Addiko Bank

Annual Report 2019

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

EUR m

Selected items of the Profit or Loss statement	2019	2018	+/-(%)
Net banking income	51.9	48.8	6.4%
Net interest income	41.0	38.9	5.7%
Net fee and commission income	10.9	9.9	10.1%
Net result on financial instruments	1.4	5.4	-74.1%
Other operating result	-2.9	-2.3	26.1%
Operating expenses	-27.7	-26.6	4.1%
Operating result before change in credit loss expense	**22.7**	**25.4**	**-10.6%**
Credit loss expenses on financial assets	2.0	2.2	-9.7%
Tax on income	-6.2	9.5	-165.3%
Result after tax	**18.4**	**37.2**	**-50.5%**
Performance ratios	**2019**	**2018**	**+/-(%)**
Net interest income/total average assets	2.5%	2.5%	0.0%
Return on tangible equity	10.3%	21.7%	-52.5%
Cost/income ratio	53.3%	54.5%	-2.2%
Cost of risk ratio	-0.1%	-0.2%	-50.0%
Selected items of the Statement of financial position	**2019**	**2018**	**+/-(%)**
Loans and advances to customers	1,203.3	1,240.2	-3.0%
o/w gross performing loans	1,184.6	1,145.5	3.4%
Deposits of customers	1,223.2	1,174.2	4.2%
Equity	181.6	173.8	4.5%
Total assets	1,617.3	1,618.1	0.0%
Risk-weighted assets	1,045.0	1,028.4	1.6%
Balance sheet ratios	**2019**	**2018**	**+/-(%)**
Loan to deposit ratio	96.4%	95.1%	2.4%
NPE ratio	1.5%	1.9%	-22.1%
NPE coverage ratio	70.6%	70.6%	0.0%
Liquidity coverage ratio	205.6%	155.2%	32.5%
Common equity tier 1 ratio	15.5%	13.5%	14.8%
Total capital ratio	17.0%	14.9%	14.1%

[1]) The indicators are calculated in accordance with the Instructions for the preparation of the statement of financial position, income statement and statement of comprehensive income and the calculation of indicators of operations of banks and savings banks (3.12.2019)

Content

Management Letter for 2019

Dear Shareholders, Customers, Partners and Employees,

over the past three years, Addiko Bank has managed to build and position Addiko in the Slovenian banking market as a strong, “straightforward” banking brand, continuously focused on what is relevant. Addiko is an important brand not only on the Slovenian banking market but also internationally, which was also importantly reflected in the successful listing of the shares of Addiko Bank AG on the Official Market of the Vienna Stock Exchange and trading in the ATX Prime market segment.

What does it mean to be a straightforward bank? Addiko Bank ensures efficiency and communicates in clear, understandable language. Simple, convenient and quick access to banking services thus enables the Bank to grow steadily in the focus segment of consumer loans.

Through consistent monitoring of business strategies and by focusing on innovative market solutions, Addiko Bank achieved all business objectives set for 2019. Revenue was within planned and amounted to EUR 51.9 million. CIR was reduced to 53.3% through strict cost management, despite numerous development activities and projects.

Through its advanced credit risk management approach aimed at long-term sustainability of operations, the Bank achieved a country wide low NPL ratio of 1.6%, with a provision coverage of 64.3%, and ensured a high quality of new lending business in its focus areas of unsecured Consumer loans and SME. In 2019, the Bank managed to maintain an above-average interest margin of 2.5%, regardless of tough competition.

The balanced ratio between profitability and risk enabled the Bank to generate profit after tax in the amount of EUR 18.4 million, which is a 50.5% decrease compared to 2018, with the main reason deriving from the one-off effect at YE18 on net result of financial instruments that was achieved through sale of bonds with EUR 4.7 million profit and due to recognition of deferred tax assets EUR -6.2 million in YE2019. The Bank included its half year 2019 profit into retained earnings to bolster capital adequacy, which resulted in a total capital ratio of 17.0% at the end of the year. This provides us with an excellent basis for further growth in accordance with the increasingly ambitious business objectives.

In 2019, the Bank further reinforced its presence on the market by renovating its cornerstone branches in Kranj and Maribor Centre and opening a renovated one in a new location in Domžale. The Bank aims to continue to provide banking services where customers need them most and where spontaneous needs for financing often arise. Also, the digital corner within the branch allows the customers to make previously complicated credit transactions by themselves, providing an entirely new banking experience in the sense of quick and convenient personal finance management in line with the Bank’s value proposition.

The Bank continued to face increasingly dynamic market challenges in an innovative way using promotion activities such as Addiko Red Wednesday. 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 new, technologically advanced application for the management of the loan underwriting process, specifically tailored to SME clients, which makes the process of digital lending and transactions more convenient, faster and more efficient. This simplified 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 continued their financing in line with its strategy.

In the previous year, the Bank further strengthened its sources of long-term financing and achieved growth mainly in the area of retail deposits. With active funding management, the funding concentration of 10 bigger depositors was reduced by 20 percentage points compared to 2018. The Bank enhanced its short-term and long-term liquidity position and secured stability and soundness of business.

In 2019, 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.

In 2019, 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; the Bank also financially supported several charities and charitable initiatives.

Our success story is definitely built on strong and sound grounds. There would be no success without our employees, loyal customers and various business partners. The Management Board sincerely thanks everyone for their contribution to the Bank's achievements of the previous year.

In 2020, one of the biggest challenges the Bank, as well as its competition, will be facing was established by the regulator at the end of 2019, and the Bank will have to manage the newly implemented macro-prudential restrictions on retail lending very carefully. We're confident that by pursuing the Bank's business strategy and maintaining an innovative marketing approach, we will be able to carry our success into the future. Addiko Bank will strive to continuously provide its customers 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, CMO, CEO

Responsibilities

- Retail & Micro Banking
- Retail & Micro Product Management
- Corporate and SME Banking
- Corporate Sales Support
- Legal and Compliance
- Marketing & Public Relations
- Human Resources

Anja Božac, CFO

Responsibilities

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

Tadej Krašovec, CRO, COO

Responsibilities

- Credit Management
- Retail Risk Management and Collection
- Operations
- Risk Controlling
- Information and Physical Security
- Organisation and IT
- Procurement

On 31 December 2019, 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 2019, it provides services to approximately 0.8 million customers in CSEE, using a well-dispersed network of 179 branches and modern digital banking channels.

Based on its focussed strategy, Addiko 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 and have, particularly in the Large Corporates Segment, been further tailored to better meet customer needs.

On 12 July 2019, Addiko Bank AG became a listed company on the Vienna Stock Exchange, which reduced the participation of AI Lake (Luxembourg) S.à r.l., a company indirectly owned by funds advised by Advent International and the European Bank for Reconstruction and Development (EBRD), to 44.99%, with the remainder being free float. On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime.

2. General economic environment

2.1 Economic Development YE19

Growth momentum will remain strong by post-crisis standards across all countries of operation in 2019. However, the current economic cycle is likely to have peaked. The pace of expansion is likely to be in the range of 2.7-3.1% per year in 2019-2021 across the five countries, compared with 3-4% in 2016-2018. Growth in 2019-2021 will be strongest in Slovenia (slightly above 3% per year on average); in the remaining countries, it will be 2.7-2.8%.

There are two key reasons for the moderately slower growth outlook: weaker activity in the euro area and some key drivers of global demand (especially China) and in some cases domestic capacity constraints (e.g. shortage of labour and high levels of capacity utilisation in industry after several years of strong growth). The most likely scenario includes a continuation of still quite good growth, low inflation and positive labour market developments.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and still ultra-loose ECB policy. Supply side factors in particular indicate that inflationary pressure will not emerge anytime soon. Across all countries of operation, inflation has picked up somewhat from 2014-16 levels (when many countries experienced a period of deflation) but will remain at historically low levels.

In Slovenia, GDP growth will also slow a bit but remain at around 2.83% p.a. on average; in 2019-21, it will be the best performing Addiko country (1Q19: 3%). The economy will continue to benefit from inflows of EU funds and rising wages on the back of labour market tightness and release of all restrictive legislation concerning wages in the public sector that was imposed during the last financial crisis. As a particularly export-reliant economy (roughly 80% of GDP from exports), Slovenia will be temporarily affected by weaker momentum in Germany and the euro area more broadly, although signs of improvement after the signing of the China-US trade deal might become visible shortly.

Due to its dependency on export, Slovenia remains relatively vulnerable to global protectionist risks. Household demand for credit is likely to remain robust, albeit falling somewhat from the current rate of 6% per year mainly in consumption loans due to newly implemented restrictions by the Central bank (main regulator) due to exorbitant growth of consumption loans in past years (over 10% p.a.).

3. Significant events in 2019

3.1 Addiko Bank AG goes public

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

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

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

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

3.2 Transformation towards out-of-branch sales and digital development

3.2.1 Great customer experience with efficient distribution transformation

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

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

A target mix of channels was planned and is currently being executed in line with the convenience and simplicity promises that the 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 thousands of customers every month, throughout 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.

3.2.2 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 it both driving and supporting the change to reflect the transformation in banking business and customer expectations.

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

In 1Q19, Addiko Bank presented Addiko Chat Banking, an innovative and first ever Viber based financial transaction service available in Slovenia. Addiko Chat Banking is a digital banking service that through Viber, one of the globally most popular communication platforms, enables Addiko not only to directly communicate with its customers but also to provide them with modern, simple and straightforward payment services corresponding to more convenient, simple, direct and efficient addressing of clients' daily needs.

In August, the new process of mobile banking registration was implemented. The updated process enables automatic activation; the client can activate the service without contacting the bank, which is fully in line with convenience and speed as a core part of Addiko strategy.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of Addiko Bank. The Bank continues to invest in digital solutions as an essential foundation for delivering on the business boosting, convenience and speed-based value proposition. For the Consumer segment, the share of consumer loans sold digitally improved to 8.2% in 1H19 (3.8% for the full year 2018) and the contribution of Bank@Work to 25% (17% for 2018).

3.2.3 Branches

Striving to digitise its operations, at the end of 2019, Addiko Bank operated a total of 19 branches in 15 major cities in Slovenia and 45 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 its Kranj and Maribor Center branches and moved Domžale branch to a new location 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.

3.3 Continuous cost management and efficiency gains

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

The Bank is well positioned for further significant improvement of overall efficiency and with positive effects on the cost-to-income ratio (CIR).

Addiko Bank expects that its operating expenses for 2020 demonstrate a continuation of the 2019 performance. Several cost initiatives were executed in the second half of 2019. The positive impact, predominantly resulting from back office optimisation with an expected total decrease of more than 27 FTE, will contribute to a reduction of the cost base in the 2020 financial year.

3.4 Review of the business strategy

After the successful implementation of its original business strategy (established following the change of ownership in July 2015) and the extensive repositioning as a “specialist bank” in CSEE, Addiko Bank has been refining its strategy to differentiate itself from the universal banking models prevalent in the CSEE region by focusing on daily banking activities for which convenience and speed can command higher margins. Such services consist mainly of transactions requiring low or no advisory support, suitable to standardisation and delivery over digital channels.

The Bank focuses on higher risk adjusted yield businesses as a specialist bank lending to Consumer and SME customers in the “real economy”, consisting of manufacturing, production, trade, agriculture and tourism businesses with a proven cash flow producing track record. The underserved markets in CSEE offer attractive growth that will be achieved through the convergence with European standards, particularly once digital banking capabilities are expanded in the region.

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 and refined, especially in the Consumer segment and the SME segment, to improve efficiency, promote simplicity and increase customer convenience while at the same time reducing risks and maintaining asset quality.

Based on this approach, Addiko Bank reached its goal of transforming the business towards strategic core segments with a focus on growing its Consumer and SME lending activities as well as payment services (its “focus areas”). Addiko Bank is focusing primarily on unsecured personal loans for consumers and working capital loans for its SME customers that are funded largely by retail deposits. The Bank’s Mortgage portfolio, Public Finance and Large Corporates lending portfolios (its “non-focus areas”) were gradually reduced over time, with repayments by customers exceeding the new business generated in those areas, thereby providing liquidity and capital for the gradual growth in its Consumer and SME lending. Any new lending products in non-focus areas are offered on an opportunistic basis only, primarily to retain existing, profitable customers. Furthermore, the Bank continued on its journey of building a distinctive, integrated operating model with significant focus on digital capabilities.

Building on its successful initial strategy, Addiko will take further steps to become the go-to-bank for selected products with executional excellence, serving basic banking needs with convenient origination and prompt delivery.

3.5 Changes in the Management Board

By confirming the proposal from 29 March 2019 and in accordance with point 7 of the Rules of Procedure of the Supervisory Board of Addiko Bank d.d., the Supervisory Board appointed Anja Božac as Member of the Management Board (CFO) of Addiko Bank d.d., with the mandate starting on 6 July 2019, for a period of four years.

4. Financial development of the Bank

4.1 Analysis of the result

Reported Result	YE19	YE18	Change (%)
Net banking income	51.9	48.9	6.2%
Net interest income	41.1	39.0	5.4%
Net fee and commission income	10.9	9.9	9.6%
Net result on financial instruments	1.4	5.4	-74.7%
Other operating result	-2.9	-2.3	29.2%
Operating income	**50.4**	**52.0**	**-3.2%**
Operating expenses	**-27.7**	**-26.6**	**3.8%**
Operating result before change in credit loss expense	**22.7**	**25.4**	**-10.6%**
Credit loss expenses on financial assets	2.0	2.4	-17.1%
Operating result before tax	**24.6**	**27.7**	**-11.1%**
Tax on income	-6.2	9.5	-165.3%
Result after tax	**18.4**	**37.2**	**-50.5%**

Result after tax of EUR 18.4 million was EUR 18.8 million lower compared with YE18. In Year 2018, the Bank had some one-off events such as the sale of bonds with a EUR 4.7 impact on profit and loss statement, and there was a change in the derecognition of deferred tax assets.

Reported net interest income increased from EUR 39.0 million at YE18 by EUR 2.1 million (5.4%) to EUR 41.1 million at YE19, mainly resulting from consumer financing at higher interest rates. The decreasing interest rates on customer deposits and a positive effect on interest expenses from lower subordinated debt also had a positive impact. Compared to the year before, the net margin stayed at the same level (2019: 2.5%; 2018: 2.5%).

Reported net fee and commission income increased from EUR 9.9 million at YE18 by EUR 1.0 million (9.6%) to EUR 10.9 million at year YE19. The growth results from higher volume of payment transactions, guarantees and sale of insurance products (Uniqa).

Reported net result on financial instruments decreased in 2019 by EUR 4.0 million and amounted to EUR 1.4 million at the end of the year (YE18: EUR 5.4 million). Result at YE18 was achieved through sale of RS70 bonds with EUR 4.7 million of profit. With excluded one-off effect at YE18, the result for YE19 is higher by EUR 0.7 million (95.5%) due to sale of bond portfolio because of positive market development.

On a reported basis, the **other operating result** as the sum of other operating income and other operating expense increased from EUR -2.3 million at YE18 by EUR -0.6 million to EUR -2.9 million at YE19. The increase was mainly driven by the following significant items:

- Recognition of EUR -0.4 million restructuring costs as part of cost initiatives executed during YE19. The related impact, resulting from predominantly back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.
- Higher tax on financial services in the amount of EUR 1.8 million (YE18: EUR 1.4 million).
- Expenses for CHF lawsuits included in P&L position in the amount of EUR 0.3 million (YE19 EUR 0.0 million).
- Higher deposit guarantee costs in the amount of EUR 0.6 million (YE18: EUR 0.4 million).

Reported operating expenses increased from EUR -26.6 million at YE18 by EUR 1.1 million (3.8%) to EUR -27.7 million at the current reporting date:

- Personnel expenses decreased compared to the previous period. The number of employees expressed in full-time equivalent ('FTE') at 31 December 2019 was 326.34, a decrease of 18.38 from 31 December 2018.
- Other administrative expenses decreased from EUR -2.3 million st YE18 by EUR -1.1 million or 46.9% to EUR -1.2 million at YE19. This development was mainly driven by the implementation of the new leasing standard (IFRS 16, starting from 1.1.2019). The residual increase of the IT expenses by 13.5% is primarily reflecting investments to grow the business and enhance the digital capabilities.
- Depreciation and amortisation increased from EUR -1.3 million at YE18 by EUR -1.6 million to EUR -3.0 million at YE19. This increase included EUR -1.3 million depreciation for the right of use asset driven by the first-time implementation of the new leasing standard IFRS 16.

Due to net releases developing above expectations, **Credit loss expenses on financial assets** amounted to EUR 1.9 million YE19 (YE18: EUR 2.4 million) due to impairment reversals, the sale of credit lines of one larger group of borrowers (two legal persons) and releases on an already written-off portfolio playing an important part. The Bank managed credit risks and debt collection successfully.

Due to the restrictions of the Bank of Slovenia limiting consumer lending growth, the Bank has tempered the revenue growth expectations and adjusted its business plan according to with the prudent assumption that interest level would not change from current levels. The calculation of deferred tax claims has been updated accordingly. **Reported taxes on income** amounted to EUR -6.2 million compared to EUR 9.5 million at the end of YE18 and included the derecognition of deferred tax assets on tax loss carried forward in the amount of EUR 3.8 million.

4.2 Analysis of the statement of financial position

EUR m

	31.12.2019	31.12.2018	Change (%)
Assets			
Cash reserves	138.3	133.4	3.7%
Financial assets held for trading	1.9	1.4	33.1%
Non-trading financial assets mandatorily at fair value through profit or loss	0.3	0.3	0.0%
Investment securities	140.5	221.7	-36.6%
Loans and receivables	1,311.3	1,240.2	5.7%
Loans and advances to credit institutions	130.5	123.9	5.3%
Loans and advances to customers	1,180.8	1,116.3	5.8%
Tangible assets	11.3	3.7	209.7%
Intangible assets	2.3	2.3	3.3%
Tax assets	10.8	14.4	-24.8%
Current tax assets	0.2	0.0	0.0%
Deferred tax assets	10.7	14.4	-26.0%
Other assets	0.5	0.8	-37.9%
Non-current assets and disposal groups classified as held for sale	0.0	0.1	-46.0%
Total assets	**1,617.3**	**1,618.1**	**0.0%**

The statement of financial position of Addiko Bank d.d. shows the simple and solid interest-bearing asset structure: more than 73.0% 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 high 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 57.2% of the gross performing loan book (YE18: 54.4%).

As of YE19, the **total assets** of Addiko Bank d.d. slightly decreased by EUR 0.8 million from EUR 1,618.1 million at YE18 to EUR 1,617.3 million. The total risk, i.e. risk-weighted assets including credit, market and operational risk, increased to EUR 1,045.0 million (YE18: EUR 1,028.4 million) reflecting the increases of volumes in the focus segments.

