There is no moving forward
without looking back.

Addiko Bank
Annual Report
2022

Addiko Bank

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

			EUR thousand
Selected items of the Profit or Loss statement	**YE22**	**YE21**	**(%)**
Net banking income	57,263	51,951	10.2%
Net interest income	42,723	38,638	10.6%
Net fee and commission income	14,540	13,313	9.2%
Net result on financial instruments	372	1,587	-76.6%
Other operating result	-462	-950	-51.3%
Operating expenses	-29,348	-27,440	7.0%
Operating result before impairments and provisions	**27,825**	**25,148**	**10.6%**
Other result	-563	-361	55.7%
Credit loss expenses on financial assets	-5,747	1,623	<-100%
Tax on income	-1,866	-1,125	65.9%
Profit after tax	**19,649**	**25,284**	**-22.3%**
Performance ratios	**YE22**	**YE21**	**(pts)**
Net interest income/total average assets	3.2%	2.7%	0.45
Return on tangible equity	9.8%	13.6%	-3.8
Cost/income ratio	51.3%	52.8%	-1.57
Cost of risk ratio	0.5%	-0.1%	0.6
Selected items of the Statement of financial position	**Dec22**	**Dec21**	**(%)**
Loans and advances to customers (net)	938,899	930,168	0.9%
o/w gross performing loans	944,463	933,011	1.2%
Deposits of customers	1,029,784	1,022,272	0.7%
Equity	201,499	187,181	7.6%
Total assets	1,329,827	1,370,383	-3.0%
Risk-weighted assets	835,080	864,675	-3.4%
Balance sheet ratios	**Dec22**	**Dec21**	**(pts)**
Loan to deposit ratio	91.2%	91.0%	0.2
NPE ratio	1.66%	1.65%	0.0
NPE coverage ratio	68.4%	61.4%	7.0
Valuation adjustments and credit loss provisions/non-performing exposures	65.5%	57.9%	7.6
Liquidity coverage ratio	230.0%	236.3%	-6.3
Common equity tier 1 ratio	20.2%	20.2%	-0.1
Total capital ratio	21.4%	21.8%	-0.4

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

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Letter from the Management for 2022

Dear Shareholders, Clients, Partners and Employees,

The year 2022 was an outstanding one for Addiko Bank. Our ability to adjust in a rapidly changing environment and the finalization of the Transformation Program helped us achieve strong full-year results:

- Net operating result increase by 10.6% to €27.8m compared to €25.1m in previous year;
- Operational costs increase by 7% in 2022 mainly driven by inflation and following business initiatives in order to support targeted revenue to execute business strategy. Despite expenses increased cost-to-income ratio (CIR) strongly improve compared to previous year by 157 bp to 51.3% driven by higher net interest income by 10.6% and higher net fee and commission income by 9.2%.
- Out successful transformation program all resulted in 15% percent growth of our focus area. Our non-focus portfolio decreased by 33%.

It is clear that the year 2022 was a year of unprecedented challenges. As the world started to shake off the impact from Covid-19, the Russia-Ukraine war resulted in new uncertainties over the economic recovery in the market that we operate in.

The year also saw adjustments in our mission, vision and overall strategy. To support our path towards becoming the leading specialist bank in Consumer and SME landing, we have introduced a brand character – Oskar. The new character serves as Addiko's brand ambassador and main communicator: we stand for speed, innovation and flexibility. We are there for our customers when they need us most – for that extra financial boost whenever and wherever. During the brand repositioning, we have successfully opened new sales channels, launched numerous partnerships and revised our products. All of that helped significantly increase the number of customers that we serve.

Alongside our marketing activities, the digitalization and streamlining of our processes further boosted growth in our focus areas and helped lower operational expenses. The usage of newest technology and a constant finetuning of our product offerings remain cornerstones of our positioning as a specialist bank.

Digitalization, as one of the focuses throughout the year, continued to enable customers to perform as many banking transactions as possible on their own or with minimal assistance from the Bank employees, which brings a completely new banking experience in terms of quick and easy management of personal and business finances in line with the added value the Bank offers in its business operations. But most importantly, the time needed to perform banking services and get banking products has shortened tremendously, helping consumers gain one of the most important assets of today, and that is time.

Speed and convenience are also evident in the corporate segment, where the Bank continued to upgrade and apply digital lending and transactions process with a technologically advanced creditworthiness management application specifically tailored to micro, small and medium-sized enterprises. As the first Bank in the Group, we developed an E2E digital Onboarding & KYC process for enterprises and reduced the time from 2 days to only 25 minutes, being paperless and offering a better user experience.

At the same time, we have a strong understanding that any product or a service of any company comes at a cost to the environment, society, and our planet in general. To address the sustainability challenges that could affect Addiko business activity and proactively contribute to the sustainable growth, we developed and adopted our first environmental, social, and governance (ESG) strategy. At Addiko Bank we want to be a part of the solution, not the problem.

Another important development which took last year is the constitutional court rejection of the so-called CHF law. As a commercial bank operating in Slovenia, we very much welcome the court`s decision which at the same time proves that in this case the Slovenian constitution, legislation and the European law have prevailed.

For Addiko, 2022 was a year like no other. We are starting to yield the fruits of our transformation - with strong financial results and a recognizable specialist position. We can only say that none of this would have been possible without our people – the Addiko team. The team's professionalism, its drive to change for the better and the will to innovate during these challenging times is admirable. We are proud of our achievements and honored to lead this team as we are entering another important year for the Bank.

The year 2023 will be a great challenge for Addiko Bank, as well as for its competition, as it will have to adapt its business operations even more to the uncertainties that we are facing, the consequences of new restrictive measures from the regulator as well as the continuation of changed customer habits that have been accompanying us for a time now. But regardless, we remain moderately optimistic.

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

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

The Management Board

ANDREJ ANDOLJŠEK

Responsibilities

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

ANJA BOŽAC

Responsibilities

- Finance and Treasury Management
- Internal Audit
- Procurement
- Credit Management
- Operations
- Risk Controlling
- Retail Risk Management
- Information and Physical Security

On 31 December 2022, the Management Board comprised of two members:

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

Management Report

1. Overview of the Bank

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

Addiko Group is a specialist banking group focusing on providing banking products and services to Consumer and Small and Medium-sized Enterprises (SME) in Central and South Eastern Europe (CSEE). The Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Market Authority (FMA) and the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates via two banks), Serbia and Montenegro. Addiko Group is a publicly listed company owned by a diversified investor base. Through its banks, the group services approximately 0.8 million customers, using a network of 154 branches and modern digital banking channels.

Based on its strategy, Addiko Bank repositioned itself as a specialist consumer and SME Bank with a focus on growing its consumer and SME lending activities as well as payment services (its “focus areas”), offering unsecured personal loan products for consumers and working capital loans for its SME customers. These core activities are largely funded by retail deposits. The Bank's mortgage lending, public lending and large corporate lending portfolios (its “non-focus areas”) are subject of an accelerated run-down process, thereby providing liquidity and capital for the growth in its Consumer and SME lending.

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

2. Business updates

2.1. Addiko Brand Repositioning

Addiko is pursuing a process-driven transformation with the clear vision to grow and extend its financial platform into a larger ecosystem, where customers find simple and fast lending solutions to whatever lifestyle needs they have. Addiko's specialist bank strategy, purpose and brand promise were aligned towards this goal.

Addiko’s brand repositioning has been introduced in Slovenia in May 2022 through an omni-channel marketing campaign and amplified by media and PR activities.

The newly defined purpose of Addiko is: *“To make customers’ life easier, to help them in unpredictable situations, and to help them get things they want”*. This simple sentence will give guidance, especially in the transformation efforts. Based on that, the new brand promise shall be: *“As experts in Consumer and SME lending, we stand for speed and flexibility, and we promise to be there for you in all situations whenever and wherever you need that extra boost.”* Translated to everyday life, this means the Bank wants to be close to the customers and support them when they need a loan, be it for example to purchase a new dishwasher or a bike for their kids.

The new brand character, Oskar, replaces the previous triangle symbol. Since May 2022, Oskar is the message carrier for Addiko, both outside to potential and existing customers, as well as internally to the employees to reinforce customer centric focus. The brand character Oskar has a voice in the respective local language and was visible across all media channels such as TV ads, outdoor billboards, social media, digital advertising and mobile in Slovenia throughout 2022.

Oskar’s message addresses existing customers speaking about how Addiko promises to deliver cash in a fast and uncomplicated manner whenever and wherever customers need an extra boost and will act as their champion. For new and potential customers, Oskar is inviting them to try Addiko and he is communicating that the Bank is there to serve young employees, entrepreneurs and digital-savvy people.

2.2. Slovenian Constitutional Court rejects retroactive CHF law

On 14 December 2022, the Constitutional Court of the Republic of Slovenia published the rejection of the so-called Swiss Franc Law. The Slovenian Parliament initially passed the Law in February 2022, disregarding the negative opinions of the Slovenian Government, the legislative and legal service of the Slovenian National Assembly and the European Central Bank. The rejected law aimed at restructuring consumer loans denominated in CHF (or containing a currency clause in CHF) that were concluded between 28 June 2004 and 31 December 2010. The law would have required lenders to retroactively introduce an exchange rate cap clause in relation to all such agreements for CHF loans concluded in the aforementioned period.

In March 2022, the Constitutional Court unanimously adopted the decision to suspend the law in its entirety until it has reached a final decision regarding its constitutionality. In its rejection in December, the Constitutional Court concluded that not all conditions for a constitutionally permissible retroactivity were met. On the one hand, the retroactivity affected the entire law and not only single provisions, on the other hand, no particular public interest has been demonstrated which would exceptionally allow a retroactivity. The Constitutional Court voted 7:1 in favour of the rejection and clearly confirmed Addiko's legal view. By rejecting the law, the Slovenian Constitutional Court eventually upheld the constitution and legislation of the Republic of Slovenia as well as European law. Addiko in February 2022 had estimated an initial worst-case-impact for the Bank of up to EUR 110 million.

Since new measures for a regulation of the CHF loan topic in the future cannot be fully excluded, Addiko will continue to actively pursue a solution together with other banks and the government to ensure definitive legal certainty and a balanced approach.

2.3. War in Ukraine

In February 2022, Russia began a military invasion of Ukraine. Addiko Bank has no material direct and indirect exposure to Russia and Ukraine. However, the turmoil on energy markets due to the introduction of Western sanctions against Russian and Belarus significantly increased the uncertainty on the economic and financial system, at both European and international level, propagating largely through inflation, rising costs of credit, and decline in external demand. In order to cover the increased degree of uncertainty on the future macroeconomic development, which is not comparable to the historic data in the existing expected credit loss models, Addiko decided to build a post-model adjustment to a total amount of EUR 1.5 million in 2022.

2.4. Change in the steering of the treasury portfolio

During the second quarter of 2022, the new treasury investment strategy has been finalised and approved. The new strategy operationalises the changes in the steering of the treasury portfolio required by the 2022 Business Plan approved in 2021. Addiko decided to invest the excess liquidity in long-term high-quality government bonds and keep such instruments until maturity for yield enhancement purposes, focusing on the collection of interest income instead of generating gains from the sale of the instruments. This change in the treasury investment strategy was directly derived from the change in the overall strategy of the Bank, connected with the liquidity generation from the significantly accelerated run-down of the non-focus segments. Any new investments purchased after the approval of the new strategy, are classified, if applicable, in the new Hold-to-Collect (HTC) business model and measured at amortised costs in accordance with the IFRS 9 rules. The change in the management of the treasury portfolio, was considered to fulfill the preconditions for a change in the business model in accordance with IFRS 9.4.4., however following alignment the Financial Market Authority (FMA), being the enforcement authority for the Addiko consolidated financial statements, the portfolio existing before the approval of the new treasury investment strategy must continue to be classified in the business model Hold-to-Collect-and-Sell (HTC&S) and measured at fair value.

Despite the fact that the classification of the portfolio in the business model HTC&S and the related fair value measurement is not properly reflecting how the assets are managed to generate cash flows, Addiko is not expecting any operative impacts from the current volatility in the markets. By keeping the positions until maturity, the currently negative OCI will neutralise until the maturity of the instruments, given the high credit quality and the expectation that none of the issuers, predominantly CSEE governments, will default in the foreseeable future.

3. General economic environment

By the end of 2021 the slowdown in Eurozone, including Slovenia, came to a complete end, with the year 2022 being one of growth, with all Covid-19 pandemic measures being brought to a stop. Money payments to individuals and bank-payment deferrals of existing obligations to companies no longer exist. Difficulties in supply chains, as result of production rebound, accompanied with high demand, worsened in some areas. High energy prices, whose rate increased sharply after the start of war in Ukraine, started to add to inflation which grew above 10% statistically but is felt as being even higher. The European Central Bank (ECB) counterbalanced increasing price pressures by increasing interest rates, which morphed into higher borrowing costs. Programs of additional liquidity placements by ECB were driven back or halted completely.

After Slovenia fully recovered by the end of 2021 and reached its pre-crisis level in the last quarter of 2021, the year 2022 became one of high growth of GDP which reached 5.0% by year's end and is forecasted to fall to 1.4% in 2023 and 2.6% in 2024. High energy costs, labour force shortages and increased borrowing costs added to increased uncertainty which led to a worsening of business and consumer climate throughout last year but the government's fiscal responses to subsidy gas prices or putting a cap on them, added to consumers and companies perceiving the crises as milder which explains a slightly increased business and consumer climate in the last two months of the previous year. Growth in exporting part of Slovenia's economy started to calm down towards the year's end. This was led by a lower year-on-year production rate across the entire economy, compared to 2021. The use of gas was lower in the last two months of 2022 by 11% and 13% lower compared to average use in the last five years.

The shortages of workforce remain an obstacle. With the production gap fully closed companies incur difficulties in hiring employees which in turn fuelled pressures to increase wages in both, private and public sector.

Despite spending was high in 2022, Slovenian consumers still hold more than EUR 25 bln in their bank and savings accounts. Slovenian companies in turn, have diminished their savings. With increasing interest rates and fewer investment alternatives (i.e. real estate) saving still seems attractive to consumers who are growing also more cautious in their spending.

4. Transformation Program

In August 2021, Addiko Bank launched the transformation program to become the leading specialist bank in the region. It was aimed at challenging universal banks via the best digital offerings and pure online banks via superb personal customers service as well as at accelerating the Bank’s transformation towards a pure specialist bank.

The transformation program ran until the end of 2022 and rested on three pillars:

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

While the new business initiatives will take longer to materialize, the Transformation Program already yielded first results as the loan book transformation was accelerated. Share of focus loan book in the gross performing loans increased from 71% in 2021 to 81% in 2022, while the share of non-focus book decreased from 29% in 2021 to 19% in 2022.

5. Changes in the Management Board

In the 2022 there were no major changes in the Management Board. The mandate of Barbara Haler, as substitute Management Board Member has ceased on 31.01.2022, with the return of Anja Božac to Management Board position.

6. Branches

The Bank renovated the branch Velenje and opened a new digital branch in Supernova Ljubljana - Rudnik shopping center. Both branches are aligned with the Addiko Bank Express branch concept. The Bank will continue to transform its branches into modern ones with added digital content.

At the year end of 2022, Addiko Bank operated a total of 19 branches in 15 major cities in Slovenia and 37 ATMs. This physical distribution is optimally sized to deliver Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customer preference for digital channels.

7. Addiko's ESG framework

Addiko Bank endorses the growing importance and relevance of environmental, social and governance (ESG) issues, specifically that of climate change to its business and operating environment. In 2022, a formal ESG working group was established, with representatives from risk, governance and compliance streams, with the aim to implement ESG reporting requirements and steer the process of sustainable development within Addiko Bank.

Addiko Bank's ESG framework consists of 3 strategic pillars:

7.1. ESG Strategy

As a major milestone within its sustainable transformation, Addiko Group has formulated an ESG strategy, which was developed during the reporting period and approved in the Group Supervisory Board in January 2023. It will be locally implemented during 2023. This ESG strategy is closely interconnected with Addiko Bank's business and risk strategy. The ESG strategy provides support to incorporate ESG considerations into governance, loan origination, risk management financing decisions and reporting. Furthermore, it also determines, which climate and environmental (C&E) risks may impact the business strategy and how to reflect these risks in the business strategy implementation. Within the ESG strategy, Addiko Bank also determines specific sustainable development goals and gives its commitment to fulfil these goals by executing 15 initiatives that foster ESG awareness and achievements.

7.2. ESG Governance

In addition, a strong corporate governance framework was established to ensure that strategic objectives are holistically promoted through the institution. Therefore, a dedicated ESG working group was established with the aim to integrate ESG in business lines and core processes of Addiko Bank and regularly monitor Addiko's efforts in the management of ESG risks. The ESG working group is chaired by the Chief Risk Officer, who has the ultimate responsibility over the ESG agenda and ensures a structured discussion and regular reporting on Management Board and Supervisory Board level.

7.3. ESG Risk Management and Compliance

Another important element of the ESG framework is the integration of ESG into the risk management and compliance framework. From a risk management perspective, Addiko continues to identify ESG risk factors (primarily climate-related and environmental risks), assessing their materiality and incorporating them into existing risk types rather than into a single, standalone ESG risk type. From a compliance perspective, the dynamic developments of regulatory requirements on ESG disclosure standards are duly tracked and incorporated, so it is ensured that all mandatory disclosure requirements regarding ESG are complied with.

8. Financial development of the Bank

8.1. Detailed analysis of the reported result

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021	(%)
Net banking income	57,263	51,951	10.2%
Net interest income	42,723	38,638	10.6%
Net fee and commission income	14,540	13,313	9.2%
Net result on financial instruments	372	1,587	-76.6%
Other operating result	-462	-950	-51.3%
Operating income	**57,173**	**52,588**	**8.7%**
Operating expenses	**-29,348**	**-27,440**	**7.0%**
Operating result	**27,825**	**25,148**	**10.6%**
Other result	-563	-361	55.7%
Credit loss expenses on financial assets	**-5,747**	**1,623**	**<-100%**
Profit before tax	**21,515**	**26,409**	**-18.5%**
Tax on income	-1,866	-1,125	65.9%
Profit after tax	**19,649**	**25,284**	**-22.3%**

Net banking income increased by EUR 5,312 thousand (+10.2%) in 2022, driven by significant improvement of net interest income by EUR 4,085 thousand(+10.6%), and strong growth in Net fee and commission income by EUR 1,277 thousand (+9.2%), as a result of increased business activities.

Net interest income increased by EUR 4,088 thousand (+10.2%) to EUR 42,723 thousand at YE22 (YE21: EUR 38,638 thousand), mainly driven by increased interest rates on new business, an increasing share of the focus portfolio with higher yields, and supported by the overall development of market interest rate. The Bank shifted further to the focus segments, being a specialist in consumer loans and loans to small and medium-sized enterprises, where it achieved high growth in 2022, while gradually reducing financing for mortgage loans, public finance and large corporates (not focus segments). Compared to the year before the interest margin increased from 3.2% in 2022 to 2.7% in 2021.

Net fee and commission income increased from EUR 13,313 thousand at YE21, by EUR 1,227 thousand (+9.2%), to EUR 14,540 thousand at year YE22. Growth is mainly a result of increased business activities related to higher accounts & packages fees, higher fees from cards and bancassurance.

Net result on financial instruments decreased from EUR 1,587 thousand in YE21, by EUR 1,215 thousand and amounted to EUR 372 thousand at the YE22. The higher result in 2021 was achieved by a positive one off related to a loan portfolio sale (+EUR 861 thousand) and the sale of debt securities in the amount of EUR 376 thousand.

The **other operating result**, consisting of other operating income and expenses, changed from EUR -950 thousand in 2021 by EUR 488 thousand to EUR -462 thousand in 2022. The reason for better result in 2022 is principally driven by lower regulatory expenses mainly of national bank supervision [YE22: EUR -208 thousand, YE21: EUR -485 thousand], lower expenses to Single Resolution Fund [YE22: EUR -357 thousand, YE21: EUR -534 thousand], and no recognition of restructuring expenses [YE22: EUR 0 thousand, YE21: EUR -250 thousand].

The **operating expenses** increased from EUR -27,440 thousand at YE21, by EUR 1,907 thousand (7%), to EUR -29,348 thousand in YE22 mainly driven by inflation (3.5%), following by business initiatives (2.4%) and marketing rebranding in order to support targeted revenue to execute business strategy. Despite increase in operating expenses the **cost/income ratio (CIR)** improved driven by higher revenues compared to previous year.

- Personnel expenses increased compared to the previous year mainly due to higher variable payments related to sales incentives. The number of employees expressed in full-time equivalent (‘FTE’) on 31 December 2022 was 298.8, a decrease of 7.8 from 31 December 2021.

- Other administrative expenses increased by EUR 1,188 thousand, or 13.3% to EUR -10,150 thousand at YE22. This development was mainly driven by higher IT costs (additional development of core IT provider, higher license & maintenance costs), higher marketing expenses (repositioning campaign) and higher costs for electricity & heating costs.
- Depreciation and amortisation is in line with the previous year.

Other result decrease by EUR 201 thousand, from EUR -361 thousand at YE21, to EUR -563 thousand at YE22. The decrease was mainly driven by legal action taken in connection with Swiss Franc loans. On 14 December 2022, the Slovenian Constitutional Court published the rejection of the Swiss Franc Law that came into force in February 2022.

Credit loss expenses on financial assets amounted to -5,747 EUR thousand at YE22 while in 2021 EUR +1,623 thousand were recognised. The reason is that in 2021 the Bank had more releases due to conservative projections for the performing portfolio due to the Covid-19 crisis compared to the actual portfolio development in 2021. The non-performing portfolio had a similar allocations in both years.

Taxes on income amounted at EUR -1,866 thousand at YE22 compared to EUR -1,125 thousand at YE21. The negative impact is due to lower result from deferred taxes in amount of EUR -1,197 thousand. Positive impact from Current tax expenses in amount of EUR +456 thousand is related to lower net profit in 2022.

8.2. Detailed analysis of the statement of financial position

EUR thousand

	31.12.2022	31.12.2021	Change (%)
Cash and cash equivalents	180,954	254,446	-28.9%
Financial assets held for trading	2,929	819	>100%
Loans and advances to credit institutions	50,229	49,930	0.6%
Loans and advances to customers	938,899	930,168	0.9%
Other financial assets	1,253	1,613	-22.3%
Investment securities	**131,237**	98,888	32.7%
Tangible assets	**8,349**	**9,157**	-8.8%
Intangible assets	**2,192**	**2,312**	-5.2%
Tax assets	**13,124**	**11,551**	13.6%
Current tax assets	267	0	n.a.
Deferred tax assets	12,857	11,551	11.3%
Other assets	**541**	**431**	25.4%
Non-current assets and disposal groups classified as held for sale	**121**	**11,068**	-98.9%
Total assets	**1,329,827**	**1,370,383**	**-3.0%**

The statement of financial position of Addiko Bank shows the simple and solid interest-bearing asset structure: more than 70% of the assets are represented by customer loans and majority (81%) of gross performing loans are already in the focus area. In addition, a substantial part of the residual assets is represented by Cash and cash equivalents and rated bonds. With regards to the statement of financial positions, Addiko's strategy continued to change the business composition from lower margin mortgage lending and public finance towards higher value-added consumer, standard and SME lending.

