the following organisational units were operative:

- Credit Risk Management;
- Retail Bank Risk Management;
- Risk Controlling.

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

Credit Risk Management has the responsibility for credit risk management for all non-Retail customer segments, i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns) and Corporate Center. That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management.

Risk Controlling manages all risk and regulatory that which are of strategic importance for Addiko Bank d.d. It provides the Bank's risk strategy, economic capital management, stress testing and coordination of national bank examinations, represents a regulatory SPOC function and coordinates Risk Management units in participation in activities connected to recovery and resolution topics as well as steering of the SREP process and coordination of risk projects within the Bank. Risk Controlling includes three units:

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

Market & Liquidity Risk department defines thresholds, monitors risk indicators and initiates measure to manage the market and liquidity risk of the Bank within the defined risk appetite and regulatory limitations.

Credit Risk Controlling oversees the credit risk model landscape from a portfolio management perspective. It makes sure that applied models fulfil expected quality standards while fitting within the model architecture also in terms of budget and strategy. It also deals with risk validations. 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.

Group Data Office provides services that are connected with the automated creation of standardised and regulatory risk reports and supports other group risk stakeholders with regards to preparing and maintaining risk databases and setting up technical solutions jointly with the IT units. The function is situated in Austria and works closely with local Risk Controlling functions throughout the Addiko network.

55. Internal risk management guidelines

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

The 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 back office and the analysis units of the Risk Office.

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 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 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.

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2019:

EUR thousand

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1]	127,909	-38	127,871	0	0	0	127,909	127,871
Financial assets held for trading[2]	1,853	0	1,853	0	0	0	1,853	1,853
Loans and advances to customers	1,317,425	-10,463	1,306,962	18,702	-13,187	5,515	1,336,127	1,312,477
of which credit institutions	131,675	-244	131,431	0	0	0	131,675	131,431
of which customer loans	1,185,749	-10,219	1,175,530	18,702	-13,187	5,515	1,204,451	1,181,045
Investment securities[3]	140,556	-44	140,512	0	0	0	140,556	140,512
Other Assets - IFRS 5[4]	0	0	0	248	0	248	248	248
On balance total	**1,587,743**	**-10,546**	**1,577,198**	**18,950**	**-13,187**	**5,763**	**1,606,693**	**1,582,961**
Off balance	296,952	-892	296,059	9,449	-4,901	4,547	306,400	300,607
Total credit risk exposure	**1,884,695**	**-11,438**	**1,873,257**	**28,398**	**-18,088**	**10,310**	**1,913,093**	**1,883,567**

[1] The position does not include cash on hand in amount of EUR 10.4 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 2020, roughly 33.9% (YE19: 31.2%) of the exposure is categorised as rating classes 1A to 1E. This exposure primarily relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2020 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. Taking all these effects into consideration, the overall non-performing exposure decreased during 2020 by EUR 3.1 million.

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

EUR thousand

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	33,759	273,760	53,562	41,205	7,144	0	409,430
SME	70,906	296,924	95,474	8,016	12,095	0	483,416
Non-Focus	233,617	307,170	62,571	3,932	9,159	0	616,449
o/w Large Corporate	31,873	214,607	53,725	54	4,522	0	304,781
o/w Mortgage	160,720	67,415	8,052	3,878	4,638	0	244,702
o/w Public Finance	41,025	25,148	794	0	0	0	66,966
Corporate Center[1)]	257,017	143,757	0	0	0	0	400,774
Total	595,299	1,021,611	211,607	53,153	28,398	0	1,910,068

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

31.12.2020 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

EUR thousand

31.12.2019 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	265,892	14,947	0	0	280,839
2A-2E	672,425	6,502	0	0	678,928
3A-3E	170,559	6,604	0	0	177,163
Watch	7,855	40,965	0	0	48,820
NPE	0	0	18,702	0	18,702
No rating	0	0	0	0	0
Total gross carrying amount	1,116,732	69,018	18,702	0	1,204,451
Loss allowance	-4,565	-5,654	-13,187	0	-23,406
Carrying amount	1,112,166	63,364	5,515	0	1,181,045

Loans and advances to banks at amortised cost:

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

EUR thousand

31.12.2019 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	101	0	0	0	101
2A-2E	131,574	0	0	0	131,574
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	**131,675**	**0**	**0**	**0**	**131,675**
Loss allowance	-244	0	0	0	-244
Carrying amount	**131,431**	**0**	**0**	**0**	**131,431**

Debt instruments measured at FVTOCI:

EUR thousand

31.12.2020 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	98,054	0	0	0	98,054
2A-2E	6,412	0	0	0	6,412
3A-3E	2,049	0	0	0	2,049
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	106,514	0	0	0	106,514
Loss allowance	-272	0	0	0	-272
Carrying amount	106,243	0	0	0	106,243

EUR thousand

31.12.2019 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	134,135	0	0	0	134,135
2A-2E	6,422	0	0	0	6,422
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	140,556	0	0	0	140,556
Loss allowance	-44	0	0	0	-44
Carrying amount	140,512	0	0	0	140,512

Commitments and financial guarantees given:

EUR thousand

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

EUR thousand

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class	59,082	20	0	0	59,103
1A-1E	198,813	260	0	0	199,072
2A-2E	34,352	91	0	0	34,444
3A-3E	866	3,467	0	0	4,333
Watch	0	0	9,449	0	9,449
NPE	0	0	0	0	0
No rating	293,114	3,838	9,449	0	306,400
Total gross carrying amount	-702	-190	-4,901	0	-5,793
Loss allowance	292,412	3,648	4,547	0	300,607
Carrying amount	59,082	20	0	0	59,103

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

	31.12.2020	31.12.2019
SEE	1,592,796	1,680,344
Europe (excl. CEE/SEE)	124,219	180,890
CEE	46,753	43,258
Other	7,465	5,576
Total	**1,771,233**	**1,910,068**

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 23.3% at YE20 (YE19: 25.0%). The well-diversified private customers sector accounts for a share of 33.7% (YE19: 34%).