Cash reserve increased by EUR 5.0 million to EUR 138.3 million as of YE19 (YE18: EUR 133.4 million). The regulatory required minimum reserves included in the cash balances at central banks increased from EUR 9.5 million as of 31 December 2018 by EUR 1.0 million to EUR 10.5 million as of 31 December 2019.

Overall **loans and receivables** increased to EUR 1,311.3 million from EUR 1,240.2 million at year end 2018:

- Loans and receivables to credit institutions increased by EUR 6.5 million to EUR 130.5 million (YE18: EUR 123.9 million).
- Loans and receivables to customers increased by EUR 64.6 million to EUR 1,180.8 million (YE18: EUR 1,116.3 million). In line with the Group's strategy, within the loans and receivables to customers, the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending, which was partly offset by the decrease in the Mortgage Business.

The **investment securities** decreased from EUR 221.7 million to EUR 140.5 million at YE19. The bond position was reduced due to maturities, low market rates and the asset restructuring process.

Tangible assets increased to EUR 11.3 million compared to EUR 3.7 million at YE18, which is mainly due to the first-time implementation of IFRS 16, leading to the recognition of a right of use asset in the amount of EUR 8.5 million.
Tax assets decreased to EUR 10.8 million (YE18: EUR 14.4 million) as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

EUR m

	31.12.2019	31.12.2018	Change (%)
Equity and liabilities			
Financial liabilities held for trading	2.2	2.0	9.9%
Financial liabilities measured at amortised cost	1,425.4	1,433.1	-0.5%
Deposits of credit institutions	172.0	234.6	-26.7%
Deposits of customers	1,223.2	1,174.2	4.2%
Certificates of deposits	0.1	1.1	-94.8%
Issued bonds, subordinated and supplementary capital	15.0	15.0	0.0%
Other financial liabilities	15.1	8.2	84.4%
Provisions	7.2	7.6	-6.3%
Tax liabilities	0.0	0.9	-100.0%
Current tax liabilities	0.0	0.9	-100.0%
Other liabilities	0.9	0.7	29.6%
Equity	181.6	173.8	4.5%
Total equity and liabilities	**1,617.3**	**1,618.1**	**0.0%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 1,425.4 million compared to EUR 1,433.1 million at year end 2018:

- Deposits of credit institutions decreased from EUR 234.6 million to EUR 172.0 million at YE19.
- Deposits of customers increased to EUR 1,223.2 million (YE18: EUR 1,174.2 million).
- Other financial liabilities increased from EUR 8.2 million at YE18 to EUR 15.1 million at YE19, which is mainly due to the first-time implementation of IFRS 16 regulations.

Provisions decreased from EUR 7.6 million at YE18 to EUR 7.2 million at YE19 as a result of decrease of off-balance sheet liabilities

Other liabilities increased slightly from EUR 0.7 million to EUR 0.9 million 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 173.8 million to EUR 181.6 million is related to a dividend payment in the amount of EUR 10.0 million that was partially compensated by the profit for the reporting period in the amount of EUR 18.4 million.

5. Market and operations development

5.1 Retail banking

In 2019, the economic situation remained very stable and was reflected in a higher demand for the Bank's services. In accordance with the guidelines of the owner, Addiko Bank focused the most on consumer loans and collecting primary sources, at the same time improving processes through the focus on quick responsiveness with less documentation and striving for digital operations.

The retail segment is divided into two departments, the sales force, covering the complete business network, small enterprises and sole traders, 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. Also, micro marketing activities could be exposed. 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 clients' employees, with retail consultants offering them customised financial solutions at their workplace.

The Bank successfully adjusted to the new demands and proposals of the owner and changes in the business policy and at the same time designed activities for the development of the branches. The employees acquired new knowledge, thereby focusing on recognising the Bank's clients' needs.

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.

5.1.1 Retail Business operation review

The segment result is driven by the new 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 client, per employee as well as per branch office. In 2019, the Bank strongly focused on selling consumer loans.

The small enterprises still represent a major challenge, which is why the Bank has started to change processes in order to listen even more to the needs and wishes of its clients and to achieve excellent service satisfaction.

In 2019, the Bank made significant 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 new retail strategy and strived for uninterrupted processes working with other departments. The activities related to the changed products and processes and the marketing support were aligned with the monthly plans of the branches. The digitalisation process continued with modernising the electronic bank and the mobile bank.

In 2020, 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.

5.2 Corporate and SME Banking

In Slovenia, growth in lending to the economy and the public sector continued in 2019 compared with 2018. The Bank's market share has continued to grow.

In 2019, sharp price competition between banks continued, which, as a result of the further excess liquidity of the financial sector, led to lower interest rates and partly revenues. Despite the low interest rates on the market, the Bank tried to achieve the appropriate profitability of individual investments and this criterion is one of the key criteria in investment decisions in addition to the appropriate risk profile.
Among the reasons for increasing the Bank's market share, it is necessary to emphasise the Bank's focus on optimising its credit process. Successful implementation of the new application for the approval of quick loans enabled customers to obtain a loan as soon as possible with the minimum required documentation.
The corporate segment provides presence throughout Slovenia, with teams in Koper, Nova Gorica, Kranj, Ljubljana, Novo mesto, Celje, Maribor and Murska Sobota.

2020's main goal is to further increase the market share of the Bank, focusing on small and medium-sized companies. The Bank will continue to implement the growth strategy with proactive sales and marketing activities, which will focus primarily on increasing the number of different products to existing customers and even more active marketing of the Bank's products to new customers.

The main strategy of managing relations with customers will be based on: “We have the agility, focus and professionalism to offer customers essential services, delivered in the simplest way.”

Growth of interest income and net interest margins will also be one of the Bank's key orientations for 2020. Special emphasis will be placed on increasing the share of non-interest income in total revenues, which will be achieved primarily through increased activity in the field of Trade Finance, Guarantees and Treasury products.
In 2020, Corporate deposits will also stay an important factor for managing the Bank's liquidity, which will remain a priority for the segment. Last year, the trend of decreasing interest rates continued, but achieving growth in the volume of deposits despite lower interest rates was still manageable. The corporate segment’s rate of self-financing still remains high. Funds collected in excess can be utilised to finance other segments. In 2020, diversification of the largest depositaries will be continued.

We will continue our successful cooperation with the Retail segment within the “Bank@Work” project, in which we offer tailor made financial solutions to the employees of our business clients at the workplace.

In 2020, alongside other development initiatives, the Bank will strive to even further upgrade the new process application for SMEs in terms of an even more diversified range of products. Now the Bank is in the process of upgrading its electronic banking to offer its clients online loan approval and enable each to monitor the approval process via digital channels.

6. Analysis of non-financial key performance indicators

6.1 Human resource management

The Human Resources strategy underpins the cultural transformation of Addiko Bank. The Operating Model enables employees at all levels to drive for results via teamwork and cross-boundary collaboration. Building strong HR processes in performance, recruitment, talent, learning and leadership development is needed to ensure agility in employee attitudes and capabilities. The performance and talent management frameworks are key processes used to identify, develop, reward and recognise high performance and talented employees. The two processes support Addiko Bank’s journey to build a great place to work, aiming to become an employer of choice, attracting talent and offering opportunities for employees to develop their careers.

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.

In 2019, the Bank continued its intense efforts to uphold a Family-Friendly Company certificate, which it has been holding since 2012 and results in a positive and motivating working environment. In 2019, the Bank was awarded with a Permanent Family Friendly Certificate, which proves that the Bank identifies with the principles of the certificate and believes in its employees and encourages them to act responsibly in many areas.

In 2019, Addiko Bank was also among the Golden Thread finalists in the category of large enterprises. This is a unique media research project that takes place under the auspices of the newspaper Dnevnik and rewards the best employers of the year. The Bank is determined to continue realising measures to remain a competitive and attractive employer on the Slovenian market.

The Bank's responsibility to employees is also reflected in regular meetings with the Management Board, where employees are able to speak freely about strategically important topics. Meetings take place several times a year.

In 2019, we continued to intensely promote Addiko Values and Behaviours as a pillar of the professional and ethical standards in the Bank. The Values and Behaviours have been incorporated into all internal processes including performance management and leadership development.

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 from 2019 to 2021 and onwards, 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.

2019 Addiko Bank Slovenia Gender Diversity Status:

Management level	Number of employees based on gender diversity (female to male ratio)
Directors	46.2 % : 53.8%
Management Board	33.3% : 66.7%
Supervisory Board	20% : 80%
Total Bank	62.4% : 37.6%

At the end of 2019, the Bank had 355 employees.

Year	Number of employees on 31.12.	Number of employees based on working hours*	Average number of employees
2019	355	326.4	368.6
2018	369	344.7	363.7

*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.

6.1.1 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	4
V. secondary education	118
VI. non-university higher education courses	23
VII. higher education programs, university programs	196
VIII. university degree specialisation, diploma of Master of Science	14
Total on 31.12.2019	355

6.1.2 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.
Candidates are selected on the basis of 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.

6.1.3 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 is the Addiko Academy, which offers several sets of curriculums: Addiko Leader, Addiko Team, Addiko Talent, Addiko Sales and Marketing, Addiko Risk Management, Addiko Digital Transformation and Innovation, Addiko Finance, Addiko Mini-School of Banking and Addiko Client At the Centre. 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 2019, 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 Management Board was taken through the 360 Degree Assessment tool. In addition, many professional, compliance and legally required trainings are continually offered to our employees, ensuring upgrading of their knowledge. All new employees who joined Addiko team in 2019 were systematically introduced to all bank segments and contents at the Bank's Onboarding Day, i.e. Get Together Day.

The Bank also enables employees to obtain various finance and insurance licenses that are necessary for professional work; in 2019, the Bank enabled a large number of employees to cooperate in e-Learning training dealing with security awareness, GDPR, compliance and fraud awareness and licensed new employees with an Insurance agent licence.

6.1.4 Corporate Social Responsibility projects for employees

Addiko Bank employees remain faithful to humanitarian activities, through which they are able to show their kind hearts. In 2019, Addiko Bank expanded our longstanding 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, through cooperation with people with mental and physical disabilities, through opening a renovated Addiko branch in a new location in Domzale and through contribution of funds for purchasing an ultrasound to the Health Center Domzale.

Employee satisfaction is very important to Addiko Bank

As part of the roadmap to culturally transform Addiko Bank, employee engagement and views are very important. The Bank conducts internal employee engagement 'pulse check' surveys every quarter. The survey helps to verify employee loyalty and points to employee concerns that need attention. In 2019, the research showed that there were more employees that would recommend the Bank as an employer to their friends and acquaintances than those who would not do so. The survey results throughout 2019 are favourable for the Bank and confirm the efforts over several years in creating a friendly working environment.

Various informal 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 2019, the Bank continued with the activities promoting health within the framework of the Addiko Sports and Culture Association.

6.1.5 Performance and development interviews and target-oriented management

In 2019, 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.

6.1.6 Bonus system

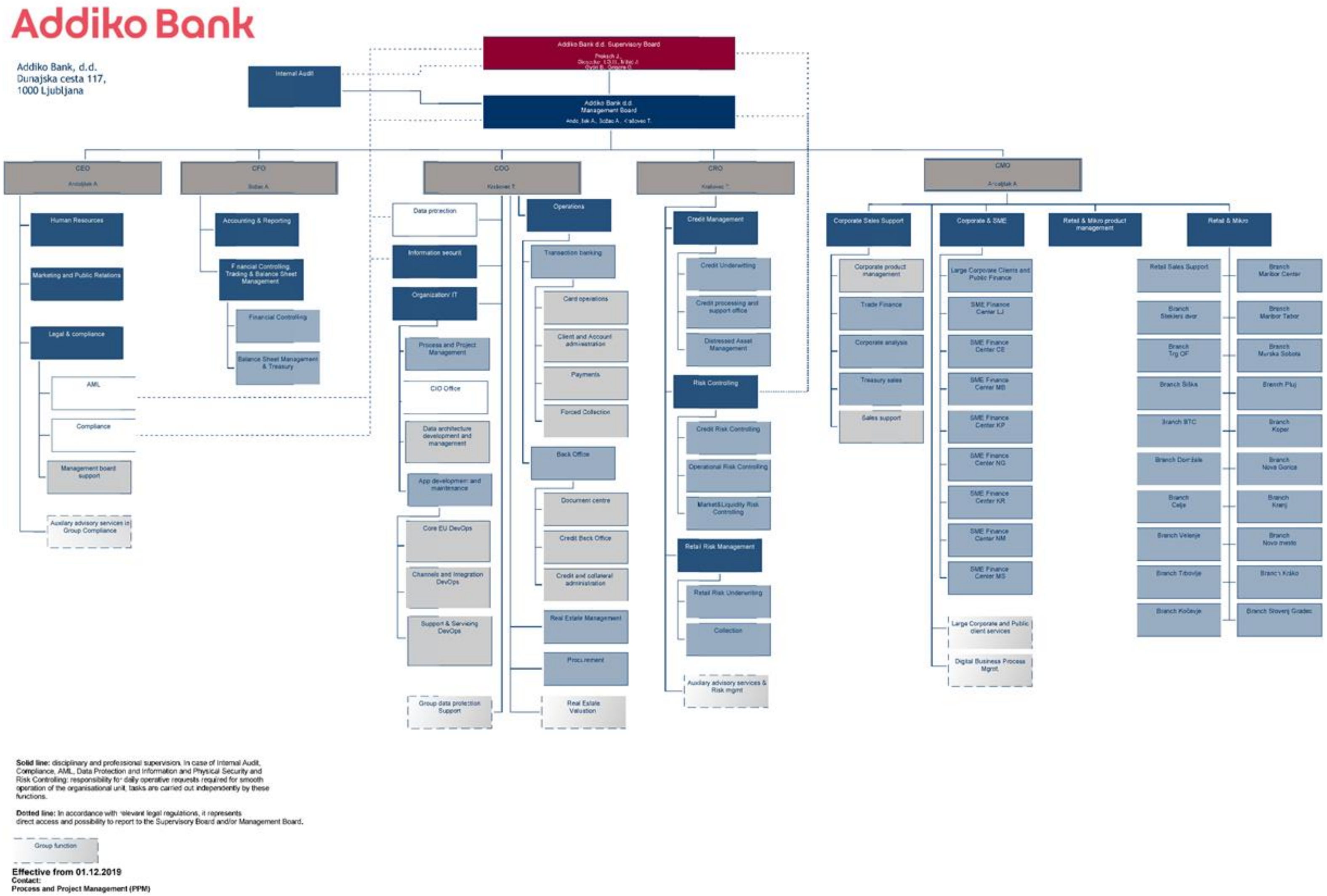
The Bank's bonuses are awarded within the variable pay framework and are closely linked to target-oriented management. By applying individual bonuses, the Bank would like to reward an individual's performance when demonstrating the extra-mile. They also aim to motivate teamwork and achievement of targets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

6.1.7 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. The key functions that can significantly affect the Bank's risk profile within their duties, tasks and activities include members of the Management Board and directors of individual departments, including risk management and internal audit.

6.2 Organisation of the Bank

6.2.1 Organisational chart



6.2.2 Supervisory Board

The Supervisory Board of the Bank is comprised of five members. On 31 December 2019, the members of the Supervisory Board were:

• Johannes Leopold Proksch, Chairman of the Supervisory Board,
• Herbert Gerhard Giesecke Henning, Deputy Chairman of the Supervisory Board,
• Georgiana Grigore, Member of the Supervisory Board,
• Joško Mihić, Member of the Supervisory Board and
• Balazs Laszlo Györi, Member of the Supervisory Board.

The Supervisory Board met six times in 2019, 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: Joško Mihić, Chairman, Herbert Gerhard Giesecke Henning, Deputy Chairman, and Johannes Leopold Proksch, Member. In 2019, they met five times, of which four times for regular meetings.

• A Risk Committee comprising three members, all members of the Supervisory Board: Henning Giesecke, Chairman, Georgiana Grigore, Deputy Chairman, and Balazs Györi, Member. In 2019, they met five times, of which four times for regular meetings.

6.2.3 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. Two Shareholders Assembly meetings were convened in 2019.

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 2019, the Shareholders Assembly was acknowledged with the audited 2018 Annual Report, the 2018 Internal Audit Annual Report and the use of accumulated (net) profit.

6.2.4 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.

7. 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 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. Addiko Bank deploys control activities through process documentation that incorporates the tracking and documentation of each process, including the information about process flow according to the internally set up guidelines for process management.

The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of the Bank's daily activities as well as periodic evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

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

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

8. 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.

9. Other disclosures

9.1 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 m

INDICATORS	2019	2018	2017
1. STATEMENT OF FINANCIAL POSITION			
Total assets	1,617.3	1,618.1	1,537.7
Total deposits by the non-banking sector, measured at amortised cost	1,223.2	1,159.2	1,094.7
a) by legal and other persons carrying out economic activity	777.4	730.6	700.2
b) by retail sector	445.8	428.7	394.6
Total loans to the non-banking sector	1,179.3	1,114.8	1,064.1
a) legal and other persons carrying out economic activity	570.5	513.3	453.3
b) retail sector	608.8	601.5	610.8
Total capital	181.6	173.8	141.0
Valuation adjustments and credit loss provisions	29.7	35.7	47.9
Off-balance sheet operations	830.2	919.2	820.9
2. INCOME STATEMENT			
Net interest	41.0	38.9	33.7
Net non-interest income	9.8	15.3	9.7
Labour costs, overhead and administrative costs	24.7	25.3	25.4
Amortisation and depreciation	3.0	1.3	1.3
Impairments and provisions (credit losses)	2.0	2.1	1.4
Pre-tax profit or loss from continuing and discontinued operations	24.7	27.7	18.1
Corporate income tax from continuing and discontinued operations	6.2	9.5	0.8
Other comprehensive income, before tax	-0.7	6.0	0.5
Corporate income tax from other comprehensive income	0.1	1.4	-0.1
3. INDICATORS			
a) Capital			
Common Equity Tier 1 ratio	15.5%	13.5%	13.7%
Core Tier 1 ratio	15.5%	13,5%	13.7%
Total capital ratio	17.0%	14,9%	15.6%
b) Profitability			
interest margin	2.5%	2.5%	2.3%
margin of financial intermediation	3.1%	3.5%	3.0%
return on assets after tax	1.1%	2.4%	1.3%
return on equity before tax	13.9%	18.3%	13.8%
return on equity after tax	10.4%	24.6%	14.5%
c) Operating costs			
operating costs/average assets	1.7%	1.7%	1.8%
e) Credit risk			
Non-performing (balance sheet and off-balance-sheet) exposures/classified balance sheet and off-balance sheet exposures	1.5%	1.9%	3.2%
Non-performing loans and other financial assets/classified loans and other financial assets	1.3%	1.9%	3.4%
Valuation adjustments and credit loss provisions/non-performing exposures	70.6%	55.8%	56.9%
Received collateral/non-performing exposures	21.6%	31.2%	24.0%
4. EMPLOYEES			
at year-end	355	369	357
5. SHARES AT YEAR-END			
number of shareholders	1	1	1
number of shares	41.7	41.7	41.7
share book value (EUR)	4.4	4.2	3.4
Nominal value of share	2.2	2.2	2.2

EUR m

Liquidity	1-3.2019	4-6.2019	7-9.2019	10-12.2019
Liquidity coverage ratio	164.75%	149.00%	156.07%	169.53%
Liquidity buffer	128.0	139.1	136.1	144.0
Net liquidity outflows	84.0	93.7	87.5	86.2

9.2 Event after the business year 2019

Due to the special situation and development regarding the Coronavirus/COVID-19 outbreak in Slovenia and the related risk of contagion, Addiko Bank mandated several measures and safety regulations in order to protect and secure the health and security of all employees, its clients and other stakeholders. The measures and regulations include work from home, limited numbers of employees and clients in Addiko Bank's branches, changed working hours, travel and meeting restrictions and use of video meetings and digital channels. The consequences of the Coronavirus/COVID-19 will certainly be significant and visible in 2020, but at this time it is still too early for them to be predicted or evaluated.