During 2022 the total assets of Addiko Bank decreased by EUR 40,556 thousand from EUR 1,370,383 thousand at YE21 to EUR 1,329,827 thousand.

Cash and cash equivalents decreased by EUR 73,492 thousand to EUR 180,954 thousand as of YE22 (YE21: EUR 254,446 thousand) resulting still high liquidity and consequent high cash balances at central banks.

Loans and advances to credit institutions increased by EUR 299 thousand to EUR 50,229 thousand (YE21: EUR 49,930 thousand).

Loans and advances to customers increased by EUR 8,731 thousand to EUR 938,899 thousand (YE21: EUR 930,168 thousand). The main reason for lower growth includes the Bank's reorientation to the focus customers segment, where the Bank achieved growth in 2022 by 15% and a reduction in the portfolio of housing loans and exposures to the public sector and large companies by 33% (non-focus customers segment). This is shown by the increased share of focus segments to 81% of the gross performing loan book (YE21: 71%).

The **investment securities** increased by EUR 32,349 thousand to 131,237 thousand (YE21 EUR 98,888 thousand; 32% YoY growth). The investments are largely in high-rated and investment grade government bonds mainly issued by governments of the CSEE region. All investments are "plain vanilla" without any embedded options or other structured features. Due to its solid liquidity levels and the fact that new business volumes in the focus segments are expected to be funded by the accelerated rundown of the non-focus segments, Addiko adapted its treasury strategy with the aim to invest in long-term high-quality bonds to maturity for yield enhancement purposes and essentially the collection of interest income until maturity to support the main income driver, the net banking income. The change in the management of the treasury portfolio, was considered to fulfill the preconditions for a change in the business model in accordance with IFRS 9.4.4., however following alignment the Financial Market Authority (FMA), being the enforcement authority for the Addiko consolidated financial statements, the portfolio existing before the approval of the new treasury investment strategy must continue to be classified in the business model Hold-to-Collect-and-Sell (HTC&S) and measured at fair value.

Tax assets increased to EUR 13,124 thousand (YE21: EUR 11,551 thousand) mainly driven by the recognition of deferred tax assets on the negative fair value development of investment securities in other comprehensive income.

Non-current assets held for sale decreased by EUR 10,947 thousand to EUR 121 thousand in 2022. The position includes a portfolio of loans to customers for which a sale agreement has been signed in December 2021 and fulfilled in year 2022.

EUR thousand

	31.12.2022	31.12.2021	Change (%)
Financial liabilities held for trading	2,531	1,432	76.8%
Financial liabilities measured at amortised cost	1,117,893	1,172,408	-4.6%
Deposits of credit institutions	58,636	122,252	-52.0%
Deposits of customers	1,029,784	1,022,272	0.7%
Certificates of deposits	50	50	0.0%
Issued bonds, subordinated and supplementary capital	15,009	15,005	0.0%
Other financial liabilities	14,414	12,830	12.3%
Provisions	5,551	5,101	8.8%
Tax liabilities	0	1,373	-100.0%
Other liabilities	2,354	2,888	-18.5%
Equity	201,499	187,181	7.6%
Total equity and liabilities	**1,329,827**	**1,370,383**	**-3.0%**

On the liabilities' side, **financial liabilities measured at amortized cost** decreased by 4.6% to EUR 1,117,893 thousand compared to EUR 1,172,408 thousand at year end 2021:

Deposits of credit institutions decreased from EUR 122,252 thousand to EUR 58,636 thousand at YE22.

Deposits of customers increase by EUR 0.7% to EUR 1,029,784 thousand (YE21: EUR 1,022,272 thousand). Share of a-vista decreased from 62.3% at the end of 2021 to 60.7% at the end of 2022.

Issued bonds, subordinated and supplementary capital included subordinated debt from group in amount of EUR 15.009 thousand at YE22 (YE21: EUR 15,005 thousand).

Other financial liabilities increased from EUR 12,830 thousand at YE21 to EUR 14,414 thousand in YE22 mainly due to higher liabilities to credit cards.
Provisions increased from EUR 5,101 thousand at YE21 to EUR 5,551 thousand at YE22. This position included Commitments and guarantees given, Other long term employee benefits, Pensions and other post employment benefit obligations, Pending legal issues and tax litigation and provisions for variable performance-based bonus expenses.

Tax liabilities decreased from EUR 1,373 thousand at YE21 to EUR 0 thousand at YE22. The Bank had a tax liability in amount of EUR 1,373 thousand at YE21 because the profit in 2021 was higher than in 2020 and the advance payments were too low, resulting in a tax liability at the end of the year. In 2022 the profit was lower than 2021, consequently the advance payments paid were too high and consequently the tax receivable and payable were 0.

Other liabilities decreased from EUR 2,888 thousand at YE21 to EUR 2,354 thousand at YE22.

The increase of **equity** from EUR 187,181 thousand in YE21 to EUR 201,499 thousand in YE22 reflected the profit and loss for the reporting period in the amount of 19.6 EUR million, as well as changes in other comprehensive income (OCI) in the amount of EUR -5.1 EUR million. The OCI changes were mainly driven by the impact of the Russian military invasion of Ukraine in February 2022 on the financial markets, which determined a decrease of the carrying amount of the debt instruments measured at FVTOCI.

9. Market and operations development

9.1. Consumer Banking

Strategy

Addiko's strategy is to offer modern banking, focusing on products for the essential needs of customers via unsecured loans and payments, communicated in a simple and transparent manner and delivered efficiently via a hybrid distribution approach consisting of 19 physical branches and modern digital channels. In the segment Consumer the focus is on unsecured lending, followed by account packages, regular transactions and cards. Addiko Bank also puts significant efforts into continuously improving digital capabilities and is recognized in the market as a digital challenger with digital products and services such as Webloans and mLoans online capabilities.

Consumer YE22 Business review

Addiko Bank's operations continued to be affected by restrictive measures to curb the Covid-19 pandemic in the beginning of 2022, but due to releasing of the measures during the year TTD figures importantly improved. Throughout 2022, the Bank gradually strengthened its sales activities and overachieved budgeted figures through successful business transformation, adjusting the product portfolio, marketing cash loans to new target segments and opening new sales channels through partnerships.

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

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

Through a professional, business and trustworthy relationship, the Bank also continued with intense cross-sales activities within the "Bank@Work" project, aimed at the Bank's business customers' employees, with retail consultants offering them customised financial solutions at their workplace.

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

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

In 2022 the Bank also continued its progress towards a modern bank by renovating existing branches in the concept and design of so called Addiko Express branches.

The Product Management and Marketing & PR departments followed the new repositioning strategy and, in cooperation with other departments, made sure that the processes ran smoothly. Activities related to process product changes and marketing support were coordinated together with monthly branch plans. During 2022 the Bank ran the strategy of gaining new customers by adapting products and services and targeting smaller consumer segments along with introducing new sales channels through partnerships and point of sale loans.

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

Addiko Bank delivers on its brand promise – being the best choice for fast cash loans - as a specialist bank with a small, focused product set designed to deliver the essential banking needs to its target customers whenever and wherever they need it. Addiko Bank continued to promote personalized lending offers to the existing customer base, in addition to the improved digital experience where Addiko Bank focused the most on gaining new customers and promoting digital channels.

The digital engagement of the mobile customers significantly improved, proving the good reputation and capabilities of the mobile app throughout the Bank. Among other new functionalities, also instant payments were implemented in mobile banking app Addiko Mobile, enabling much faster payment order execution.

The Bank also aimed to improve processes with an emphasis on rapid response with less documentation and efforts for digital business. In 2022, the Bank implemented a 2nd release of lending process within the Addiko Mobile, through which all existing customers can submit loan application.

Standardizing products and processes, and consolidating partners and vendors is another critical element of the Bank's strategy. In 2022 an important step forward was achieved through cooperation with 3rd parties (fintechs), a field in which also in the future the Bank aims to expand its business through purchasing of receivables and offering cash loans through partner's network/channel.

In 2022, the Bank will continue to pursue the strategy focused on consumer loans, digitalization of the processes, boosting process speed and taking customer experience to a higher level, looking for alternative ways of accessing customers (3rd parties) and adapting the offer to new segments of potential customers in order to achieve the set goals and become even more recognizable as a cash loan specialist and digital challenger in the banking market.

9.2. SME Banking

Strategy

Addiko's strategy is to offer modern banking, focusing on products for the essential needs of customers via unsecured loans and payments, communicated in a simple and transparent manner and delivered efficiently via a hybrid distribution approach consisting of physical branches and modern digital channels. In the SME segment, the focus is on shorter term unsecured financing, followed by transaction banking and trade finance products. The focus continues to be on offering a compelling value proposition for digitally enabled loan products and online self-services capabilities that further reduce the cost-to-serve Addiko's customers.

In 2022 Addiko Bank has further increased in the focus on untapped niches of micro and small enterprises in need of financing with special focus on Standard segment. The standard segment along with small and medium-sized enterprises became the main strategic direction of corporate business segment with an emphasis on the digitalization of banking operations.

With the strengthening of the standard segment and focus on small and medium-sized enterprises, Addiko Bank withdrew from the financing of the large enterprise segment, while the provision of documentary business services remains important also in this segment.

Addiko Bank's strategy is to provide services based on convenience and to develop products that are highly digitalized and offer a competitive advantage. The new lending platform and further optimization of lending process have enabled customers to obtain a loan in a short time with the minimum required documentation and represent excellent user experience for customers. The digitalization of operations continued throughout in 2022, where besides lending process optimization also important upgrades of e-banking tool were implemented.

Digitalization of business operations to improve the user experience will remain the primary goal of the Bank's development also in the coming years.

SME YE22 Business review

Year 2022 was successful for the Bank in all strategic areas of business operations. The Bank's greatest success was in focusing on smaller segments (especially standard, which refers to companies with annual gross revenue up to EUR 1.5 mio, with higher yields) and additionally optimized lending process with less documentation, which enables faster time-to-yes and time-to-cash. Digitalisation of lending and client onboarding processes (focusing on E2E processes) is one of the key strategic tasks within development initiatives.

SME business is showing visible growth, transformation program continued yield results in business development. With strong focus of sales staff on targeted numbers and innovative approach of addressing potential customers Addiko Bank exceeded the budgeted goals of increasing the number of new customers and the volume of approved/disbursed loans. Although branches maintain the most important channel for servicing clients, Addiko Bank is testing different approaches for addressing new clients (sales calls, web form,…) with the goal to increase process speed and achieve higher level of user experience for the clients.

10. Analysis of non-financial key performance indicators

10.1. Human resource management

In 2022 human resources management was mainly based on the continuation of well-established practices, such as an effective mentoring program, and strengthening the partnership with Directors of divisions and/or departments to address various human resources topics (education, planning, promotion, goal setting, finding suitable staff, developing leadership skills, reorganizations…). By this the Bank is proactively addressing current human resources market trends and above all hiring trends, where the implementation of new employer branding strategy was continued.

One of the important milestones in 2022 was the adoption of refined human resources platform, which will be further developed in 2023 to provide digitalized processes, which have so far not yet been digitalized in its full potential (such as onboarding, offboarding, learning and development). The second important step was made in establishment of Addiko Coaching Academy for Directors, within which the management was provided with coaching skills to better enable stimulating environment for employees' development and better provide with opportunities and challenges to realize one's potential and leave a mark. In learning and developmental endeavors proactive development of skills and competencies needed by teams to work proactively in the coming years, when major changes in the banking market are expected, has been made.

Further on the Bank actively promoted well-being activities and provided additional day off for all employees. It also revived internal in-person events and promoted teambuilding events for strengthening team relationships after Covid-19. The Bank continued to promote its Inclusion and Diversity Strategy, which structurally and systematically takes care of a balanced management structure, balanced gender treatment and respects the principles of equal treatment and opportunities for all employees and prevents any discrimination.

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

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

Addiko Bank Slovenia Gender Diversity Status in 2022:

Management level	Number of employees based on gender diversity (Female to male ratio)
Senior management	35.7% : 64.3%
Management Board	50.0% : 50.0%
Supervisory Board	33.3% : 66.7%
Total Bank	63.7% : 36.3%

At the end of 2022, the Bank had 314 employees.

Year	Number of employees on 31.12.	Number of employees based on working hours*	Average number of employees
2022	314	298.75	316.7
2021	321	306.5	325.5

*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

10.2. 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	1
V. secondary education	108
VI. non-university higher education courses	27
VII. higher education programs, university programs	165
VIII. university degree specialisation, diploma of Master of Science	13
Total on 31.12.2022	**314**

10.3. Recruitment

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

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

In 2022, the Bank continued employer branding activities with EVP (Employee Value Proposition), in which the Bank has formed key points/key values it offers as an employer to existing and future employees, and through these it addresses 3 key attributes of the employer's brand: community culture, a supportive environment for development and personal initiative.

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

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

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

The Bank successfully addressed the challenges on the current hiring market and also further stressed internal promotion and job rotation. Highly skilled individuals, whether employees or external candidates, can find an opportunity to innovate, develop their own projects and initiatives, be proactive and take the initiative.

10.4. Education and training

Addiko Bank believes that only highly qualified staff can follow the needs, trends and challenges of the Slovenian financial market. For this reason, the Bank provides constant and comprehensive expert training to all employees. To achieve the Bank's business objectives, there are three exposed areas in the Addiko Academy, which offers several sets of curriculums: Addiko Leader, Addiko Sales, Addiko Risk Management. These key educational areas for development reflect Addiko Bank's strategic needs as the Bank transforms from a universal bank to a specialised, risk-averse and digital bank focused upon Retail and SME. 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 2022, the focus was extensively on elevating leadership skills of senior leaders and directors of individual departments, where Addiko Coaching Academy was formed and leadership structure was trained extensively in leading with coaching skills. Identified talents attended trainings conducted by Addiko Leadership Academy, as each year the Bank provides assessments using the 360 Degree Feedback tool, which provides feedback to plan further leadership development. In addition, many professional, compliance and legally required trainings are continually offered to our employees, ensuring upgrading of their knowledge. In 2022 the Bank continues to perform its online learning via its own Learning Management System (LMS). Employees participated in training in the field of Data Protection, Raising Awareness of the Importance of Fraud Risk, Anti Money Laundering and Terrorist Financing Detection and Prevention, Security Awareness, Compliance, so in 2022 special emphasis was further placed on awareness and preventive detection and operation of employees. All new employees who joined Addiko team were systematically introduced to all bank segments and contents through the LMS.

The Bank also enables employees to obtain various finance and insurance licenses that are necessary for professional work.

The Bank continued its mentoring program in 2022, which was very well received when it was introduced in 2020. This year also, the response of mentor couples was above expectations, so the Bank will upgrade the program in the future and enable even better internal visibility of the program.

10.5. Corporate Social Responsibility projects for employees

Addiko Bank's employees have once again proved that they are unconventional bankers with a big heart who remain faithful to humanitarian activities.

In 2022, the Bank continued its charitable activities with various charitable campaigns within the Addiko Cares corporate social responsibility project, in which 60% of employees participated. As unconventional bankers additionally motivated with the new repositioning and the new brand-character Oskar's motto to *not complicate, but to lend*, giving is a mission for Addiko Bank. The Bank promoted social responsibility through donations of money, food, clothing, toys and school supplies for children from socially disadvantaged families.

The Bank, together with its employees, also did not remain indifferent to what was happening in the world in 2022. The employees joined in the call for humanity and peace and proved that "Addiko Cares" as they collected donations to help and support families and everyone affected by the war in Ukraine. In a week, employees raised almost EUR 4,000, and the Bank contributed two euros for every euro of an employee. The funds have been donated to the Red Cross of Slovenia and to the Slovenian Foundation of Unicef. Each organization has received half of the funding. In the #AddikoStandsWithUkraine initiative all other banks in Addiko Group and also Addiko Bank AG participated. A total of EUR 62,500 has been donated to organizations in the Region that help the people of Ukraine.

In 2022 Addiko Bank participated in the humanitarian campaign of referees together with the Association of Football Referees of Slovenia raising funds for the summer holidays of children from socially disadvantaged families in the Styria and Carinthia regions. Within the campaign the Bank participated in a charity auction of jerseys and balls donated by Slovenian international referees, thus again proving that »Addiko Cares«.

The employees also stepped in and in the summer of 2022 helped firefighters in their struggle to tame the fires in Karst region with raising funds for firefighting equipment and supplies. The funds have been distributed among the different fire brigades in the Karst.

Addiko Bank's social responsibility and humanitarian activities that build important foundations for cooperation with the local and wider social environment also continued in 2022. When opening the new branch in Supernova – Rudnik Ljubljana shopping center, Addiko Bank donated funds to the local Association of Friends of the Youth of Ljubljana Moste-Polje for the co-financing of the “Chain of Good People” program. In the last quarter of 2022 when opening the renovated branch in Velenje, the Bank donated funds to the Velenje Education and Training Center for the purchase of learning aids and supplies for the Center members and attendees.

As December is a time to make people happy with our actions, small gestures and help, Addiko employees generously participated in the Addiko Cares holiday campaign again in 2022 and collected toys, clothes, sweet treats and money for children from socially disadvantaged families. The recipient of the raised funds was once again the Association of Friends of the Youth of Ljubljana Moste - Polje.

With the Addiko Cares projects, Addiko Bank maintains its involvement in society through socially responsible behaviour on the entire Slovenian market.

10.6. Performance and development interviews and target-oriented management

In 2022, 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.

10.6.1. Bonus system

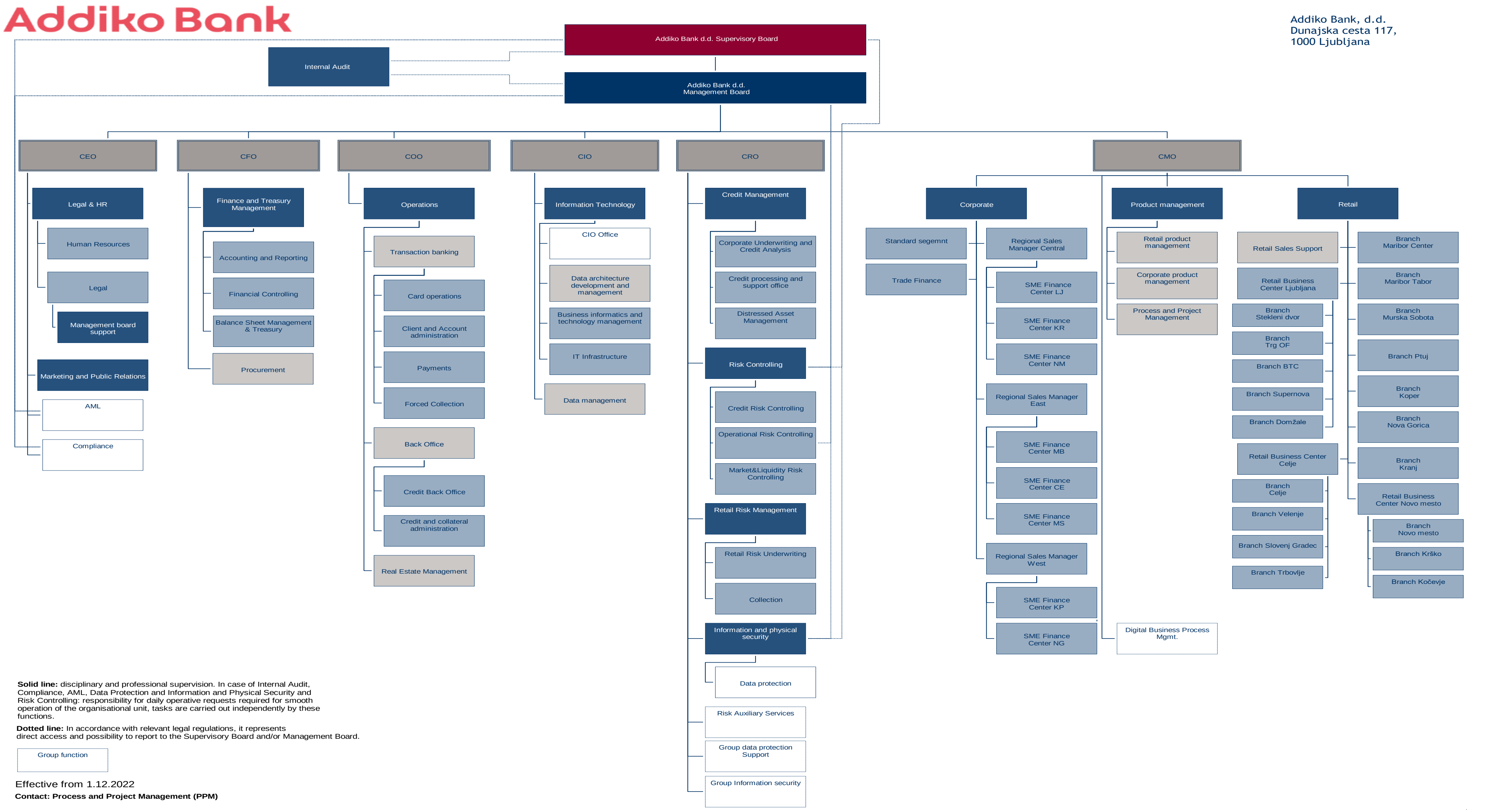
The Bank’s bonuses are awarded within the variable payment framework and are closely linked to target-oriented management. By applying individual bonuses, the Bank would like to reward an individual’s performance when demonstrating the extra-mile. They also aim to motivate teamwork and achievement of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

10.6.2. Remuneration policy

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

10.7. Organisation of the Bank

10.7.1. Organisational chart



10.8. Supervisory Board

The Supervisory Board of the Bank is comprised of six members. On 31 December 2022, the members of the Supervisory Board were:

- Edgar Flaggl, Chairman of the Supervisory Board,
- Joško Mihić, Deputy Chairman of the Supervisory Board,
- Georgiana Grigore, Member of the Supervisory Board,
- Tanya Šplajt-Brainović, Member of the Supervisory Board,
- Klemen Brenk, Member of the Supervisory Board and
- András Ferenc Matern, Member of the Supervisory Board.

The Supervisory Board met six times in 2022, of which four times for regular meetings.

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

- An Audit Committee comprising four members, all members of the Supervisory Board: Edgar Flaggl, Chairman, Joško Mihić, Deputy Chairman and Members Klemen Brenk and Tanya Šplajt-Brainović. In 2022, they met four times.
- A Risk Committee comprising four members, all members of the Supervisory Board: András Ferenc Matern, Chairman, Georgiana Grigore, Deputy Chairwoman, Edgar Flaggl and Joško Mihić, Members. In 2022, they met five times, of which four times for regular meetings.