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

EUR thousand

31.12.2019 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	332	648,676	1	0	649,009
Financial services	153,302	184,633	0	277	338,212
Public sector	20,287	73,963	43,227	0	137,477
Industry	4,996	358,797	0	5,298	369,091
Trade and commerce	0	110,160	0	0	110,160
Services	1,974	205,710	30	0	207,713
Real estate business	0	54,014	0	0	54,014
Tourism	0	40,546	0	0	40,546
Agriculture	0	3,741	0	0	3,741
Other	0	104	0	0	104
Total	**180,890**	**1,680,344**	**43,258**	**5,576**	**1,910,068**

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

31.12.2020	No Overdue	Overdue				Total
		to 30 days	31 to 60 days	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 granting of 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.

EUR thousand

31.12.2019	No Overdue	Overdue				Total
		to 30 days	31 to 60 days	61 to 90 days	more than 90 days	
Consumer	399,279	4,090	884	1,472	3,706	409,430
SME	480,502	527	454	275	1,657	483,416
Non-Focus	613,516	207	38	0	2,688	616,449
o/w Large Corporates	304,781	0	0	0	0	304,781
o/w Mortgage	241,769	207	38	0	2,688	244,702
o/w Public Finance	66,966	0	0	0	0	66,966
Corporate Center	400,774	0	0	0	0	400,774
Total	**1,894,071**	**4,824**	**1,376**	**1,747**	**8,051**	**1,910,068**

56.10. Presentation of exposure by size class

As 31 December 2020, around 43.7% (YE19: 42.6%) of the exposure is found in the size range < EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 245.9 million (YE19: EUR 264.1 million) of exposure in the range > EUR 50 million is entirely attributable to exposure towards the national bank and business within the Addiko Group. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

EUR thousand

Size classes	31.12.2020		31.12.2019	
	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	70,807	24,446	75,058	25,867
10,000-50,000	340,119	15,084	349,382	15,066
50,000-100,000	120,814	1,737	134,260	1,917
100,000-250,000	110,196	777	123,796	875
250,000-500,000	59,418	167	58,815	170
500,000-1,000,000	73,056	103	73,350	103
1,000,000-10,000,000	538,407	159	470,480	147
10,000,000-50,000,000	212,551	15	362,028	24
50,000,000-100.000.000	82,378	2	0	0
> 100,000,000	163,489	1	262,900	2
Total	**1,771,233**	**42,491**	**1,910,068**	**44,171**

56.11. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR thousand

	31.12.2020		31.12.2019	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	599,833	128,504	595,299	107,764
2A-2E	776,472	186,488	1,020,672	214,560
3A-3E	194,374	63,662	210,879	76,132
Watch	83,074	22,436	48,974	5,817
NPL	6	1	12	2
No rating	0	0	0	0
Total	1,653,760	401,091	1,875,837	404,275

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

Overdue but not impaired financial assets:

EUR thousand

		31.12.2020		31.12.2019
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	9,177	2,447	4,532	183
- overdue 31 to 60 days	715	6	1,119	92
- overdue 61 to 90 days	636	57	195	0
- overdue 91 to 180 days	0	0	1	0
- overdue 181 to 365 days	0	0	0	0
- overdue over 1 year	3	0	2	0
Total	10,531	2,510	5,848	276

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 primary and secondary cash flows.

Impaired financial instruments:

EUR thousand

Loans and advances to customers (on- and off-balance)	31.12.2020	31.12.2019
Exposure	24,875	28,135
Provisions	16,410	18,088
Collateral	10,513	11,970

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 “Method of calculating provisions” is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

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 2020. The off-balance positions only include loan commitments.

EUR thousand

	OPENING balance 01.01.2020	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2020
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 following table shows the forbearance status in the course of the year 2019:

EUR thousand

	OPENING balance 01.01.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2019
Central banks	0	0	0	0	0	0	0
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	251	0	-5	0	0	12	258
Non-financial corporations	10,185	756	-3,033	-2,675	0	-929	4,304
Households	8,160	123	-1,137	0	0	-390	6,757
Loans and advances	18,596	879	-4,175	-2,675	0	-1,307	11,318
Loan commitments given	30	72	0	0	0	0	102

The forbearance exposure was as follows in 2020:

EUR thousand

	Closing Balance 31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	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	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**

The forbearance exposure was as follows in 2019:

EUR thousand

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
General governments and government related entities	0	0	0	0	0
Credit institutions	0	0	0	0	0
Other financial corporations	258	0	0	258	0
Non-financial corporations	4,304	4,047	121	136	64
Households	6,757	4,815	523	1,419	128
Loans and advances	**11,318**	**8,861**	**644**	**1,813**	**191**

Following table shows the collateral allocation for the forbearance exposure at the year 2019:

EUR thousand

	Internal Collateral Value (ICV) in respect of forborne assets	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	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	1,691	1,298	0	50	195	148
Retail	3,630	28	3,591	0	0	11
Total	**5,321**	**1,326**	**3,591**	**50**	**195**	**159**

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 offers 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.

Based on intervention acts relating to the debt payment moratorium imposed by Slovenian government, the Addiko Bank d.d. by the end of December 2020 granted 2,596 such moratoriums in the total amount of EUR 93.5 million, of which EUR 74.7 million to its SME clients and EUR 18.8 million to its consumer and mortgage clients.

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

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

As previously disclosed, Bank has concluded so far that all moratoria introduced fulfil 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 classificaton. However, the Bank continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

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

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

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

In the current 2020 financial year bank expects significant uncertainty with regards to the economic developments due to the Covid-19 pandemic. While governmental steps have been taken to cushion the effects of a worsening global economy and its impacts on households and businesses, bank expects higher and more volatile risk costs for the duration of the Covid-19 containment measures. Thus, the constantly changing situation requires regular adjustments within the financial year on the basis of updated macroeconomic forecasts. The risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies, which take into account the effect of Covid-19.