Since 31 December 2019, there were no other events that would materially affect the financial statements herein.

10. Research & Development

Addiko Bank does not conduct any Research & Development activities.

11. Outlook 2020

The benign macroeconomic environment in the countries of operations of Addiko Group is expected to continue in the coming years. While on a global scale a slowdown of growth and continuing deflationary impulses are anticipated, the growth in CSEE economies remains resilient.

The Slovenian economy grew by 4.8% in 2017, 4.1% in 2018 and with a GDP growth rate of 2.8% in 2019, it seems unlikely that in 2020 Slovenia's growth rate would increase beyond 3.0%, which is also the forecast of the Governmental office for Macroeconomic Development and Research (UMAR). With a weighted growth rate in the CSEE region of approximately 2.8% in 2020, Slovenia is expected to be exactly on this average value and significantly above more developed European economies. The main driving force of GDP growth is expected to be private consumption, underpinned by higher wages due to short labour supply and withdrawal of all restricting measures imposed during the last financial crisis in the public sector. This development is expected to continue over the next years. Slovenia, as well as the entire Addiko region, remains in a positive point in the credit cycle, with lending growth to the non-financial private sector firmly positive. However, considering the strong integration with the bloc, the loose monetary policy of the ECB and the subdued level of inflation across most of Europe will be decisive for the credit growth in Addiko Slovenia.

At the same time, developments in the European banking sector are expected to continue. On the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the markets and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. The Slovenian central bank, being the regulator of the Slovenian banking sector, imposed a binding protection mechanism as of 1 Nov 2019 that heavily restricts the minimum conditions for the approval of consumer loans, after these loans having grown by 11.7% previously. The impact of this measure on Addiko Bank remains to be evaluated in 2020 but might also have a negative influence on private consumption, further affecting the profitability. On the other hand, the pressure on market participants to innovate is increasing and with it the need to make comprehensive investments.

In view of these challenges but also these opportunities, the entire Slovenian banking sector is in the midst of a technological transformation and Addiko Bank will continue to push ahead with its own digitalisation. It has already successfully positioned itself as an innovative and targeted specialist lender in the areas of unsecured consumer loans and loans for small and medium-sized enterprises. This will enable Addiko Bank to continue to expand its growth and margins profitably in the coming year, while maintaining a balanced risk/return profile and a balance sheet financed primarily by deposits with a good equity base.

On the back of this, Addiko Bank remains with the expectation of a moderately slower growth outlook as a result of very loose monetary conditions, increased complexity of regulations and overall geopolitical uncertainties. The main risk factors influencing the Slovenian banking industry include worsened interest rate outlooks, however with non-interest income continuing to grow in 2020. Political or regulatory measures against banks as well as geopolitical and global economic uncertainties add to the downside.

Addiko Bank will continue to pursue and execute its focused strategy as a consumer and SME specialist lender and further drive digital transformation of its processes along with the value proposition of convenience and speed. The bank will also look for alternative ways of accessing customers in order to achieve the set goals and taking customer experience to a higher level.

Rigorously managed risk-return profile and self-funding principle will also remain strong anchors in the strategy. Cost of risk is expected to increase slightly along with the loan book shifting toward the focus areas of unsecured consumer and SME lending.

2020’s main goal is to further increase the market share of the Bank by focusing on small and medium-sized companies. The Bank will continue to implement the growth strategy with proactive sales and marketing activities, which will focus primarily on increasing the number of different products to existing customers and even more active marketing of the Bank's products to new customers.

The main strategy of managing relations with customers will be based on: “We have the agility, focus and professionalism to offer customers essential services, delivered in the simplest way.”
Growth of interest income and net interest margins will also be one of the Bank's key orientations for 2020. Special emphasis will be placed on increasing the share of non-interest income in total revenues, which will be achieved primarily through increased activity in the field of Trade Finance, Guarantees and Treasury products.

In 2020, Corporate deposits will also remain an important factor for managing the Bank's liquidity, which will remain a priority for the segment. Last year, the trend of decreasing interest rates continued, but achieving growth in the volume of deposits despite lower interest rates was still manageable. The corporate segment’s rate of self-financing still remains high. Funds collected in excess can be utilised to finance other segments. In 2020, diversification of the largest depositaries will be continued.

The Bank will continue successful cooperation between the Corporate and Retail segment within the “Bank@Work” project, in which the Bank offers tailor made financial solutions to the employees of the Bank's business clients at the workplace.

In 2020, alongside other development initiatives, the Bank will strive to even further upgrade the new process application for SMEs in terms of an even more diversified range of products. Now the Bank is in the process of upgrading its electronic banking to offer its clients online loan approval and enable each to monitor the approval process via digital channels.

It is important to note that the outlook and all the predictions in this report were made on 20 February 2020 and have not taken into consideration the emerging coronavirus outbreak and its spread in Slovenia.

12. Report by the President of the Supervisory Board

In 2019, Addiko Bank was able to reconfirm the success of its new business model as set out in 2016. New consumer loan volumes were once again significantly above the Bank's market share and accompanied by a strong growth in SME lending driven by a new digitally enabled end-to-end lending process for SME clients. The Bank's self-funding capability continued to remain a powerful achievement that facilitates stability and growth. The Bank's business results remain very encouraging, despite the fact that at the end of the year the whole banking sector was challenged with new macro-prudential restrictions on retail lending set by the regulator.

Regarding corporate culture and values, Addiko Bank continues to implement a clear vision of enabling straightforward banking to its customers by focusing on essentials, delivering on efficiency and communicating simplicity. Additionally, Addiko Bank's brand awareness remains strong and allows Addiko Bank to be recognised as a specialised player on the Slovenian consumer & SME lending market, especially in its consumer loans and SME focus segments. In both, the Bank continued to deploy resources to further strengthen our distinguished proposition on digitalisation and excellent customer experience.

The most visible demonstration of the Bank's strategy was, in addition to its strong digital presence, the further rollout of its Express branch concept. In 2019, three existing branches were fully refurbished, with one also being moved to a new location, and are, along with others, proof that Addiko's branches are aligned with Addiko's digital concept that provides a unique self-service banking experience to customers and for their needs for banking products and services when and how they need them.

In 2019, Addiko Bank continued to implement strict cost discipline resulting in significantly lower costs. A significant contribution to our lower cost base was delivered through a back-office optimisation programme focused on the benefits of our unique operating model, improvement of internal processes and digitalisation.

The Bank continued to believe in and implement intelligent risk management with a strong risk culture that balances risk and return and ensures that Addiko's risks were well under control and actively managed. This contributed an important building block to the Bank's business potential. Going forward, this will continue to be key to the Bank's success and profitability with a growing customer base and business volume, while also ensuring compliance with all national and international regulatory requirements and professional compliance standards.

Johannes Leopold Proksch,

President of the Supervisory Board

Activities of the Supervisory Board

In the financial year 2019, the Supervisory Board of Addiko Bank d. d. held four regular and two extraordinary meetings.

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 2019.

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.

By confirming the proposal from 18 April 2019 and in accordance with Point 7 of the Rules of Procedure of the Supervisory Board of Addiko Bank d.d., the Supervisory Board appointed Anja Božac as Member of the Management Board (CFO) of Addiko Bank d.d., with the mandate starting on 1 May 2019 and the acquisition of an authorisation by the Bank of Slovenia for a period of three years.

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 31.12.2019, 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 Act[1]. 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 7. 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 6.2. Organisation of the Bank

3) data on the activities of management and supervisory bodies and their committees in Chapter 6.2. 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 6.1. 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, 13.3.2020

Management Board of the Bank

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

Tadej Krašovec,
Member

Supervisory Board of the Bank

Johannes Leopold Proksch,
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 Johannes Proksch,

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, 13.3.2020

Management Board of the Bank

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

Supervisory Board of the Bank

Johannes Leopold Proksch,
President

13. Independent auditor's report

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085

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www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the owners 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 2019, and the income statement, statement of other comprehensive income, statement of changes in ownership equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon
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
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 2019. 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 and advances to customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Company presented loans and advances to customers in the amount of EUR 1,203 million and total expected credit loss in the amount of EUR 23 million.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
Credit risk represents one of the most important types of financial risks to which the Company 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 Company's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and advances to customers represent key considerations for Company's Management.
In determining both the timing and the amount of impairment allowances for expected credit losses on loans and advances to 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
Expected future cash flows from operations
Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.

Management has provided further information in 11.1- Financial instruments- Measurement and classification, 11.2- Financial instruments-Impairment, 34- Loans and receivables measured at amortized cost, 30- Credit loss expenses on financial assets and 51- Credit risk.
</td><td>
In order to address the risks associated with impairment allowances for expected credit losses on loans and advances to 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 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
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
Assessing quality of historical data used in determination of risk parameters
Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and advances to customers, 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:
<ol type="i">
models applied in stage allocation and transitions between stages
assumptions used by the Management in the expected credit loss measurement models
criteria used for determination of significant increase in credit risk
assumptions applied to calculate lifetime probability of default

</td></tr>
</table>

	v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information 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. Critical 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 iii. Reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Company.

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 financial statements;
- other information are prepared in compliance with applicable law or regulation; and

- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee 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 Supervisory Board and Audit Committee 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 Supervisory Board and Audit Committee, 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 4 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 March 2020 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 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.

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

Ljubljana, 13 March 2020

TRANSLATION ONLY, SLOVENE ORIG

Financial report

Statement of Management's responsibility

The Management Board has approved the financial statements for the year ended 31 December 2019, 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 2019. 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.

The most recent inspection of income tax was performed by the tax authorities in 2011 when they reviewed income tax declarations for financial years 2008, 2009 and 2010.

Ljubljana, 13. 3. 2020

Management Board of the Bank

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

CONTENTS

I. Income statement

EUR m

	Note	01.01.-31.12.2019	01.01.-31.12.2018
Interest income	(23)	47.9	46.3
Interest expenses	(23)	-6.9	-7.4
Net interest income		**41.0**	**38.9**
Dividend income		0.0	0.0
Fee and commission income	(24)	14.3	12.6
Fee and commission expenses	(24)	-3.4	-2.6
Net fee and commission income		**10.9**	**9.9**
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(25.3) (25.4)	0.9	4.9
Net gains or losses on financial assets and liabilities held for trading	(25.1) (25.2)	-1.9	-2.6
Net exchange differences	(25)	2.3	3.1
Net gains and losses on derecognition of non-financial assets		0.0	0.0
Other net operating income	(26)	2.7	-2.4
Administrative expenses	(27)(28)	-24.7	-25.3
Depreciation	(29)	-3.0	-1.3
Modification gains/losses		0.0	0.0
Provisions	(30) (43)	0.3	-1.3
Impairments	(30)	1.2	3.4
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		0.2	0.2
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**24.6**	**27.7**
Tax expense or income related to profit or loss from continuing operations	(31)	-6.2	9.5
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		**18.4**	**37.2**
PROFIT OR LOSS FOR THE FINANCIAL YEAR		**18.4**	**37.2**

The accompanying notes on pages 43 to 130 form an integral part of the financial statements and should be read in conjunction with them.

II. Statement of other comprehensive income

EUR m

	01.01.-31.12.2019	01.01.-31.12.2018
Result after tax	**18.4**	**37.2**
Other comprehensive income	**-0.6**	**-6.0**
Items that will not be reclassified to profit or loss	0.1	0.0
Actuarial gains or (-) losses on defined benefit pension plans	0.0	0.0
Fair value reserve - equity instruments	0.0	0.0
Net change in fair value	0.1	0.0
Income tax	0.0	0.0
Items that may be reclassified to profit or loss	**-0.7**	**-6.0**
Fair value reserve - debt instruments	-0.7	-7.4
Net change in fair value	0.1	-2.5
Net amount transferred to profit or loss	-0.9	-4.9
Tax on comprehensive income	0.2	-0,1
Total comprehensive income for the year	**17.8**	**31.3**
thereof attributable to equity holders of parent	17.8	31.3

The accompanying notes on pages 43 to 130 form an integral part of the financial statements and should be read in conjunction with them.

III. Statement of financial position

EUR m

	Note	31.12.2019	31.12.2018
Cash, cash balances at central banks and other demand deposits at banks	(32)	138.3	133.4
Financial assets held for trading	(33)	1.9	1.4
Non-trading financial assets mandatorily at fair value through profit or loss	(35.2)	0.3	0.3
Financial assets at fair value through other comprehensive income	(35.1)	140.5	221.7
Financial assets at amortised cost	(34)	1,311.3	1,240.2
Loans and advances to credit institutions	(34.1)	130.2	123.6
Loans and advances to customers	(34.2)	1,179.3	1,114.8
Other financial assets	(34.1)(34.2)	1.8	1.8
Tangible assets	(36)(38)	11.3	3.7
Intangible assets	(37)(38)	2.3	2.3
Tax assets	(31)	10.8	14.4
Current tax assets		0.2	0.0
Deferred tax assets		10.7	14.4
Other assets	(39)	0.5	0.8
Non-current assets and disposal groups classified as held for sale	(40)	0.0	0.1
Total assets		**1,617.3**	**1,618.1**
Financial liabilities held for trading	(41)	2.2	2.0
Financial liabilities measured at amortised cost	(42)	1,425.4	1,433.1
Deposits of credit institutions	(42.1)	11.0	10.2
Deposits of customers	(42.2)	1,223.2	1,174.2
Loans of banks and central banks	(42.4)	176.1	239.5
of which subordinated loans		15.0	15.0
Debt securities issued		0.1	1.1
Other financial liabilities	(429	15.1	8.2
Provisions	(43)	7.2	7.6
Tax liabilities	(31)	0.0	0.9
Current tax liabilities		0.0	0.9
Deferred tax liabilities		0.0	0.0
Other liabilities	(44)	0.9	0.7
Total liabilities		**1,435.7**	**1,444.3**
Capital	(45)	90.0	90.0
Share premium		18.8	18.8
Accumulated other comprehensive income		1.4	2.0
Retained earnings (including profit or loss for the financial year)		71.4	63.0
Total equity		**181.6**	**173.8**
Total liabilities and equity		**1,617.3**	**1,618.1**

The accompanying notes on pages 43 to 130 form an integral part of the financial statements and should be read in conjunction with them.

IV. Statement of changes in equity

EUR m

	Sub-scribed capital	Capital re-serves	Fair value reserve	Cumulated result and other re-serves	Total
Equity as at 01.01.2019	**90.0**	**18.8**	**2.0**	**63.0**	**173.8**
Impact of adopting IFRS 16	0.0	0.0	0.0	0.0	0.0
Equity as at 01.01.2019	**90.0**	**18.8**	**2.0**	**63.0**	**173.8**
Result after tax	0.0	0.0	0.0	18.4	18.4
Other comprehensive income	0.0	0.0	-0.6	0.0	-0.6
Total comprehensive income	0.0	0.0	-0.6	18.4	17.8
Dividends paid	0.0	0.0	0.0	-10.0	-10.0
Equity as at 31.12.2019	**90.0**	**18.8**	**1.4**	**71.4**	**181.6**

EUR m

	Sub-scribed capital	Capital re-serves	Fair value reserve	Cumulated result and other re-serves	Total
Equity as at 01.01.2018	**90.0**	**18.8**	**0.3**	**31.9**	**141.0**
Impact of adopting IFRS 9	0.0	0.0	7.6	0.9	8.5
Equity as at 01.01.2018	**90.0**	**18.8**	**7.9**	**32.7**	**149.5**
Profit or loss after tax	**0.0**	**0.0**	0.0	37.2	37.2
Other comprehensive income	0.0	0.0	-6.0	0.0	-6.0
Total comprehensive income	0.0	0.0	-6.0	37.2	31.3
Dividends paid	0.0	0.0	0.0	-7.0	-7.0
Equity as at 31.12.2018	**90.0**	**18.8**	**2.0**	**63.0**	**173.8**

The provisions of the new accounting standard for financial instruments (IFRS 16) took effect on 1 January 2010. There was no impact on equity. For more detail, see Note (2).

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The adoption reduced equity by EUR 8.5 million.

The accompanying notes on pages 43 to 130 form an integral part of the financial statements and should be read in conjunction with them.