10.8.1. 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 2022.

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 2022, the Shareholders' Assembly acknowledged the audited 2021 Annual Report, the 2021 Internal Audit Annual Report and decided on the utilization of the accumulated (net) profit. In addition, the Shareholders' Assembly had appointed the auditor for business years 2022, 2023 and 2024. At the second Shareholders' Assembly five members of the Supervisory Board were appointed:

- Edgar Flaggl, Chairman – prolongation of mandate (26.06.2022 - 26.06.2025),
- Joško Mihić, Deputy Chairman – prolongation of mandate (26.06.2022 - 26.06.2025),
- Georgiana Grigore, Member – prolongation of mandate (26.06.2022 - 26.06.2025)
- Klemen Bren, Member, – prolongation of mandate (26.06.2022 - 26.06.2025),
- Tanya Šplajt-Brainović, Member – appointment (14.06.2022 - 26.06.2025)

10.8.2. Committees and Commissions of the Bank:

- Liquidity Commission - LICO,
- Bank Credit Committee,
- Assets and Liability Committee – ALCO,
- Risk Executive Committee – RECO,
- Capital Steering Group – CSG,
- Operational Risk Management, Internal Control System, Reputation Risk Management Committee (OpRisk Committee) and Security 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.

11. Internal Control System for accounting procedures

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

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

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

- ensure that corporate strategy is implemented,
- achieve effective and efficient corporate processes,
- safeguard the value of corporate assets,
- ensure the reliability and integrity of accounting and management data,
- ensure that operations comply with all relevant rules and regulations.

The particular objectives with regard to Addiko Bank d.d. accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

The internal control system of the Bank is built on a process-oriented approach. The Bank deploys control activities through process documentation that incorporates the tracking and documentation of each process, including the information about process flow according to the internally set up guidelines for process management.

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

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

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

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical 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 the importance of internal controls.

12. 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.

13. Other disclosures

13.1. Supplementary information required by the Bank of Slovenia

In compliance with the Bank of Slovenia Decision on business ledgers (Ur. l. RS, št. 67/17,73/19, 164/20) and annual reports of commercial and savings banks (29.11.2021), the following additional data are presented below for a period of three years:

EUR thousand

INDICATORS[1]	2022	2021	2020
1. STATEMENT OF FINANCIAL POSITION			
Total assets	1,329,827	1,370,383	1,448,824
Total deposits by the non-banking sector, measured at amortised cost	1,029,784	1,022,462	1,075,777
a) by legal and other persons carrying out economic activity	501,845	561,857	623,020
b) by retail sector	527,939	460,605	452,757
Total loans to the non-banking sector	932,571	941,237	1,063,541
a) legal and other persons carrying out economic activity	407,284	419,327	511,357
b) retail sector	525,287	521,909	552,184
Total capital	201,499	187,181	192,238
Valuation adjustments and credit loss provisions	31,979	31,660	36,449
Off-balance sheet operations	395,691	472,096	748,581
2. INCOME STATEMENT			
Net interest	42,723	38,638	40,793
Net non-interest income	15,779	15,751	12,046
Labour costs, overhead and administrative costs	28,474	26,588	25,526
Amortisation and depreciation	2,796	2,796	3,175
Impairments and provisions (credit losses)	-5,718	1,618	-11,216
Pre-tax profit or loss from continuing and discontinued operations	21,515	26,409	12,845
Corporate income tax from continuing and discontinued operations	1,866	1,125	1,825
Other comprehensive income, before tax	-6,406	-1,104	-487
Corporate income tax from other comprehensive income	1,219	216	90
Number of branches	19	18	19
3. INDICATORS			
a) Capital			
Common Equity Tier 1 ratio	20.15%	20.23%	18.37%
Core Tier 1 ratio	20.15%	20.23%	18.37%
Total capital ratio	21.44%	21.82%	20.00%
Financial leverage ratio	11.81%	11.81%	10.78%
b) Profitability			
Interest margin	3.2%	2.7%	2.6%
Margin of financial intermediation	4.4%	3.9%	3.4%
Return on assets after tax	1.9%	1.8%	0.7%
Return on equity before tax	13.4%	13.5%	6.9%
Return on equity after tax	12.9%	12.9%	5.9%
c) Operating costs			
Operating costs/Average assets	2.2%	2.1%	1.8%
e) Credit risk			
Non-performing (balance sheet and off-balance-sheet) exposures/classified balance sheet and off-balance sheet exposures	1.7%	1.7%	1.4%
Non-performing loans and other financial assets/classified loans and other financial assets (26.)	1.9%	2.2%	1.4%
Non-performing loans and other financial assets/classified loans and other financial assets (27)	2.0%	1.9%	1.3%
Valuation adjustments and credit loss provisions/non-performing exposures (28.)	65.5%	57.9%	73.9%

	2022	2021	2020
Valuation adjustments and credit loss provisions/non-performing exposures (29.)	65.5%	57.9%	73.9%
Received collateral/non-performing exposures	38.0%	36.5%	22.0%

EUR thousand

INDICATORS	2022	2021	2020
4. EMPLOYEES			
at year-end	314	321	336
5. SHARES AT YEAR-END			
number of shareholders	1	1	1
number of shares	41,706	41,706	41,706
share book value (EUR)	4.5	4.5	4.6
Nominal value of share	2.1	2.1	2.1

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

		1.-3. 2022	4.-6. 2022	7.-9. 2022	10.-12. 2022
	d.) Liquidity				
37.	Liquidity coverage ratio	249,6%	234,5%	218,6%	217,2%
38.	Net stable funding ratio	133,6%	131,1%	131,2%	135,2%

13.2. Events after the business year 2022

Since 31 December 2022, there were no other events that would materially affect the financial statements herein.

14. Research & Development

Addiko Bank does not conduct any Research & Development activities.

15. Outlook 2023

The uncertainty caused by the Covid-19 pandemic is eliminated but forecasting future developments is still difficult, especially because a lot depends on unfolding of events in Ukraine. On one hand Addiko Bank expects some form of a recession and on the other hand a central bank policy which does not necessarily add to lead economies into growth.

In 2023, Addiko Bank expect increased inflation to persist and peak at or slightly after mid-2023 with possibility to decrease somewhat afterwards but stay on a higher level throughout the year. The European Central Bank which is increasing rates is forecasted to do so also during this year whereby the top deposit rate despite hard to forecast shall be up to 4%, according to market researchers and ECB commentators. Inflation, which already started to decrease at the end of 2022, shall decrease further but staying significantly above the ECB's target of 2%, hence excusing increased interest rates. High energy prices, which are the main driver of inflationary pressures, are partly related to political and geostrategic events outside Slovenia, are forecasted to persist throughout 2023 with the next winter period being significantly uncertain as to gas capacities in Europe as well as in Slovenia. GDP growth is expected to amount to 1.9% in 2023 and increase significantly next year.

Addiko Bank's operations are inextricably linked to the state of the Slovenian economy, which returned to pre-crisis levels in the last quarter of 2021 and recorded additional growth in 2022. After further increasing the volume of lending in Slovenia in 2023, Addiko Bank will further deepen its activity, focusing solely on small and medium-sized enterprises, where it is already conducting its activity. Higher interest rates, being the result of continuing increases by ECB, shall somewhat offset the pressures, resulting from competitive circumstances in the loan stock. On the other hand, the Bank will continue its trend of keeping low operating costs and maintain them through strict cost discipline and continuous optimization.

The quality of the loan portfolio shall not deteriorate as the Bank has not been active in real estate financing which might come under pressure due to market circumstances. In fact, the quality of the loan portfolio is expected to increase due to well diversified risks and constant monitoring of its borrowers. The Bank's focus on consumer and SME lending ("focus areas") and payment services and its commitment to further digital transformation will continue to make a decisive contribution to this.

The Bank’s liquidity shall remain high. Due to its extremely strong liquidity position, the effects of the pandemic did not lead to any significant outflows. This is also not expected to be the case in the future, as the Currency Risk Limitation and Allocation Act by which Slovenian banks would be obligated to convert CHF loans into euro loans, has been declared unconstitutional by Slovenia’s Constitutional court. The Bank's liquidity and solvency are not and will not be jeopardized in any way.

Report of the President of the Supervisory Board of the Bank

In 2022, the Supervisory Board of Addiko Bank d.d. supervised the business of the Bank, its financial results and the performance of its Management Board.

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

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

In 2022, the Supervisory Board had four regular meetings and two extraordinary meetings. The Supervisory Board has two committees: The Risk Committee and the Audit Committee. Both committees perform tasks set forth in the relevant laws and the Rules of procedure.

The decisions of the Supervisory Board were unanimous, the members of the Supervisory Board expressed their opinions with arguments and actively participated in the discussions. The Supervisory Board has adopted and confirmed the following in 2022: the Annual report of the Bank for the year 2021 and the allocation of profits, the appointment of a procurator, Sales Incentive Scheme 2022, Fit&Proper Assessment for President of the Management Board Andrej Andoljšek, the work plans for the Internal Audit and Compliance departments, the report on the Internal Capital Adequacy Assessment (ICAAP), the risk appetite framework and the framework for the remediation of the Bank. Further, the Supervisory Board had acquainted itself with the five-year budget of the Bank as well as the annual reports of the Internal Audit, Compliance and Anti-Money laundering departments.

The Audit Committee had four regular meetings in 2022. The Audit Committee helps the Supervisory Board with the fulfilment of its duties and competences regarding the adequacy and efficiency of internal controls, which includes risk management, compliance, the adequacy of accounting standards used for the preparation of the financial statements, and the suitability and independence of external auditors.

The Risk Committee had four regular meetings and one extraordinary meeting in 2022 The Risk Committee counsels the Supervisory Board regarding the risk appetite of the Bank and its risk management strategy and monitors whether the remuneration system takes into account risk, capital, liquidity, the probability and timeline of the Bank’s income, as well as whether the Bank’s product pricing is compatible with its business model and risk management strategy. The Risk Committee also addresses and monitors the reports on various types of risk and acquaints itself with pending topics regarding risk management.

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 unmodified opinion issued by the audit firm KPMG poslovno svetovanje d.o.o., the Supervisory Board analyzed the Business Report of Addiko Bank in 2022.

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.

The Supervisory Board assesses that it has performed its duties in 2022 with quality, responsibly, with the highest ethical standards, due diligence and in compliance with the relevant legislation and internal rules.

President of the Supervisory Board

Edgar Flaggl,
President

Ljubljana, 22.3.2023

Statement on internal governance arrangements

As at 31.12.2022, Addiko Bank d.d. is not a public company in terms of the Takeover Act because it has no financial instruments included in any organised trading or quoted on the stock market.

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

1) Provisions of the applicable Banking Act (ZBan-3), which define internal governance arrangements, in particular the provisions of Chapter 3.4 (Organisation of the Bank) and Chapter 6 (Internal governance) in the requirements applicable to a bank/savings bank or members of a management board;
2) Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks; and
3) EBA guidelines governing internal governance, assessment of the suitability of the members of the management body and key function holders as well as remuneration policies and practices on the basis of the relevant decisions of the Bank of Slovenia on the application of these guidelines.

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

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

1) a description of the main characteristics of internal control and risk management systems and mechanisms of the Bank in Chapter 11. Internal Control System for accounting procedures. The Bank keeps books and other records that enable financial reporting and ongoing monitoring of the Bank's effectiveness and compliance of risk management
2) data on the activities of the General Assembly and its key competences and the description of the rights of the shareholders in Chapter 10.7. Organisation of the Bank
3) data on the activities of management and supervisory bodies and their committees in Chapter 10.7. 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 10.1. 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, 22.3.2023

Management Board of the Bank		Supervisory Board of the Bank
Andrej Andoljšek, President of the Management Board	Anja Božac Member of the Management Board	Edgar Flaggl, President

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

[2] The Bank of Slovenia Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks , Official Gazette of the Republic of Slovenia, no. 115/21.

Declaration on the adequacy of risk management

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

the Management Board represented by Members Andrej Andoljšek, Anja Božac

and

the Supervisory Board represented by President Edgar Flaggl,

confirm, by signing this Declaration, the adequacy of the risk management system, which represents an independent area in the organisational scheme of the Bank.

The risk management system is in line with the Bank's risk profile and the Bank's strategy and risk-taking capabilities.

Ljubljana, 22.3.2023

Management Board of the Bank

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

Supervisory Board of the Bank
Edgar Flaggl,
President

Financial report

Statement of Management's responsibility

The Management Board has approved the financial statements for the year ended 31 December 2022, 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 2022. 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 as adopted by EU.

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

Ljubljana, 22.3.2023

Management Board of the Bank

Andrej Andoljšek,
President of the
Management Board

Anja Božac,
Member

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Slovenija

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Independent Auditors' Report

To the shareholders of Addiko Bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Addiko Bank d.d. (the "Bank"), which comprise:

- the statement of financial position as at 31 December 2022;

and, for the period from 1 January to 31 December 2022:

- the statement of profit or loss and statement of other comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;

and

- notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as adopted by the European Union ("IFRS EU").

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vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556000

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 current period. 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.

We have determined the following key audit matters:

Impairment of loans and advances to customers

As at 31 December 2022 the carrying amount of loans and advances to customers: EUR 938,899 thousand (2021: EUR 930,168 thousand); impairment loss recognised in 2022: EUR 7,688 thousand (2021: EUR 1,552 thousand); total impairment loss as at 31 December 2022: EUR 28,413 thousand (2021: EUR 26,430 thousand).

Refer to Note 12.2. (Impairment), Notes 33 (Credit loss expenses on financial assets) and 37.2 (Loans and advances and other financial assets to customers).

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within loans and advances to customers at amortized cost ("loans", exposures") at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment and assumptions from the Management Board. As part of the impairment assessment, each loan is allocated into one of three stages in line with IFRS 9 *Financial instruments*. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans representing loans where a significant increase in credit risk ("SICR") since origination has been observed. Stage 3 loans are non-performing, i.e. in default. ECLs for individually significant Stage 3 loans are based on an analysis of estimated, scenario-weighted future recoveries. The analysis	Our audit procedures in this area, performed, where relevant, assisted by our own financial risk management and IT audit specialists, included, among others: • Obtaining understanding of the Bank's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Management Board on whether the level of methodology sophistication is appropriate based on our assessment of the entity-level and portfolio-level factors, including inspecting and assessing the internal validation reports;

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considers the circumstances of each individual customer and the estimated amount and timing of future cash flows, including the realizable value of any related collateral. For all other loans, the Bank performs a collective assessment of ECLs based on common risk characteristics. The key parameters used in the collective assessment, such as PD, LGD and EAD, are based on statistical expectations relying on the Bank's historical experience and forward-looking information. In addition, as the ECL model used to date may not adequately reflect extraordinary circumstances such as current market volatility, an increase in the ECLs ("post model adjustment") has been applied by the Bank in addition to the model results. For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the current geopolitical and economic volatility, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	• Making relevant inquiries of the Bank's risk management, internal audit and IT personnel in order to gain understanding of the ECL provisioning process and IT applications used therein, and also testing the Bank's IT control environment for data security and access; • Testing the design, implementation and operating effectiveness of selected controls over the monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, and validation of the overall ECL estimate; • For a risk-based sample of loans, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the credit risk management personnel, the existence of any triggers for classification to Stage 3. • For a risk-based sample of individually significant loans in default (Stage 3), challenging key assumptions applied in the estimates of future cash flows used in the impairment estimate, such as discount rates, collateral values and recovery period, where relevant, by reference to publicly available market data; • For loans assessed on the collective (portfolio) basis: — challenging the collective PD, LGD and EAD parameters used by the Bank, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances; — obtaining the relevant forward-looking information and macroeconomic projections used in the ECL assessment and independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available sources; — challenging the post model adjustment applied, by reference to our knowledge of the industry and our understanding of the current macro-economic situation;

	• Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposure and the non-performing loans provision coverage. • Examining whether the loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 March 2022.

Other Information

Management is responsible for other information. The other information comprises the Business Report, Report of the President of the Supervisory Board of the Bank, Statement on internal governance arrangements and Declaration on the adequacy of risk management included in the Annual report, but does not include the financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report for the year ended 31 December 2022, except for the Report of the President of the Supervisory Board of the Bank.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act dated 4 May 2006 (official gazette of Republic of Slovenia No. 42/2006 with amendments - hereafter referred to as "the applicable legal requirements"). Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion, in all material respects:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Bank and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this respect.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS EU, 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, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Auditors' 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 auditors’ 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 ISAs and EU Regulation (EU) No 537/2014 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 ISAs and EU Regulation (EU) No 537/2014, 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 material 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 Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of 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 Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ 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 auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholders on the shareholders meeting dated 30 March 2022 to audit the financial statements of the Bank for the year ended 31 December 2022. Our total uninterrupted period of engagement is 1 year.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 22 March 2023;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Bank in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit and services, which are disclosed in the Management Report or in the financial statements of the Bank, we have not provided any other services to the Bank.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Signed on the Slovenian original

Domagoj Vuković, FCCA
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
1

Ljubljana, 22 March 2023

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Table of Content

I Statement of profit and loss and statement of comprehensive income

Statement of profit or loss

EUR thousand

	Note	01.01. - 31.12.2022	01.01. - 31.12.2021
Interest income calculated using the effective interest method		46,057	42,566
Other interest income		915	573
Interest expenses		-4,248	-4,501
Net interest income	25	**42,723**	**38,638**
Dividend income		20	21
Fee and commission income	26	17,982	16,339
Fee and commission expenses	26	-3,442	-3,026
Net fee and commission income		**14,540**	**13,313**
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	27	0	1,237
Net gains or losses on financial assets and liabilities held for trading	27	-1,502	-1,285
Net exchange differences	27	1,854	1,613
Net gains and losses on derecognition of non-financial assets	27	-46	1
Other net operating income	28	825	855
Administrative expenses	29,30	-27,614	-25,543
Cash contributions to resolution funds and deposit guarantee schemes	31	-859	-1,045
Depreciation and amortisation	32	-2,796	-2,796
Modification gain or loss		81	45
Provision for other liabilities and charges		29	-5
Provision for commitment and guarantees	33	565	1,189
Impairment financial assets	33	-6,313	434
Impairment non-financial assets		0	-213
Net gains or losses from non-current assets held for sale		8	-49
Profit before tax		**21,515**	**26,409**
Income tax expense	34	-1,866	-1,125
Profit for the period		**19,649**	**25,284**

The accompanying notes from 1 to 75 form an integral part of the financial statements and should be read in conjunction with them.

Statement of other comprehensive income

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Profit after tax	**19,649**	**25,284**
Other comprehensive income	**-5,187**	**-887**
Items that will not be reclassified to profit or loss	**-464**	**-58**
Actuarial gains or (-) losses on defined benefit pension plans	9	33
Fair value reserve - equity instruments	-472	-92
Net change in fair value	-583	-113
Income tax	111	22
Items that may be reclassified to profit or loss	**-4,724**	**-829**
Fair value reserve - debt instruments	-4,724	-829
Net change in fair value	-5,831	-647
Net amount transferred to profit or loss	0	-376
Income tax	1,108	194
Total comprehensive income for the year	**14,462**	**24,397**

The accompanying notes from 1 to 75 form an integral part of the financial statements and should be read in conjunction with them.

II Statement of financial position

EUR thousand

	Note	31.12.2022	31.12.2021
Assets			
Cash and cash equivalents	35	180,954	254,446
Financial assets held for trading	36	2,929	819
Non-trading financial assets mandatorily at fair value through profit or loss	38	313	313
Financial assets at fair value through other comprehensive income	38	67,986	98,575
Financial assets at amortised cost		1,053,320	981,711
Loans and advances to credit institutions	37	50,229	49,930
Loans and advances to customers	37	938,899	930,168
Debt securities	38	62,938	0
Other financial assets	37	1,253	1,613
Tangible assets	39,41	8,349	9,157
Intangible assets	40,41	2,192	2,312
Tax assets	34	13,124	11,551
Current tax assets		267	0
Deferred tax assets		12,857	11,551
Other assets	42	541	431
Non-current assets and disposal groups classified as held for sale	43	121	11,068
Total assets		**1,329,827**	**1,370,383**
Equity and liabilities			
Financial liabilities held for trading	44	2,531	1,432
Financial liabilities measured at amortised cost	45	1,117,893	1,172,408
Deposits from banks and central banks		2,671	698
Borrowings from banks and central banks		55,965	121,554
Deposits from customers		1,029,784	1,022,272
Subordinated liabilities		15,009	15,005
Debt securities issued		50	50
Other financial liabilities		14,414	12,830
Provisions	46	5,551	5,101
Tax liabilities	34	0	1,373
Current tax liabilities		0	1,373
Other liabilities	47	2,354	2,888
Total liabilities		**1,128,329**	**1,183,202**
Capital		89,959	89,959
Share premium		18,814	18,814
Accumulated other comprehensive income		-5,065	124
Retained earnings (including profit or loss for the financial year)		97,791	78,284
Total equity	**48**	**201,499**	**187,181**
Total equity and liabilities		**1,329,827**	**1,370,383**

The accompanying notes on pages from 1 to 75 an integral part of the financial statements and should be read in conjunction with them.

III Statement of changes in equity

The statement of changes in equity is presented at the 31.12.2022 as follows:

EUR thousand

	Subscribed capital	Capital reserves	Fair value reserve	Retained earnings and other reserves	Total
Equity as at 01.01.2022	**89,959**	**18,814**	**85**	**78,324**	**187,181**
Profit after tax	0	0	0	19,649	19,649
Other comprehensive income	0	0	-5,196	9	-5,187
Total comprehensive income	0	0	-5,196	19,658	14,462
Transactions with equity holders	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other changes	0	0	0	-143	-143
Equity as at 31.12.2022	**89,959**	**18,814**	**-5,111**	**97,839**	**201,499**

The statement of changes in equity is presented at the 31.12.2021 as follows:

EUR thousand

	Subscribed capital	Capital reserves	Fair value reserve	Retained earnings and other reserves	Total
Equity as at 01.01.2021	**89,959**	**18,814**	**1,005**	**82,460**	**192,238**
Profit after tax	0	0	0	25,284	25,284
Other comprehensive income	0	0	-920	33	-887
Total comprehensive income	0	0	-920	25,317	24,397
Transactions with equity holders	0	0	0	-29,454	-29,454
Dividends paid	0	0	0	-29,454	-29,454
Other changes	0	0	0	1	1
Equity as at 31.12.2021	**89,959**	**18,814**	**85**	**78,324**	**187,181**

The accompanying notes on pages from 1 to 75 form an integral part of the financial statements and should be read in conjunction with them.