The following tables provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate ECL for 31.12.2020. The amounts shown represent the average value of the macroeconomic variables for 2021 and the remaining 2-year forecast period (2022-203) for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

	Baseline case		Optimistic case	Pessimistic case
31.12.2020	2020[1)]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
Real GDP (constant prices)				
Slovenia	-6.7	3.9	2.3	-1.5
EMU	-8.5	4.2	1.2	-1.4
Unemployment Rate (ILO, average %)				
Slovenia	5.8	4.1	3.9	5.4
EMU	10.4	9.8	9.6	10.4
Real-Estate (% of change)				
Slovenia	-2.0	0.5	4.6	-5.3
EMU	-1.0	1.2	5.0	-4.1
CPI Inflation (average % YoY)				
Slovenia	0.3	1.5	1.6	0.6
EMU	0.3	1.2	1.1	0.7

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

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

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

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

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

The following table shows how the ECL allowance for stage 1 and stage 2 is taking into account the forward looking information from the weighted multiple economic scenarios. The Bank's probability-weighted ECL allowance continues to reflect a 60 per cent weighting of base case, optimistic a 10 per cent weighting and pessimistic case a 30 per cent weighting.

EUR thousand

31.12.2020	Probability weighted	Optimistic Case	Base Case	Pesimistic Case
Retail	8,841	8,619	8,801	8,997
Non-retail	10,311	9,035	10,047	11,263
Corporate center	902	572	813	1,190
Total	**20,054**	**18,226**	**19,660**	**21,449**

57.2. Development of risk provisions

The significant increase of risk provisions in 2020 is caused mainly by recognition of Covid-19 impact on the macro economic environment. The impact was, as described above, included in the ECL calculation model, rising overall ECL coverage for performing loans (stage 1 and stage 2). Partially due to moratoria granted by the bank, as well as due to various supportive measures initiated by governments, the impact of Covid-19 did not generate a material decrease of the asset quality (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, updates are performed regularly to make sure that the latest available information is considered. In 2020 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, a reassessment of the quantitative staging thresholds and an update of the macro forecasts to reflect latest available information. In addition, an empirically based LGD model was developed and introduced in the retail area.

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 (66.2%) compared to YE19 (64.4%).

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 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 Corporate	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.

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2019:

EUR thousand

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	409,430	7,144	5,796	1,488	1.7%	81.1%	102.0%
SME	483,416	12,095	8,421	5,533	2.5%	69.6%	115.4%
Non Focus	616,449	9,159	3,872	4,950	1.5%	42.3%	96.3%
o/w Large Corporates	304,781	4,522	1,035	2,502	1.5%	22.9%	78.2%
o/w Mortgage	244,702	4,638	2,837	2,448	1.9%	61.2%	114.0%
o/w Public Finance	66,966	0	0	0	0.0%	0.0%	0.0%
Corporate Center	400,774	0	0	0	0.0%	0.0%	0.0%
Total	**1,910,068**	**28,398**	**18,088**	**11,971**	**1.5%**	**63.7%**	**105.8%**
o/w Credit Risk Bearing	**1,656,957**	**28,398**	**18,088**	**11,971**	**1.7%**	**63.7%**	**105.8%**

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 and in last two month an increase in number of transactions can be observed. Still the number of transactions on the market is low because sellers are reluctant to decrease prices and investors are waiting for prices to decrease. Generally, Addiko estimates that prices on the real estate market take time to adjust to the circumstances and a decrease of the prices is expected at the beginning of 2021. Since prices on the market still don't show significant negative trend and Addiko is 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 2020 as well as 31 December 2019:

EUR thousand

Collateral Distribution	31.12.2020	31.12.2019
Exposure	1,771,233	1,910,068
Internal Collateral Value (ICV)	414,444	416,832
thereof CRE	236,455	233,871
thereof RRE	104,337	110,792
thereof financial collateral	14,776	19,486
thereof guarantees	27,777	20,915
thereof other	31,099	31,767
ICV coverage rate	**23.4%**	**21.8%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). Residential real estates given as collaterals for Retail loans primarily remain almost unchanged. CRE collaterals had substantially increased due to new business in the Corporate segment having better coverage. Collateral coverage also increased in the portfolio overall to 23.4% compared to YE19 (21.8%).

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

	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	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).

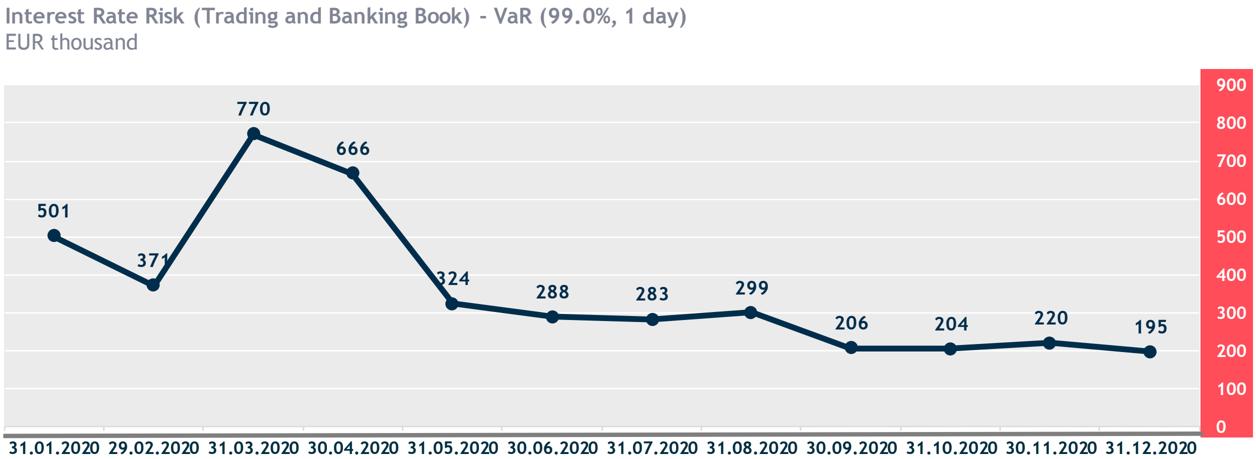
59.3. Overview – market price risk

59.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31.12.2020 is EUR 195 Thousand (comparable VaR figure as at 31 December 2019: EUR 499 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 2020:



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 123.

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).