V. Statement of cash flows

EUR m

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit or loss before tax	24.7	27.7
Depreciation	3.0	1.3
Impairments / (reversal of impairments) of loans and other financial assets measured at amortised cost	-1.2	-3.4
Impairments of tangible assets (including investment property), intangible assets and other assets	0.0	0.0
Net (gains) / losses from exchange differences	-2.3	-3.1
Net (gains) / losses from sale of tangible assets	0.0	0.0
Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	0.0	0.0
Other adjustments to total profit or loss before tax	0.0	-0.2
Cash flow from operating activities before changes in operating assets and liabilities	**24.1**	**21.6**
(Increases) / decreases in operating assets (excluding cash & cash equivalents)	**-10.6**	**-108.2**
Net (increase) / decrease in financial assets held for trading	-0.5	0.9
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income	80.5	-27.8
Net (increase) / decrease in loans and receivables measured at amortised cost	-91.0	-81.3
Net (increase) / decrease in other assets	0.3	0.0
Increases / (decreases) in operating liabilities	**-16.8**	**64.6**
Net increase / (decrease) in financial liabilities held for trading	0.2	0.9
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost	-15.7	63.8
Net increase / (decrease) in other liabilities	-0.3	0.0
Cash flow from operating activities	**-3.3**	**-22.0**
Income taxes (paid) / refunded	-3.4	-2.5
Net cash flow from operating activities	-6.7	-24.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	0.0	10.1
Receipts from the disposal of investments in debt securities measured at amortised cost	0.0	0.0
Receipts from non-current assets or related liabilities held for sale	0.0	10.0
Other receipts from investing activities	0.0	0.0
Cash payments on investing activities	**-2.0**	**-2.3**
(Cash payments to acquire tangible assets)	-0.7	-0.9
(Cash payments to acquire intangible assets)	-1.3	-1.4
Net cash flow from investing activities	**-2.0**	**7.8**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments on financing activities	-10.0	-22.0
(Dividends paid)	-10.0	-7.0
(Cash repayments of subordinated liabilities)	0.0	-15.0
Net cash flow from financing activities	**-10.0**	**-22.0**
Effects of change in exchange rates on cash and cash equivalents	0.2	0.1
Net increase in cash and cash equivalents	**-18.7**	**-38.8**
Opening balance of cash and cash equivalents	**186.9**	**225.6**
Closing balance of cash and cash equivalents	**168.3**	**186.9**

EUR m

	2019	2018
CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	6.4	-5.3
Interest received	51.6	46.0
Dividends received	0.0	0.0
TOTAL	**58.0**	**40.7**

Reclassifications regarding non-current assets classified as held for sale are considered in the respective items. The bank acquired 8.8 m rights of use that do not require the use of cash or cash equivalents. For more detail, see Note (2).

The accompanying notes on pages 43 to 130 form an integral part of the financial statements and should be read in conjunction with them.

EUR m

	Note	2019	2018
CASH AND CASH EQUIVALENTS			
Cash on hand and cash balances with the central bank		138.3	133.4
Loans to banks with maturity up to three months		30.0	53.5
TOTAL		**168.3**	**186.9**

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 (60) Maturities pursuant to IAS 1.

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.

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

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

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

On 17 March 2020, the Management Board of Addiko Bank d.d. approved the financial statements as at 31 December 2019 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 2019.

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. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.
These financial statements represent the general-purpose separate financial statements

2. 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 2019:

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

2.1. IFRS 16 Leases

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

2.1.1. Accounting policies

2.1.1.1. Leases in which Addiko Bank is a lessee

At inception of a contract entered into on or after 1 January 2019, Addiko Bank assessed whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether Addiko Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use and whether 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. Addiko Bank also assesses 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 when new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases, the lease contracts are recognised off the statement of financial position and lease expenses are accounted on a straight-line basis over the remaining lease term. Non-lease components have to be separated from lease components (Bank does not use expedient 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 IAS 17, expenses with regard to operating leases are generally recognised on a straight-line basis at the actual amount of effected payments in the operating expense. Pursuant to IFRS 16 — as has already been in effect for finance leases — expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a digressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under 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 by interest. It is remeasured to reflect any reassessment or modification or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

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

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

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

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

2.1.1.2. Leases in which Addiko Bank is a lessor

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

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

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 contracts in which the Bank is a lessor in the financial statements.

2.1.1.3. Presentation in the financial statements

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 charges 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.

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

2.1.2. Impact of application of IFRS 16 Leases

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

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

The list of practical expedients that Addiko Bank has made use of is provided in 2.1.3. Transition and transitional disclosures.

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

As at 31 December 2018, the Bank’s future minimum lease payments under non-cancellable operating leases amount to EUR 9.2 million on an undiscounted basis under IAS 17, which Addiko Bank assessed for potential recognition as additional lease liabilities under the new standard IFRS 16.

Addiko Bank has only a minor impact from the implementation of this new standard, with no effect in the opening retained earnings and a total impact on capital adequacy of -12 basis points due to an increase of the total assets in the amount of EUR 8.5 million (including prepayments) and an increase of lease liabilities in the amount of EUR 8.5 million.

Due to the strategic decision of Addiko Bank to focus on core banking business, the Bank has no leasing portfolio and therefore IFRS 16 did not have an impact on accounting for Addiko Bank as a lessor. The same provisions as under IAS 17 still apply under IFRS 16 to determine whether a lease is an operating lease or a finance lease. If a lease is an operating lease, the asset remains in the Bank’s statement of financial position and the revenue generated from the lease is reported in the income statement. If a lease is a finance lease, a lease receivable at the net investment value is recognised.

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

2.1.3. Transition and transitional disclosures

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

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

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

EUR m

	Carrying amount
Off-balance operating lease obligations (IAS 17) undiscounted as at 31 December 2018	9.2
(-) Discounting (using incremental borrowing rate as at 1 January 2019)	-0.4
Off-balance operating lease obligations (IAS 17) discounted	8.8
(+) Minimum lease payments on finance lease as at 31 December 2018	0.0
(-) Exemption for short-term leases	-0.1
(-) Exemption for leases of low-value assets	0.0
(+/-) Extension and termination options reasonably certain to be exercised	0.0
(+) Variable lease payments based on an index or a rate	0.0
(-) Residual value guarantees	0.0
(+/-) Other	-0.3
Lease liabilities recognised as a result of the initial application of IFRS 16 as at 1 January 2019	**8.5**

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

EUR m

	Carrying amount
Right of use assets unadjusted as at 1 January 2019	**8.5**
(+) Prepayments and accruals	0.0
(-) Onerous contracts (IAS 37)	0.0
Right of use assets recognised as a result of the initial application of IFRS 16 as at 1 January 2019	**8.5**

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

EUR m

	Carrying amount
Land and buildings	8.3
Property, plant and equipment	0.2
Total	8.5

The weighted average lessee´s incremental borrowing rate applied to lease liabilities on 1 January 2019 was 1.87% for land and buildings and 0.97% for property, plant and equipment.

2.2. IFRS 9 Financial instruments

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

2.3. IFRIC 23 Uncertainty over Income Tax Treatments

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

2.4. IAS 28 Investments in Associates and Joint Ventures

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

2.5. IAS 19 Employee benefits

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

2.6. Annual improvements to IFRS Standards 2015-2017 Cycle

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

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

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

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

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

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU and were therefore not adopted early by the Bank. The table also includes the expected effective dates:

Standard	Name	Description	Effective for financial year
Amendments to IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current	2020

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. The amendments to IFRS 3 will be effective for accounting periods beginning on or after 1 January 2020. This amendment will not result in any significant changes within Addiko Bank.

The amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. These amendments to IAS 1 will be effective for accounting periods beginning on or after 1 January 2022. These amendments will not result in any significant changes within the Addiko Group.

3. Standards used for comparative periods

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

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

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

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

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

Real estate leased under an operating lease is reported in the statement of financial position Tangible assets.

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

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

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

For further information on credit risk provisioning methodology, reference is made to financial assets in note (11) Financial instruments as well as to the Risk Report under note (52) 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 (11) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (64) Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (34) Loans and receivables as well as note (35) 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 (31) 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 (43).

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.
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 (2) 2.1. IFRS 16 Leases and for the comparative period to note (3) Standards used for comparative periods.

5. 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.

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

6. 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", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

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

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

7. 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.

8. 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.

9. 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.

10. 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 addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the Single Resolution Fund).

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

11. 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.

11.1. 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

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.

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.

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

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

11.2. 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.

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.
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.

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 YE 2019 ECL. The amounts shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

	Baseline case		Optimistic case	Pessimistic case
	First 12 months[1]	Remaining 2-year period[1]	3-year Period[1]	3-year Period[1]
Real GDP (YoY, %)				
Slovenia	2.8	2.6	5.2	1.3
EMU	1.2	1.3	2.5	0.5
Unemployment Rate (ILO, average %)				
Slovenia	4.0	4.1	3.2	5.4
EMU	7.5	7.4	6.5	8.3
Real-Estate (% nominal change)				
Slovenia	4.5	2.4	4.7	0.2
EMU	3.0	2.3	4.2	-1.2
CPI Inflation (average, YoY)				
Slovenia	1.7	1.8	2.5	1.0
EMU	1.0	1.5	1.8	0.9

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

Baseline Scenario is designed considering global slowdown and continuing deflationary impulses but still resilient growth in SEE economies. Despite growing fears of a recession in key economies such as Germany and the US, a great deal of negative momentum appears to have been confined to the manufacturing sector. Services and construction activity have provided important relief, while the main source of demand is proving to be robust domestic consumption. This pattern is even more pronounced in SEE countries where Addiko Group concentrates its operations. The main driver of growth remains domestic demand, reflecting a combination of labour shortage-induced wage increases, loose fiscal policy, rapid credit growth and robust investment. Real income is also being supported by inflation that remains at subdued levels. This reflects lower energy prices as well as structural factors such as negative demographic trends. In general, one can expect regional growth differential in relation to euro area economic activity to remain a medium-run feature.

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

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

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies 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 internal unit that deliver reports to senior 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.

11.3. 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.

12. 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.

13. 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.

14. 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.

15. 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. Assets leased to third parties under operating leases are reported here as well; for further details, see note (2) 2.1. IFRS 16 Leases and for the comparative period note (3) Standards used for comparative periods. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at 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 2018.

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.

16. 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".

17. 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.

18. 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.

19. 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 (40) Non-current assets and disposal groups classified as held for sale.

20. Provisions

20.1. 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.

20.2. 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”.

20.3. 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 (26) Other operating income and other operating expenses.

20.4. 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.

21. Other liabilities

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

22. 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

23. Net interest income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Interest income calculated using the effective interest method	**47.1**	**45.5**
Financial assets at fair value through other comprehensive income	1.7	2.3
Financial assets at amortised cost	44.8	41.5
Negative interest from financial liabilities	0.6	1.7
Other interest income	**0.8**	**0.8**
Financial assets held for trading	0.8	0.8
Other assets	0.0	0.0
Total interest income	**47.9**	**46.3**
Financial liabilities measured at amortised cost	-5.7	-6.3
o/w lease liabilities	-0.2	0.0
Financial liabilities held for trading	-0.7	-0.7
Negative interest from financial assets	-0.5	-0.4
Total interest expense	**-6.9**	**-7.4**
Net interest income	**41.0**	**38.9**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -5.7 million (YE18: EUR - 6.3 million) includes expenses of EUR -5.1 million (YE18: EUR -4.2 million) related to customer deposits.

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives - Trading	**0.8**	**0.8**
Debt securities	**1.7**	**3.0**
Governments	1.4	2.0
Credit institutions	0.1	0.8
Non-financial corporations	0.2	0.2
Loans and advances	**44.8**	**40.8**
Central banks	0.6	0.0
Governments	0.9	0.9
Credit institutions	0.0	0.0
Other financial corporations	0.3	0.4
Non-financial corporations	10.2	9.0
Households	32.8	30.4
Other assets	**0.0**	**0. 0**
Negative interest from financial liabilities	**0.6**	**1.7**
Central banks	0.6	1.7
Total	**47.9**	**46.3**

Interest expenses break down by instrument and sector as follows:

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives - Trading	**-0.7**	**-0.7**
Deposits	**-5.0**	**-6.3**
Central banks	0.0	0.0
Governments	-0.2	-0.3
Credit institutions	-1.7	-2.6
Other financial corporations	-0.3	-0.3
Non-financial corporations	-0.6	-0.6
Households	-2.2	-2.5
Issued bonds, subordinated and supplementary capital	**0.0**	**0,0**
Negative interest from financial assets	**-0.5**	**-0.4**
Debt securities	**-0.1**	**0.0**
Central banks	-0.1	0,0
Loans and advances	**-0.4**	**0.0**
Central banks	-0.4	0.0
Credit institutions	0.0	0.0
Other assets	**-0.2**	**0.0**
Total	**-6.9**	**-7.4**

24. Net fee and commission income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Transactions	3.7	3.0
Accounts and Packages	3.2	3.4
Cards	2.6	2.3
FX & DCC	0.1	0.1
Bancassurance	1.1	0.6
Loans	1.6	1.3
Trade finance	1.6	1.3
Other	0.5	0.5
Fee and commission income	**14.3**	**12.6**
Cards	-1.3	-1.2
Transactions	-1.3	-1.3
Accounts and Packages	-0.5	0.0
Bancassurance	0.0	0.0
Other	-0.3	-0.2
Fee and commission expenses	**-3.4**	**-2.6**
Net fee and commission income	**10.9**	**9.9**

25. Net result on financial instruments

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Held for trading financial instruments	0.4	0.5
o/w exchange difference	2.3	3.1
o/w gain or losses on financial instruments	-1.9	-2.6
Financial assets at fair value through other comprehensive income	0.9	4.9
Total	**1.4**	**5.4**

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Derivatives	-1.9	-2.6
Total	**-1.9**	**-2.6**

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Interest rate instruments and related derivatives	0.0	0.1
Foreign exchange trading and derivatives related to foreign exchange and gold	-1.9	-2.7
Total	**-1.9**	**-2.6**

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Gains or losses on financial assets and liabilities, measured at fair value through other comprehensive income	0.9	4.9
Total	**0.9**	**4.9**

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Debt securities	0.9	4.9
Total	**0.9**	**4.9**

In 2019, the gains on financial assets measured at FVOCI amounted to EUR 0.9 million; in 2018, the bank sold the RS70 bond and realised 4.8 million profit from total 4.9 million gain.

26. Other operating income and other operating expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Other operating income	**1.2**	**1.2**
Other income	1.2	1.2
Other operating expenses	**-3.9**	**-3.6**
Restructuring expenses	-0.2	0.0
Direct expenses arising from legal cases which were not covered by provisions	-0.3	-0.2
Recovery and resolution fund	-0.6	0.0
Deposit guarantee	-0.6	-0.4
Banking levies and other taxes	-2.0	-1.8
Other expenses	-0.2	-0.5
Total	**-2.7**	**-2.4**

The line item “Direct expenses arising from legal cases which were not covered by provisions” in the amount of EUR 0.3 million (YE18: EUR 0.2 million) includes expenses for passive legal cases in connection with loans granted in the previous years to households denominated in foreign currencies.

The line item “Restructuring expenses” in the amount of EUR 0.2 million (YE18: EUR 0.0 million) includes an ongoing restructuring plan as well as restructuring costs due to outsourcing activities.

In line item "Banking levies and other taxes", the most important part of expenses represents the paid tax on financial services of EUR 1.8 million (Year 2018: EUR 1.4 million). 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).

27. Personnel expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Wages and salaries	-13.2	-12.5
Social security	-1.8	-1.8
Variable payments	-0.6	-1.6
Expenses for retirement benefits	-0.3	-0.3
Total	**-15.8**	**-16.2**

28. Other administrative expenses

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
IT expense	-3.2	-2.7
Premises expenses (rent and other building expenses)	-1.2	-2.0
Legal and advisory costs	-0.3	-0.6
Advertising costs	-1.3	-1.3
Other administrative expenses	-1.5	-2.6
Total	**-7.6**	**-9.2**

29. Depreciation and amortisation

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Property, plant and equipment	-1.8	-0.5
Intangible assets	-1.2	-0.9
Total	**-3.0**	**-1.3**

30. Credit loss expenses on financial assets

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

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Change in CL on financial instruments at FVTOCI	0.0	**0.0**
Change in CL on financial instruments at amortised cost	1.2	**3.4**
Net allocation to risk provision	-0.7	1.8
Proceeds from loans and receivables previously impaired	2.0	1.7
Directly recognised impairment losses	-0.1	0.0
Net allocation of provisions for commitments and guarantees given	0.8	**-1.1**
Total	**2.0**	**2.4**

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

31. Taxes on income

EUR m

	01.01. - 31.12.2019	01.01. - 31.12.2018
Current tax	-2.3	-4.0
Deferred tax	-3.9	13.5
Total	**-6.2**	**9.5**

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

EUR m

	31.12.2019	31.12.2018
Operating result before tax	24.7	27.7
Theoretical income tax expense based on Slovenian corporate tax rate of 19%	4.7	5.3
Tax effects	-2.4	-2.6
from divergent foreign tax rates	0.0	0.0
from previous year	0.0	0.0
from foreign income and other tax-exempt income	0.0	0.0
from investment related tax relief and other reducing the tax burden	-2.5	-2.8
from non-tax deductible expenses	0.1	0.4
from other tax effects	0.0	-0.1
Actual income tax (effective tax rate: 9.4% (2018: 9.6%))	2.3	2.6

In 2019, the income tax was EUR 2.3 million (2018: EUR 2.6 million). In 2019, the Bank derecognised deferred tax assets in the amount of EUR -3.9 million. In 2018, the Bank established EUR 13.5 million in deferred tax assets; namely, from fixed assets EUR -0.2 million and from provisions and impairment of securities EUR -3.7 million in transferred tax losses.

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 2019, when calculating corporate income tax, the Bank took into account EUR 15.0 million (2017: EUR 10.8 million) 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 2019 stood at 9.42% (2018: 9.42%).

31.1. Deferred tax assets/liabilities

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

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

EUR m

	2019			2018		
	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)
Provisions for loans and advances	0.0	0.0	0.0	0.0	0.0	-1.7
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.0	0.0	0.0	0.0	0.0	0.0
Impairment on equity instruments at FVTOCI	0.0	0.0	0.0	0.0	0.0	1.2
Impairment on debt instruments at FVTOCI	-0.1	0.2	-0.3	0,0	0.2	0,0
Deferred revenue fee income	0.1	0.1	0.0	0.0	0.1	0.0
Other	10.7	10.7	0.0	14.4	14.5	0.0
Total deferred Tax	**10.7**	**11.0**	**-0.3**	**14.4**	**14.9**	**-0.5**

The total YoY change in deferred taxes in the financial statements is EUR -3.7 million. Of this, EUR -3.9 million is reflected in the current income statement as deferred tax expense, and an amount of EUR 0.2 million is shown in other comprehensive income in equity.

In Year 2019, the bank recognised EUR 1.3 million in deferred taxes from the loss formed in the previous years.

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

EUR m

	2019	2018
Balance at start of period (01.01.)	**14.4**	**2.6**
Impact of adopting IFRS 9	**0.0**	**-1.7**
Tax income/expense recognised in profit or loss	-3.9	12.2
Tax income/expense recognised in OCI	0.2	1.4
Balance at end of period (31.12.)	**10.7**	**14.4**

EUR m

	2019	2018
Deferred tax assets	10.7	15.0
Deferred tax liabilities	0.0	-0.5
Total	**10.7**	**14.4**

As at 31 December 2019, the Bank had EUR 187.7 million of unused tax losses from previous years (EUR 200.5 million as at 31 December 2018); for 112.1 million in unused tax losses, the Bank has already recognised the deferred tax assets.