IV Statement of cash flows

EUR thousand

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flow from operating activities before changes in operating assets and liabilities	**28,734**	**27,139**
Total profit before tax	21,515	26,409
Depreciation	2,796	2,796
Impairments / (reversal of impairments) of loans and other financial assets measured at fair value through other comprehensive income	-2	-222
Impairments / (reversal of impairments) of loans and other financial assets measured at amortised cost	6,314	-211
Impairments of tangible assets (including investment property), intangible assets and other assets	0	26
Net (gains) / losses from exchange differences	-1,854	-1,613
Modification gains/losses	-81	-45
Net (gains) / losses from sale of tangible assets	46	0
(Increases) / decreases in operating assets (excluding cash & cash equivalents)	**19,853**	**153,410**
Net (increase) / decrease in financial assets held for trading	-2,109	1,773
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income	24,569	6,921
Net (increase) / decrease in loans and advances measured at amortised cost	-13,445	155,529
Net (increase) / decrease in non-current assets and disposal groups classified as held for sale	10,948	-11,002
Net (increase) / decrease in other assets	-110	189
Increases / (decreases) in operating liabilities	**-53,449**	**-75,240**
Net increase / (decrease) in financial liabilities held for trading	1,100	-443
Net increase / (decrease) in deposits, loans and advances measured at amortised cost	-54,464	-74,283
Net increase / (decrease) in investment securities issued measured at amortised cost	0	-5
Net increase / (decrease) in other liabilities	-85	-509
Cash flow from operating activities	**-4,863**	**105,310**
Income taxes (paid) / refunded	-3,593	-366
Net cash flow from operating activities	**-8,456**	**104,944**
CASH FLOW FROM INVESTING ACTIVITIES		
Receipts from the sale of tangible assets	224	282
Receipts from the disposal of investments in investment securities measured at amortized cost	15,003	0
Cash flows from investing activities	**15,227**	**282**
(Cash payments to acquire tangible assets)	-668	-795
(Cash payments to acquire intangible assets)	-711	-749
(Cash payments to acquire investments in investment securities measured at amortized cost)	-77,846	0
Cash payments on investing activities	**-79,225**	**-1,543**
Net cash flow from investing activities	**-63,998**	**-1,261**
CASH FLOW FROM FINANCING ACTIVITIES		
(Dividends paid)	0	-29,454
(Lease payments)	-1,351	-1,300
Net cash flow from financing activities	**-1,351**	**-30,754**
Effects of change in exchange rates on cash and cash equivalents	251	786
Net increase in cash and cash equivalents	**-73,804**	**72,928**
Opening balance of cash and cash equivalents	**254,514**	**180,799**
Closing balance of cash and cash equivalents	**180,961**	**254,514**

The accompanying notes from 1 to 75 from an integral part of the financial statements and should be read in conjunction with them.

Notes to the financial statements

Company

Addiko Bank is a specialist bank focusing on providing banking products and services to Consumer and Small and Medium-sized Enterprises (SME) in Slovenia. Through its branches, the Bank services approximately 75 thousand customers, using a network of 19 branches and modern digital banking channels.

Based on its strategy, Addiko Bank repositioned itself as a specialist Consumer and SME banking bank with a focus on growing its Consumer and SME lending activities as well as payment services (its "focus areas"), offering unsecured personal loan products for consumers and working capital loans for its SME customers. These core activities are largely funded by retail deposits. Addiko Bank's Mortgage, Public and Large Corporate lending portfolios (its "non-focus areas") are subject of an accelerated run-down process, thereby providing liquidity and capital for the growth in its Consumer and SME lending.

Addiko Bank d.d. is a Slovenian Public Limited company registered in the Slovenian business register under company registration number SRG 99/01362. The headquarter is located at Dunajska cesta 117, 1000 Ljubljana, Slovenia.

The Bank is 100% owned by Addiko Bank AG. The Addiko Bank AG headquarters is located at Canettistraße 5 / 12. OG 1100 Vienna, Austria. Addiko Bank d.d. is included in the consolidated financial statements of the Addiko Bank AG. The financial statements can be obtained at the headquarters and the following websites: www.addiko.si and www.addiko.com.

(1) Accounting principles

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

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

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 stated in thousand of euros (EUR thousand), except when otherwise indicated; the euro (EUR) is the reporting currency. The tables shown may contain rounding differences.

On 21 March 2023, the Management Board of Addiko Bank d.d. approved the financial statements as at 31 December 2022 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 2022.

(2) Application of new standards and amendments

New standards, interpretations and their amendments are listed below.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2022:

Standard	Name	Description	Effective for financial year
IFRS 16	Amendments to IFRS 16 Leases	Covid 19-Related Rent Concessions	from April 2021
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual improvements to IFRS 2018-2020 Cycle	IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial instruments, IFRS 16 Leases, IAS 41 Agriculture	2022
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework	2022
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use	2022
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts	2022

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

The amendments to **IFRS 16 Leases** (Covid-19-Related Rent Concessions) extend the practical expedient in relation to Covid-19 related rent concession for any change in lease payments originally due on or before 30 June 2022. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

2.2. Annual improvements to IFRS Standards 2018-2020 Cycle

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

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

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

2.3. IFRS 3 Business combinations

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

2.4. IAS 16 Property, plant and equipment

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

2.5. IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

2.6. New standards not yet effective

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

Standard	Name	Description
IFRS 17	IFRS 17 Insurance contracts	New Standard replacing IFRS 4
IFRS 17	Amendments to IFRS 17 Insurance contracts	Initial application of IFRS 17 and IFRS 9 – Comparative information
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Disclosure of Accounting policies
IAS 8	Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors	Definition of Accounting Estimates
IAS 12	IAS 12 Income Taxes	Deferred Tax related to Assets and liabilities arising from a Single Transaction

New standard **IFRS 17** Insurance contracts will replace IFRS 4 Insurance contracts. It applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. This new standard as well as its amendments are not expected to result in any significant changes within Addiko Bank.

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

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

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

New standards, interpretations and amendments to existing standards issued by the IASB but not yet effective were not early adopted by Addiko Bank and application of these standards, interpretations and amendments is not expected to have a significant impact on Addiko Bank´s financial statements.

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

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

Standard	Name	Description
IFRS 16	Amendments to IFRS 16 Leases	Lease liability in sale and leaseback
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current

The amendments to **IFRS 16** Leases require the seller-lessee to determine lease payments or revised lease payments such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. It applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within Addiko Bank.

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

(3) Interest rate benchmark reform - Phase 2

Addiko Bank has exposure to IBORs on its financial instruments that were reformed. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. The remaining USD LIBOR tenors will be ceased as at 30 June 2023. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates.

EURIBOR interest rates are compliant with EU Benchmarks Regulation and it is expected that they will not be affected by IBOR reform. Also the local reference rates used in the subsidiaries are not expected that they will affected by IBOR reform.

During 2021 and 2022 Addiko Bank was in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rates, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform. The main risks to which Addiko Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves, revision of operational controls related to the reform and assessing of potential litigation risk. Financial risk is predominantly limited to interest rate risk.

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

The main focus of Addiko Bank during 2021 and 2022 was the transition of CHF LIBOR. In the European Union, there is a statutory solution based on EU Commission implementing act therefore annexes of customers contracts are not needed. Customer loans were automatically migrated to SARON (Swiss Average Rate Overnight) Compound Rate with first interest rate reset in 2022.

The transition of USD LIBOR contracts will be performed during the year 2023. Addiko Bank expects EU statutory solution, similar to Commission implementing act which resolved CHF LIBOR- and EONIA-linked instruments.

EURIBOR was so far reformed (the calculation methodology was changed) rather than being replaced. Addiko Bank expects that EURIBOR will continue to exist as a benchmark rate, but to be prepared on different scenario, fallback clauses were prepared by external law firm and will be incorporated in any existing as well as new loan agreements. Addiko Bank further monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts and the volume of instruments that have yet to transition to an alternative benchmark rate. Addiko Bank evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

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

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

The following table shows the total amount of financial instruments which were referenced to LIBOR and which have transitioned to the new reference rates during the year 2022:

EUR thousand

	Non-derivative financial assets		Non-derivative financial liabilities		Derivatives	
	No. of contracts	Carrying amount	No. of contracts	Carrying amount	No. of contracts	Nominal amounts
CHF	1,012	42,911	0	0	0	0
Total	**1,012**	**42,911**	**0**	**0**	**0**	**0**

The following table shows the total amount of financial instruments which are yet to transition to the new reference rates and which are referenced to LIBOR held on 31 December 2022:

EUR thousand

	Non-derivative financial assets		Non-derivative financial liabilities		Derivatives	
	No. of contracts	Carrying amount	No. of contracts	Carrying amount	No. of contracts	Nominal amounts
CHF	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**

(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 experiences and other factors such as planning and expectations or forecasts of future events that appear likely from a current perspective. Since estimates and assumptions made are subject to uncertainties, this may lead to results that require carrying amount adjustments of the respective assets and liabilities in future periods. Significant estimates and assumptions in 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, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis. The uncertainty which is inherent to estimating expected credit losses is very elevated, especially due to the strongly increased volatility of the economic environment as consequences of war in Ukraine and the turmoil on energy markets due to the introduction of Western sanctions against the Russian petrochemicals. Due to the fact that the current developments are not comparable to the historic data in the existing models, Addiko has addressed the uncertainty by considering post model adjustments (PMAs). These adjustments include:

1. Post-model adjustments (PMAs) to address the positive impact of the macroeconomic development during late 2021 and early 2022 on the PD models, where some models recognize the current development as a significant improvement compared to the last recognized position;
2. PMAs to address the uncertainty of the future of the macroeconomic environment and high overall volatility. As observed in the last years, macroeconomic projections changed quite frequent and could be significantly different depending on the institute providing the projections. IFRS 9 modelling framework can not reasonably capture this uncertainty and the high volatility in the macroeconomic environment.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (12) Financial instruments as well as to the Risk Report under note (55.2) Development of risk provisions.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear to be highly likely. These estimates are based on the respective 5 years tax plans prepared by the management. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Addiko Bank regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Due to the current macroeconomic environment, affected by inflationary pressures, increase in the interest rates, deterioration of the business climate, geopolitical risks and the remaining pandemic-related effects, there is substantially more uncertainty than under normal market conditions, which may affect the projections of future taxable profits. In addition, although Addiko Bank currently has no information or indications of a change of the relevant tax regulations, this may be revised in the future, with the imposition of a time limit or reduction for carry forward losses.

For further details regarding tax loss carried forward please refer to note (34) Taxes on income.

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

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods.

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

Lease contracts
The application of IFRS 16 requires 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 Addiko Bank comprises the non-cancellable periods 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. If there is a significant event or significant changes in circumstances within the Bank's control, the lease terms are reassessed, especially with regards to extension or termination options. For lease contracts with indefinite term Addiko Bank estimates the length of the contract by using planning models.

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

For further details regarding the treatment of leasing contracts please refer to the note (7) Leases.

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

- Classification of financial assets (business model assessment, SPPI assessment) – the note (12) Financial instruments

(5) Basis of measurement

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

Items	Measurement basis
Financial assets and liabilities held for trading	Fair value
Investment securities at fair value through other comprehensive income	Fair value
Investment securities at fair value through profit or loss	Fair value
Non-current assets and disposal groups classified as held for sale	Amortized cost (Loans and advances)
Provision for cash-settled shared-based payments	Fair value
Provision for pensions and other post-employment defined benefit obligations	Present value of defined benefit obligations

(6) 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.

(7) Leases

7.1. Leases in which Addiko Bank is a lessee

At inception of each Addiko Bank assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the 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 assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the 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 Addiko Bank elected to recognise such lease contracts off the statement of financial position and lease expenses are accounted on straight-line basis over the remaining lease term.

IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Addiko Bank has not used this practical expedient.

Lease payments generally include fixed payments less lease incentives and variable payments that depend on an index or an interest rate. Prolongation options, termination options and purchase options are also considered (see note 4) "Use of estimates and assumptions/material uncertainties in relation to estimates"), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

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

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

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

7.2. Leases in which Addiko Bank is a lessor

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

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

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

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

7.3. 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 charge for the right of use assets is presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities is presented in the line item "Interest expenses" in the statement of profit or loss.

Addiko Bank as a lessor in an operating lease, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well direct operating expenses are reported under the line item “Other operating income” or "Other operating expense", scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

With regards to the presentation in the Cashflow Statement, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. Addiko Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of financing activities.

(8) Net interest income

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

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (with the exception of purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).

Interest income from assets held for trading, as well as interest components of derivatives are presented in “Net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “Net result on financial instruments”.

Negative interest from financial assets is presented in “Interest expenses” and from financial liabilities in “Interest income”.

(9) Net fee and commission income

Fee and commission income (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “Net fee and commission income”. Addiko Group derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

In accordance with IFRS 15, income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

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

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

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

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

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

In the note (26) Net fee and commission income in the notes to the statement of profit or loss, the product view is used as a base for presentation.

(10) Net result on financial instruments

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

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

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

(11) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities as expenses for restructuring or income from operating lease assets.

(12) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with **IFRS 9** Financial Instruments.

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

12.1. 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.

In the infrequent case that the entity changes its business model for managing certain financial assets and specific IFRS 9 requirements would be fulfilled, 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.

For financial asset held at FVTOCI that are reclassified to financial assets held at amortised costs, the cumulative gain or loss previously recognized in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised costs and effective interest rate is not affected. In addition, the related cumulative ECL held within other comprehensive income are reversed and recognized as an adjustment to the gross carrying value of the reclassified assets at the date of reclassification.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

The SPPI compliance is assessed as follows:

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

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at FVTOCI. During 2021 and 2022, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

At the reporting date Addiko Bank has no loans in the portfolio including features that change contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. In case in the future, instruments with ESG feature will be issued or purchased, Addiko Bank policy is first to verify if the effect of the ESG feature could only have a de minimis effect on the contractual cash flows of the loan, then the feature does not affect the classification of the loan. However, if the effect of the ESG feature could be more than de minimis, then judgement will be required about whether the feature would be consistent with a basic lending arrangement and meet the SPPI criterion.

Classification and measurement of financial assets and financial liabilities

Financial assets

Based on the entity's business model and the contractual cash flow characteristics Addiko Bank classifies financial assets in the following categories:

- A financial asset is measured at amortised cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

A financial asset is recognised when Addiko becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.

Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a "held to collect" business model.

On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method". Impairment is presented in the line "Credit loss expenses on financial assets". The major volume of financial assets of Addiko Bank are measured at amortised cost. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

Financial assets at fair value through other comprehensive income
A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the 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 statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Dividend income and gains and losses from derecognition are presented in the line "Net result on financial instruments".

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

Addiko Bank designated at FVTOCI investments a small portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

Financial assets at fair value through profit or loss
A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. In addition, Addiko Bank may use option to designate some financial assets as measured at FVTPL. Interest income is presented in the line "Other interest income". Dividend income and gains and losses from revaluation and derecognition are presented in the line "Net result on financial instruments". In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model.

Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, Addiko 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 case in Addiko Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

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

Financial liabilities
Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.
When a modification or an exchange of financial liability measured at amortised cost does not result in the derecognition of the original financial liability, Addiko Bank recognises an adjustment to the amortised cost of the financial liability arising from a modification or an exchange in profit or loss at the date of the modification or exchange.

Addiko Bank participated in the previous years in the ECB program to found banks called “Targeted Longer-Term Refinancing Operations” (TLTRO III). Originally the interest rate depended on a rate applied for the Eurosystem´s main refinancing operation (average deposit facility rate “DFR” which was calculated over the entire 3-years lifetime of TLTRO III tranches) and on achieving of specific volume of customer loans. If the target was achieved, the interest rate was reduced. Such terms and conditions were aimed to support the provision of loans to customers. Periodically Addiko Bank assessed whether the criteria were met. Changes in estimates due to revised assessment of eligibility conditions would have been booked as an adjustment of the carrying amount (revised estimated received payments) and in net interest income. However, in 2021 and 2022, Addiko Bank assessed that the criteria for the reduction of interest rate were not met. In October 2022, the ECB recalibrated the TLTRO III. From 23 November 2022, the interest rate on all remaining TLTRO III operations are indexed to the average applicable key ECB interest rates from the day onward. This change did not have any impact on the Bank, as during the year 2022 all TLTRO III loans were repaid. Financial liabilities arising from TLTRO III were presented in the line “Deposits of credit institutions” and were measured at amortised costs. Received refinancing loans were not considered as below-market interest rate loans, due to the fact that ECB creates its own market with liquidity products and similar conditions are offered to all eligible participants. For further detail, see the note (25) Net interest income.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. Addiko Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2022 and 2021.

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

12.2. Impairment

While applying the forward-looking ECL model, Addiko Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

The lifetime ECL is the expected present value of losses that arise if borrowers default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in Note (38) Investment securities.

Overview ECL calculation

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

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

The PD (probability of default) parameters reflect the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by Addiko Bank internal model development units. Generally, the models are country (Slovenia) specific and segment specific whenever possible and plausible. For certain parts of the portfolio, Group wide models (for all countries, including Slovenia) are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodology wise, an indirect 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, prepayments and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time of default while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames). For the EAD parameter internally developed statistical models are used. Also, Addiko Bank uses statistically developed models to estimate the prepayment rates in its portfolios.

LGD (loss given default) is an estimate of the economic loss under condition of a default. For the LGD parameter in both retail and Corporate internally developed statistical models are applied. Those values are internally aligned while qualitative checks are performed to ensure an adequate level.

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

Significant increase in credit risk

Addiko Bank measures ECL in three stages as the deterioration in credit quality takes place. Namely, for stage 1, up to 12-month ECL is reported, and for stage 2 and 3, the full lifetime expected credit loss is recognised.

Stage 1 begins as soon as a financial instrument is originated and up to 12-month ECL is recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated on the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly, assets move into stage 2, referring to the Banks' staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

Addiko Bank uses the definition of default according to CRR Article 178, as this is the industry standard and it allows consistency between entities in Addiko Group and risk management processes. The determination that a financial asset is credit-impaired is achieved through the tracking of default criteria defined in the Default detection policy.

For the ECL calculation, Addiko Bank classifies transactions in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken across portfolios types. The staging indicators are classified as follows:

Qualitative staging criteria:

- 30 days past due: the Bank identifies a staging criterion trigger when contractual payments are more than 30 days past due.
- Forborne exposures: are those exposures where the Bank has extended forbearance measures because of the debtor facing financial difficulties. Forbearance events may result in an exposure being classified as performing or non-performing, which implies a stage transfer into stage 2 or 3.

Further qualitative criteria in connection with the watchlist/early warning systems are reflected in the PD via the automatic downgrade of the client (as incorporated within the rating models and processes) or as a specific stage trigger depending on the portfolio.

Quantitative criteria are applied based on the probability of default, namely significant adverse changes in the 12-months probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed as a threefold increase of PD. In addition, for some parts of the portfolios leverage is applied as an additional stage criterion to reflect changes in exposure caused by macroeconomic circumstances which were not fore-seeable at initial recognition and/or are not directly reflected in the PD at the reporting date. Due to limited timeseries there are cases where the rating at origination is not available. For such cases, a simplified proxy approach based on historically simulated ratings is used (PD at certain point in time is used as a proxy for the initial recognition) while additional mechanisms are applied to account for potential adverse effects resulting from this assumption.

Both, the qualitative and quantitative factors used for the staging determination, are undergoing a constant validation and monitoring process to ensure their appropriateness and applicability over time (see chapter “Validation”).

Forward-looking information

Addiko Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instru-ment has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments, incorporating historical data analysis and estimated relationships between macroeconomic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country level (Slovenia specific) and portfolio level whenever possible and plausible.

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from external data sources. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect the Bank’s view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current estimates, assumptions and projections of the Bank as well as currently available public information. They are not guaranteeing future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements.

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalised upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

The Bank distinguishes between an initial and an ongoing validation:

- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values;

- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed).

In addition to the yearly process a close monthly monitoring is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled.

The validation is performed by an independent internal unit which delivers reports to Risk controlling unit, which after performed review, further delivers reports to management.

Write-offs

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

Write-off can be done only against already recognised ECL. The amount written off can be either a full write-off or a partial write-off.

In addition to the general derecognition criteria (see chapter "Derecognition and contract modification") the following specific criteria fulfilment would lead to the derecognition of financial assets:

- Unsecured financial asset if the debtor is already undergoing bankruptcy proceedings,
- Unsecured financial asset if no repayment occurred within a period of one year on observed financial asset,
- Secured financial asset if no repayment occurred within the defined period, depending on the type of collateral:
  a. Real estate collateral, if no repayment occurred within a period of 5 years,
  b. By movables, if no repayment occurred within a period of 2 years,
  c. Other (i.e. not "a" or "b"), if no repayment occurred within a period of 1 year,
- Financial assets which have been subject to restructuring three or more times and the bank assessed the debtor as not able to repay their obligations,
- Financial asset for which the bank's right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement,
- Other triggers were defined for financial assets that are treated as non-recoverable.

12.3. 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: (i) significant modifications or (ii) Insignificant modifications.

The following main criteria result in significant modifications:

- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
  - change of debtor,
  - currency change,

- change of the purpose of financing,
- SPPI critical features are removed or introduced in the loan contract.

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in stage 1. If the borrower is in default or the modification leads to the derecognition of the original financial asset and to the origination of a new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit-impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favorable changes in lifetime ECLs have to be recognised as an impairment gain.

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

Insignificant modifications not leading to derecognition of financial assets
If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in the derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss is recognised in profit or loss in the line "Modification gain or loss".

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

12.4. New treasury investment strategy and business model assessment

During 2021 significant changes took place in the governance structure of parent company Addiko Bank AG, with the Supervisory Board replacing the previous CEO, CFO and CRO. This had a direct impact on the strategy of the Bank going forward, with the new management initiating a “Transformation Program” aiming to increase the overall profitability of the Bank.

The “Transformation Program” had, as one of the key impacts on the 2022 Business Plan, the fact that new business volumes in the focus segments are entirely funded by the accelerated run-down of the non-focus segments as well as the exit from low-yielding and high-ticket medium enterprise loans within the SME segment, thus maintaining the current solid liquidity levels. This allowed to implement a change in the management of the treasury portfolio with the aim to reduce the costs in steering the portfolio and to have a stable volume of instruments aimed to collect interest income until maturity to support the main income driver, the net banking income. The change in the management of the treasury portfolio, which was directly derived from the change in the overall strategy for the bank, has been operationalised in the new investment strategy elaborated and approved in the first half of 2022.

As a consequence of this change in 2022, Addiko Bank started a new Business Model for the treasury portfolio, by classifying new investments in the Held to Collect category.