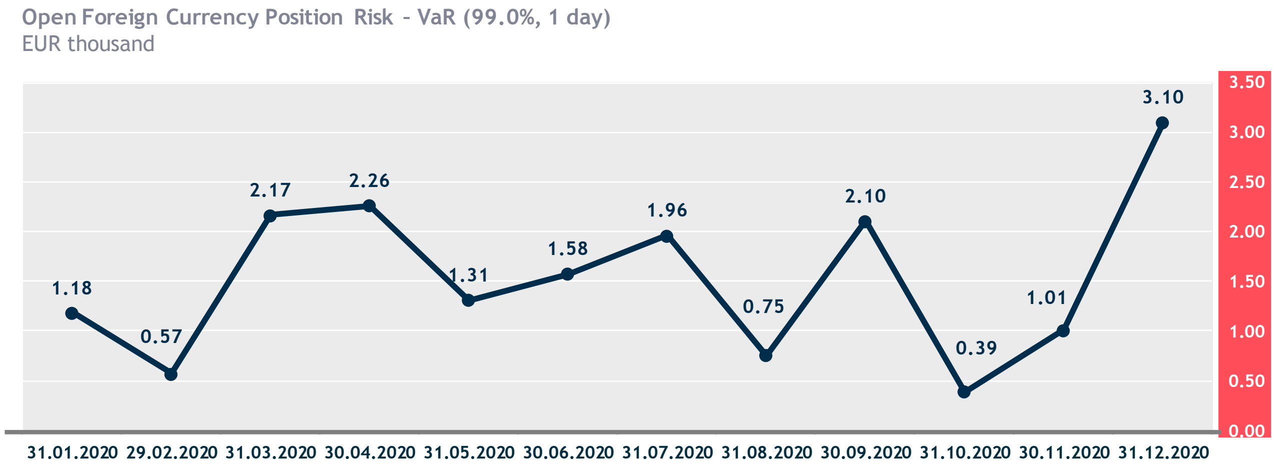
Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis point shift of the yield curve in total own fund may not exceed 20.0% (2.0% at 31.12.2020 versus 6.7% at 31.12.2019) and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital (2.1% at 31.12.2020 and at 31.12.2019).

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 2020 amounts to EUR 11 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2019 was EUR 76 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 2020 is roughly EUR 664 thousand (volume as of 31 December 2019 of approx. EUR 831 thousand), with the majority attributed to the currencies CHF and USD. The value at risk for foreign exchange risk was approximately EUR 3.10 thousand per day as at 31 December 2020 (value at risk as at 31 December 2019: EUR 1.46 thousand), at a confidence interval of 99.0 %. The limit of EUR 20.0 thousand was adhered to as at 31 December 2020.

Development in foreign exchange risk of Addiko Bank d.d. in 2020:



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

	31.12.2020	EUR	USD	CHF	other	31.12.2019	EUR	USD	CHF	other
Cash, cash balances at central banks and other demand deposits at banks	**170,604**	164,348	3,975	773	1,508	**138,306**	135,790	464	624	1,428
Financial assets held for trading	**2,593**	2,186	407	0	0	**1,853**	1,581	267	5	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	**106,243**	106,243	0	0	0	**140,512**	140,512	0	0	0
Financial assets at amortised cost	**1,145,105**	1,084,388	3,995	56,711	10	**1,311,304**	1,238,679	5,237	67,384	4
Loans and advances to credit institutions	**79,978**	79,978	0	0	0	**130,219**	130,219	0	0	0
Loans and advances to customers	**1,063,541**	1,002,835	3,995	56,711	0	**1,179,304**	1,106,683	5,237	67,384	0
Other financial assets	**1,586**	1,576	0	0	10	**1,781**	1,778	0	0	4
Tangible assets	**10,102**	10,102	0	0	0	**11,314**	11,314	0	0	0
Intangible assets	**2,456**	2,456	0	0	0	**2,327**	2,327	0	0	0
Tax assets	**10,721**	10,721	0	0	0	**10,839**	10,839	0	0	0
Current tax assets	**671**	671	0	0	0	**164**	164	0	0	0
Deferred tax assets	**10,050**	10,050	0	0	0	**10,675**	10,675	0	0	0
Other assets	**620**	620	0	0	0	**513**	513	0	0	0
Non-current assets and disposal groups classified as held for sale	**67**	67	0	0	0	**35**	35	0	0	0
Total assets	**1,448,824**	1,381,443	8,377	57,484	1,518	**1,617,316**	1,541,903	5,970	68,015	1,434

Financial liabilities held for trading	**1,874**	1,484	390	0	0	**2,163**	1,357	233	573	0
Financial liabilities measured at amortised cost	**1,246,212**	1,230,134	11,493	3,257	1,329	**1,425,438**	1,414,836	6,834	2,722	1,045
Deposits of credit institutions	**831**	824	7			**10,961**	10,961			
Deposits of customers	**1,075,777**	1,059,850	11,442	3,192	1,293	**1,223,204**	1,212,719	6,724	2,722	1,039
Loans of banks and central banks	**158,579**	158,579	0	0	0	**176,083**	176,083	0	0	0
of which subordinated loans	**15,005**	15,005	0	0	0	**15,005**	15,005	0	0	0
Debt securitites issued	**55**	55	0	0	0	**55**	55	0	0	0
Other financial liabilities	**10,970**	10,826	44	65	35	**15,135**	15,018	111	0	6
Provisions	**6,249**	6,249	0	0	0	**7,161**	7,161	0	0	0
Tax liabilities	**0**	0	0	0	0	**0**	0	0	0	0
Current tax liabilities	**0**	0	0	0	0	**0**	0	0	0	0
Deferred tax liabilities	**0**	0	0	0	0	**0**	0	0	0	0
Other liabilities	**2,250**	2,250	0	0	0	**939**	939	0	0	0
Total liabilities	1,256,585	1,240,117	11,883	3,257	1,329	1,435,701	1,424,293	7,067	3,296	1,045
Capital	**89,959**	89,959	0	0	0	**89,959**	89,959	0	0	0
Share premium	**18,814**	18,814	0	0	0	**18,814**	18,814	0	0	0
Accumulated other comprehensive income	**1,012**	1,012	0	0	0	**1,409**	1,409	0	0	0
Retained earnings (including profit or loss for the financial year)	**82,454**	82,454	0	0	0	**71,432**	71,432	0	0	0
Total equity	**192,238**	192,238	0	0	0	**181,614**	181,614	0	0	0
Total liabilities and equity	**1,448,824**	1,432,355	11,883	3,257	1,329	**1,617,316**	1,605,908	7,067	3,296	1,045
Net off-balance-sheet liabilities arising from spot transactions and derivatives	**-50,572**	0	3,506	-54,087	10	**-64,475**	0	1,265	-65,739	0
Other off balance exposures	**324,994**	314,534	439	0	10,021	**306,410**	299,683	41	0	6,686