Notes to the consolidated statement of financial position

32. Cash reserves

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	10.4	0.0	10.4
Cash balances at central banks	112.6	0.0	112.6
Other demand deposits	15.4	0.0	15.4
Total	**138.3**	**0.0**	**138.3**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	10.2	0.0	10.2
Cash balances at central banks	112.3	0.0	112.3
Other demand deposits	10.8	0.0	10.8
Total	**133.4**	**0.0**	**133.4**

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 10.5 million (YE18: EUR 9.5 million). The Bank has the amount of 2.5 million deposited in the Margin account as collateral for trading with derivatives.

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

EUR m

	Stage 1
Gross carrying amount at 01.01.2019	**133.4**
Changes in the gross carrying amount	4.9
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	0.0
Gross carrying amount at 31.12.2019	**138.3**

EUR m

	Stage 1
Gross carrying amount at 01.01.2018	**145.7**
Changes in the gross carrying amount	-12.3
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	0.0
Gross carrying amount at 31.12.2018	**133.4**

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

EUR m

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

EUR m

	Stage 1
ECL allowance as at 01.01.2018	**-0.1**
Changes in the loss allowance	0.1
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 31.12.2018	**0.0**

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

33. Financial assets held for trading

EUR m

	31.12.2019	31.12.2018
Derivatives	**1.9**	**1.4**
Total	**1.9**	**1.4**

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

34. Loans and receivables

Addiko Bank measures all loans and receivables at amortised cost.

EUR m

31.12.2019	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount (net)
Credit institutions	131.7	-0.2	0.0	0.0	0.0	131.4
Households	636.6	-1.7	-5.2	-8.4	0.0	621.3
Non-financial corporations	513.3	-2.7	-0.5	-4.5	0.0	505.7
Governments	37.9	-0.1	0.0	0.0	0.0	37.8
Other financial corporations	15.4	-0.1	0.0	-0.3	0.0	15.1
Total	**1,335.0**	**-4.8**	**-5.6**	**-13.2**	**0.0**	**1,311.3**

EUR m

31.12.2018	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount (net)
Credit institutions	125.0	-0.4	0.0	0.0	0.0	124.6
Households	629.6	-1.9	-3.9	-10.1	0.0	613.7
Non-financial corporations	451.1	-1.9	-0.5	-9.6	0.0	439.1
Governments	45.3	-0.1	0.0	0.0	0.0	45.2
Other financial corporations	17.9	-0.1	0.0	-0.2	0.0	17.5
Total	**1,268.9**	**-4.4**	**-4.4**	**-19.9**	**0.0**	**1,240.1**

34.1. Loans and advances to Credit institutions

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	131.7	-0.2	131.4
Credit institutions	131.7	-0.2	131.4
Total	**131.7**	**-0.2**	**131.4**

EUR m

31.12.2018	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	125.0	-0.4	124.6
Credit institutions	125.0	-0.4	124.6
Total	**125.0**	**-0.4**	**124.6**

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**125.0**	**0.0**	**0.0**	**0.0**	**125.0**
Changes in the gross carrying amount	6.7	0.0	0.0	0.0	**6.7**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2019	**131.7**	**0.0**	**0.0**	**0.0**	**131.7**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**121.2**	**0.0**	**0.0**	**0.0**	**121.2**
Changes in the gross carrying amount	3.8	0.0	0.0	0.0	**3.8**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2018	**125.0**	**0.0**	**0.0**	**0.0**	**125.0**

Loans and advances to credit institutions - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.4**	**0.0**	**0.0**	**0.0**	**-0.4**
Changes in the loss allowance	0.1	0.0	0.0	0.0	0.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.2**	**0.0**	**0.0**	**0.0**	**-0.2**

EUR m

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

34.2. Loans and advances to customers

EUR m

31.12.2019	Gross carrying amount	ECL			POCI	Carrying amount (net)
		Stage 1	**Stage 2**	**Stage 3**		
Households	636.6	-1.7	-5.2	-8.4	0.0	621.3
Non-financial corporations	513.3	-2.7	-0.5	-4.5	0.0	505.7
Governments	37.9	-0.1	0.0	0.0	0.0	37.8
Other financial corporations	15.4	-0.1	0.0	-0.3	0.0	15.1
Total	**1,203.3**	**-4.6**	**-5.6**	**-13.2**	**0.0**	**1,179.9**

EUR m

31.12.2018	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount (net)
Households	629.6	-1.9	-3.9	-10.1	0.0	613.7
Non-financial corporations	451.1	-1.9	-0.5	-9.6	0.0	439.1
Governments	45.3	-0.1	0.0	0.0	0.0	45.2
Other financial corporations	17.9	-0.1	0.0	-0.2	0.0	17.5
Total	**1,143.9**	**-4.0**	**-4.4**	**-19.9**	**0.0**	**1,115.5**

The total value of pledged loans for long-term financing operations amounted to 44.6 EUR millions at the end of the year (in 2018: 41.7 million).

34.2.1. Loans and advances to Households

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**557.2**	**58.9**	**13.5**	**0.0**	**629.6**
Changes in the gross carrying amount	21.6	-7.9	-1.5	0.0	**12.2**
Transfer between stages	-17.1	12.7	4.4	0.0	**0.0**
Write-offs	0.0	0.0	-3.7	0.0	**-3.7**
Foreign exchange and other movements	0.0	0.0	-1.5	0.0	**-1.5**
Gross carrying amount at 31.12.2019	**561.6**	**63.8**	**11.3**	**0.0**	**636.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**591.0**	**18.7**	**14.1**	**0.0**	**623.8**
Changes in the gross carrying amount	14.4	-4.5	-0.2	0.0	**9.7**
Transfer between stages	-48.2	44.7	3.5	0.0	**0.0**
Write-offs	0.0	0.0	-2.3	0.0	**-2.3**
Foreign exchange and other movements	0.0	0.0	-1.6	0.0	-1.6
Gross carrying amount at 31.12.2018	**557.2**	**58.9**	**13.5**	**0.0**	**629.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.9**	**-3.9**	**-10.1**	**0.0**	**-15.9**
Changes in the loss allowance	5.3	-5.6	-4.1	0.0	-3.9
Transfer between stages	-5.1	4.3	0.8	0.0	0.0
Write-offs	0.0	0.0	3.7	0.0	3.7
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	1.2	0.0	1.2
ECL allowance as at 31.12.2019	**-1.7**	**-5.2**	**-8.4**	**0.0**	**-14.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-1.6**	**-3.6**	**-10.5**	**0.0**	**-15.7**
Changes in the loss allowance	4.3	-6.2	-2.0	0.0	-4.0
Transfer between stages	-4.6	5.9	-1.3	0.0	0.0
Write-offs	0.0	0.0	2.3	0.0	2.3
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	1.5	0.0	1.5
ECL allowance as at 31.12.2018	**-1.9**	**-3.9**	**-10.1**	**0.0**	**-15.9**

Although overall gross carrying amount of loans increased in the amount of 7.0 million in 2019, overall loss allowance for households decreased, mainly driven by write offs of exposures in stage 3 (lifetime ECL impaired) and related loss allowances as a result of debt sale and debt settlement activities. Additionally, there were significant migrations from stage 1 (12-month ECL) L) to stage 2 (lifetime ECL) in 2019.

34.2.2. Loans and advances to Non-financial corporations

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**434.5**	**4.6**	**12.0**	**0.0**	**451.1**
Changes in the gross carrying amount	78.9	-9.2	-5.8	0.0	**63.9**
Transfer between stages	-12.5	9.9	2.7	0.0	**0.0**
Write-offs	0.0	0.0	-1.7	0.0	**-1.7**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2019	**500.9**	**5.3**	**7.2**	**0.0**	**513.3**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**341.0**	**9.4**	**35.0**	**0.0**	**385.5**
Changes in the gross carrying amount	72.7	-5.1	-7.0	0.0	**60.7**
Transfer between stages	-3.9	0.2	3.7	0.0	**0.0**
Write-offs	26.7	0.0	-1.1	0.0	**25.6**
Foreign exchange and other movements	-1.9	0.0	-18.7	0.0	**-20.7**
Gross carrying amount at 31.12.2018	**434.5**	**4.6**	**12.0**	**0.0**	**451.1**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.9**	**-0.5**	**-9.6**	**0.0**	**-12.0**
Changes in the loss allowance	-0.8	0.1	3.4	0.0	**2.6**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	1.7	0.0	**1.7**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2019	**-2.7**	**-0.5**	**-4.5**	**0.0**	**-7.7**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-1.2**	**-0.6**	**-24.9**	**0.0**	**-26.8**
Changes in the loss allowance	-0.7	-0.1	5.6	0.0	**4.9**
Transfer between stages	-0.1	0.2	-0.2	0.0	**0.0**
Write-offs	0.0	0.0	1.1	0.0	**1.1**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	8.9	0.0	**8.9**
ECL allowance as at 31.12.2018	**-1.9**	**-0.5**	**-9.6**	**0.0**	**-12.0**

34.2.3. Loans and advances to General governments

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**45.3**	**0.0**	**0.0**	**0.0**	**45.3**
Changes in the gross carrying amount	-7.4	0.0	0.0	0.0	**-7.4**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2019	**37.9**	**0.0**	**0.0**	**0.0**	**37.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**51.9**	**0.0**	**0.0**	**0.0**	**51.9**
Changes in the gross carrying amount	-6.6	0.0	0.0	0.0	**-6.6**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2018	**45.3**	**0.0**	**0.0**	**0.0**	**45.3**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**
Changes in the loss allowance	0.0	0.0	0.0	0.0	**0.0**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2019	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**

EUR m

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

34.2.4. Loans and advances to other financial corporations

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**17.6**	**0.0**	**0.2**	**0.0**	**17.9**
Changes in the gross carrying amount	-2.5	0.0	0.0	0.0	**-2.5**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2019	**15.2**	**0.0**	**0.3**	0.0	**15.4**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**19.1**	**0.0**	**0.3**	**0.0**	**19.3**
Changes in the gross carrying amount	-3.1	0.0	-0.3	0.0	**-3.4**
Transfer between stages	-0.3	0.0	0.2	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	1.9	0.0	0.0	0.0	**1.9**
Gross carrying amount at 31.12.2018	**17.6**	**0.0**	**0.2**	**0.0**	**17.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.1**	**0.0**	**-0.2**	**0.0**	**-0.3**
Changes in the loss allowance	0.0	0.0	0.0	0.0	**0.0**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2019	**-0.1**	**0.0**	**-0.3**	**0.0**	**-0.4**

EUR m

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

35. Investment securities

EUR m

	31.12.2019	31.12.2018
Fair value through other comprehensive income (FVTOCI)	140.5	221.7
Mandatorily at fair value through profit or loss (FVTPL)	0.3	0.3
Total	**140.8**	**222.0**

35.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	31.12.2019	31.12.2018
Debt securities	**127.3**	**208.5**
Governments	99.9	166.9
Credit institutions	17.1	24.4
Other financial corporations	0.0	8.4
Non-financial corporations	10.3	8.7
Equity instruments	**13.2**	**13.1**
Governments	0.0	0.0
Other financial corporations	13.2	13.1
Non-financial corporations	0.0	0.0
Total	**140.5**	**221.7**

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

EUR m

	31.12.2019	31.12.2018
Slovenian Bank Resolution Fund	13.2	13.1
Total	**13.2**	**13.1**

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 74.7 million at the end of the year (in 2018: EUR 1579.2 million).

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**208.6**	**0.0**	**0.0**	**0.0**	**208.6**
Changes in the gross carrying amount	-81.3	0.0	0.0	0.0	**-81.3**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2019	**127.3**	**0.0**	**0.0**	**0.0**	**127.3**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2018	**191.2**	**0.0**	**0.0**	**0.0**	**191.2**
Changes in the gross carrying amount	17.4	0.0	0.0	0.0	**17.4**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount at 31.12.2018	**208.6**	**0.0**	**0.0**	**0.0**	**208.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**
Changes in the loss allowance	0.0	0.0	0.0	0.0	**0.0**
Transfer between stages	0.0	0.0	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2019	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

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

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

EUR m

	31.12.2019	31.12.2018
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**0.3**	**0.3**

36. Tangible assets

EUR m

	31.12.2019	31.12.2018
Owned property, plant and equipment	**3.8**	**3.7**
Land and buildings	2.4	2.4
Plant and equipment	1.4	1.3
Right of use assets	**7.5**	**-**
Land and buildings	7.3	-
Plant and equipment	0.2	-
Total	**11.3**	**3.7**

As at 31 December 2019, the Bank had no property, plant or equipment pledged as collateral.

37. Intangible assets

EUR m

	31.12.2019	31.12.2018
Purchased software	2.3	2.3
Total	**2.3**	**2.3**

As at 31 December 2019, the Bank had no intangible fixed assets pledged as collateral.

38. Development of tangible and intangible assets

38.1. Development of cost and carrying amounts

EUR m

31.12.2019	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment
Acquisition cost 01.01.2019	**4.3**	**8.7**	**0.0**	**0.0**
Initial IFRS 16	0.0	0.0	8.3	0.1
Additions	0.2	0.5	0.1	0.2
Disposals	0.0	-0.4	0.0	-0.1
Other changes	0.0	0.0	0.0	0.0
Acquisition cost 31.12.2019	4.5	8.7	8.4	0.3
Cumulative depreciation 31.12.2019	-2.1	-7.3	-1.2	-0.1
Carrying amount 31.12.2019	**2.4**	**1.4**	**7.3**	**0.2**

EUR m

31.12.2018	Land and buildings	Plant and equipment - internally used	Intangible assets
Acquisition cost 01.01.2018	3.8	9.0	11.9
Additions	0.4	0.5	1.4
Disposals	0.0	-0.8	-0.1
Other changes	0.0	0.0	0.0
Acquisition cost 31.12.2018	4.3	8.7	13.2
Cumulative depreciation 31.12.2018	-1.9	-7.5	-10.9
Carrying amount 31.12.2018	2.4	1.2	2.3

38.2. Development of depreciation and amortisation

EUR m

31.12.2019	Owned property, plant and equipment		Right of use assets	
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment
Cumulative depreciation 01.01.2019	-1.9	-7.5	0.0	0.0
Disposals	0.0	0.4	0.0	0.0
Scheduled depreciation	-0.2	-0.3	-1.2	-0.1
Impairment	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0
Write-ups	0.0	0.0	0.0	0.0
Cumulative depreciation 31.12.2019	-2.1	-7.3	-1.2	-0.1

EUR m

31.12.2018	Land and buildings	Plant and equipment - internally used	Intangible assets
Cumulative depreciation 01.01.2018	**-1.6**	**-8.0**	**-10.1**
Disposals	0.0	0.8	0.0
Scheduled depreciation	-0.2	-0.3	-0.9
Impairment	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Write-ups	0.0	0.0	0.0
Cumulative depreciation 31.12.2018	**-1.9**	**-7.5**	**-10.9**

39. Other assets

EUR m

	31.12.2019	31.12.2018
Prepayments and accrued income	0.5	0.7
Inventories (repossessed assets, emergency acquired assets. leases to go, etc.)	0.0	0.0
Other remaining assets	0.0	0.1
Total	**0.5**	**0.8**

40. 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 m

	31.12.2019	31.12.2018
Loans and receivables	0.0	0.1
Total	**0.0**	**0.1**

41. Financial liabilities held for trading

EUR m

	31.12.2019	31.12.2018
Derivatives	2.2	2.0
Total	**2.2**	**2.0**

The contractual values of derivative financial instruments are presented in Note 64.

42. Financial liabilities measured at amortised cost

EUR m

	31.12.2019	31.12.2018
Deposits	**1,410.2**	**1,423.8**
Deposits of credit institutions	172.0	234.6
Deposits of customers	1,223.2	1,174.2
Subordinated loan	15.0	15.0
Issued bonds, subordinated and supplementary capital	**0.1**	**1.1**
Debt securities issued	0.1	1.1
Other financial liabilities	**15.1**	**8.2**
o/w lease liabilities	7.8	-
Total	**1,425.4**	**1,433.1**

42.1. Deposits of credit institutions

EUR m

	31.12.2019	31.12.2018
Current accounts / overnight deposits	1.0	4.9
Deposits with agreed terms	171.1	229.7
Total	**172.0**	**234.6**

42.2. Deposits of customers

EUR m

	31.12.2019	31.12.2018
Current accounts / overnight deposits	**530.1**	**363.8**
Governments	106.5	0.4
Other financial corporations	5.3	6.9
Non-financial corporations	192.0	156.4
Households	226.3	200.1
Deposits with agreed terms	**656.1**	**754.9**
Governments	3.3	113.1
Other financial corporations	120.5	81.9
Non-financial corporations	292.6	315.0
Households	239.7	244.9
Deposits redeemable at notice	**37.0**	**55.5**
Governments	0.0	4.1
Other financial corporations	10.8	18.6
Non-financial corporations	26.2	32.8
Households	0.0	0.0
Total	**1,223.2**	**1,174.2**

42.3. Debt securities issued

EUR m

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

42.4. Subordinated loans

EUR m

	31.12.2019	31.12.2018
Subordinated loans	15.0	15.0
Total	**15.0**	**15.0**

The Bank discloses subordinated liabilities in the amount of EUR 15 million. Subordinated liabilities take the form of a borrowed loan from the parent company in the amount of 15 million 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.

43. Provisions

EUR m

	31.12.2019	31.12.2018
Pending legal disputes and tax litigation	-0.1	0.0
Commitments and guarantees granted	-5.8	-6.6
Other long term employee benefits	-0.6	-0.4
Pensions and other post employment defined benefit obligations	-0.5	-0.5
Restructuring measures	-0.2	-0.2
Total	**-7.2**	**-7.6**

The line item "provision for variable payments" 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 (20.3) Provisions for restructuring.