In addition, Addiko verified during 2022 with the Financial Market Authority (FMA), being the enforcement authority for the Addiko consolidated financial statements, if the described change would have represented a change in the business model in accordance with IFRS 9.4.4. triggering the reclassification of the affected portfolio from the category financial asset at fair value through other comprehensive income to financial asset at amortised cost. Under IFRS 9 the reclassification of a portfolio of instruments is mandatory in case the following preconditions are fulfilled: infrequency in changes, changes must be determined by an entity's senior management as a result of external or internal changes, changes in the business model for managing financial assets must be significant to the entity's operations and changes in the business model for managing financial assets must be demonstrable to external parties. Based on their feedback provided in January 2023, the portfolio existing before the approval of the new treasury investment strategy must continue to be classified in the business model Hold-to-Collect-and-Sell (HTC&S) and measured at fair value.

(13) Fiduciary transactions

Fiduciary transactions concluded by Addiko 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.

(14) Financial guarantees

Financial guarantees are contracts that oblige Addiko 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 including transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount of ECL provision and the amortised balance of initially recognised premium.

(15) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

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

(16) 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 the note (7) Leases. Real estate acquired to generate returns is reported under investment properties.

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

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

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

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

Scheduled depreciation on property, plant and equipment used by Addiko Bank is reported separately under depreciation and amortisation in the income statement. Scheduled depreciation on investment property is reported separately under "Other operating expenses" in the income statement. Gains and losses on disposal of property, plant and equipment and investment properties are reported under "Other operating income" or "Other operating expenses".

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

(17) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation.

Scheduled amortisation is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortisation. The following amortisation rates and expected useful lives are used:

Amortisation rate or useful life	in percent	in years
for software	14 –50%	2 –7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “Impairment non-financial assets”.

(18) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “Tax assets” and “Tax liabilities”. Current income taxes are determined according to the tax law regulations of the country.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be available against which losses can be utilised. This assessment is made on tax plans which are based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

(19) Other assets

Other assets mainly consist of prepaid expenses and accruals.

Deferred assets are recognised at their nominal value.

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

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets,
- Commitment to a plan to sell the asset, active search to locate a buyer,
- High probability of sale,
- Sale within a period of twelve months.

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.

The measurement requirements of IFRS 5 that refer to measurement of fair value less cost to sell shall not apply for financial assets previously treated in accordance with IFRS 9. Such financial assets continue to be measured in accordance with IFRS 9. Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale and disposal groups are presented in “Net gains or losses from non-current assets held for sale”.

(21) Provisions

21.1. 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 in Slovenia are an actuarial interest rate of 3.5% as at 31 December 2022 (2021: 0.9%) and a salary increase of 4% p.a. (2021: 1.5% p.a.) for active staff members. Biometric basic data are taken into account using the generation 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 which is recorded as such; actuarial gains and losses are reported under equity in other comprehensive income without affecting profit or loss.

21.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “Credit loss expenses on financial assets”.

21.3. 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 (28) Other operating income and other operating expenses.

21.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by Addiko Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(22) Other liabilities

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

(23) Share-based payments

23.1. Cash-settled share-based payments

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

(24) Equity

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor. Subscribed (registered) capital represents the amounts paid in by shareholders in accordance with the articles of association. Capital reserve includes share premium which is the amount by which the issue price of the shares exceeded their nominal value. In addition, direct capital contributions are presented in this position. Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income. The cumulative result includes the cumulated profits generated by Addiko Bank.

Notes to the statement of comprehensive income

(25) Net interest income

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Interest income	**46,057**	**42,566**
Financial assets at fair value through other comprehensive income	625	615
Financial assets at amortised cost	45,322	41,597
Negative interest from financial liabilities	110	355
Other interest income	**915**	**573**
Financial assets held for trading	310	572
Other assets	604	1
Total interest income	**46,971**	**43,139**
Financial liabilities measured at amortised cost	-3,447	-3,244
o/w lease liabilities	-116	-118
Financial liabilities held for trading	-267	-500
Other liabilities	-6	-7
Negative interest from financial liabilities	-528	-751
Total interest expense	**-4,248**	**-4,501**
Net interest income	**42,723**	**38,638**

Interest expense of financial liabilities in the amount of EUR -4,248 thousand (YE21: EUR -4,501 thousand) includes expenses measured at amortised cost of EUR -3,227 thousand (YE21: EUR -2,847 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Derivatives	**310**	**572**
Investment securities	**1,108**	**615**
Governments	746	250
Credit institutions	167	129
Non-financial corporations	195	235
Loans and advances	**44,838**	**41,597**
Governments	502	698
Credit institutions	330	250
Other financial corporations	121	119
Non-financial corporations	11,227	10,361
Households	32,658	30,169
Other assets	**604**	**1**
Negative interest from financial liabilities	**110**	**354**
Central banks	110	354
Credit institutions	1	0
Total	**46,971**	**43,139**

The negative interest income on TLTRO III financial liabilities amounts to EUR 104 thousand (YE21: EUR 279 thousand) is reported in the line item “Negative interest from financial liabilities, Central banks”.

Interest expenses break down by instrument and sector as follows:

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Derivatives	**-267**	**-500**
Deposits	**-3,328**	**-3,124**
Central banks	-5	0
Governments	-78	-95
Credit institutions	-2,246	-2,163
Other financial corporations	-106	-134
Non-financial corporations	-205	-209
Households	-688	-523
Issued bonds, subordinated and supplementary capital	**-2**	**-2**
Negative interest from financial assets	**-528**	**-751**
Investment securities	-82	-91
Governments	-82	-91
Loans and advances	-446	-660
Central banks	-430	-653
Credit institutions	-16	-6
Other liabilities	**-122**	**-125**
Total	-4,248	-4,501

(26) Net fee and commission income

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Accounts and Packages	4,333	3,794
Transactions	2,989	2,918
Cards	3,339	2,571
Foreign exchange & Dynamic currency conversion	157	82
Bancassurance	1,223	842
Loans	3,318	3,159
Trade finance	1,595	1,702
Deposits	576	903
Other	452	369
Fee and commission income	**17,982**	**16,339**
Cards	-1,831	-1,532
Transactions	-919	-840
Client incentives	0	0
Securities	-12	-10
Accounts and Packages	-417	-365
Bancassurance	0	0
Loans	-225	-242
Trade finance	-39	-38
Other	0	0
Fee and commission expenses	**-3,442**	**-3,026**
Net fee and commission income	**14,540**	**13,313**

The fees and commission presented in this note include income of EUR 4,782 thousand (YE21 EUR 4,701 thousand) and expenses of EUR -40 thousand (YE21: EUR -38 thousand) relating to financial assets and liabilities not measured at FVTPL.

(27) Net result on financial instruments

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Held for trading financial instruments	352	328
o/w exchange difference	1,854	1,613
o/w gain or losses on financial instruments	-1,502	-1,285
Financial assets at fair value through other comprehensive income	0	376
Financial assets measured at amortised cost	0	861
Derecognition of non financial assets	-46	1
Total	**306**	**1,567**

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

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Derivatives	-1,730	-1,443
Other financial liabilities	228	158
Total	**-1,502**	**-1,285**

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

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Interest rate instruments and related derivatives	0	-2
Foreign exchange trading and derivatives related to foreign exchange and gold	-1,502	-1,283
Total	**-1,502**	**-1,285**

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Gains or losses on financial assets, measured at fair value through other comprehensive income	0	376
Gains or losses on financial assets and liabilities, measured at amortised cost	0	861
Total	**0**	**1,237**

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Investment securities	0	376
Loans and advances	0	861
Total	0	1,237

In 2022 there were no sales of investment securities and loans and advances.

(28) Other operating income and other operating expense

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Other operating income	**893**	**915**
Direct income arising from legal cases	9	81
Investment property	151	0
Other income	732	834
Other operating expenses	**-68**	**-60**
Other expenses	-68	-60
Total	**825**	**855**

(29) Personnel expenses

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Wages and salaries	-10,598	-10,658
Social security contribution	-908	-817
Variable renumeration	-1,657	-951
Bonuses and sales incentives	-1,657	-868
Cash-settled share-based payments	0	-83
Voluntary social expenses	-2,239	-2,036
Expenses for retirement benefits	-919	-924
Expenses for severance payments	-70	-35
Other personnel expenses	-11	-262
Total	**-16,402**	**-15,683**

(30) Other administrative expenses

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
IT expense	-4,174	-3,878
Premises expenses (rent and other building expenses)	-2,017	-1,782
Legal and advisory costs	-1,173	-1,035
Advertising costs	-1,321	-1,036
Banking levies and other taxes	-614	-715
Other administrative expenses	-1,913	-1,414
Total	**-11,212**	**-9,860**

(31) Recovery and resolution fund

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Recovery and resolution fund	-357	-534
Deposit guarantee	-502	-512
Total	**-859**	**-1,045**

(32) Depreciation and amortisation

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Property, plant and equipment	-1,792	-1,904
o/w Right of use assets	-1,074	-1,181
Investment properties	-173	0

Intangible assets	-831	-892
Total	**-2,796**	**-2,796**

(33) Credit loss expenses on financial assets

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Change in CL on financial instruments at FVTOCI	**2**	**222**
Change in CL on financial instruments at amortised cost	**-6,313**	**211**
Net allocation to risk provision	-7,688	-1,552
Proceeds from loans and advances previously impaired	1,389	1,775
Write off directly to the statement of profit and loss	-16	-11
Net allocation of provisions for commitments and guarantees given	**565**	**1,189**
Total	**-5,747**	**1,623**

(34) Taxes on income

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2021
Current tax	-1,953	-2,409
Deferred tax	87	1,284
thereof: temporary differences	11	1
thereof: tax losses carried forward	76	1,283
Total	**-1,866**	**-1,125**

34.1. Reconciliation of effective tax rate

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

EUR thousand

	01.01. - 31.12.2022	01.01. - 31.12.2022	01.01. - 31.12.2021	01.01. - 31.12.2021*
Profit before tax		**21,515**		**26,409**
Theoretical income tax expense based on Slovenian corporate tax rate of 19%	19.0%	4,088	19.0%	5,018
Tax effects of:				
from foreign income and other tax-exempt income	0.0%	-10	0.5%	-72
from investment related tax relief and other reducing the tax burden	-10.3%	-2,219	-10.1%	-2,676
from tax non-deductible expenses	0.4%	94	-0.3%	140
Recognition of previously unrecognised tax losses and re-assessment of related DTA	-0.4%	-76	0.0%	-1,283
Recognition/non-recognition of temporary differences	-0.1%	-11	-4.9%	-1
Actual income tax (effective tax rate: 8.7% (2021: 4.3%)	**8.7%**	**1,866**	**4.3%**	**1,125**

*The line items presented in the table have been amended in order to improve the readability. The comparative figures have been accordingly restated.

In 2022, the income tax was EUR 1,866 thousand (2021: EUR 1,125 thousand).

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, expenses for providing bonuses and other payments related to employment, and the tax non-deductible part of the expenses arising from the creation of provisions.

In 2022, when calculating corporate income tax, the Bank took into account EUR 11,679 thousand (2021: EUR 14,086 thousand) of tax deductions arising from transferred tax loss, investment relief, relief from the employment of disabled people, relief for voluntary supplementary pension insurance and donation relief. The Bank was able to take into account EUR 10,979 thousand (2021: EUR 13,380 thousand) of tax relief from transferred tax loss.

The effective tax rate for 2022 stood at 8.7% (2021: 4.3%). The increase is due to lower recognition of previously unrecognised tax losses, due to lower expected profits in future years.

34.2. Movements in deferred tax balances

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

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values and for unused tax losses as presented in the following table:

EUR thousand

				Balance at 31 December		
2022	Net balance 1.1.	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Financial assets designated at FVTPL	220	0	0	220	220	0
Financial assets at fair value through other comprehensive income	-11	0	1,219	1,208	1,208	0
Tangible assets	75	28	0	102	102	0
Provisions	91	-16	0	75	75	0
Tax losses carried forward	11,175	76	0	11,252	11,252	0
Tax assets (liabilities) before set-off	**11,551**	**87**	**1,219**	**12,857**	**12,857**	**0**
Tax assets (liabilities)	**11,551**	**87**	**1,219**	**12,857**	**12,857**	**0**

EUR thousand

				Balance at 31 December		
2021	Net balance 1.1.	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Financial assets designated at FVTPL	220	0	0	220	220	0
Financial assets at fair value through other comprehensive income	-184	-42	215	-11	59	-70
Tangible assets	53	22	0	75	75	0
Provisions	70	21	0	91	91	0
Tax losses carried forward	9,892	1,283	0	11,175	11,175	0
Tax assets (liabilities) before set-off	**10,050**	**1,284**	**215**	**11,551**	**11,620**	**-70**
Tax assets (liabilities)	**10,050**	**1,284**	**215**	**11,551**	**11,550**	**0**

The total change in deferred taxes in the financial statements is EUR -1,306 thousand (2021: EUR 1,500 thousand). Of this, EUR 87 thousand (2021: EUR 1,284 thousand) is reflected in the current income statement as deferred tax income and an amount of EUR 1,219 thousand (2021: EUR 215 thousand) is shown in other comprehensive income in equity.

34.3. Unrecognized deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probably that future taxable profits will be available in the next 5 years against which Addiko Bank can use the benefit therefrom.

EUR thousand

	2022		2021	
	Gross amounts	Tax effect	Gross amounts	Tax effect
Deductible temporary differences	0	0	0	0
Tax losses	97,447	18,515	108,827	20,677
Total	**97,447**	**18,515**	**108,827**	**20,677**

34.4. Tax losses carried forward

In 2022, the management of Addiko Bank, based on the updated five-year business plan and taking into account the reversal of existing taxable temporary differences, updated its estimate of the future taxable profits and Addiko Bank used EUR 11,380 thousand (2021: EUR 20,135 thousand) of previously unrecognised tax losses, which has a positive tax impact of EUR 2,162 thousand (2021: EUR 4,656 thousand). By assuming that the entity will generate enough taxable profits in the future years to entirely utilise the existing taxable losses, additional deferred tax assets and related tax benefit of EUR 18,515 thousand (2021: EUR 20,677 thousand) could be recognised.

34.5. Uncertainty over income tax treatments

Addiko Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. However, due to the fact that Addiko Bank is subject to a large number of tax regulations that in some cases have only been in effect for a short period of time, are frequently amended and enforced by political divisions, there is a risk that tax audits could, on account of diverging interpretations, result in assessments of tax deficiencies, which could require Addiko Bank to pay additional taxes not previously expected.

At the moment there are no ongoing disputes with local tax authorities.

Addiko Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Notes to the statement of financial position

(35) Cash and cash equivalents

EUR thousand

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash	7,981	0	7,981
Cash balances at central banks	166,071	0	166,071
Other demand deposits	6,910	-7	6,902
Total	**180,961**	**-7**	**180,954**

EUR thousand

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

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

The cash balances at central banks include EUR 8,434 thousand (YE21: EUR 9,026 thousand) minimum reserves which was holding at the reporting date in current accounts at national central bank in order to meet on average during the maintenance period the prescribed requirements. The Bank has the amount of EUR 420 thousand deposited (in 2021: 2,284 thousand EUR) in the Margin account as collateral for trading with derivatives.

35.1. Cash and cash equivalents at central banks and other demand deposits - development of gross carrying amount

EUR thousand

2022	Stage 1
Gross carrying amount at 01.01.2022	**246,310**
Changes in the gross carrying amount	-73,329
Gross carrying amount at 31.12.2022	**172,981**

EUR thousand

2021	Stage 1
Gross carrying amount at 01.01.2021	**163,076**
Changes in the gross carrying amount	83,234
Gross carrying amount at 31.12.2021	**246,310**

35.2. Cash and cash equivalents at central banks and other demand deposits - development of ECL allowance

EUR thousand

2022	Stage 1
ECL allowance as at 01.01.2022	**-68**
Changes in the loss allowance	61
ECL allowance as at 31.12.2022	**-7**

EUR thousand

2021	Stage 1
ECL allowance as at 01.01.2021	**-195**
Changes in the loss allowance	127
ECL allowance as at 31.12.2021	**-68**

(36) Financial assets held for trading

EUR thousand

	31.12.2022	31.12.2021
Derivatives	2,929	819
Total	**2,929**	**819**

(37) Loans and advances and other financial assets

Addiko Bank measures all loans and advances at amortised cost.

37.1. Loans and advances and other financial assets to credit institutions

EUR thousand

31.12.2022	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	50,264	-35	50,229
Other financial assets	500	0	500
Total	**50,764**	**-35**	**50,729**

EUR thousand

31.12.2021	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	50,155	-225	49,930
Other financial assets	940	0	940
Total	**51,095**	**-225**	**50,870**

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

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**51,095**	**0**	**0**	**0**	**51,095**
Changes in the gross carrying amount	**-331**	**0**	0	0	**-331**
Gross carrying amount at 31.12.2022	**50,764**	**0**	**0**	**0**	**50,764**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	31,030	0	0	0	31,030
Changes in the gross carrying amount	20,065	0	0	0	20,065
Gross carrying amount at 31.12.2021	**51,095**	**0**	**0**	**0**	**51,095**

Loans and advances and other financial assets to credit institutions - development of ECL allowance

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-225**	**0**	**0**	**0**	**-225**
Changes in the loss allowance	190	0	0	0	**190**
ECL allowance as at 31.12.2022	**-35**	**0**	**0**	**0**	**-35**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-210**	**-225**	**0**	**0**	**-435**
Changes in the loss allowance	-15	225	0	0	210
ECL allowance as at 31.12.2021	**-225**	**0**	**0**	**0**	**-225**

37.2. Loans and advances and other financial assets to customers

EUR thousand

31.12.2022	Gross carrying amount	ECL allowance				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	
Loans and advances	**967,312**	**-2,817**	**-10,471**	**-15,125**	**0**	**938,899**
Households	573,707	-1,778	-5,222	-6,507	0	**560,200**
Non-financial corporations	379,635	-1,020	-5,249	-8,618	0	**364,748**
Governments	9,608	-8	0	0	0	**9,600**
Other financial corporations	4,362	-11	0	0	0	**4,351**
Other financial assets	**764**	**0**	**0**	**-10**	**0**	**753**
Households	20	0	0	0	0	**20**
Non-financial corporations	304	0	0	-10	0	**294**
Governments	219	0	0	0	0	**219**
Other financial corporations	222	0	0	0	0	**222**
Total	**968,076**	**-2,817**	**-10,471**	**-15,135**	**0**	**939,653**

EUR thousand

31.12.2021	Gross carrying amount	ECL allowance				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	
Loans and advances	**956,597**	**-3,010**	**-9,538**	**-13,882**	**0**	**930,168**
Households	551,579	-1,313	-5,102	-7,043	0	538,121
Non-financial corporations	387,136	-1,662	-4,433	-6,839	0	374,202
Governments	13,232	-13	0	0	0	13,219
Other financial corporations	4,650	-22	-2	0	0	4,625
Other financial assets	**697**	**0**	**0**	**-23**	**0**	**673**
Households	15	0	0	0	0	15
Non-financial corporations	342	0	0	-23	0	319
Governments	268	0	0	0	0	268
Other financial corporations	72	0	0	0	0	72
Total	**957,294**	**-3,010**	**-9,538**	**-13,905**	**0**	**930,840**

The total value of pledged loans for long-term financing operations amounted to EUR 0 thousand at the end of the year (in 2021: 14,877 thousand).

37.3. Loans and advances and other financial assets to households

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**468,729**	**73,251**	**9,613**	**0**	**551,594**
Changes in the gross carrying amount	40,855	-11,548	-1,896	0	27,411
Transfer between stages	-32,963	27,239	5,723	0	0
Write-offs	-3	-3	-3,147	0	-3,153
Changes due to modifications that did not result in derecognition	5	18	9	0	32
Foreign exchange and other movements	-158	-67	-1,932	0	-2,157
Gross carrying amount at 31.12.2022	**476,467**	**88,890**	**8,371**	**0**	**573,727**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**490,703**	**79,305**	**8,608**	**0**	**578,616**
Changes in the gross carrying amount	-9,814	-12,419	-244	0	-22,477
Transfer between stages	-11,576	6,574	5,002	0	0
Write-offs	-1	-5	-2,163	0	-2,169
Changes due to modifications that did not result in derecognition	2	2	3	0	6
Foreign exchange and other movements	-584	-205	-1,592	0	-2,382
Gross carrying amount at 31.12.2021	**468,729**	**73,251**	**9,613**	**0**	**551,594**

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-1,313**	**-5,102**	**-7,043**	**0**	**-13,458**
Changes in the loss allowance	3,465	-3,345	-4,408	0	-4,288
Transfer between stages	-3,931	3,224	707	0	0
Write-offs	1	2	3,147	0	3,150
Changes due to modifications that did not result in derecognition	0	-1	-4	0	-5
Changes in models/risk parameters	0	0	0	0	0
Foreign exchange and other movements	0	0	1,094	0	1,094
ECL allowance as at 31.12.2022	**-1,778**	**-5,222**	**-6,507**	**0**	**-13,507**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-1,993**	**-6,900**	**-6,557**	**0**	**-15,450**
Changes in the loss allowance	5,243	-2,468	-3,485	0	-711
Transfer between stages	-4,636	4,238	398	0	0
Write-offs	0	5	2,163	0	2,169
Changes due to modifications that did not result in derecognition	0	0	-1	0	-1
Foreign exchange and other movements	73	23	439	0	535
ECL allowance as at 31.12.2021	**-1,313**	**-5,102**	**-7,043**	**0**	**-13,458**

Overall gross carrying amount slightly increased during 2022, mostly through disbursements of new loans - outperforming the repayments and write offs – accompanied by increased ECL allowances.

37.4. Loans and advances and other financial assets to non-financial corporations

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**337,968**	**35,141**	**14,370**	**0**	**387,478**
Changes in the gross carrying amount	3,763	-6,495	-2,832	0	-5,564
Transfer between stages	-8,838	3,554	5,283	0	0
Write-offs	-2	-3	-2,087	0	-2,092
Changes due to modifications that did not result in derecognition	40	9	0	0	49

Foreign exchange and other movements	63	4	0	0	67
Gross carrying amount at 31.12.2022	**332,995**	**32,210**	**14,734**	**0**	**379,939**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**409,209**	**56,935**	**8,730**	0	**474,874**
Changes in the gross carrying amount	-52,046	-19,589	-1,418	0	-73,053
Transfer between stages	-8,294	-2,458	10,753	0	0
Write-offs	-1	0	-3,693	0	-3,695
Changes due to modifications that did not result in derec-ognition	2	35	1	0	38
Foreign exchange and other movements	-10,903	219	-2	0	-10,686
Gross carrying amount at 31.12.2021	**337,968**	**35,141**	**14,370**	**0**	**387,478**

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-1,662**	**-4,433**	**-6,862**	**0**	**-12,957**
Changes in the loss allowance	1,121	-1,330	-3,443	0	-3,652
Transfer between stages	-480	515	-35	0	0
Write-offs	0	0	2,079	0	2,079
Changes due to modifications that did not result in derec-ognition	0	-1	0	0	-1
Foreign exchange and other movements	1	0	-367	0	-367
ECL allowance as at 31.12.2022	**-1,020**	**-5,249**	**-8,628**	**0**	**-14,897**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-3,185**	**-5,575**	**-6,247**	0	**-15,007**
Changes in the loss allowance	1,916	-1,069	-2,214	0	-1,367
Transfer between stages	**-389**	**2,223**	**-1,834**	0	0
Write-offs	0	0	3,685	0	3,685
Changes due to modifications that did not result in derec-ognition	0	-7	0	0	-7
Foreign exchange and other movements	-3	-6	-252	0	-261
ECL allowance as at 31.12.2021	**-1,662**	**-4,433**	**-6,862**	**0**	**-12,957**

Overall gross carrying amount of loans and advances to non-financial corporations remains on the same level as YE21 (with a slight decreasing trend) accompanied by increase in ECL in stage 3, which is predominantly resulting out of provision requirements for big tickets.