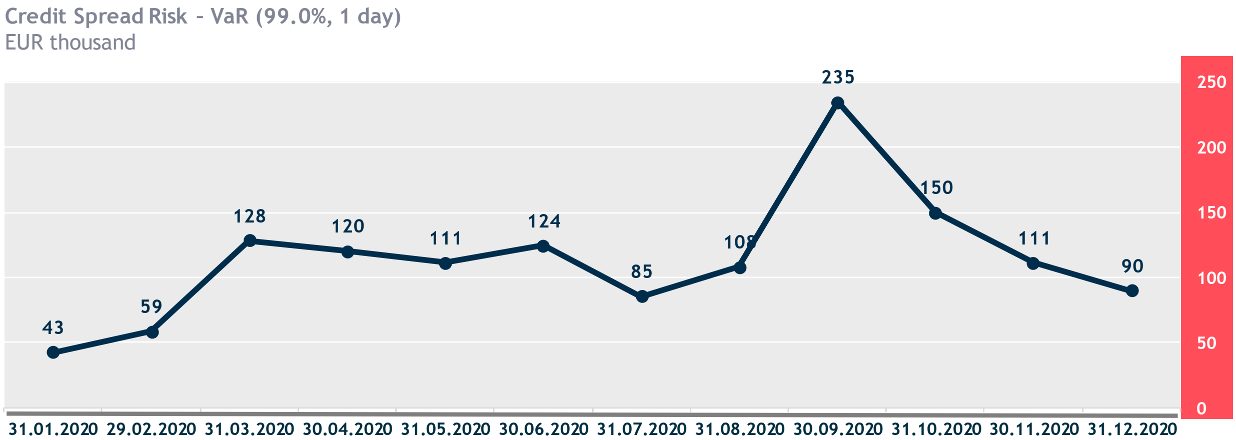
59.3.3. EQUITY RISK

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 3 thousand as at 31 December 2019 (value at risk as at 31 December 2018: 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 2019, 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.). 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 2020 (value at risk as at 31 December 2019: EUR 3 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 2020, and therefore also no major concentration risk exists here.

59.3.4. Credit Spread RISK

The credit spread risk within the Bank stood at EUR 90 thousand at 31 December 2020 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2019: EUR 45 thousand). The limit of EUR 501 thousand was adhered to as at 31 December 2020. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the 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 2020:



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.

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.

Liquidity reserves that are subject to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units remained at the same level in 2020 comparing to year end 2019.

In 2020, 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 growing during first three quarters of 2020, from 205% average in Q1 to an average of 294% in Q3 2020. In the last quarter there was a decline, when in average LCR reached 212%. LCR peak was reached in July 2020 at 417%.

As at December 2020, the counterbalancing capacity at the Addiko Bank d.d. was structured as follows:

Counterbalancing Capacity	in EUR thousand
Coins and bank notes	7,724
Withdrawable central bank reserves	140,423
Level 1 tradable assets	52,904
Level 2A tradable assets	-
Level 2B tradable assets	-
Total Counterbalancing Capacity	**201,050**

As at December 2019, the counterbalancing capacity at the bank was structured as follows:

Counterbalancing Capacity	in EUR thousand
Coins and bank notes	10,435
Withdrawable central bank reserves	102,022
Level 1 tradable assets	60,741
Level 2A tradable assets	-
Level 2B tradable assets	-
Total Counterbalancing Capacity	**173,198**

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 2020 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 1.3 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 31.12.2020	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		151,741	151,741	0	0	0	0
Financial guarantees		30,163	30,163	0	0	0	0
Other commitments		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**

EUR thousand

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2019	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	1,425,299	1,439,704	474,914	240,974	506,890	136,275	80,650
Deposits of customers	1,223,205	1,225,564	466,622	240,974	391,969	124,105	1,893
Deposits of credit institutions	172,038	173,095	960	0	113,271	4,221	54,643
Issued bonds, subordinated and supplementary capitals	15,060	25,918	5	0	1,650	6,650	17,612
Other financial liabilities	15,135	15,127	7,327	0	0	1,298	6,502
Derivatives	2,163	2,163	2,163	0	0	0	0
Loan commitments		143,217	143,217	0	0	0	0
Financial guarantees		37,855	37,855	0	0	0	0
Other commitments		125,328	125,328	0	0	0	0
Total	**1,427,462**	**1,748,267**	**783,477**	**240,974**	**506,890**	**136,275**	**80,650**

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

64. Legal Risk

64.1. 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.

64.2. 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.

In 2020, there were no significant changes in court practice that would have an impact on the Bank.

EUR thousand

		31.12.2020		31.12.2019
	Exposure	Of which CHF	Exposure	Of which CHF
Addiko Bank Slovenia	1,771,233	58,419	1,910,068	69,374

In 2020, the bank was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from 69.4 million EUR at the end of 2019 to 58.4 million EUR at the end of 2020.

64.3. Legal risks

The total number of passive legal disputes has increased in 2020. The Bank has assessed that the increase in passive legal disputes does not pose a risk that would have a material impact on the Bank’s business.

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 31.12.2020	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	328,945	321,730	823,343	1,145,073
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	10,722	0	0	0	0	10,722	0	10,722
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	67
Total	**230,499**	**86,550**	**213,378**	**546,006**	**359,182**	**530,426**	**905,188**	**1,435,614**
Financial liabilities held for trading	1,874	0	0	0	0	1,874	0	1,874
Financial liabilities measured at amortised cost	584,914	177,867	233,036	161,288	89,075	995,817	250,363	1,246,180
Provisions	6,249	0	0	0	0	6,249	0	6,249
Tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2,249	0	0	0	0	2,249	0	2,249
Total	**595,287**	**177,867**	**233,036**	**161,288**	**89,075**	**1,006,190**	**250,363**	**1,256,553**