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

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2019	**293.3**	**6.8**	**9.9**	**0.0**	**310.0**
Changes in the nominal value	-2.1	-1.4	-0.2	0.0	-3.6
Transfer between stages	1.9	-1.5	-0.3	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
Gross carrying amount at 31.12.2019	**293.1**	**3.8**	**9.4**	**0.0**	**306.4**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2018	**259.6**	**6.3**	**10.7**	**0.0**	**276.5**
Changes in the nominal value	46.0	-1.3	-1.2	0.0	**43.5**
Transfer between stages	-2.2	1.8	0.4	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
Nominal value at 31.12.2018	**303.3**	**6.8**	**9.9**	**0.0**	**320.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.7**	**-0.6**	**-5.3**	0.0	**-6.6**
Changes in the loss allowance	0.6	-0.1	0.2	0.0	**0.8**
Transfer between stages	-0.6	0.5	0.1	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2019	**-0.7**	**-0.2**	**-4.9**	**0.0**	**-5.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018	**-0.4**	**-0.6**	**-4.5**	**0.0**	**-5.5**
Changes in the loss allowance	-0.2	-0.1	-0.7	0.0	**-1.1**
Transfer between stages	-0.1	0.1	0.0	0.0	**0.0**
Write-offs	0.0	0.0	0.0	0.0	**0.0**
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	**0.0**
Changes in models/risk parameters	0.0	0.0	0.0	0.0	**0.0**
Foreign exchange and other movements	0.0	0.0	0.0	0.0	**0.0**
ECL allowance as at 31.12.2018	**-0.7**	**-0.6**	**-5.3**	**0.0**	**-6.6**

43.2. Provisions - development of other provisions

EUR m

	Carrying amount 01.01.2019	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2019
Pensions and other post employment defined benefit obligations	0.5	0.0	0.0	0.0	0.0	0.5
Other long term employee benefits	0.1	0.0	0.0	0.0	0.0	0.1
Restructuring measures	0.2	0.4	-0.3	0.0	0.0	0.2
Pending legal disputes and tax litigation	0.0	0.1	0.0	0.0	0.0	0.1
Provision for variable payments	0.2	0.3	-0.1	0.0	0.0	0.5
Other provisions	0.0	0.0	0.0	0.0	0.0	0.0
Total	1.1	0.8	-0.4	0.0	0.0	1.4

EUR m

	Carrying amount 01.01.2018	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2018
Pensions and other post employment defined benefit obligations	0.5	0.1	0.0	0.0	0.0	0.5
Other long term employee benefits	0.1	0.0	0.0	0.0	0.0	0.1
Restructuring measures	0.2	0.2	-0.2	0.0	0.0	0.2
Pending legal disputes and tax litigation	0.4	0.1	-0.5	0.0	0.0	0.0
Provision for variable payments	0.1	0.2	0.0	0.0	0.0	0.2
Total	**1.3**	**0.6**	**-0.7**	**0.0**	**0.0**	**1.1**

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

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

EUR m

	2019	2018
Present value of the defined benefit obligations as of 01.01	**0.5**	0.4
+ Current service cost	0.1	0.0
+ Contributions paid to the plan	0.0	0.0
+/- Actuarial gains/losses	0.0	0.0
+/- Actuarial gains/losses arising from changes in demographic assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes in financial assumptions	0.0	0.0
+/- Actuarial gains/losses arising from changes from experience assumptions	0.0	0.0
- Payments from the plan	0.0	0.0
+ Past service cost	-0.1	0.0
+/- through business combinations and disposals	0.0	0.0
+/- Other changes	0.0	0.0
Present value of the defined benefit obligations as of 31.12	**0.5**	**0.5**

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.

44. Other liabilities

EUR m

	31.12.2019	31.12.2018
Deferred income	0.4	0.3
Accruals and other liabilities	0.5	0.4
Total	**0.9**	**0.7**

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

45. Equity

EUR m

	31.12.2019	31.12.2018
Equity holders of parent	**181.6**	**173.8**
Subscribed capital	90.0	90.0
Capital reserves	18.8	18.8
Fair value reserve	1.4	2.0
Cumulated result and other reserves	71.4	63.0
Total	**181.6**	**173.8**

The subscribed capital is based on the financial statements as at 31 December 2019. The total amount of EUR 181.6 million (2018: EUR 173.8 million) 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 18.8 million (2018: 18.8 million).

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 2019, the revaluation surplus amounted to EUR 1.4 million (2018: EUR 2 million).

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 52.9 million at the end of the year (2018: EUR 25.7 million).

In 2019, the Bank recognised profit in the amount of EUR 18.4 million (2018: EUR 37.2 million).

46. 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

47. 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.

48. 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.

49. 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).

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 2019, 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.

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.

50. 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.

51. Credit risk

51.1. 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.

51.2. 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.

51.3. 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.

51.4. 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.

51.5. 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 2019

EUR m

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1)]	127.9	0.0	127.9	0.0	0.0	0.0	127.9	127.9
Financial assets held for trading[2)]	1.9	0.0	1.9	0.0	0.0	0.0	1.9	1.9
Loans and advances to customers	1,316.3	-10.5	1,305.8	18.7	-13.2	5.5	1,335.0	1,311.3
of which credit institutions	131.7	-0.2	131.4	0.0	0.0	0.0	131.7	131.4
of which customer loans	1,184.6	-10.2	1,174.4	18.7	-13.2	5.5	1,203.3	1,179.9
Investment securities[3)]	140.5	0.0	140.5	0.0	0.0	0.0	140.5	140.5
Other Assets - IFRS 5[4)]	0.0	0.0	0.0	0.2	0.0	0.2	0.2	0.2
On balance total	**1,586.5**	**-10.5**	**1,576.0**	**18.9**	**-13.2**	**5.8**	**1,605.5**	**1,581.7**
Off balance	297.0	-0.9	296.1	9.4	-4.9	4.5	306.4	300.6
Total credit risk exposure	**1,883.5**	**-11.4**	**1,872.0**	**28.4**	**-18.1**	**10.3**	**1,911.9**	**1,882.4**

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.

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

EUR m

31.12.2018	Performing			Non Performing			Total	
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves[1)]	123.2	0.0	123.1	0.0	0.0	0.0	123.2	123.1
Financial assets held for trading[2)]	1.4	0.0	1.4	0.0	0.0	0.0	1.4	1.4
Loans and advances to customers	1,243.1	-8.8	1,234.4	25.8	-19.9	5.8	1,268.9	1,240.2
of which credit institutions	125.0	-0.4	124.7	0.0	0.0	0.0	125.0	124.7
of which customer loans	1,118.1	-8.4	1,109.7	25.8	-19.9	5.8	1,143.9	1,115.5
Investment securities[3)]	221.7	-0.1	221.6	0.0	0.0	0.0	221.7	221.6
Other Assets - IFRS 5[4)]	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
On balance total	**1,589.3**	**-8.9**	**1,580.5**	**25.8**	**-19.9**	**5.9**	**1,615.2**	**1,586.4**
Off balance	310.1	-1.3	308.8	9.9	-5.3	4.6	320.0	313.5
Total credit risk exposure	**1,899.4**	**-10.2**	**1,889.3**	**35.7**	**-25.2**	**10.6**	**1,935.2**	**1,899.8**

1) The position does not include cash on hand in amount of EUR 10.2 million. 2) The position consists of on-balance exposure on derivatives - it is excluded from every other table in this report, unless specifically stated otherwise. 3) Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia. 4) The position includes only loans and receivables.

51.6. Credit risk exposure by rating class

At 31 December 2019, roughly 31.2% (YE18: 38.8%) 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 2019 has mainly been influenced by a regular debt sale process on the Consumer segment, reduction resulting from a sale of credit lines of one larger Group of borrowers, internal write offs according to Slovenian legislation and collection effects. Taking all these effects into consideration, the overall non-performing exposure decreased during 2019 by EUR 7.3 million.

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

EUR m

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	33.8	273.8	53.6	41.2	7.1	0.0	409.4
SME	70.9	295.8	95.5	8.0	12.1	0.0	482.2
Non-Focus	233.6	307.2	62.6	3.9	9.2	0.0	616.4
o/w Large Corporate	31.9	214.6	53.7	0.1	4.5	0.0	304.8
o/w Mortgage	160.7	67.4	8.1	3.9	4.6	0.0	244.7
o/w Public Finance	41.0	25.1	0.8	0.0	0.0	0.0	67.0
Corporate Center[1)]	257.0	144.9	0.0	0.0	0.0	0.0	401.9
Total	**595.3**	**1,021.6**	**211.6**	**53.2**	**28.4**	**0.0**	**1,910.0**

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

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPL	No rating	Total
Consumer	34.3	255.7	45.2	31.0	7.9	0.0	374.1
SME	56.8	247.1	104.4	10.7	13.8	0.0	432.8
Non-Focus	323.9	243.6	60.2	5.1	14.1	0.0	646.9
o/w Large Corporates	69.5	162.1	50.4	0.0	7.9	0.0	289.9
o/w Mortgage	202.2	54.0	7.2	5.1	6.2	0.0	274.7
o/w Public Finance	52.1	27.5	2.6	0.0	0.0	0.0	82.3
Corporate Center[1)]	335.8	144.3	0.0	0.0	0.0	0.0	480.01
Total	**750.7**	**890.8**	**209.7**	**46.8**	**35.7**	**0.0**	**1,933.8**

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 m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	265.9	14.9	0.0	0.0	280.8
2A-2E	671.3	6.5	0.0	0.0	677.8
3A-3E	170.6	6.6	0.0	0.0	177.2
Watch	7.9	41.0	0.0	0.0	48.8
NPE	0.0	0.0	18.7	0.0	18.7
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**1,115.6**	**69.0**	**18.7**	**0.0**	**1,203.3**
Loss allowance	-4.6	-5.7	-13.2	0.0	-23.4
Carrying amount	**1,111.0**	**63.4**	**5.5**	**0.0**	**1,179.9**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	331.6	21.9	0.0	0.0	353.5
2A-2E	546.6	6.4	0.0	0.0	553.0
3A-3E	166.3	4.7	0.0	0.0	171.0
Watch	10.1	30.5	0.0	0.0	40.6
NPE	0.0	0.0	25.8	0.0	25.8
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**1,054.6**	**63.5**	**25.8**	**0.0**	**1,143.9**
Loss allowance	-4.0	-4.4	-19.9	0.0	-28.3
Carrying amount	**1,050.6**	**59.1**	**5.8**	**0.0**	**1,115.5**

Loans and advances to banks at amortised cost:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	0.1	0.0	0.0	0.0	0.1
2A-2E	131.6	0.0	0.0	0.0	131.6
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**131.7**	**0.0**	**0.0**	**0.0**	**131.7**
Loss allowance	-0.2	0.0	0.0	0.0	-0.2
Carrying amount	**131.4**	**0.0**	**0.0**	**0.0**	**131.4**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	0.0	0.0	0.0	0.0	0.0
2A-2E	125.0	0.0	0.0	0.0	125.0
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**125.0**	**0.0**	**0.0**	**0.0**	**125.0**
Loss allowance	-0.4	0.0	0.0	0.0	-0.4
Carrying amount	**124.7**	**0.0**	**0.0**	**0.0**	**124.7**

Debt instruments measured at FVTOCI:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	134.1	0.0	0.0	0.0	134.1
2A-2E	6.4	0.0	0.0	0.0	6.4
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**140.5**	**0.0**	**0.0**	**0.0**	**140.5**
Loss allowance	0.0	0.0	0.0	0.0	0.0

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	216.8	0.0	0.0	0.0	216.8
2A-2E	4.8	0.0	0.0	0.0	4.8
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**221.7**	**0.0**	**0.0**	**0.0**	**221.7**
Loss allowance	-0.1	0.0	0.0	0.0	-0.1

Commitments and financial guarantees given:

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	59.1	0.0	0.0	0.0	59.1
2A-2E	198.8	0.3	0.0	0.0	199.1
3A-3E	34.4	0.1	0.0	0.0	34.4
Watch	0.9	3.5	0.0	0.0	4.3
NPE	0.0	0.0	9.4	0.0	9.4
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**293.1**	**3.8**	**9.4**	**0.0**	**306.4**
Loss allowance	-0.7	-0.2	-4.9	0.0	-5.8
Carrying amount	**292.4**	**3.6**	**4.5**	**0.0**	**300.6**

EUR m

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	61.3	0.3	0.0	0.0	61.5
2A-2E	203.0	0.7	0.0	0.0	203.7
3A-3E	38.7	0.1	0.0	0.0	38.8
Watch	0.4	5.7	0.0	0.0	6.2
NPE	0.0	0.0	9.9	0.0	9.9
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**303.4**	**6.8**	**9.9**	**0.0**	**320.0**
Loss allowance	-0.7	-0.6	-5.3	0.0	-6.6
Carrying amount	**302.7**	**6.1**	**4.6**	**0.0**	**313.5**

51.7. 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 m

	31.12.2019	31.12.2018
SEE	1,679.1	1,671.9
Europe (excl. CEE/SEE)	182.1	182.3
CEE	43.3	69.9
Other	5.6	9.7
Total	**1,910.0**	**1,933.8**

51.8. 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 25.0% at YE19 (YE18: 28.5%). The well-diversified private customers sector accounts for a share of 34.0% (YE18: 33.2%).

EUR m

31.12.2019 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	0.3	648.7	0.0	0.0	649.0
Financial services	154.5	184.6	0.0	0.3	339.4
Public sector	20.3	73.9	43.2	0.0	137.4
Industry	5.0	358.8	0.0	5.3	369.1
Trade and commerce	0.0	110.2	0.0	0.0	110.1
Services	2.0	204.5	0.0	0.0	206.5
Real estate business	0.0	54.0	0.0	0.0	54.0
Tourism	0.0	40.5	0.0	0.0	40.5
Agriculture	0.0	3.7	0.0	0.0	3.7
Other	0.0	0.1	0.0	0.0	0.1
Total	**182.1**	**1,679.1**	**43.3**	**5.6**	**1,910.0**

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

EUR m

31.12.2018 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	0.4	641.3	0.0	0.0	641.1
Financial services	155.6	188.8	0.0	3.9	348.4
Public sector	24.2	108.5	69.9	0.0	202.6
Industry	0.0	332.5	0.0	5.8	338.3
Trade and commerce	0.0	104.9	0.0	0.0	104.9
Services	2.0	207.8	0.0	0.0	209.9
Real estate business	0.0	50.0	0.0	0.0	50.0
Tourism	0.0	34.2	0.0	0.0	34.2
Agriculture	0.0	1.4	0.0	0.0	1.4
Other	0.0	2.4	0.0	0.0	2.4
Total	**182.3**	**1,671.9**	**69.9**	**9.7**	**1,933.8**

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.

51.9. Presentation of exposure by overdue days

EUR m

31.12.2019	No Overdue	Overdue				Total
		to 30 days	31 to 60 days	61 to 90 days	more than 90 days	
Consumer	399.3	4.1	0.9	1.5	3.7	409.4
SME	479.3	0.5	0.5	0.3	1.7	482.2
Non-Focus	613.5	0.2	0.0	0.0	2.7	616.4
o/w Large Corporates	304.8	0.0	0.0	0.0	0.0	304.8
o/w Mortgage	241.8	0.2	0.0	0.0	2.7	244.7
o/w Public Finance	67.0	0.0	0.0	0.0	0.0	67.0
Corporate Center	401.9	0.0	0.0	0.0	0.0	401.9
Total	**1,894.0**	**4.8**	**1.4**	**1.7**	**8.1**	**1,910.0**

EUR m

31.12.2018	No Overdue	Overdue				Total
		to 30 days	31 to 60 days	61 to 90 days	more than 90 days	
Consumer	365.5	3.4	1.0	0.4	3.8	374.1
SME	425.1	1.1	0.0	0.0	6.5	432.8
Non-Focus	639.3	3.6	1.2	0.0	2.7	646.9
o/w Large Corporates	285.5	3.4	1.0	0.0	0.0	289.9
o/w Mortgage	271.5	0.2	0.2	0.0	2.7	274.7
o/w Public Finance	82.3	0.0	0.0	0.0	0.0	82.3
Corporate Center	480.1	0.0	0.0	0.0	0.0	480.1
Total	**1,910.0**	**8.1**	**2.2**	**0.4**	**13.0**	**1,933.8**

51.10. Presentation of exposure by size class

As 31 December 2019, around 42.6% (YE18: 40.5%) 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 264.1 million (YE18: EUR 264.5 million) of exposure in the range > EUR 100 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 m

	31.12.2019		31.12.2018	
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	75.1	25,866.0	72.2	25,613.0
10,000-50,000	349.4	15,064.0	318.5	13,707.0
50,000-100,000	134.3	1,917.0	139.9	1,999.0
100,000-250,000	122.6	875.0	133.8	958.0
250,000-500,000	58.8	170.0	47.6	137.0
500,000-1,000,000	73.3	103.0	71.6	102.0
1,000,000-10,000,000	470.5	147.0	462.5	149.0
10,000,000-50,000,000	362.0	24.0	350.2	23.0
50,000,000-100.000.000	0.0	0.0	72.8	1.0
> 100,000,000	264.1	2.0	264.5	2.0
Total	**1,910.0**	**44,170.0**	**1,933.8**	**42,691.0**

51.11. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

	31.12.2019		31.12.2018	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	595.3	107.8	750.7	121.6
2A-2E	1,020.7	214.6	889.6	125.1
3A-3E	210.9	76.1	208.4	59.6
Watch	49.0	5.8	42.9	8.0
NPL	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0
Total	**1,875.8**	**404.3**	**1,891.4**	**314.4**

Overdue but not impaired financial assets:

EUR m

	31.12.2019		31.12.2018	
	Exposure	Collateral	Exposure	Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	4.5	0.2	5.0	0.5
- overdue 31 to 60 days	1.1	0.1	1.7	0.9
- overdue 61 to 90 days	0.2	0.0	0.4	0.0
- overdue 91 to 180 days	0.0	0.0	0.0	0.0
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.0	0.0	0.0	0.0
Total	**5.8**	**0.3**	**7.0**	**1.4**

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 m

Loans and advances to customers (on- and off-balance)	31.12.2019	31.12.2018
Exposure	28.1	35.3
Provisions	18.1	25.2
Collateral	12.0	14.2

The factors that are considered when identifying impairment are stipulated in the Default Detection and Recovery Policy. Events that indicate objective evidence that a financial instrument may be impaired are listed in Note “Exposure by Rating class”.

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.

The over-collateralisation (collaterals plus provisions) of the impaired financial assets shown in the table above is driven by the Stage 3 collective impaired calculation, in which no collateral values are recognised.

51.11.1. 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.