37.5. Loans and advances and other financial assets to general governments

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**13,500**	**0**	**0**	**0**	**13,500**
Changes in the gross carrying amount	-3,527	-129	0	0	-3,656
Transfer between stages	-129	129	0	0	0
Foreign exchange and other movements	-17	0	0	0	-17
Gross carrying amount at 31.12.2022	**9,827**	**0**	**0**	**0**	**9,827**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**30,500**	**654**	**0**	0	**31,154**
Changes in the gross carrying amount	-17,497	-58	0	0	-17,555
Transfer between stages	595	-595	0	0	0
Foreign exchange and other movements	-99	0	0	0	-99
Gross carrying amount at 31.12.2021	**13,500**	**0**	**0**	0	**13,500**

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-13**	**0**	**0**	**0**	**-13**
Changes in the loss allowance	10	-5	0	0	5
Transfer between stages	-5	5	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2022	**-8**	**0**	**0**	**0**	**-8**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-130**	**-15**	**0**	0	**-145**
Changes in the loss allowance	130	2	0	0	132
Transfer between stages	**-13**	**13**	**0**	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2021	**-13**	**0**	**0**	**0**	**-13**

The overall gross carrying amount of loans and advances to general governments decreased during 2022 resulting in a minor impact on ECL.

37.6. Loans and advances and other financial assets to other financial corporations

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**4,692**	**30**	**0**	**0**	**4,722**
Changes in the gross carrying amount	-382	94	12	0	-276
Transfer between stages	116	-116	0	0	0
Write-offs	0	0	-12	0	-12
Changes due to modifications that did not result in derecognition	0	0	0	0	0

Foreign exchange and other movements	150	0	0	0	150
Gross carrying amount at 31.12.2022	**4,576**	**8**	**0**	**0**	**4,584**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**10,302**	**0**	**1**	0	**10,303**
Changes in the gross carrying amount	-5,654	30	2	0	-5,623
Transfer between stages	1	0	-1	0	0
Write-offs	0	0	0	0	0
Changes due to modifications that did not result in derecognition	1	0	0	0	1
Foreign exchange and other movements	**43**	**0**	**-3**	**0**	**40**
Gross carrying amount at 31.12.2021	**4,692**	**30**	**0**	**0**	**4,722**

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-22**	**-2**	**0**	**0**	**-25**
Changes in the loss allowance	20	-7	-11	0	2
Transfer between stages	-9	9	0	0	0
Write-offs	0	0	11	0	11
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2022	**-11**	**0**	**0**	**0**	**-12**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-82**	**0**	**-2**	**0**	**-85**
Changes in the loss allowance	61	-2	2	0	61
Transfer between stages	-3	0	3	0	0
Write-offs	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0
Foreign exchange and other movements	1	0	-3	0	-1
ECL allowance as at 31.12.2021	**-22**	**-2**	**0**	**0**	**-25**

The overall loss allowance for other financial corporations slightly reduced driven by releases in stage 1.

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

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

EUR thousand

	2022		2021	
	Amortised costs before the modification	Modification gains or losses	Amortised costs before the modification	Modification gains or losses
Other financial corporations	0	0	0	0
Non-financial corporations	266	9	9,933	7
Households	675	22	7,073	36
Total	**941**	**31**	**17,006**	**43**

The total gross carrying amount of debt financial assets measured at amortised costs, which were impacted by contractual modifications that did not result in derecognition at a time when they were assigned to stage 2 or stage 3 and reassigned to stage 1 during the year 2022 amounted to EUR 21 thousand on as at 31 December 2022 (2021: EUR 67 thousand).

(38) Investment securities

EUR thousand

	31.12.2022	31.12.2021
Fair value through other comprehensive income (FVTOCI)	67,986	98,575
Mandatorily at fair value through profit or loss (FVTPL)	313	313
At amortised cost	62,938	0
Total	**131,236**	**98,888**

Due to its solid liquidity levels and the fact that new business volumes in the focus segments are expected to be funded by the accelerated run-down of the non-focus segments, Addiko Bank adapted in the 2022 Business Plan its treasury strategy to keep the predominant part of its investments in high quality bonds until maturity for yield enhancement purposes and essentially the collection of interest income until maturity to support the main income driver, the net banking income. As a consequence of this change Addiko Bank started a new Business Model for the treasury portfolio, by classifying new investments in the Held to Collect category.

38.1. Fair value through other comprehensive income (FVTOCI)

EUR thousand

	31.12.2022	31.12.2021
Debt securities	**55,432**	**85,439**
Governments	23,631	46,420
Credit institutions	24,841	29,544
Non-financial corporations	6,960	9,475
Equity instruments	**12,553**	**13,136**
Governments	12,553	13,136
Total	**67,986**	**98,575**

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

EUR thousand

	31.12.2022	31.12.2021
Slovenian Bank Resolution Fund	12,553	13,136
Total	**12,553**	**13,136**

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

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**85,370**	**0**	**0**	**0**	**85,370**
Changes in the gross carrying amount	-24,177	0	0	0	-24,177
Gross carrying amount at 31.12.2022	**61,193**	**0**	**0**	**0**	**61,193**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**92,124**	0	0	0	**92,124**
Changes in the gross carrying amount	-6,754	0	0	0	**-6,754**
Gross carrying amount at 31.12.2021	**85,370**	**0**	**0**	**0**	**85,370**

Investment securities - development of ECL allowance

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-49**	**0**	**0**	**0**	**-49**
Changes in the loss allowance	**2**	0	0	0	2
ECL allowance as at 31.12.2022	**-47**	**0**	**0**	**0**	**-47**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-272**	0	0	0	-272
Changes in the loss allowance	222	0	0	0	222
ECL allowance as at 31.12.2021	**-49**	**0**	**0**	**0**	**-49**

Hierarchy of the fair value of financial instruments measured at fair value through other comprehensive income are disclosed in Note 68.

The total value of pledged financial assets measured at fair value through other comprehensive income for long term financing operations amounted to EUR 0 thousand at the end of the year (in 2021: EUR 45,197 thousand).

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

EUR thousand

	31.12.2022	31.12.2021
Equity instruments	**313**	**313**
Non-financial corporations	313	313
Total	**313**	**313**

38.3. At amortised cost

EUR thousand

	31.12.2022	31.12.2021
Debt securities	**62,938**	**0**
Governments	60,869	0
Credit institutions	2,070	0
Total	**62,938**	**0**

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

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2022	**0**	**0**	**0**	**0**	**0**
Changes in the gross carrying amount	**62,939**	0	0	0	62,939
Gross carrying amount at 31.12.2022	**62,939**	**0**	**0**	**0**	**62,939**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2021	**0**	0	0	0	**0**
Changes in the gross carrying amount	0	0	0	0	**0**
Gross carrying amount at 31.12.2021	**0**	**0**	**0**	**0**	**0**

Investment securities - development of ECL allowance

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**0**	**0**	**0**	**0**	**0**
Changes in the loss allowance	-1	0	0	0	-1
ECL allowance as at 31.12.2022	**-1**	**0**	**0**	**0**	**-1**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**0**	0	0	0	0
Changes in the loss allowance	0	0	0	0	0
ECL allowance as at 31.12.2021	**0**	**0**	**0**	**0**	**0**

(39) Tangible assets

EUR thousand

	31.12.2022	31.12.2021
Owned property, plant and equipment	**3,124**	**3,502**
Land and buildings	1,915	2,261
Plant and equipment	1,209	1,241
Right of use assets	**5,225**	**5,655**
Land and buildings	4,334	5,523
Plant and equipment	122	132
Investment property	769	0
Total	**8,349**	**9,157**

(40) Intangible assets

EUR thousand

	31.12.2022	31.12.2021
Purchased software	2,192	2,312
Total	**2,192**	**2,312**

As of 31 December 2022, Addiko Bank had no intangible fixed assets pledged as collateral.

(41) Development of tangible and intangible assets

41.1. Development of cost and carrying amounts

The development of cost and carrying amounts of owned property, plant and equipment is presented in the table below.

EUR thousand

2022	Land and buildings	Plant and equipment - internally used	Total
Acquisition cost 01.01.2022	**4,937**	**7,764**	**12,701**
Additions	239	371	**610**
Disposals	-704	-353	**-1,057**
Other changes	0	0	**0**
Acquisition cost 31.12.2022	**4,472**	**7,782**	**12,254**
Cumulative depreciation and amortisation 31.12.2022	-2,557	-6,573	-9,130
Carrying amount 31.12.2022	**1,915**	**1,209**	**3,124**

EUR thousand

2021	Land and buildings	Plant and equipment - internally used	Total
Acquisition cost 01.01.2021	**4,734**	**8,811**	**13,545**
Additions	255	540	**795**
Disposals	-52	-1,586	**-1,638**
Other changes	0	0	**0**
Acquisition cost 31.12.2021	**4,937**	**7,764**	**12,701**
Cumulative depreciation and amortisation 31.12.2021	-2,676	-6,523	-9,199
Carrying amount 31.12.2021	**2,261**	**1,241**	**3,502**

The development of cost and carrying amounts of right of use assets is presented in the table below.

EUR thousand

2022	Land and buildings	Plant and equipment	Investment properties	Total
Acquisition cost 01.01.2022	**8,693**	**369**	**0**	**9,062**
Additions	290	123	940	**1,353**
Disposals	-3,738	-167	0	**-3,905**
Other changes	377	0	0	**377**
Acquisition cost 31.12.2022	**5,622**	**324**	**940**	**6,886**
Cumulative depreciation and amortisation 31.12.2022	-1,287	-202	-171	-1,660
Carrying amount 31.12.2022	**4,334**	**122**	**769**	**5,225**

EUR thousand

2021	Land and buildings	Plant and equipment	Investment properties	Total
Acquisition cost	**8,369**	**373**	**0**	**8,742**
Additions	567	40	0	**607**
Disposals	-162	-44	0	**-206**
Other changes	-81	0	0	**-81**
Acquisition cost	**8,693**	**369**	**0**	**9,062**
Cumulative depreciation and amortisation 31.12.2021	-3,170	-237	0	-3,407
Carrying amount	**5,523**	**132**	**0**	**5,655**

The development of cost and carrying amounts on intangible assets is presented in the table below.

EUR thousand

2022	Purchased software
Acquisition cost 01.01.2022	**15,140**
Additions	711
Disposals	-437
Acquisition cost 31.12.2022	**15,413**
Cumulative depreciation and impairment 31.12.2022	-13,222
Carrying amount 31.12.2022	**2,192**

EUR thousand

2021	Purchased software
Acquisition cost 01.01.2021	**14,391**
Additions	749
Disposals	0
Acquisition cost 31.12.2021	**15,140**
Cumulative depreciation and impairment 31.12.2021	-12,828
Carrying amount 31.12.2021	**2,312**

41.2. Development of depreciation and amortisation

The development of depreciation and amortisation of owned property, plant and equipment is presented in the table below.

EUR thousand

2022	Land and buildings	Plant and equipment - internally used	Total
Cumulative depreciation	**-2,676**	**-6,523**	**-9,199**
Disposals	513	274	**787**
Scheduled depreciation	-394	-324	**-718**
Cumulative depreciation	**-2,557**	**-6,573**	**-9,130**

EUR thousand

2021	Land and buildings	Plant and equipment - internally used	Total
Cumulative depreciation	**-2,359**	**-7,474**	**-9,832**
Disposals	52	1,304	**1,356**
Scheduled depreciation	-369	-353	**-722**
Cumulative depreciation	**-2,676**	**-6,523**	**-9,199**

The development of depreciation and amortisation of right of use is presented in the table below.

EUR thousand

2022	Land and buildings	Plant and equipment	Investment properties	Total
Cumulative depreciation 01.01.2022	**-3,170**	**-237**	**0**	**-3,407**
Disposals	2,855	136	0	**2,991**
Scheduled depreciation	-972	-101	-171	**-1,244**
Impairment	0	0	0	**0**
Write-ups	0	0	0	0
Cumulative depreciation 31.12.2022	**-1,287**	**-202**	**-171**	**-1,660**

EUR thousand

2021	Land and buildings	Plant and equipment	Investment properties	Total
Cumulative depreciation 01.01.2021	**-2,178**	**-174**	**0**	**-2,351**
Disposals	120	32	0	**152**
Scheduled depreciation	-1,087	-95	0	**-1,182**
Impairment	-28	0	0	**-28**
Write-ups	2	0	0	2
Cumulative depreciation 31.12.2021	**-3,170**	**-237**	**0**	**-3,407**

The development of depreciation and amortisation of intangible assets is presented in the table below.

EUR thousand

2022	Purchased software
Cumulative depreciation 01.01.2022	**-12,828**
Disposals	437
Scheduled depreciation	-831
Cumulative depreciation 31.12.2022	**-13,222**

EUR thousand

2021	Purchased software
Cumulative depreciation 01.01.2021	**-11,936**
Disposals	0
Scheduled depreciation	-892
Cumulative depreciation 31.12.2021	**-12,828**

(42) Other assets

The other assets contain the following main positions:

EUR thousand

	31.12.2022	31.12.2021
Prepayments and accrued income	531	420
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	0	4
Other remaining assets	10	8
Total	**541**	**431**

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

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

EUR thousand

	31.12.2022	31.12.2021
Loans and advances	121	11,068
Total	**121**	**11,068**

The position non-current assets and disposal groups classified as held for sale included at YE21 a portfolio of loans to customers for which a sale agreement has been signed on the 28 December 2021. The closing of the transaction was subject to certain conditions which were fulfilled in 2022 and therefore the sale could be finalised during the first half of 2022.

(44) Financial liabilities held for trading

EUR thousand

	31.12.2022	31.12.2021
Derivatives	2,531	1,432
Total	**2,531**	**1,432**

The contractual values of derivative financial instruments are presented in Note 69.

(45) Financial liabilities measured at amortised cost

EUR thousand

	31.12.2022	31.12.2021
Deposits and borrowings	**1,088,420**	**1,144,524**
Deposits from banks and central banks	2,671	698
Borrowings from banks and central banks	55,965	121,554
Deposits from customers	1,029,784	1,022,272
Issued bonds, subordinated and supplementary capital	**15,059**	**15,055**
Investment securities issued	50	50
Subordinated loan	15,009	15,005
Other financial liabilities	**14,414**	**12,830**
o/w lease liabilities	5,585	6,001
Total	**1,117,893**	**1,172,408**

The position "Deposits" includes borrowed funds in amount of EUR 55,965 thousand (YE21: 121,554 thousand) from supranational and local institutions for refinancing purposes of specific loans to customers under the specific funding criteria (purpose of the loan, compliance with environmental and social legislative provisions, other funding criteria). The full refinancing of TLTRO was paid back in the year 2022 (YE21: EUR 54,651 million).

45.1. Deposits and borrowings of credit institutions

EUR thousand

	31.12.2022	31.12.2021
Current accounts / overnight deposits	2,671	0
Deposits with agreed terms	0	698
Borrowings of central bank and credit institutions	55,965	121,554
Total	**58,636**	**122,252**

45.2. Deposits and borrowings of customers

EUR thousand

	31.12.2022	31.12.2021
Current accounts / overnight deposits	**628,207**	**642,095**
Governments	2,335	769
Other financial corporations	4,974	15,377
Non-financial corporations	230,846	260,356
Households	390,052	365,592
Deposits with agreed terms	**395,368**	**370,991**
Governments	33,969	52,822
Other financial corporations	53,828	43,307
Non-financial corporations	137,537	152,068
Households	170,034	122,795
Deposits redeemable at notice	**6,209**	**9,186**
Governments	985	978
Other financial corporations	0	0
Non-financial corporations	5,224	8,179
Households	0	28
Total	**1,029,784**	**1,022,272**

45.3. Investment securities issued

EUR thousand

	31.12.2022	31.12.2021
Certificates of deposit	50	50
Total	**50**	**50**

45.4. Subordinated loans

EUR thousand

	31.12.2022	31.12.2021
Subordinated loans	15,009	15,005
Total	**15,009**	**15,005**

Addiko Bank discloses subordinated liabilities in the amount of EUR 15,009 thousand. Subordinated liabilities take the form of a borrowed loan from the parent company in the amount of 15,009 thousand with a maturity of 10 years, which is fully due on 29.07.2026. The Bank obtained the Bank of Slovenia's approval for the loan to be included in the calculation of additional capital in its entirety.

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

(46) Provisions

EUR thousand

	31.12.2022	31.12.2021
Pending legal disputes	17	50
Commitments and guarantees granted	3,108	3,674
Provisions for variable payments	1,561	419
Other long term employee benefits	115	123
Pensions and other post employment defined benefit obligations	626	584
Restructuring measures	123	250
Total	**5,551**	**5,101**

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

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

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2022	**301,910**	**4,854**	**3,685**	**0**	**310,450**
Changes in the nominal value	-24,984	-595	-1,221	0	-26,800
Transfer between stages	-2,308	1,804	504	0	0
Foreign exchange and other movements	0	0	0	0	0
Nominal value at 31.12.2022	**274,619**	**6,063**	**2,968**	**0**	**283,649**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2021	**304,295**	**13,157**	**7,542**	0	**324,994**
Changes in the nominal value	-6,348	-6,396	-1,808	0	-14,552
Transfer between stages	3,963	-1,907	-2,056	0	0
Foreign exchange and other movements	0	1	7	0	8
Nominal value at 31.12.2021	**301,910**	**4,854**	**3,685**	**0**	**310,450**

EUR thousand

2022	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2022	**-484**	**-112**	**-3,078**	**0**	**-3,674**
Changes in the loss allowance	285	-90	371	0	**565**
Transfer between stages	-69	5	64	0	**0**
Write-offs	0	0	0	0	**0**
Changes due to modifications that did not result in derecognition	0	0	0	0	**0**
Changes in models/risk parameters	0	0	0	0	**0**
Foreign exchange and other movements	0	0	0	0	**0**
ECL allowance as at 31.12.2022	**-268**	**-198**	**-2,642**	**0**	**-3,108**

EUR thousand

2021	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2021	**-788**	**-472**	**-3,603**	0	**-4,863**
Changes in the loss allowance	566	113	511	0	**1,189**
Transfer between stages	-262	247	15	0	**0**
Write-offs	0	0	0	0	**0**
Changes due to modifications that did not result in derecognition	0	0	0	0	**0**
Changes in models/risk parameters	0	0	0	0	**0**
Foreign exchange and other movements	0	0	0	0	**0**
ECL allowance as at 31.12.2021	**-484**	**-112**	**-3,078**	**0**	**-3,674**

46.2. Provisions - development of other provisions

EUR thousand

2022	Carrying amount 01.01.2022	Alloca-tions	Use	Re-leases	Other changes	Carrying amount 31.12.2022
Pensions and other post employment defined benefit obligations	584	59	-14	0	-3	626
Other long term employee benefits	123	11	-10	0	-10	115
Restructuring measures	250	0	-127	0	0	123
Pending legal disputes	50	25	-4	-54	0	17
Provision for variable payments	419	1,356	-210	-4	0	1,561
Total	**1,428**	**1,451**	**-365**	**-58**	**-13**	**2,442**

EUR thousand

2021	Carrying amount 01.01.2021	Alloca-tions	Use	Re-leases	Other changes	Carrying amount 31.12.2021
Pensions and other post employment defined benefit obligations	565	60	-11	0	-30	584
Other long term employee benefits	134	13	-15	0	-8	123
Restructuring measures	37	250	-37	0	0	250
Pending legal disputes	83	5	-38	0	0	50
Provision for variable payments	568	0	-106	-44	0	419
Total	**1,387**	**328**	**-207**	**-44**	**-37**	**1,428**

46.3. Provisions - development of provisions for retirement benefits and severance payments

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

EUR thousand

	2022	2021
Present value of the defined benefit obligations as of 01.01	**584**	565
+ Current service cost	59	60
+ Interest costs	5	3
+/- Actuarial gains/losses	**-9**	**-33**
+/- Actuarial gains/losses arising from changes in financial assumptions	-8	-22
+/- Actuarial gains/losses arising from changes from experience assumptions	-1	-11
- Payments from the plan	-14	-11
Present value of the defined benefit obligations as of 31.12	**626**	**584**

Details regarding assumptions used in calculation are presented in note (21.1) Provisions for retirement benefit and similar obligations. Due to the low amount of personnel provisions for Addiko Bank as at 31 December 2022, further disclosures according to IAS 19 are omitted.

(47) Other liabilities

EUR thousand

	31.12.2022	31.12.2021
Deferred income	465	501
Accruals and other liabilities	1,889	2,387
Total	**2,354**	**2,888**

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

(48) Equity

EUR thousand

	31.12.2022	31.12.2021
Equity holders of parent		
Subscribed capital	89,959	89,959
Capital reserves	18,814	18,814
Fair value reserve	-5,111	85
Retained earnings	97,837	78,324
Total	**201,499**	**187,181**

The subscribed capital is based on the financial statements as of 31 December 2022. The total amount of EUR 89,959 thousand (2021: EUR 89,959 thousand) corresponds to that fully paid up by the owner, which is divided into 141,706,318 no-par value shares.

The capital reserves include contributions from shareholders that do not represent subscribed capital. Capital reserves amounted to EUR 18,814 thousand (2021: 18,814 thousand).

The fair value reserve includes the measurement results - after taking deferred taxes into account - for the financial assets measured at fair value through other comprehensive income. At the end of 2022, the revaluation surplus amounted to EUR -5,111 thousand (2021: EUR 85 thousand).

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 reserves 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.

Addiko Bank has no legal reserves. Retained earnings from the previous years amounted to 97,834 thousand at the end of the year (2021: EUR 78,324 thousand).

In 2022, the Bank recognised profit in the amount of EUR 19,649 thousand (2021: EUR 25,284 thousand).

(49) 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 advances from credit institutions and customers, liabilities to credit institutions and customers and investment 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.