EUR thousand

Analysis of remaining maturity as at 31.12.2019	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	138,344	0	0	0	0	138,344	0	138,344
Financial assets held for trading	1,853	0	0	0	0	1,853	0	1,853
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	13,194	17,053	5,391	100,149	4,725	35,639	104,874	140,512
Financial assets at amortised cost	25,244	109,844	241,960	543,596	390,662	377,047	934,258	1,311,305
Tangible assets	0	0	0	0	11,315	0	11,315	11,315
Intangible assets	0	0	0	0	2,327	0	2,327	2,327
Tax assets	0	0	0	0	10,839	0	10,839	10,839
Other assets	0	0	0	0	503	0	503	503
Non-current assets and disposal groups classified as held for sale, financial instruments	0	0	0	0	35	0	35	35
Total	**178,947**	**126,897**	**247,351**	**643,745**	**420,404**	**553,195**	**1,064,148**	**1,617,344**
Financial liabilities held for trading	2,163	0	0	0	0	2,163	0	2,163
Financial liabilities measured at amortised cost	474,914	240,918	504,822	127,926	76,847	1,220,654	204,773	1,425,427
Provisions	0	0	0	0	7,161	0	7,161	7,161
Tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	900	0	900	900
Total	**477,077**	**240,918**	**504,822**	**127,926**	**84,908**	**1,222,818**	**212,834**	**1,435,651**

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 Year 2020 the Bank had total cash outflows for leases of EUR 1,408 thousand.

As at 31 December 2020, the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

EUR thousand

Maturity analysis - contractual undiscounted cashflow	31.12.2020	31.12.2019
up to 1 yar	1,380	1,383
from 1 year to 5 years	4,782	4,513
more than 5 years	1,321	2,438
Total undiscounted lease liabilities	**7,483**	**8,333**

67. Assets/liabilities denominated in foreign currencies

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

EUR thousand

	31.12.2020	31.12.2019
Assets	67,379	75,419
Liabilities	16,469	11,408

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

	31.12.2020	31.12.2019
Loan commitments, given	151,741	143,217
Financial guarantees, given	30,163	37,855
Other commitments, given	143,090	125,328
Total	**324,994**	**306,400**

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:

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

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

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

31.12.2020	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				
Derivatives	0	2,593	0	**2,593**
Debt securities	0	2,593	0	**2,593**
Investment securities mandatorily at FVTPL	0	0	0	**0**
Equity instruments	0	0	313	**313**
Debt securities	0	0	313	**313**
Investment securities at FVTOCI	0	0	0	**0**
Equity instruments	13,249	90,992	2,002	**106,243**
Debt securities	13,249	0	0	**13,249**
Total	**0**	**90,992**	**2,002**	**92,994**
Liabilities	**13,249**	**93,585**	**2,314**	**109,148**
Financial liabilities held for trading				
Derivatives	0	1,874	0	**1,874**
Total	**0**	**1,874**	**0**	**1,874**

EUR thousand

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	1,853	0	**1,853**
Derivatives	0	1,853	0	**1,853**
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	13,194	125,318	2	**140,512**
Equity instruments	13,194	0	0	**13,194**
Debt securities	0	125,318	2	**127,318**
Total	13,194	127,171	2,313	142,678
Liabilities				
Financial liabilities held for trading	0	2,163	0	**2,163**
Derivatives	0	2,163	0	**2,163**
Total	0	2,163	0	2,163

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 2020 and 2019.

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 2020 would have decreased by EUR 0.1 million. If the credit spreads used in the calculation of the fair value decreased by 100 basis points, the cumulative valuation result as of 31 December 2020 would have increased by EUR 0.1 million. The development of Level III is presented as follows.

The reconciliation of the assets 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	313	313
Equity instruments	313	0	0	0	0	0	0	313	313
Investment securities at FVTOCI	2,000	2	0	0	0	0	0	2,002	2,002
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	2,000	2	0	0	0	0	0	2,002	2,002
Total	**2,313**	**2**	**0**	**0**	**0**	**0**	**0**	**2,314**	**2,314**

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

EUR thousand

2019	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	313	313
Equity instruments	313	0	0	0	0	0	0	313	313
Investment securities at FVTOCI	0	0	0	2,000	0	0	0	2,000	0
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	0	0	0	2,000	0	0	0	2,000	0
Total	**313**	**0**	**0**	**2,000**	**0**	**0**	**0**	**2,313**	**313**

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

31.12.2020	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
Total	**1,315,709**	**1,398,445**	**82,737**	**170,604**	**0**	**1,227,841**
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

EUR thousand

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves*	138,306	138,306	0	138,306	0	0
Financial assets at amortised cost	1,311,304	1,405,203	93,899	0	0	1,405,203
Loans and receivables	1,311,304	1,405,203	93,899	0	0	1,405,203
Total	**1,449,610**	**1,543,509**	**93,899**	**138,306**	**0**	**1,405,203**
Liabilities						
Financial liabilities measured at amortised cost	1,425,438	1,428,562	3,125	0	0	1,428,562
Deposits	1,395,243	1,398,301	3,059	0	0	1,398,301
Issued bonds, subordinated and supplementary capital	15,060	15,093	33	0	0	15,093
Other financial liabilities	15,135	15,168	33	0	0	15,168
Total	**1,425,438**	**1,428,562**	**3,125**	**0**	**0**	**1,428,562**

*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

	31.12.2020			31.12.2019		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**143,650**	**1,901**	**-1,702**	**191,823**	**1,797**	**-1,571**
OTC options	14,164	13	-11	19,708	89	-130
OTC other	129,486	1,887	-1,691	172,116	1,708	-1,441
b) Foreign exchange and gold						
OTC-products	**64,925**	**679**	**-160**	**68,679**	**20**	**-556**
OTC other	64,925	679	-160	68,679	20	-556
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 2020, 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

31.12.2020	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**

EUR thousand

31.12.2019	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	5,714	1,074	0	0
Financial assets held for trading	35	0	0	0
Financial assets	131,696	23	3	0
Debt securities	0	0	0	0
Loan and advances	131,696	23	3	0
Other financial liabilities	1,489	0	0	0
Financial liabilities	15,263	1,496	257	0
Deposits	15,005	962	257	0
Other financial liabilities	258	534		0
Other liabilities	0	0	0	0
Loan commitments, financial guarantees and other commitments received	0	1,000	2	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**