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

	OPENING balance 01.01.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2019
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	10.2	0.8	-3.0	-2.7	0.0	-0.9	4.3
Households	8.2	0.1	-1.1	0.0	0.0	-0.4	6.8
Loans and advances	**18.6**	**0.9**	**-4.2**	**-2.7**	**0.0**	**-1.3**	**11.3**
Loan commitments given	0.0	0.1	0.0	0.0	0.0	0.0	0.1

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

EUR m

	OPENING balance 01.01.2018	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2018
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.3	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	28.9	3.5	-3.6	-18.4	-0.2	0.0	10.2
Households	4.7	5.7	-2.1	0.0	0.0	0.0	8.2
Loans and advances	**33.5**	**9.4**	**-5.7**	**-18.4**	**-0.2**	**0.0**	**18.6**
Loan commitments given	0.1	0.0	-0.1	0.0	0.0	0.0	0.0

The forbearance exposure was as follows in 2019:

EUR m

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of for-borne assets (+)
General governments and government related entities	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.3	0.0
Non-financial corporations	4.3	4.0	0.1	0.1	0.1
Households	6.8	4.8	0.5	1.4	0.1
Loans and advances	**11.3**	**8.9**	**0.6**	**1.8**	**0.2**

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0.0	0.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporates	0.0	0.0	0.0	0.0	0.0	0.0
Medium and Small Corporate	1.7	1.3	0.0	0.1	0.2	0.1
Retail	3.6	0.0	3.6	0.0	0.0	0.0
Total	**5.3**	**1.3**	**3.6**	**0.1**	**0.2**	**0.2**

The forbearance exposure was as follows in 2018:

EUR m

	Closing Balance 31.12.2018	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of for-borne assets (+)
General governments and government related entities	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.2	0.0
Non-financial corporations	10.2	1.4	0.0	8.8	0.2
Households	8.2	5.3	0.2	2.7	0.2
Loans and advances	**18,6**	**6.7**	**0.2**	**11.7**	**0.4**

EUR m

	Internal Collateral Value (ICV) in respect of forborne assets	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0.0	0.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporates	1.5	1.5	0.0	0.0	0.0	0.0
Medium and Small Corporate	3.4	3.1	0.0	0.0	0.3	0.0
Retail	5.2	0.1	5.1	0.0	0.0	0.0
Total	**10.2**	**4.7**	**5.1**	**0.0**	**0.3**	**0.0**

52. Development of risk provisions

52.1. 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.
Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).
Individual assessment or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from potential repossession of available collaterals (primarily real estates), Addiko 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.
For the part of the non performing 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).

52.2. Development of risk provisions

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

52.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates are performed regularly to make sure that the latest available information and internal data is considered. In 2019, a refinement of PI unsecured models was performed for all subsidiaries, resulting among other things also in a re-calibration. The changes included an improvement in model quality, particularly reflected in migration stability as well as in improved performance. In addition, macro models were adapted in line with validation findings and new macroeconomic forecasts were used to reflect the latest available economic outlooks throughout all segments.

52.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) has decreased (63.7%) compared to YE18 (70.4%).

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 2019:

EUR m

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	409.4	7.1	5.8	1.5	1.7%	81.1%	102.0%
SME	482.1	12.1	8.4	5.5	2.5%	69.6%	115.4%
Non Focus	616.4	9.2	3.9	5.0	1.5%	42.3%	96.3%
o/w Large Corporate	304.8	4.5	1.0	2.5	1.5%	22.9%	78.2%
o/w Mortgage	244.7	4.6	2.8	2.4	1.9%	61.2%	114.0%
o/w Public Finance	67.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Corporate Center	401.9	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**1,910.0**	**28.4**	**18.1**	**12.0**	**1.5%**	**63.7%**	**105.8%**
o/w Credit Risk Bearing	**1,657.0**	**28.4**	**18.1**	**12.0**	**1.7%**	**63.7%**	**105.8%**

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 2018:

EUR m

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	374.1	7.9	6.6	1.5	2.1%	83.2%	102.8%
SME	432.8	13.8	11.8	5.8	3.2%	85.3%	127.4%
Non Focus	646.9	14.1	6.9	6.9	2.2%	48.7%	97.5%
o/w Large Corporates	289.9	7.9	2.9	4.0	2.7%	36.8%	88.1%
o/w Mortgage	274.7	6.2	4.0	2.8	2.3%	63.8%	109.5%
o/w Public Finance	82.3	0.0	0.0	0.0	0.0%	0.0%	0.0%
Corporate Center	480.1	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**1,933.8**	**35.7**	**25.2**	**14.2**	**1.8%**	**70.4%**	**110.2%**
o/w Credit Risk Bearing	**1,599.8**	**35.7**	**25.2**	**14.2**	**2.2%**	**70.4%**	**110.2%**

53. Measurement of real estate collateral and other collateral

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 2019 as well as 31 December 2018:

EUR m

Collateral Distribution	31.12.2019	31.12.2018
Exposure	1,910.0	1,933.8
Internal Collateral Value (ICV)	416.8	330.3
thereof CRE	233.9	145.2
thereof RRE	110.8	109.4
thereof financial collateral	19.5	20.5
thereof guarantees	20.9	20.6
thereof other	31.8	34.6
ICV coverage rate	**21.8%**	**17.1%**

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 21.8% compared to YE18 (17.1%).

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 m

	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	18.7	0.0	0.0	3.6	0.5	0.1	0.0	4.1	14.6	13.2
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Non-financial corporations	7.2	0.0	0.0	2.1	0.4	0.1	0.0	2.6	4.6	4.5
Households	11.3	0.0	0.0	1.5	0.0	0.0	0.0	1.5	9.7	8.4
Commitments and financial guarantees	9.4	0.0	0.0	0.7	0.0	2.7	0.0	3.4	6.1	4.9
Loan commitments given	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.2
Financial guarantees given	3.4	0.0	0.0	0.5	0.0	0.2	0.0	0.8	2.6	2.5
Other commitments given	5.8	0.0	0.0	0.0	0.0	2.5	0.0	2.5	3.3	2.3

54. Market risk

54.1. 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.

54.2. Risk measurement

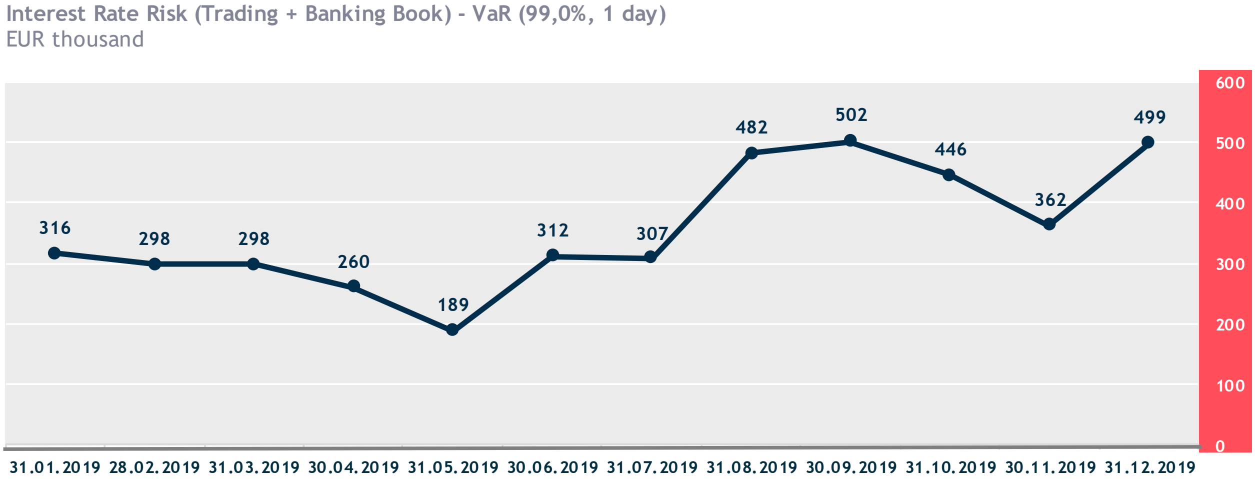
The Bank calculates market risk with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a 250 day holding period. The models calculate potential losses by taking into account historical market fluctuations (volatilities) and market context (correlations).

54.3. Overview - market price risk

54.3.1. INTEREST RATE RISK

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for the Bank in 2019 (comparable VaR figure as at 31 December 2018: EUR 0.25 million).
The interest rate gap profile for Addiko Bank d.d. contains all interest-rate-sensitive items that 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 2019:



The trading items of the Bank were relatively stable in 2019. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

The methodology of regulatory interest risk calculation is based on the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02).

The regulatory limit of 20.0% of the total capital was not even close to being reached or exceeded at any point in the year (interest risk equity ratio ex NIB amounted to 5.7% on average in 2019 as compared; the maximum value amounted to 7.1%, which is lower than usage at the end of year 2018).

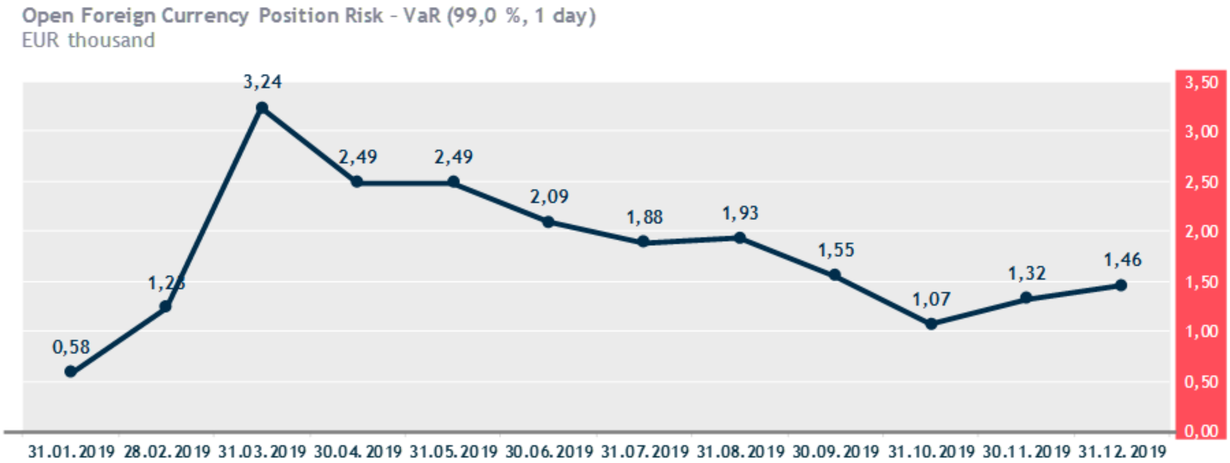
Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis point shift of the yield curve in total own fund may not exceed 20.0% and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital.

The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2019 amounts to EUR 76 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2018 was EUR 72 thousand.

54.3.2. 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 2019 is roughly EUR 0.8 million (volume as of 31 December 2018 of approx. EUR 0.3 million), with the majority attributed to the currencies CHF and USD. The value at risk for foreign exchange risk was approximately EUR 1.46 thousand per day as at 31 December 2019 (value at risk as at 31 December 2018: EUR 0.99 thousand), at a confidence interval of 99.0%. The limit of EUR 20.0 thousand was adhered to as at 31 December 2019.

Development in foreign exchange risk of Addiko Bank d.d. in 2019:



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 m

	2019			2018		
	CHF	USD	Other currencies	CHF	USD	Other currencies
Financial assets						
Cash on hand and balances with the Central Bank	0.6	0.5	1.4	1.3	0.2	2.0
Financial assets held for trading	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income	0.0	0.0	0.0	0.0	9.7	0.0
Financial assets at amortised cost	67.6	5.2	0.0	77.2	5.7	0.0
Total financial assets	**68.2**	**5.7**	**1.4**	**78.5**	**15.6**	**2.0**
Financial liabilities						
Financial liabilities held for trading	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised cost	2.7	6.8	1.0	2.8	10.0	1.8
Total financial liabilities	**2.7**	**6.8**	**1.0**	**2.8**	**10.0**	**1.8**
Net off-balance-sheet liabilities arising from spot transactions and derivatives	-65.7	1.3	0.0	-75.7	-5.6	0.0

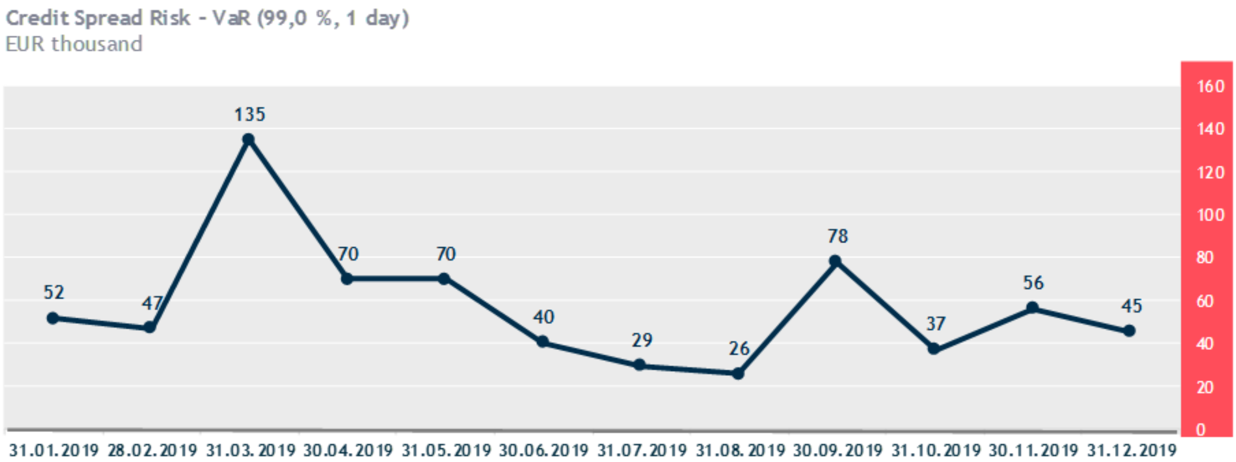
54.3.3. EQUITY RISK

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 here.

54.3.4. Credit Spread RISK

The credit spread risk within the Bank stood at EUR 45 thousand at 31 December 2019 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2018: EUR 68 thousand). The limit of EUR 371 thousand was adhered to as at 31 December 2019. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the 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 2019:



55. Liquidity risk

55.1. 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.

55.2. 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.

55.3. Liquidity reserves

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 grew by 22% in 2019 comparing to year end 2018.

In 2019, 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 constantly growing during quarters of 2019, from 154% average in Q1 to an average of 214% in Q4 2019. LCR peak was reached in November 2019 at 263%.

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

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	68.4
Securities eligible for Repo	0.0
Credit Claims eligible for Central Bank or Repo	0.0
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	60.0
Counterbalancing Measures	**128.4**
Other liquefiable Assets (short-, medium-term)	30.0
Committed/Required Credit Lines	14.0
New Issuance and Securitisation	0.0
Total Counterbalancing Capacity	**172.4**

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

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for Central Bank	47.2
Securities eligible for Repo	0.0
Credit Claims eligible for Central Bank or Repo	0.0
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	50.0
Counterbalancing Measures	
Other liquefiable Assets (short-, medium-term)	30.0
Committed/Required Credit Lines	14.0
New Issuance and Securitisation	0.0
Total Counterbalancing Capacity	**141.2**

Liquidity Controlling for the bank is carried out locally by Risk Controlling and centrally through the Group Risk Group Holding. A cash-flow classification 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.

55.4. Overview of the liquidity situation

The liquidity situation of Addiko Bank d.d. in 2019 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 1.4 billion. Based on anticipated inflows and outflows, a stable liquidity situation in the year 2020 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.

Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Bank.

EUR m

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	1,425.4	1,439.7	474.9	241.0	506.9	136.3	80.7
Deposits of customers	1,223.2	1,225.6	466.6	241.0	392.0	124.1	1.9
Deposits of credit institutions	172.0	173.1	1.0	0.0	113.3	4.2	54.6
Issued bonds, subordinated and supplementary capitals	15.1	25.9	0.0	0.0	1.7	6.7	17.6
Other financial liabilities	15.1	15.1	7.3	0.0	0.0	1.3	6.5
Derivatives	2.2	2.2	2.2	0.0	0.0	0.0	0.0
Loan commitments		143.2	143.2	0.0	0.0	0.0	0.0
Financial guarantees		37.9	37.9	0.0	0.0	0.0	0.0
Other commitments		125.3	125.3	0.0	0.0	0.0	0.0
Total	**1,427.6**	**1,748.3**	**783.5**	**241.0**	**506.9**	**136.3**	**80.7**

EUR m

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2018	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	1,433.1	1,447.4	429.6	305.1	351.6	296.4	64.6
Deposits of customers	1,174.2	1,176.6	421.0	295.3	347.9	110.5	1.8
Deposits of credit institutions	234.6	235.7	0.4	9.8	1.0	179.3	45.2
Issued bonds, subordinated and supplementary capitals	16.1	26.9	0.0	0.0	2.7	6.7	17.6
Other financial liabilities	8.2	8.2	8.2	0.0	0.0	0.0	0.0
Derivatives	2.0	2.0	2.0	0.0	0.0	0.0	0.0
Loan commitments		158.1	158.1	0.0	0.0	0.0	0.0
Financial guarantees		27.9	27.9	0.0	0.0	0.0	0.0
Other commitments		124.0	124.0	0.0	0.0	0.0	0.0
Total	**1,435.1**	**1,759.4**	**741.6**	**305.1**	**351.6**	**296.4**	**64.6**

56. Operational risk

56.1. Definition

Addiko Bank 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.

56.2. 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.

56.3. 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.

56.4. 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.

57. Object risk

Object risk at the 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.

58. 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

59. Legal Risk

59.1. 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.

59.2. 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.

In 2019, the National Council of the Republic of Slovenia had filed a draft Law on the relationships between creditors and borrowers regarding loans in swiss francs (law on conversion into the parliamentary procedure). The Legislative and legal service of the National Assembly had issued a negative opinion regarding the draft law, which states, i.a., that the draft law contains parts that are in conflict with the Slovenian Constitution. In October 2019, the draft law did not pass the vote within the parent working body, which led to the National Assembly concluding the legislative proceeding without voting.

EUR m

		31.12.2019		31.12.2018
	Exposure	Of which CHF	Exposure	Of which CHF
Addiko Bank Slovenia	1,910.5	69.4	1,933.8	79.9

In 2019, the bank was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from 79.9 million EUR at the end of 2018 to 69.4 million EUR at the end of 2019.

59.3. Legal risks

The total number of passive legal disputes increased in 2019. The last major passive legal dispute (a passive legal dispute with an amount in dispute exceeding EUR 15.0 million) against the Bank was concluded in the Bank's favour.

The significant majority as well as new proceedings are related to consumer loans with F/X clauses. The increase of pending cases shows that there is a future risk of increasing numbers of proceedings due to the possible statute of limitation for claims related to these loans.