EUR thousand

	2022	2021
CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	2,865	1,968
Interest received	37,959	38,700
Dividends received	20	21
TOTAL	**40,844**	**40,688**

EUR thousand

	2022	2021
CASH AND CASH EQUIVALENTS		
Cash on hand and cash balances with the central bank	180,961	254,446
TOTAL	**180,961**	**254,446**

Risk Report

(50) 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.

(51) Risk strategy & Risk Appetite Statement

The Bank's risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Bank's business strategy and risk positioning. It is also a management tool of the highest level for the purposes of bank's risk steering and as such it provides a framework for controlling, monitoring and limiting risks inherent in the banking business as well as ensuring the adequacy of the internal capital, the bank's liquidity position and the overall through-the-cycle profitability.

The Bank's risk strategy reflects key risk management approaches included in the business strategy. This is mirrored in the bank's risk objectives that will support safe and sustainable growth and ensure the preservation of the bank in line with regulatory requirements for adequate own funds with regard to risk-taking activities.

The Bank has established a Risk Appetite Framework (RAF) that sets the Bank's risk appetite and forms part of the process of development and implementation of the Bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the Bank is willing to accept. The calibration of measures takes into consideration the budget, risk strategy and the Recovery Plan, giving an interlinked framework for appropriate internal steering and surveillance.

(52) Risk organisation

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

In risk management, the Bank considers 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 2022, the following organisational units were operative:
- Corporate Credit Risk management
- Retail Risk Management
- Risk Controlling

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

Retail Risk Management oversees all the Retail Risk and Collections departments. It monitors and manages credit risk in Retail portfolio. The function has both an operational and strategic role related to credit risk management. Operationally it covers assessment and approval of lending products and test initiatives, while strategically defines policies, procedures, manuals, guidelines in relation to the governance of lending activities and collections. Besides this continuously monitors the portfolio development and ensures the development and maintenance of a reporting toolkit that serves this purpose. This enables that the risk appetite of the lending products is in line with the risk appetite of the Bank.

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

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

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

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

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

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

(53) Internal risk management guidelines

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

The Bank has clearly defined responsibilities for all risk guidelines, including preparation, review, and update. Each group guideline must be implemented at the local level and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(54) Credit risk

54.1. 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.

54.2. 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 Boards, Management Board and Credit Committee as well as by key staff in the credit risk management units.

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

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

54.3. Risk measurement

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.

54.4. Risk limitation

The steering of the 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 towards 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 the 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.

54.5. 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 classified in the Held-to-Collect&Sale business model, whereas amortised cost is used for loans and securities classifies in the Held-to-Collect business model. Unless explicitly stated differently, all values in the risk report are shown inclusive of the portfolio that is classified as held for sale according to IFRS 5.

All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out of balance, continue to be subject to enforcement activity.

Breakdown of net exposure within Addiko Bank in accordance with IFRS 7.36 as at 31 December 2022:

EUR thousand

31.12.2022		Performing			Non Performing			Total
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash and cash equivalents [1]	172,980	-7	172,973	0	0	0	172,980	172,973
Financial assets held for trading [2]	2,929	0	2,929	0	0	0	2,929	2,929
Loans and advances	995,733	-13,324	982,409	23,108	-15,136	7,972	1,018,841	990,381
of which credit institutions	50,764	-35	50,729	0	0	0	50,764	50,729
of which customer loans	944,969	-13,289	931,681	23,108	-15,136	7,972	968,077	939,652
Investment securities [3]	130,972	-48	130,924	0	0	0	130,972	130,924
Other Assets - IFRS 5 [4]	0	0	0	534	-413	121	534	121
On balance total	**1,302,614**	**-13,379**	**1,289,238**	**23,642**	**-15,549**	**8,093**	**1,326,256**	**1,297,328**
Off balance	280,681	-466	280,215	2,968	-2,642	325	283,649	280,541
Total credit risk exposure	**1,583,296**	**-13,845**	**1,569,451**	**26,610**	**-18,191**	**8,418**	**1,609,905**	**1,577,869**

[1] The position does not include cash on hand in amount of EUR 8.0 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 advances.

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2021:

EUR thousand

31.12.2021		Performing			Non Performing			Total
Financial instruments	Exposure	ECLS1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash and cash equivalents [1]	246,310	-68	246,242	0	0	0	246,310	246,242
Financial assets held for trading [2]	819	0	819	0	0	0	819	819

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

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

54.6. Credit risk exposure by rating class

On 31 December 2022, roughly 35.5% (YE21: 38.5%) of the exposure is categorised as rating classes 1A to 1E. This exposure primarily relates to receivables from financial institutions, small and medium enterprises and private individuals.

The overall NPE stock development in 2021 has mainly been influenced by a regular debt sale process on the Consumer segment, repayments, internal write-offs according to Slovenian legislation and collection effects. The overall non-performing exposure decreased during 2022 by EUR 1.1 million, mainly due to decrease in Consumer Portfolio and Mortgage portfolio.

The following table shows the exposure by rating class and market segment as at 31 December 2022:

EUR thousand

31.12.2022	1A-1E	2A-2E	3A-3E	4A-4E [2]	NPE	No rating	Total
Consumer	35,447	254,093	104,538	46,833	6,954	0	447,864
SME	98,158	337,834	68,017	26,807	17,895	0	548,711
Non-Focus	138,531	92,848	11,550	7,205	1,760	0	251,894
o/w Large Corporate	24,505	65,918	7,542	4,523	0	0	102,488
o/w Mortgage	104,265	23,317	3,712	2,633	1,760	0	135,688
o/w Public Finance	9,760	3,613	295	49	0	0	13,718
Corporate Center [1]	298,387	58,088	2,033	0	0	0	358,507
Total	570,523	742,862	186,137	80,845	26,610	0	1,606,976

[1] Corporate Center includes financial institutions comprising also the exposure towards Bank of Slovenia, Investment securities and Intragroup business.
[2] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

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

EUR thousand

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

[1] Corporate Center includes financial institutions comprising also the exposure towards Bank of Slovenia, Investment securities and Intragroup business
[2] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

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,
- 4A-4D: representing customers with a very high credit risk or who are likely to default. This class includes customers that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term,
- NPE (default): one or more of the default criteria under Article 178 CRR are met: among others, interest or principal payments on a material exposure have been overdue for more than 90 days, the Bank significantly doubts the customer's credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated.

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

Loans and advances to customers at amortised cost:

EUR thousand

31.12.2022 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	183,835	8,685	0	0	192,520
2A-2E	501,986	11,592	0	0	513,578
3A-3E	135,000	25,942	0	0	160,942
4A-4E [1)]	3,039	74,891	0	0	77,929
NPE	0	0	23,107	0	23,108
No rating	0	0	0	0	0
Total gross carrying amount	**823,860**	**121,110**	**23,107**	**0**	**968,077**
Loss allowance	-2,818	-10,471	-15,136	0	-28,424
Carrying amount	**821,042**	**110,639**	**7,972**	**0**	**939,652**

1) The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	206,837	10,936	0	0	217,773
2A-2E	476,391	6,106	0	0	482,497
3A-3E	134,144	14,288	0	0	148,432
4A-4E [1)]	7,513	77,092	0	0	84,605
NPE	1	0	23,987	0	23,987
No rating	0	0	0	0	0
Total gross carrying amount	**824,886**	**108,422**	**23,987**	**0**	**957,294**
Loss allowance	-3,010	-9,538	-13,905	0	-26,453
Carrying amount	**821,876**	**98,884**	**10,081**	**0**	**930,841**

1) The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

Loans and advances to banks at amortised cost:

EUR thousand

31.12.2022 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	106	0	0	0	106
2A-2E	50,657	0	0	0	50,657
3A-3E	0	0	0	0	0
4A-4E [1)]	0	0	0	0	0

NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**50,764**	**0**	**0**	**0**	**50,764**
Loss allowance	-35	0	0	0	-35
Carrying amount	**50,729**	**0**	**0**	**0**	**50,729**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	113	0	0	0	113
2A-2E	50,980	0	0	0	50,980
3A-3E	2	0	0	0	2
4A-4E [1)]	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**51,095**	**0**	**0**	**0**	**51,095**
Loss allowance	-225	0	0	0	-225
Carrying amount	**50,870**	**0**	**0**	**0**	**50,870**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

Debt instruments measured at FVTOCI:

EUR thousand

31.12.2022 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	63,987	0	0	0	63,987
2A-2E	2,002	0	0	0	2,002
3A-3E	1,997	0	0	0	1,997
4A-4E [1)]	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Fair value	**67,986**	**0**	**0**	**0**	**67,986**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

EUR thousand

31.12.2021 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	89,100	0	0	0	89,100
2A-2E	7,329	0	0	0	7,329
3A-3E	2,146	0	0	0	2,146
4A-4E [1)]	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Fair value	**98,575**	**0**	**0**	**0**	**98,575**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

Debt instruments at amortised cost:

EUR thousand

31.12.2022 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	62,939	0	0	0	62,939
2A-2E	0	0	0	0	0
3A-3E	0	0	0	0	0

NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**62,939**	**0**	**0**	**0**	**62,939**
Loss allowance	-1	0	0	0	-1
Carrying amount	**62,938**	**0**	**0**	**0**	**62,938**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

Addiko Bank did not hold any debt investment measured as amortised cost as of YE21.

Commitments and financial guarantees given:

EUR thousand

31.12.2022 Rating class	Stage 1	Stage 2	Stage 3	POCI	Total
1A-1E	81,751	50	0	0	81,800
2A-2E	172,023	780	0	0	172,804
3A-3E	20,377	2,786	0	0	23,162
4A-4E [1)]	468	2,447	0	0	2,915
NPE	0	0	2,968	0	2,968
No rating	0	0	0	0	0
Total gross carrying amount	**274,619**	**6,063**	**2,968**	**0**	**283,649**
Loss allowance	-268	-198	-2,642	0	-3,108
Carrying amount	**274,351**	**5,865**	**325**	**0**	**280,541**

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

EUR thousand

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

[1)] The item "Watch" has been renamed to "4A-4E", while the content remains unchanged.

54.7. Credit risk exposure by region

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

EUR thousand

	31.12.2022	31.12.2021
SEE	1,440,933	1,525,890
Europe (excl. CEE/SEE)	95,002	103,427
CEE	60,351	40,492
Other	10,643	5,026
Total	**1,606,929**	**1,674,834**

54.8. Exposure by business sector and region

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

The lower-risk business sector groups - financial institutions and the public sector - account for a share of 23.6% at YE22 (YE21: 26.1%). The well-diversified private customers sector accounts for a share of 36.3% (YE21: 33.9%).

EUR thousand

31.12.2022 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	519	582,972	0	7	583,498
Financial services	71,424	205,408	0	3,968	280,800
Public sector	17,642	14,464	60,321	6,523	98,950
Industry	4,681	324,497	0	145	329,323
Trade and commerce	0	106,749	0	0	106,749
Services	735	153,427	30	0	154,192
Real estate business	0	19,089	0	0	19,089
Tourism	0	29,984	0	0	29,984
Agriculture	0	4,053	0	0	4,053
Other	0	290	0	0	290
Total	**95,002**	**1,440,933**	**60,351**	**10,643**	**1,606,929**

The following table shows the exposure by business sector and region as at 31 December 2021:

EUR thousand

31.12.2021 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	511	567,859	0	0	568,370
Financial services	95,796	276,599	0	76	372,471
Public sector	1,009	18,866	40,462	4,950	65,286
Industry	4,974	316,342	0	0	321,316
Trade and commerce	0	102,234	0	0	102,234
Services	1,137	153,833	30	0	155,000
Real estate business	0	51,607	0	0	51,607
Tourism	0	34,838	0	0	34,838
Agriculture	0	3,621	0	0	3,621
Other	0	92	0	0	92
Total	**103,427**	**1,525,890**	**40,492**	**5,026**	**1,674,834**

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.

54.9. Presentation of exposure by overdue days

31.12.2022	No Over-due	to 30 days	from 31 to 60 days	Overdue from 61 to 90 days	more than 90 days	Total
Consumer	418,815	21,557	1,994	904	4,593	447,864
SME	534,906	8,238	394	404	4,769	548,711
Non-Focus	250,363	304	146	1	1,081	251,894
o/w Large Corporates	102,488	0	0	0	0	102,488
o/w Mortgage	134,157	304	146	1	1,081	135,688
o/w Public Finance	13,718	0	0	0	0	13,718
Corporate Center	357,034	1,426	0	0	0	358,460
Total	**1,561,118**	**31,525**	**2,534**	**1,309**	**10,443**	**1,606,929**

EUR thousand

31.12.2021	No Over-due	to 30 days	from 31 to 60 days	Overdue from 61 to 90 days	more than 90 days	Total
Consumer	368,128	18,648	1,481	616	5,211	394,084
SME	481,397	5,273	1,392	177	3,184	491,424
Non-Focus	383,512	308	214	0	1,472	385,507
o/w Large Corporates	175,431	0	0	0	0	175,431
o/w Mortgage	172,352	308	214	0	1,472	174,346
o/w Public Finance	35,730	0	0	0	0	35,730
Corporate Center	402,390	1,429	0	0	0	403,819
Total	**1,635,427**	**25,659**	**3,088**	**793**	**9,868**	**1,674,834**

The volatile macroeconomic environment accompanied by inflationary pressures did not result in a material increase of days past due on the portfolio level – partially also supported by (already expired) moratoria, which were granted based on local regulation and the EBA guideline 2020/02/20 from April 2020 (including updates).

54.10. Presentation of exposure by size class

As 31 December 2022, around 55.1% (YE21: 47.8%) 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 178.6 million (YE21: EUR 211.8 million) of exposure in the range > EUR 100 million is entirely attributable to exposure towards the National Bank. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments. The presentation is based on the group of borrowers (GoBs).

EUR thousand

	31.12.2022		31.12.2021	
Size classes	Exposure	No of GoBs	Exposure	No of GoBs
< 10,000	99,091	33,265	79,992	26,883
10,000-50,000	389,930	18,026	375,534	16,961
50,000-100,000	101,552	1,439	106,667	1,513
100,000-250,000	112,110	765	93,821	649
250,000-500,000	97,858	271	64,826	186
500,000-1,000,000	85,037	122	82,225	121
1,000,000-10,000,000	396,698	146	464,399	160
10,000,000-50,000,000	91,709	7	143,335	10
50,000,000-100,000,000	54,320	1	52,239	1
> 100,000,000	178,624	1	211,795	1
Total	**1,606,929**	**54,043**	**1,674,834**	**46,485**

54.11. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR thousand

	31.12.2022		31.12.2021	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	568,298	72,816	641,189	91,113
2A-2E	737,345	94,620	735,483	138,562
3A-3E	182,175	22,892	170,381	41,613
4A-4E [1)]	59,966	20,170	72,479	24,017
NPL	1,662	1,651	1,869	1,850
No rating	0	0	0	0
Total	**1,549,447**	**212,148**	1,621,401	297,155

[1)] The item “Watch” has been renamed to “4A-4E”, while the content remains unchanged.

Overdue but not impaired financial assets:

EUR thousand

Loans and advances to customers (on- and off-balance)	31.12.2022 Exposure	Collateral	31.12.2021 Exposure	Collateral
- overdue to 30 days	28,423	1,152	23,679	622
- overdue 31 to 60 days	2,084	36	1,907	17
- overdue 61 to 90 days	944	1	619	0
- overdue 91 to 180 days	2	0	1	0
- overdue 181 to 365 days	1	0	4	0
- overdue over 1 year	2	0	1	0
Total	**31,455**	**1,188**	26,211	638

Impaired financial instruments:

EUR thousand

Loans and advances to customers (on- and off-balance)	31.12.2022	31.12.2021
Exposure	24,066	25,793
Provisions	17,778	16,982
Collateral	8,750	11,362

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

54.11.1. 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 2022. The off-balance positions only include loan commitments.

EUR thousand

	01.01.2022	Classified as forborne during the year (+)	Transferred to non-forborne during the year (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2022
Central banks	0	0	0	0	0	0	0
General governments and government related entities	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Non-financial corporations	22,387	1,995	-3,231	0	0	-4,979	16,173
Households	17,504	1,547	-4,309	0	0	-4,379	10,363
Loans and advances	**39,891**	**3,543**	**-7,540**	**0**	**0**	**-9,358**	**26,536**
Loan commitments given	**210**	**3**	**0**	**0**	**0**	**-13**	**200**

The following table shows the forbearance status in the course of the year 2021:

EUR thousand

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

The forbearance exposure was as follows in 2022:

EUR thousand

	31.12.2022	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets
General governments and government related entities	0	0	0	0	0
Credit institutions	0	0	0	0	0
Other financial corporations	0	0	0	0	0
Non-financial corporations	16,173	7,757	67	8,349	34
Households	10,363	7,942	1,527	894	88
Loans and advances	**26,536**	**15,699**	**1,594**	**9,243**	**122**

The forbearance exposure was as follows in 2021:

EUR thousand

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

Following table shows the collateral allocation for the forbearance exposure at the year 2022:

EUR thousand

Internal Collateral Value (ICV) in respect of forborne assets	Internal Collateral Value (ICV)	thereof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporates	4,369	4,369	0	0	0	0

Medium and Small Corporate	6,952	6,012	216	0	724	0
Retail	4,342	1,005	3,035	13	259	31
Total	**15,663**	**11,386**	**3,251**	**13**	**982**	**31**

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

EUR thousand

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

(55) Risk provisions

55.1. 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). For transactions which have a determined contractual date, liftetime loss is calculated for the time until maturity. For transactions where a contractual date does not exist due to the nature of the product (for instance revolving loans), 3 years from the reporting date is used as maturity for the purpose of calculation of lifetime loss. In case of an objective indication of an impairment (NPE, stage 3) the lifetime expected credit loss is also recognised.

As for the non-performing part (stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures. For the part of the non performing portfolio where the exposure at default (EAD) on group of borrowers level is below a certain materiality threshold the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment, or calculation of specific risk provisions based on the 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.

The risk provisions are calculated on transaction level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies (wiiw). Compared to the previous outlook, the number and magnitude of the risks has increased. Uncertainty regarding the downside risks persists largely due to the stack up of both war- and energy-related risks, as well as Chinese lockdown policies. Also, with the CPI inflation figures reaching the two-digit levels in some parts of the Euro area, public pressure might force the regulators to increase interest rates more aggressively than originally anticipated. Doing so too quickly, however, would dampen global economic growth even more. Furthermore, this could lead to credit risks materialization bringing forth unintended consequences of accommodative monetary policy during the pandemic on the real-estate markets, which is of particular concern for regulators. This is reflected in cautious adjustment of scenario-probabilities increasingly giving more weight to negative outcomes (probability of the pessimistic scenario is raised from 35% to 45%, while a probability of 50% was assigned to the baseline scenario).

Scenario probabilities[1)]	Baseline case	Optimistic case	Pesimistic case
YE21	55%	10%	35%
YE22	50%	5%	45%

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

The following table provides quantitative aspects of the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information/variables used to estimate the ECL for 31.12.2022. The values shown represent the average value of the macroeconomic variables over the first 12 months and the remaining 2-year forecast period for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

Scenario	Historical	Baseline case			Optimistic case	Pessimistic case
Sample-period	2021	2022	2023-2025			
Sub-sample			First 12 months[1]	Remaining 2-year Period [1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)						
Slovenia	8.2	5.7	1.9	3.0	4.3	-0.3
Euroarea	5.2	3.1	0.2	1.9	2.8	-0.1
Unemployment Rate (ILO, average %)						
Slovenia	4.8	4.1	4.0	4.3	1.5	6.9
Euroarea	7.7	6.8	7.1	6.6	4.5	8.9
Real-Estate (% of change)						
Slovenia	11.5	13.9	4.5	4.2	7.3	2.2
Euroarea	7.7	9.5	3.1	2.9	5.9	1.0
CPI Inflation (average % YoY)						
Slovenia	2.0	9.4	5.5	2.4	1.7	5.9
Euroarea	2.6	8.5	6.0	2.2	2.8	5.1

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

The baseline forecast is the outcome of assessment of current economic developments, medium-term outlooks in the real and financial sector, and risks surrounding them. The scenarios are differentiated by:
(i) the length and intensity of warfare between Russia and Ukraine, global market price changes and European gas consumption measures conditional on the winter season;
(ii) climate transition risks reflecting assumptions on decarbonisation policies impacting core economic scenarios.
The calibration of economic shocks that leads to core alternative scenarios is implicitly derived from the last available EBA´s stress testing assumptions, i.e. any factor of conservativism that affected original deviation from the baseline path in EBA´s exercise is indirectly transposed into the internal framework. Technically, the core adverse scenario depends on EBA´s deviation of adverse to baseline, which is imposed to wiiw´s baseline. Optimistic and pessimistic cases are ½ of the deviation used as described above. On the other hand, climate-related and environmental risk factors were calibrated based on econometric modelling of carbon pricing policies. They are specifically designed only for pessimistic and worst-case scenarios, while the baseline and optimistic case are already assumed to reflect climate effects stemming from “Paris Agreement setting” that implies no carbon dioxide removal efforts beyond the already established limits keeping the global warming below 2.5°C. Therefore, the climate effects in the baseline and optimistic scenarios are not quantitatively isolated at this stage, while for the negative scenarios they are added as annual

deviations on top of core economic scenario values, reflecting carbon pricing policies targeting more ambitious limits of emissions, i.e. to reduce global warming below 1.6°C. This leads now to asymmetrically dispersed distribution of potential outcomes, conditional on risk assessment and its materialization.
The respective narratives are as follows:

- Baseline: The first half of 2022 was a period of strong post-Covid-19 recovery. These largely positive developments are now heavily knocked back by the emerging real estate crisis in China, the consequences of Russia's war in Ukraine, and the turmoil on energy markets due to the introduction of Western sanctions against the Russian petrochemicals. The war in Ukraine additionally amplified the spike in global food and energy prices leading to growing concerns over the next "Great Stagflation". Real wages as well as consumer sentiment are starting to decline almost everywhere in the region, which will be a serious drag on the economies in the coming months. However, inflation should gradually get under control over medium, reflecting interest rate hikes and market bottlenecks eventually fading away. Unemployment rates should continue to fall, demonstrating modest structural stabilization potential of these economies, although further strong fiscal support across the region is unlikely. Of course, external factors play a decisive role still. While there should not be any strong direct impact from the energy crisis, some indirect effects might arise through reduced demand from Germany, since a recession in the largest EU economy might be especially troublesome for Slovenia, with a significant export share attributed to Germany`s demand (approx 1/6 of its GDP). It is expected that Slovenian economy will grow on average by 5.7% and 1.9% in 2022 and 2023 respectively, converging slowly to long-term path afterwards. Climate risks are largely of the long-term nature for Slovenia. The main physical risk is the disproportionally growing temperature in the summer season, greater occurrence of droughts, and loss of precipitation. This could lead to decreasing productivity in agriculture, decreasing production capacities of hydro power plants, and negative impact on tourism in the winter season over the long run. Nonetheless, Slovenia is not in the global frontier in implementing the climate change mitigation policies. Considering that most of the physical risks are skewed towards the second half of the century, it can be expected that both the transition and physical risks are to remain minor over the forecast period.