EUR thousand

31.12.2019	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	614	23	0	0
Interest expenses	-2,279	-2	-2	0
Fee and commission income		13	0	0
Fee and commission expenses	-2	-6	0	0
Other administrative expenses	-288	-600	0	0
Other expenses	1,048		0	0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	100	22	0	0
Total	**-807**	**-550**	**-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 IV). The CRD 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. ICAAP – Internal Capital Adequacy Assessment Process

Securing the Bank's ability to bear economic risks forms a central part of steering activities within the Bank for which the Bank carries out an institutionalised internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies and restricts and monitors this capital by placing limits on it. The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk inventory. In order to calculate the capital requirements for credit risk, the Bank uses the building block approach, where Pillar 1 is the starting point for calculating the underlying risk. The value at risk (VaR) method is applied for calculating risk capital requirements for market and liquidity risk. The Addiko Bank d.d. is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Risk Controlling and presented to the Management Board, Risk Executive Committee (RECO) and Capital Steering Group (CSG), where they are discussed and, if required, measures are decided. In this regard, the RECO serves as an operational basis for controlling economic risks. Additionally, the report is presented to the committee of the Supervisory Board.

72.3. Own funds and capital requirements

Own funds according to the CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk. The determination of eligible total capital in accordance with the applicable regulations is based on international accounting standards.

The regulatory minimum capital ratios, including the regulatory buffers as of 31 December 2020, 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 2019 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 2020 and 2019 did not use any transitional rules when calculating capital adequacy.

In the table bellow the composition of the own funds of the bank is presented as of 31.12.2020 and 31.12.2019.

EUR thousand

	31.12.2020	31.12.2019
Available capital		
1 Common Equity Tier 1 (CET1) capital	168,190	162,294
5 Total capital (TC)	183,190	177,294
Risk-weighted assets		
7 Total RWAs	915,749	1,044,964
Capital ratios %		
9 CET1	18.37%	15.53%
13 TC	20.00%	16.97%
14 TC without IFRS 9 transitional rules	20.00%	16.97%
Leverage ratio (LR)		
15 LR total exposure measure	1,560,029	1,717,069
16 LR	10.78%	9.45%
17 LR without IFRS 9 transitional rules	10.78%	9.45%

Total capital increased by EUR 5.9 million during the reporting period, reflecting the net impact of the following components:

- inclusion of profit from the second half of 2019 in the amount of EUR 6.2 million in common equity
- a decrease by EUR 0.4 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 0,1 million as net impact of decrease in intangible assets (EUR +1.4 million), decrease in deferred tax assets on existing taxable losses (EUR +0.8 million) and increase 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 bellow shows the components of capital:

EUR thousand

		31.12.2020	31.12.2019
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	71.432	52.995
3	Accumulated other comprehensive income (and other reserves)	1.005	1.388
5a	Independently reviewed interim profits net of any foreseeable	0	12.261
6	CET1 capital before regulatory adjustments	**181.210**	**175.417**
CET1 capital: regulatory adjustments			
7	Additional value adjustments	-111	-145
8	Intangible assets (net of related tax liability)	-959	-2.327
10	Deferred tax assets that rely on future profitability excluding	-9.892	-10.651
12	Negative amounts reulting from the calculation of expected loss amounts	-2.058	0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-13.021**	**-13.123**
29	Common Equity Tier 1 (CET1) capital	**168.190**	**162.294**
Tier 2 (T2) capital: instruments and provisions			
58	Tier 2 (T2) capital	15.000	15.000
59	Total capital (TC = T1 + T2)	183.190	177.294
60	Total risk weighted assets	915.749	1.044.964
Capital ratios and buffers %			
61	CET1 ratio	18,40%	15,50%
63	TC ratio	20,00%	17,00%

72.4. 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 129,2 million during the reporting period, which is mainly connected with the decrease in the amount of granted loans during 2020 and also the change of the supporting factor relevant for small and medium entities exposures.

EUR thousand

		31.12.2020	31.12.2019
1	Credit risk	820,674	957,269
6	Counterparty credit risk	4	0
19	Market risk	1,019	2,248
23	Operational risk	94,052	85,446
Total risk exposure amount (RWA)		**915,749**	**1,044,964**

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

72.5. Leverage ratio

The leverage ratio calculated in accordance with the CRR was 10.78% at 31 December 2020 and 9.45% at 31 December 2019.

EUR thousand

		31.12.2020	31.12.2019
20	Tier 1 capital	168,190	162,294
21	Total leverage ratio exposure	1,560,029	1,717,069
22	**Leverage ratio %**	**10.78%**	**9.45%**

*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

	31.12.2020	31.12.2019
Audit fees for the annual financial statements	**81**	**93**
Expenses for the current year	81	93
Expenses relating to the previous year	0	0
Fees for other services	**0**	**-6**
Other assurance services	0	-6
Other services	0	0
Total services	**81**	**87**

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

EUR thousand

2020	Fixed ongoing payments	Variable ongoing payments	Repayments of variable remuneration from previous year	Cost reimbursment	Supplementary pension insurance	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 (B1)	1,373	0	0	65	0	0	1,438
Total	**1,973**	**0**	**0**	**78**	**1**	**0**	**2,052**

EUR thousand

2019	Fixed ongoing payments	Variable ongoing payments	Repayments of variable remuneration from previous year	Cost reimbursement	Supplementary pension insurance	Other payments	Total
Management board:	499	61	59	4	1	18	584
Supervisory Board:	13	0	0	0	0	0	13
Ex members of management Board	82	60	0	0	0	2	145
Key management personnel with individual contracts	1,831	178	155	51	0	129	2,189
Total	**2,434**	**299**	**214**	**56**	**2**	**150**	**2,940**

75. Events after the reporting date

Since 31 December 2020, there were no 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 11,020,000 in the financial year 2020.

The Bank of Slovenia has followed the recommendations of the ESRB (ESRB/2020/7 and ESRB/2020/15), the ECB (ECB/2020/62), and also the Financial Stability Board (OFS/2021/1), and on 9 February 2021 extended and adjusted the macroprudential measure temporarily restricting profit distributions by banks and savings banks during the crisis brought by the Covid-19 epidemic. The Bank of Slovenia issued the macroprudential measure pursuant to Article 13 and the first paragraph of Article 31 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version], 59/11 and 55/17), points 4, 16 and 17 of the first paragraph of Article 19 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13), Recommendation ESRB/2020/7 (OJ EU 2020/C 212/01) of 27 May 2020, Recommendation ESRB/2020/15 (OJ EU 2021/C 27/1) of 15 December 2020 and Recommendation OFS/2021/1 of 25 January 2021.