Supplementary information required by IFRS

60. Analysis of remaining maturities of carrying amount (undiscounted)

EUR m

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	138.3	0.0	0.0	0.0	0.0	138.3	0.0	138.3
Financial assets held for trading	1.9	0.0	0.0	0.0	0.0	1.9	0.0	1.9
Financial assets mandatorily at fair value through profit or loss	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Financial assets at fair value through other comprehensive income	13.2	17.1	5.4	100.1	4.7	35.6	104.9	140.5
Financial assets at amortised cost	25.2	109.8	242.0	543.6	390.7	377.0	934.3	1,311.3
Tangible assets	0.0	0.0	0.0	0.0	11.3	0.0	11.3	11.3
Intangible assets	0.0	0.0	0.0	0.0	2.3	0.0	2.3	2.3
Tax assets	0.0	0.0	0.0	0.0	10.8	0.0	10.8	10.8
Current tax assets	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.2
Deferred tax assets	0.0	0.0	0.0	0.0	10.7	0.0	10.7	10.7
Other assets	0.0	0.0	0.0	0.0	0.5	0.0	0.5	0.5
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**178.9**	**126.9**	**247.4**	**643.7**	**420.4**	**553.2**	**1,064.1**	**1,617.3**
Financial liabilities held for trading	2.2	0.0	0.0	0.0	0.0	2.2	0.0	2.2
Financial liabilities measured at amortised cost	474.9	240.9	504.8	127.9	76.8	1,220.7	204.8	1,425.4
Provisions	0.0	0.0	0.0	0.0	7.2	0.0	7.2	7.2
Tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Total	**477.1**	**240.9**	**504.8**	**127.9**	**84.9**	**1,222.8**	**212.8**	**1,435.7**

EUR m

Analysis of remaining maturity as at 31.12.2018	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	133.4	0.0	0.0	0.0	0.0	133.4	0.0	133.4
Financial assets held for trading	1.4	0.0	0.0	0.0	0.0	1.4	0.0	1.4
Financial assets mandatorily at fair value through profit or loss	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Financial assets at fair value through other comprehensive income	13.1	21.0	4.4	181.9	1.3	38.5	183.1	221.7
Financial assets at amortised cost	22.1	88.6	219.0	514.5	396.0	329.7	910.5	1,240.2
Tangible assets	0.0	0.0	0.0	0.0	3.7	0.0	3.7	3.7
Intangible assets	0.0	0.0	0.0	0.0	2.3	0.0	2.3	2.3
Tax assets	0.0	0.0	0.0	0.0	14.4	0.0	14.4	14.4
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	14.4	0.0	14.4	14.4
Other assets	0.0	0.0	0.0	0.0	0.8	0.0	0.8	0.8
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Total	**170.3**	**109.6**	**223.4**	**696.3**	**418.5**	**503.3**	**1,114.8**	**1,618.1**
Financial liabilities held for trading	2.0	0.0	0.0	0.0	0.0	2.0	0.0	2.0
Financial liabilities measured at amortised cost	430.7	305.0	348.5	288.1	60.8	1,084.2	348.9	1,433.1
Provisions	0.0	0.0	0.0	0.0	7.6	0.0	7.6	7.6
Tax liabilities	0.0	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Current tax liabilities	0.0	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.8	0.0	0.8	0.8
Total	**432.6**	**305.0**	**348.5**	**288.1**	**70.1**	**1,086.2**	**358.2**	**1,444.3**

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.

61. 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. For further details regarding lease contracts, please refer to note (2.1) IFRS 16 Leases, for the comparative period to note (3) Standards used for comparative periods and to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

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

The Bank had total cash outflows for leases of EUR 1.4 million in 2019.

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

EUR m

Maturity analysis - contractual undiscounted cashflow	31.12.2019
up to 1 year	1.4
from 1 year to 5 years	4.5
more than 5 years	2.4
Total undiscounted lease liabilities	**8.3**

As at 31 December 2019, Addiko Bank has less than 1 million EUR in expense relating to payments not included in the measurement of the lease liability.

As at 31 December 2019, Addiko Bank was committed to short-term leases and the total commitment at that date was EUR 0.0 million.

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

EUR m

	31.12.2018
up to 1 year	1.4
from 1 year to 5 years	5.0
more than 5 years	2.8
Total	**9.3**

62. Assets/liabilities denominated in foreign currencies

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

EUR m

	31.12.2019	31.12.2018
Assets	75.3	96.1
Liabilities	10.6	14.6

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.

63. 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 m

	31.12.2019	31.12.2018
Loan commitments, given	143.2	167.7
Financial guarantees, given	37.9	28.3
Other commitments, given	125.3	124.0
Total	**306.4**	**320.0**

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

64. Fair value disclosures

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

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

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

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

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

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

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.

64.1. Fair value of financial instruments carried at fair value

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

EUR m

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0.0	1.9	0.0	**1.9**
Derivatives	0.0	1.9	0.0	**1.9**
Debt securities	0.0	0.0	0.0	**0.0**
Investment securities mandatorily at FVTPL	0.0	0.0	0.3	**0.3**
Equity instruments	0.0	0.0	0.3	**0.3**
Debt securities	0.0	0.0	0.0	**0.0**
Investment securities at FVTOCI	13.2	125.3	2.0	**140.5**
Equity instruments	13.2	0.0	0.0	**13.2**
Debt securities	0.0	125.3	2.0	**127.3**
Total	**13.2**	**127.2**	**2.3**	**142.7**
Liabilities				
Financial liabilities held for trading	0.0	2.2	0.0	**2.2**
Derivatives	0.0	2.2	0.0	**2.2**
Total	0.0	2.2	0.0	**2.2**

EUR m

31.12.2018	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0.0	1.4	0.0	**1.4**
Derivatives	0.0	1.4	0.0	**1.4**
Debt securities	0.0	0.0	0.0	**0.0**
Investment securities mandatorily at FVTPL	0.0	0.0	0.3	**0.3**
Equity instruments	0.0	0.0	0.3	**0.3**
Debt securities	0.0	0.0	0.0	**0.0**
Investment securities at FVTOCI	13.1	208.5	0.0	**221.7**
Equity instruments	13.1	0.0	0.0	**13.1**
Debt securities	0.0	208.5	0.0	**208.5**
Total	**13.1**	**209.9**	**0.3**	**223.4**
Liabilities				
Financial liabilities held for trading	0.0	2.0	0.0	**2.0**
Derivatives	0.0	2.0	0.0	**2.0**
Total	**0.0**	**2.0**	**0.0**	**2.0**

There were no transfers between level I and level II in 2019 and 2018.

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

EUR m

31.12.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	2.0
Equity instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt instruments	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	2.0
Total	**0.3**	**0.0**	**0.0**	**2.0**	**0.0**	**0.0**	**0.0**	**0.0**	2.3

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

EUR m

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

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.

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; these are comprised of country-specific curves and an internal rating.

OIS discounting

Addiko Bank measures derivatives under consideration of base spread influences by using various interest curves. Various interest curves are used 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.

64.2. 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 m

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves*	138.3	138.3	0.0	0.0	0.0	0.0
Financial assets at amortised cost	1,311.30	1,405.20	93.9	0.0	0.0	1,405.20
Loans and receivables	1,311.30	1,405.20	93.9	0.0	0.0	1,405.20
Total	**1,449.60**	**1,543.50**	**93.9**	**0.0**	**0.0**	**1,405.20**
Liabilities						
Financial liabilities measured at amortised cost	1,425.40	1,428.50	3.1	0.0	0.0	1,428.50
Deposits	1,395.20	1,398.30	3.1	0.0	0.0	1,398.30
Issued bonds, subordinated and supplementary capital	15.1	15.1	0.0	0.0	0.0	15.1
Other financial liabilities	15.1	15.1	0.0	0.0	0.0	15.1
Total	**1,425.40**	**1,428.50**	**3.1**	**0.0**	**0.0**	**1,428.50**

*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 m

31.12.2018	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*	133.4	133.4	0.0	0.0	0	0
Financial assets at amortised cost	1,240.20	1,311.30	71.1	0.0	0	1,311.30
Loans and receivables	1,240.20	1,311.30	71.1	0.0	0	1,311.30
Total	1,373.60	1,444.70	71.1	0.0	0	1,311.30
Liabilities						
Financial liabilities measured at amortised cost	1,433.10	1,434.20	1.1	0	0	1,434.20
Deposits	1,408.80	1,409.90	1.1	0	0	1,409.90
Issued bonds, subordinated and supplementary capital	16.1	16.1	0	0	0	16.1
Other financial liabilities	8.2	8.2	0	0	0	8.2
Total	1,433.10	1,434.20	1.1	0	0	1,434.20

*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.

65. Derivative financial instruments

65.1. Derivatives held for trading

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

EUR m

	31.12.2019			31.12.2018		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	191.8	1.8	-1.6	208.6	1.3	-1.0
OTC options	19.7	0.1	-0.1	19.3	0.1	-0.1
OTC other	172.1	1.7	-1.4	189.3	1.2	-0.9
b) Foreign exchange and gold						
OTC-products	68.7	0.0	-0.6	89.3	0.1	-1.0
OTC other	68.7	0.0	-0.6	89.3	0.1	-1.0
c) Credit derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Credit default swap	0.0	0.0	0.0	0.0	0.0	0.0

66. 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 2019, 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.

The Bank paid out dividend in amount of 10.0 million in 2019.

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

EUR m

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	5.7	1.1	0,0	0.0
Financial assets held for trading	0.0	0.0	0.0	0.0
Financial assets	131.2	0.0	0.6	0.0
Debt securities	0.0	0.0	0.0	0.0
Loan and advances	131.2	0.0	0.6	0.0
Financial liabilities held for trading	1.5	0.0	0.0	0.0
Financial liabilities	15.3	1.5	0.0	0.0
Deposits	15.3	1.5	0.7	5.2
Other financial liabilities	0.0	0.0	0.1	0.0
Other liabilities	0.0	0.0	0.0	0.0
Loan commitments, financial guarantees and other commitments received	0.0	1.0	0.0	0.0

EUR m

31.12.2018	Parent company	Subsidiaries and other entities of the same group	Key personnel of the institution or its parent	Other related parties
Cash reserves	3.5	0.6	0.0	0.0
Financial assets held for trading	0.1	0.0	0.0	0.0
Financial assets	121.1	3.5	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0
Loan and advances	121.1	3.5	0.0	0.0
Other financial liabilities Financial liabilities	1.7	0.0	0.0	0.0
Deposits	15.2	0.7	0.3	0.0
Other financial liabilities	15.0	0.4	0.3	0.0
Other liabilities	0.2	3.6	0.0	0.0
Loan commitments, financial guarantees and other commitments received	0,0	10.0	0.0	0.0

EUR m

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	0.6	0.0	0.0	0.0
Interest expenses	-2.3	0.0	0.0	0,0
Fee and commission income	0.0	0.0	0.0	0,0
Fee and commission expenses	0.0	0.0	0.0	0,0
Other operating income	0.0	0.1	0.0	0,0
Other expenses	-0.3	-0.6	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.1	0.0	0.0	0.0
Total	**-0.8**	**-0.5**	**0.0**	**0.0**

EUR m

31.12.2018	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	0.7	0.0	0.0	0.0
Interest expenses	-2.8	0.0	0.0	0.0
Fee and commission income	0.0	0.0	0.0	0.0
Fee and commission expenses	0.0	0.0	0.0	0.0
Other operating income	1.1	0.0	0.0	0.0
Other expenses	-0.3	-0.3	0.0	0.0
Increase or (-) decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0.0	0.0	0.0	0.0
Total	**-1.3**	**-0.2**	**0.0**	**0.0**

67. Capital management

67.1. Own funds and capital management

The capital management of Addiko Bank d.d. is based on own funds as defined by the CRR (Capital Requirements Regulation), the corresponding national regulations (Basel III Pillar I) and the economic capital management approach (Basel III Pillar II) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by Capital Requirements Regulation No. 575/2013 (CRR) and the Capital Requirements Directive (CRD IV). The CRD IV 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:

- Standardised Approach for credit risk (SA-CR) and
- Basic indicator Approach (BIA) for operational risk.

The Bank continuously monitors the development of the Bank's business, analyses changes in its risk-weighted assets and reconciles those with the available regulatory own funds or the ICAAP limit and utilisations for each segment. 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 within the framework of BRRD (Bank Recovery and Resolution Directive).

Additionally, the Capital Management Team tracks all new regulatory changes, e.g. MREL and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

67.2. 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. Based on risk assessment and quantification, the Bank includes the remaining identified material risks that are not fully covered by Pillar 1 (concentration risk, equity risk, interest rate risk in the banking book, object risk, etc.). The value at risk (VaR) method is applied for calculating risk capital requirements for market and liquidity risk. Within the ICAAP calculation, the Bank uses a confidence level of 99.9%.

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.

67.3. Own funds and capital requirements

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

The regulatory minimum capital ratios, including the regulatory buffers as of 31 December 2019, 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 2018 amount to:
- 6.375% for CET1 (4.5% CET1, +1.875% capital conservation buffer and +0.00% countercyclical capital buffer),
- 7.875% for Tier 1 capital (sum of CET1 and AT1) and
- 9.875% 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 requirement (the CCB and the systemic risk buffer) would induce constraints, for example 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.

In order for banks to have in place a sufficient amount of equity and debt that is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, Slovenian banks are required by the SRB to meet MREL at all times. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, which is the SRB in the case of Addiko Bank d.d. Under the currently applicable legal regime, MREL targets are expressed as a percentage of Total Liabilities and Own Funds ("TLOF") of the relevant institution.

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

EUR m

	31.12.2019	31.12.2018
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	162.3	138.50
2 CET1 capital as if IFRS 9 had not been applied	162.3	138.50
5 Total capital (TC)	177.3	153.50
6 TC as if IFRS 9 transitional rules had not been applied	177.3	153.50
Risk-weighted assets		
7 Total RWAs	1,045.0	1,028.4
Total RWAs as if IFRS 9 transitional rules had not been applied	1,045.0	1,028.4
Capital ratios %		
9 CET1	15.5%	13.5%
10 CET1 as if IFRS 9 transitional rules had not been applied	15.5%	13.5%
13 TC	17.0%	14.9%
14 TC as if IFRS 9 transitional rules had not been applied	17.0%	14.9%
Leverage ratio (LR)		
15 LR total exposure measure	1,717.1	1,689.2
16 LR	9.5%	8.2%
17 LR as if IFRS 9 transitional rules had not been applied	9.5%	8.2%

*The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

Total capital increased by EUR 23.8 million during the reporting period, reflecting the net impact of the following components:

- inclusion of half-year profit in the amount of EUR 12.3 million in common equity; on 9 September 2019, the Bank obtained the permission from the Bank of Slovenia
- inclusion of profit 2018 in the amount of EUR 8.2 million in common equity
- a decrease by EUR 0.6 million of the other comprehensive income mainly due to the sale of debt instruments;
- a decrease in regulatory deduction items in the amount of EUR 3.9 million as net impact of increase in investments in intangible assets (EUR - 0.1 million), decrease in deferred tax assets on existing taxable losses (EUR +3.9 million) and decrease of prudential filters (EUR +0.1 million) on assets and liabilities measured at fair value.

Capital requirements (risk-weighted assets) based on a transitional basis

RWAs increased by EUR 16.6 million during the reporting period. The development was primarily due to growth of loans portfolio.

EUR m

Ref1		31.12.2019	31.12.2018
1	Credit risk pursuant to Standardised Approach	957.3	951.30
6	Counterparty credit risk	0.0	0
19	Market risk	2.2	2.5
23	Operational risk	85.4	74.7
Total risk exposure amount		**1,045.0**	**1,028.4**

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

Leverage ratio on a transitional basis

The leverage ratio calculated in accordance with the CRD IV was 9.5% at 31 December 2019 and 8.2% at 31 December 2018. The development was mainly driven by growth in Tier 1 capital.

EUR m

Ref1		31.12.2019	31.12.2018
20	Tier 1 capital	162.3	138.5
21	Total leverage ratio exposure	1,717.1	1,689.2
22	**Leverage ratio %**	**9.5%**	**8.2%**

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

Supplementary information required by ZGD

68. Expenses for the auditor

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

	31.12.2019	31.12.2018
Audit fees	92.6	104.0
Other audit fees for the interim reviews	75.3	75.7
Audit fees relate	17.3	28.3
Fees for other services	**5.6**	**0.0**
Other assurance services	0.0	0.0
Other services	0.0	0.0
Total services	**98.2**	**104.0**

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

EUR thousand

2019	Fixed on-going payments	Variable ongoing payments	Repayments of variable remu-neration from previous year	Cost reim-bursement	Supple-men-tary pen-sion in-sur-ance	Other payments	Total
Management board:	499.0	61.4	59.1	3.9	1.3	18.3	583.9
Supervisory Board:	12.5	0.0	0.0	0.0	0.0	0.0	12.5
Ex members of management Board	81.7	60.0	0.0	0.4	0.3	2.4	144.7
Key management personnel with individual contracts (15 FTE)	1,830.6	177.9	154.6	51.4	0.0	129.2	2,189.1
Total	**2,433.8**	**299.3**	**213.7**	**55.7**	**1.5**	**149.9**	**2,940.2**

EUR thousand

2018	Fixed on-going payments	Variable ongoing payments	Repayments of variable remuneration from previous year	Cost reimbursement	Supplementary pension insurance	Other payments	Total
Management board:	455.8	47.6	17.1	3.4	1.5	7.6	515.8
Supervisory Board:	12.5	0.0	0.0	0.0	0.0	0.0	12.5
Ex members of management Board	66.1	47.7	30.8	0.0	0.5	155.3	269.6
Key management personnel with individual contracts (15 FTE)	1,824.0	260.0	230.5	59.8	0.0	176.2	2,320.0
Total	**2,358.3**	**355.3**	**278.4**	**63.2**	**2.0**	**339.1**	**3,117.8**

70. Events after the reporting date

Due to the special situation and development regarding the Coronavirus/COVID-19 outbreak in Slovenia and the related risk of contagion, Addiko Bank mandated several measures and safety regulations in order to protect and secure the health and security of all employees, its clients and other stakeholders. The measures and regulations include work from home, limited numbers of employees and clients in Addiko Bank's branches, changed working hours, travel and meeting restrictions and use of video meetings and digital channels. The consequences of the Coronavirus/COVID-19 will certainly be significant and visible in 2020, but at this time it is still too early for them to be predicted or evaluated.

Since 31 December 2019, there were no events that would materially affect the financial statements herein.

71. 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.

The Management Board and the Supervisory Board of the Bank will propose at the General Meeting in April 2020 to allocate the year-end profit for 2019 as follows:
- EUR 6.0 million to be paid to the owner of the Bank and
- EUR 12.4 million to be transferred to retained earnings from the previous years.

The accumulated profit is shown in the table below:

EUR m

	31.12.2019	31.12.2018
Profit for the financial year	18.4	37.2
Retained earnings	53.0	25.7
Total accumulated profit	**71.4**	**63.0**

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' head-quarters with mobile equipment, presenting Addiko's product and service offer, open-ing 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 annual-ised)
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 Par-liament 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, includ-ing administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commer-cial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social se-curity 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.

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