Considering the ECB recommendation and Bank of Slovenia ban the Management Board and the Supervisory Board of the Bank will propose at the General Meeting the distribution of the total accumulated profit of the year 2020 in amount of EUR 82,453 thousand, which includes a net profit for the financial year 2020 of EUR 11,020 thousand and the retained profit of EUR 71,434 thousand, for the following purposes :

- EUR 1,831 thousand will be distributed as a dividend
- EUR 80,622 thousand remains unallocated and represents the retained earnings

The accumulated profit is shown in the table below:

EUR thousand

	31.12.2020	31.12.2019
Profit for the financial year	11,020	18,434
Retained earnings	71,434	52,998
Total accumulated profit	**82,453**	**71,432**

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
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet

Business Centres and Branch Offices

Basic data about Addiko Bank d.d.

Full name: Addiko Bank d. d.
Registered office: Dunajska cesta 117, SI-1000 Ljubljana
Entry in the Companies Register: no. 1/31020/00. SRG 99/01362
Registration number: 1319175
VAT ID: SI75482894
Transaction account: SI56 3300 0330 0000 034
SWIFTHAABSI22
Share capital: EUR 89,958,958.47
T: +386 1 580 40 00
F: +386 1 580 40 01
Website: https:/www.addiko.si
Facebook: https://www.facebook.com/addikoslovenija/
Instagram: https://www.instagram.com/addikobank_slovenija/
LinkedIn: https://www.linkedin.com/company/addiko-bank-slovenija
You Tube: https://www.youtube.com/channel/UCGR8rMrkCKpN4yT9APh6dvg
E: info.si@addiko.com

Ljubljana
Addiko Bank d.d., headquarters and Stekleni Dvor Addiko Bank Express Branch
Dunajska cesta 117, 1000 Ljubljana
T: +386 (0)1 580 40 00
F: +386 (0)1 580 41 25
E: info.si@addiko.com

Trg osvobodilne fronte Branch
Trg Osvobodilne fronte 12, 1000 Ljubljana
T: +386 (0)1 580 42 50
F: +386 (0)1 230 17 56
E:info.ljof.si@addiko.com

Šiška Branch
Trg komandanta Staneta 8,
1000 Ljubljana
T: +386 (0)1 580 48 00
F: +386 (0)1 518 18 80
E: info.ljsi.si@addiko.com

Addiko Bank Express BTC Branch
BTC City, Hall A, Šmartinska cesta 152, 1000 Ljubljana
T: +386 (0)1 580 40 00
E: info.ljbtc.si@addiko.com

Domžale
Domžale Branch
Mercator center Domžale, Cesta talcev 4, 1230 Domžale
T: +386 (0)1 580 42 48
F: +386 (0)1 721 17 32
E: info.do.si@addiko.com

Maribor
Business Center Maribor
Trg Leona Štuklja 4, 2000 Maribor
T: +386 (0)2 450 39 41
F: +386 (0)2 450 39 31
E: info.mbc.si@addiko.com

Maribor Center Branch
Trg Leona Štuklja 4, 2000 Maribor
T: +386 (0)2 450 39 49
F: +386 (0)2 234 79 01
E: info.mbc.si@addiko.com

Maribor Tabor Branch
Ulica Eve Lovše 1 (Mercator center), 2000 Maribor
T: +386 (0)2 450 39 30
F: +386 (0)2 234 39 32
E: info.mbc.si@addiko.com

Ptuj
BU Maribor, Ptuj Branch
Ormoška cesta 15 (Qlandia), 2250 Ptuj
T: +386 (0)2 450 38 90
F: +386 (0)2 780 90 99
E: info.pt.si@addiko.com

Murska Sobota
Business Unit Murska Sobota
Kocljeva ulica 2, 9000 Murska Sobota
T: +386 (0)2 530 81 80
F: +386 (0)2 530 81 90
E: info.ms.si@addiko.com

Celje
Business Unit Celje
Ljubljanska cesta 20b, 3000 Celje
T: +386 (0)3 425 73 30
F: +386 (0)3 425 73 31
E: info.ce.si@addiko.com

Trbovlje
BU Celje, Trbovlje Branch
Obrtniška cesta 30, 1420 Trbovlje
T: +386 (0)3 425 73 53
F: +386 (0)3 562 84 82
E: info.tr.si@addiko.com

Velenje
BU Celje, Velenje Branch
Šaleška cesta 19, 3320 Velenje
T: +386 (0)3 425 73 58
F: +386 (0)3 587 16 81
E: info.ve.si@addiko.com

Kranj
Business Unit Kranj
Koroška cesta 1, 4000 Kranj
T: +386 (0)4 201 08 80
F: +386 (0)4 201 08 81
E: info.kr.si@addiko.com

Koper
Business Unit Koper
Pristaniška ulica 6, 6000 Koper
T: +386 (0)5 663 78 00
F: +386 (0)5 663 78 14
E: info.kp.si@addiko.com

Nova Gorica
Business Unit Nova Gorica
Kidričeva ulica 20, 5000 Nova Gorica
T: +386 (0)5 335 47 00
F: F: +386 (0)5 335 47 01
E: info.ng.si@addiko.com

Novo mesto
Business Unit Novo mesto
Rozmanova ulica 34 a, 8000 Novo mesto
T: +386 (0)7 371 90 60
F: +386 (0)7 371 90 61
E: info.nm.si@addiko.com

Krško
Addiko Bank Express Branch
Cesta krških žrtev 141, 8270 Krško
T: +386 (0)7 371 90 71
F: +386 (0)7 496 66 81
E: info.kk.si@addiko.com

Slovenj Gradec
Addiko Bank Express Branch
Trg svobode 1, 2380 Slovenj Gradec
T: +386 (0)2 881 23 12
E: info.sg.si@addiko.com

Kočevje
Addiko Bank Express Branch
Trgovski park Kočevje, Kolodvorska cesta 6
1330 Kočevje
T +386 (0)1 580 48 71
E: info.ko.si@addiko.com