- Optimistic: The positive scenario assumes that warfare between Russia and Ukraine ends in 2023, followed by lengthy political negotiations with gradual easing of delivery restrictions for essential goods. The ability to reopen trade routes would certainly relieve pressure from the markets for food and metal, potentially bringing us closer to the aim of desired price stability (with average inflation assumed to go down to 1.2% already in next year). The winter conditions in 2022 and 2023 are assumed to be benign and the EU member states should manage to reduce gas consumption without causing major disruption to the global energy market. China starts treating Covid-19 as an endemic virus and abolishes mobility restrictions in major production areas. In this situation, credit risks built up so far should not materialize, and emerging markets would enjoy increased capital flows with somewhat appreciated exchange rates. Consequently, Slovenian growth performance would be 1.7 percentage points higher in 2023-25 in comparison to the baseline. For the period 2025-27, macroeconomic indicators are simulated to converge to the baseline scenario, according to the assumption that in the long run the economy operates on its potential level, and that the ongoing pandemic will not affect the productive capacities of the economies. Regarding the climate effects, this scenario assumes that all countries meet their existing unconditional nationally determined contributions (NDC) commitments, i.e. individual country plans to reduce its emissions follow the Paris Agreement and no need to change existing policy ambitions. Therefore, increases in carbon pricing over the forecast horizon is not to be expected and what is more, regional climate policy variations will remain quite low.

- Pessimistic: There are three major risks, heavily skewed in favour of negative outcomes. First, there is a high uncertainty regarding the inflation trajectory over the coming months. It is possible that the pace of the monetary tightening might be too slow to impact the expectations. Second, the volatility on energy markets might reach new peaks if the winter season will be colder than the average and supplies of the Russian gas experience further disruptions, with Russia-Ukraine conflict continuing with little possibility for political negotiations in sight until the end of the next year. Third, Chinese authorities might stick to the lockdown policies until Q2 2023, preventing supply bottlenecks from being resolved with the local real estate market being heavily recapitalized by the state. Credit risks would materialize on the real estate markets outside the European Union but without unmanageable negative externalities to the European financial system. These conditions would lead emerging markets to face capital outflows with local currencies depreciating. In conjunction with global and regional climate policies targeting a 1.6°C limit to global warming, implemented immediately, albeit gradually, with European countries increasing carbon prices by 5.5% and the rest of the world by more than 10%, this would put regional economies on recessionary path lasting up until 2027 (average decline in economic activity of 6.6%). Otherwise, i.e., without climate transition risk, observed fragile recovery in these economies would morph into slower consumption growth, bringing forth only modest and short-lived recessionary impulses (concentrated in 2023). Of course, one has to admit there is a sizable chance that the global leaders may fail to coordinate on implementation of the climate action programs beyond the nationally determined contributions, which may be the source of additional risks and disturbances in both directions.

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

Scenario	Historical	Baseline case			Optimistic case	Pessimistic case
Sample-period	2020	2021	2022-2024			
Sub-sample			First 12 months[1]	Remaining 2-year Period [1]	3-year Period[1]	3-year Period[1]
Real GDP (constant prices YoY, %)						
Slovenia	-4.2	5.2	4.1	3.0	5.1	1.7
Euroarea	-6.3	4.8	4.4	2.1	4.3	1.4
Unemployment Rate (ILO, average %)						
Slovenia	5.0	4.7	4.3	4.1	1.4	7.0
Euroarea	7.9	8.1	7.8	7.2	5.2	9.5
Real-Estate (% of change)						
Slovenia	4.6	3.0	2.2	2.2	5.1	-0.7
Euroarea	5.2	5.5	3.5	3.0	6.1	0.2
CPI Inflation (average % YoY)						
Slovenia	-0.3	1.8	1.6	1.6	1.8	1.4
Euroarea	0.3	2.1	1.6	1.5	1.7	1.3

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

The provisions in the 31.12.2022 financial statements include also a post model adjustment of EUR 1.5 million. The PMA amount addresses:

- the positive impact of the macroeconomic development during late 2021 and early 2022 on the PD models, where some models recognize current development as a significant improvement compared to last recognized position;
- the uncertainty of the future of the macroeconomic environment and high overall volatility. As observed in last years, macroeconomic projections changed quite frequent and could be significantly different depending on the institute providing the projections. IFRS 9 modelling framework cannot reasonably capture this uncertainty and high volatility in the macroeconomic environment.

The post-model adjustment is booked across IFRS 9 stages 1 and 2.

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where stage 1 and stage 2 ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management adjustment, which is included in the total ECL stock after probability weighting the ECL of each scenario. The assumed distribution of scenario probabilities (baseline 50%, optimistic 5% and pessimistic 45%) allows Addiko Bank to cover the broad range of future expectations.

EUR thousand

31.12.2022	ECL incl. Post model overlay	ECL excl. Post model overlay	Optimistic Case	Base Case	Pessimistic Case
Retail	6,755	6,350	6,015	6,218	6,534

Non-retail	6,982	5,936	4,784	5,536	6,508
Corporate center	108	59	23	45	79
Total	**13,845**	**12,345**	**10,822**	**11,799**	**13,120**

EUR thousand

31.12.2021	ECL incl. Post model overlay	ECL excl. Post model overlay	Optimistic Case	Base Case	Pessimistic Case
Retail	6,234	6,234	5,987	6,177	6,392
Non-retail	6,891	6,891	5,285	6,486	7,985
Corporate center	313	313	71	208	547
Total	**13,437**	**13,437**	**11,343**	**12,872**	**14,924**

55.2. Development of risk provisions

The overall ECL coverage for performing loans (Stage 1 and 2) increased during 2022 due to the recognition of the post model overlay after the consideration of updated macro-economic outlook within the ECL calculation (to address the uncertainty of the future of the macroeconomic environment and high overall volatility). Despite the tense macroeconomic environment and inflationary pressure, there was no material deterioration in asset quality in 2022 recognized (no increase in NPE, although coverage ratio is higher as described in 55.4), whereby the ongoing development of the portfolio with regards to migrations to the NPE portfolio is subject to continuous monitoring.

55.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at Addiko Bank, updates are performed regularly to make sure that the latest available information is considered. In 2022 a refinement/recalibration included a prolongation of timeseries with more recent available data used for calculation of PDs, introduction of modelled prepayment rates, introduction of modelled CCF parameter, introduction of modelled LGD parameter for Corporate portfolio and re-estimation of existing LGD parameters for Retail portfolios, implementation of new staging criteria (equal to AQR staging requirements), and an update of the macro forecasts to reflect latest available information.

55.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) has increased in 2022 (68.4%) compared to YE21 (61.4%).

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 2022:

EUR thousand

31.12.2022	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	447,864	6,954	5,694	646	1.6%	81.9%	91.2%
SME	548,711	17,895	11,412	8,790	3.3%	63.8%	112.9%
Non Focus	251,894	1,760	1,085	965	0.7%	61.6%	116.5%
o/w Large Corporate	102,488	0	0	0	0.0%	0.0%	0.0%
o/w Mortgage	135,688	1,760	1,085	965	1.3%	61.6%	116.5%
o/w Public Finance	13,718	0	0	0	0.0%	0.0%	0.0%
Corporate Center	358,460	0	0	0	0.0%	0.0%	0.0%
Total	**1,606,929**	**26,610**	**18,191**	**10,401**	**1.7%**	**68.4%**	**107.5%**
o/w Credit Risk Bearing	**1,309,934**	**26,610**	**18,191**	**10,401**	**2.0%**	**68.4%**	**107.5%**

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 2021:

EUR thousand

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

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

(56) Measurement of real estate collateral and other collateral

The real estate market in Slovenia had positive development in 2022. Commercial real estate prices were increasing. Residential real estate prices were also in upward trend, while in the last quarter of 2022 slight slowing down of demand for residential properties was observed. Addiko Bank is using conservative haircuts for the calculation of the internal collateral values, which buffer potential losses of collateral value in case of collateral value price decrease.

Pursuant to Addiko Bank's Collateral Management Policy and Valuation and Valuation Monitoring Policy, all the real estate is regularly monitored and in case of significant lower value re-assessment of collateral value is done. Monitoring is mandatory annually for all commercial real estate values and at least once in three years for residential real estate. Real estates that are collateral for NPE are monitored annually.

Individual monitoring of estimated market values for commercial RE are done every year for properties with market value above € 1m. The Bank is observing if there are any significant changes with the property – physically, legally or/and market changes that would trigger re-assessment. The market value of those with smaller value is periodically monitored using certain statistical methods.

Residential properties are individually monitored every three years with estimated market value above € 400t, while for smaller values statistical methods are used for monitoring.

The internal collateral values (ICV) are shown in the following table for 31 December 2022 as well as 31 December 2021:

EUR thousand

Collateral Distribution	31.12.2022	31.12.2021
Exposure	1,606,929	1,674,834
Internal Collateral Value (ICV)	223,711	310,451
thereof CRE	112,369	173,222
thereof RRE	64,796	75,329
thereof financial collateral	16,787	11,496
thereof guarantees	22,990	30,442
thereof other	6,769	19,961
ICV coverage rate	**13.9%**	**18.5%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). Residential real estate given as collaterals as well as CRE collaterals decreased in 2022. Collateral coverage also decreased in the portfolio overall to 13.9% compared to YE20 (18.5%).

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

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

EUR thousand

31.12.2022	Gross Carrying amount	Fair value of collateral held under the base case scenario					Net exposure	ECL
		Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	**23,104**	**6,955**	**146**	**0**	**1,543**	**8,644**	**14,460**	**-15,136**
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0
Non-financial corporations	14,734	6,557	146	0	1,538	8,242	6,491	-8,628
Households	8,371	397	0	0	4	402	7,969	-6,507
Committments and financial guarantees	**2,968**	**213**	**0**	**70**	**0**	**283**	**2,685**	**2,642**
Loan committments given	313	50	0	0	0	50	263	244
Financial guarantees given	2,481	163	0	70	0	233	2,248	2,225
Other committments given	174	0	0	0	0	0	174	174

EUR thousand

31.12.2021	Gross Carrying amount	Fair value of collateral held under the base case scenario					Net exposure	ECL
		Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	**23,983**	**9,202**	**920**	**12**	**1,349**	**11,482**	**12,501**	**- 13,905**
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0
Non-financial corporations	14,370	7,874	920	2	1,310	10,105	4,264	-6,862
Households	9,613	1,327	0	10	39	1,376	8,237	-7,043
Committments and financial guarantees	**3,679**	**352**	**0**	**231**	**0**	**583**	**3,096**	**3,078**
Loan committments given	363	50	0	0	0	50	313	299
Financial guarantees given	2,531	302	0	231	0	533	1,998	1,998
Other committments given	784	0	0	0	0	0	784	780

The expected discounted cash flows from realisation of collateral presented in the above table are determined - for the not individually impaired loans - as difference between the outstanding amount and the ECL calculated on the portfolio principle and for this reason do not correspond to the collateral values presented in the previous tables.

(57) Market risk

57.1. 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.

57.2. Risk measurement

Addiko Bank calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. In detail, VaR measures the maximum potential loss in value of an asset or portfolio over a defined period (1 day) at a given confidence interval (99%). The approach is based on the assumption of a normal distribution of interest rate returns. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99.0% VaR number used by the Bank reflects the 99% probability that the daily loss should not exceed the reported VaR. The VaR methodology employed to estimate daily risk numbers is a Monte Carlo simulation with 10,000 runs, or a simulation under Variance-Covariance method. While the latter method is used to estimate interest rate risk for non-trading activities, the Monte Carlo approach is then used to estimate potential losses of other market risk types. The Bank uses VaR to capture potential losses arising from changes in the risk free rates, security issuers' credit margins, foreign exchange rates, equity prices and commodity prices. All VaR methods in place rest on assumption of exponentially weighted moving averages and correlations in the market risk factors collected for the historical series of 250 days.

57.3. Overview – market price risk

57.3.1. INTEREST RATE RISK

The value at risk is shown in the table below:

EUR thousand

	31.12.2022	31.12.2021
Interest Rate Risk (Banking Book)	253.6	216.4
Interest Rate Risk (Trading Book)	0.0	0.3

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31.12.2022 is EUR 254 thousand (comparable VaR figure as at 31 December 2022: EUR 217 thousand).

The interest rate gap profile of the Bank contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book), which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

The trading items of the Bank very low during the year 2022. At the end of year the VaR in the trading book amounted to EUR 12.

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

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis point shift of the yield curve in total own fund may not exceed 20.0% (0.7% at 31.12.2022 versus 5.1% at 31.12.2021) and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital (2.1% at 31.12.2022 and 5.4% at 31.12.2021).

The change in present value of the banking book in EUR thousands with a parallel rise in the interest rate curves by 1 base point in all maturity bonds and currencies as at 31 December 2022 amounts to EUR 4 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2021 was EUR 25 thousand.

57.3.2. 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 2022 is roughly EUR 793 thousand (volume as of 31 December 2021 of approx. EUR 826 thousand), with the majority attributed to the currencies CHF and USD. The value at risk for foreign exchange risk was approximately EUR 3.30 thousand per day as at 31 December 2022 (value at risk as at 31 December 2021: EUR 2.53 thousand), at a confidence interval of 99.0 %. The limit of EUR 20.0 thousand was adhered in year 2022.

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

Exposure to currency risk:

EUR thousand

	31.12.2022	EUR	USD	CHF	other	31.12.2021	EUR	USD	CHF	other
Cash, cash balances at central banks and other demand deposits at banks	**180,954**	175,468	184	257	5,044	**254,446**	247,269	330	424	6,423
Financial assets held for trading	**2,929**	2,929	0	0	0	**819**	680	117	0	22
Non-trading financial assets mandatorily at fair value through profit or loss	**313**	313	0	0	0	**313**	313	0	0	0
Financial assets at fair value through other comprehensive income	**67,986**	61,462	6,523	0	0	**98,575**	93,590	4,986	0	0
Financial assets at amortised cost	**1,053,320**	1,020,178	0	33,141	0	**981,711**	939,079	2	42,618	11
Loans and advances to credit institutions	**50,229**	50,229	0	0	0	**49,930**	49,930	0	0	0
Loans and advances to customers	**938,899**	905,789	0	33,110	0	**930,168**	887,548	2	42,618	0
Other financial assets	**1,253**	1,222	0	31	0	**1,613**	1,602	0	0	11
Tangible assets	**8,349**	8,349	0	0	0	**9,157**	9,157	0	0	0
Intangible assets	**2,192**	2,192	0	0	0	**2,312**	2,312	0	0	0
Tax assets	**13,124**	13,008	116	0	0	**11,551**	11,551	0	0	0
Current tax assets	**267**	267	0	0	0	**0**	0	0	0	0
Deferred tax assets	**12,857**	12,740	116	0	0	**11,551**	11,551	0	0	0
Other assets	**541**	541	0	0	0	**431**	431	0	0	0
Non-current assets and disposal groups classified as held for sale	**121**	121	0	0	0	**11,068**	11,068	0	0	0
Total assets	**1,329,827**	**1,284,561**	**6,824**	**33,398**	**5,044**	**1,370,383**	**1,315,451**	**5,435**	**43,042**	**6,456**

EUR thousand

	31.12.2022	EUR	USD	CHF	other	31.12.2021	EUR	USD	CHF	other
Financial liabilities held for trading	**2,531**	2,531	0	0	0	**1,432**	541	68	803	20
Financial liabilities measured at amortised cost	**1,117,893**	1,099,761	6,745	6,635	4,751	**1,172,408**	1,155,307	7,199	3,481	6,422
Deposits of credit institutions	**2,671**	2,671	0	0	0	**698**	698	0	0	0
Deposits of customers	**1,029,784**	1,012,054	6,364	6,628	4,738	**1,022,272**	1,006,185	6,206	3,480	6,401

Loans of banks and central banks	**70,974**	70,974	0	0	0	**136,558**	136,558	0	0	0
of which subordinated loans	**15,009**	15,009	0	0	0	**15,005**	15,005	0	0	0
Investment securities issued	**50**	50	0	0	0	**50**	50	0	0	0
Other financial liabilities	**14,414**	14,015	378	7	14	**12,830**	11,816	993	1	21
Provisions	**5,551**	5,521	0	0	29	**5,101**	5,101	0	0	0
Tax liabilities	**0**	0	0	0	0	**1,373**	1,373	0	0	0
Current tax liabilities	**0**	0	0	0	0	**1,373**	1,373	0	0	0
Deferred tax liabilities	**0**	0	0	0	0	**0**	0	0	0	0
Other liabilities	**322**	322	0	0	0	**2,888**	2,888	0	0	0
Total liabilities	**1,128,329**	**1,110,167**	**6,745**	**6,635**	**4,781**	**1,183,202**	**1,165,211**	**7,267**	**4,283**	**6,441**
Capital	**89,959**	89,959	0	0	0	**89,959**	89,959	0	0	0
Share premium	**18,814**	18,814	0	0	0	**18,814**	18,814	0	0	0
Accumulated other comprehensive income	**-5,065**	-5,065	0	0	0	**124**	124	0	0	0
Retained earnings (including profit or loss for the financial year)	**97,791**	**97,791**	0	0	0	**78,285**	78,285	0	0	0
Total equity	**201,499**	**201,499**	**0**	**0**	**0**	**187,181**	**187,181**	**0**	**0**	**0**
Total liabilities and equity	**1,329,827**	**1,311,666**	**6,745**	**6,635**	**4,781**	**1,370,383**	1,352,392	7,267	4,283	6,441
Net off-balance-sheet liabilities arising from spot transactions and derivatives	**-168**	27,953	-1,177	-27,066	122	**-3,394**	37,228	865	-41,621	134
Other off balance exposures	**282,668**	266,312	502	-	15,854	**309,461**	291,153	718	-	17,590

57.3.3. EQUITY RISK

The share capital held in the Bank is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. The Value at Risk for the equity risk is estimated at EUR 5 thousand as of 31 December 2022 against the estimation of EUR 5 thousand as of 31 December 2021. Size of risk exposure to movements in equity market prices is seen as low given the Bank strategy, in general, not to invest into such asset classes. If the comparison is done on each separate risk type, equity risk exposure thus displays that no major concentration risk arises from therein.

57.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at EUR 108 thousand at 31 December 2022 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2021: EUR 58 thousand). 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.

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

EUR thousand

	31.12.2022	31.12.2021
Interest Rate Risk (Banking and Trading Book)	4,736	4,048
Credit Spread Risk	2,011	1,079
Foreign Exchange Risk	62	47

Equity Risk - Investments	0	0
Equity Risk - Client Default	97	85

Total market risk exposure was higher at end of the year 2022 compared with the end of the year 2021 largely on the back of higher volatility in the financial markets also connected to the Russia/Ukraine crises feeding mainly into higher interest rate and credit spread risk. The latter mostly reflect increased movements in risk free rates amid growing inflationary pressures and the resultant influences on the key central banks' response via monetary policy tools. The increase within the credit spread risk per end of December 2022 to EUR 2.011 thousand compared to EUR 1,079 thousand per 31.12.2021 was mainly driven out of higher volatilities of credit default swaps. These market developments also had an impact on the valuation of the security portfolio of Addiko Bank, where correction of prices is reflected also in the decrease of OCI. These impacts are carefully monitored and did not endanger any of the capital ratio limits. As the business strategy of the Bank related to the treasury portfolio is to keep majority of the instruments, and in particular all government instruments in the EU entities, to maturity, and the credit quality of securities portfolio (consisting mostly of exposures to sovereigns and central banks) was not changed, this volatility of valuation does not represent an actual risk for the Bank. Beside that also a respective hold to collect portfolio was implemented in the Bank, where positions are booked which are kept until held to maturity - this is also the plan out of the actual Treasury strategy.

57.3.5. IBOR REFORM

The interest rate benchmark reform was implemented successfully within Addiko. Respective contracts and fallbacks have been signed and new IBOR curves used for valuations have been implemented in the respective systems from 1 January 2022 onwards.

(58) Liquidity risk

58.1. Definition

Addiko Bank 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.

58.2. General requirements

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

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

58.3. Risk control

A bundle of different liquidity reserves ensures the Bank' solvency at all times, even during crisis situations. These liquidity reserves are subject to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the Bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities.

In 2022, 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 on average 230% during 2022. LCR peak was reached in March 2022 at 276%.

The counterbalancing capacity at Addiko Bank was structured as follows:

EUR thousand

Counterbalancing Capacity	31.12.2022	31.12.2021
Coins and bank notes	7,981	8,204
Withdrawable central bank reserves	157,045	190,225
Level 1 tradable assets	91,407	14,644
Level 2A tradable assets	-	-
Level 2B tradable assets	-	-
Total Counterbalancing Capacity	**256,433**	**213,072**

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

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

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

58.4. Overview of the liquidity situation

The liquidity situation of Addiko Bank in 2022 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 1.1 billion. Based on anticipated inflows and outflows, a stable liquidity situation in the year 2023 is also expected.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding is EUR. Both products and currencies are tracked through different time buckets and time frames.

In addition, the Bank is monitoring the impact of customers with high volume business: the biggest ten counterparties that are compared with the volume of total financial liabilities.

Collateral exchanges as part of the relevant margining procedures underlying the derivatives business were taken into account in all the relevant liquidity risk calculations and as such form the relevant input used in both regulatory reporting as well as internal management.
Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Bank.

EUR thousand

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2022	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	1,115,222	1,121,051	648,183	105,227	230,189	110,659	26,793
Deposits of customers	1,029,784	1,032,732	638,179	105,225	230,123	57,536	1,668
Deposits of credit institutions	70,974	73,855	1,171	0	0	48,672	24,012
Issued bonds, subordinated and supplementary capitals	50	50	0	0	50	0	0
Other financial liabilities	14,414	14,414	8,832	2	15	4,451	1,114
Derivatives	2,517	2,517	2,517	0	0	0	0
Loan commitments		118,730	118,730	0	0	0	0

Financial guarantees		30,304	30,304	0	0	0	0
Other commitments		134,586	134,586	0	0	0	0
Total	**1,117,739**	**1,407,189**	**934,321**	**105,227**	**230,189**	**110,659**	**26,793**

EUR thousand

Contractual maturities of undiscounted cash flows of financial liabilities as at 31.12.2021	Carrying amount	Contractual cash flows	thereof: daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised costs	1,171,710	1,176,926	672,980	93,843	159,801	233,911	16,390
Deposits of customers	1,022,272	1,023,074	665,454	92,837	149,589	111,952	3,242
Deposits of credit institutions	136,558	140,972	698	1,007	10,188	117,200	11,879
Issued bonds, subordinated and supplementary capitals	50	50	0	0	0	50	0
Other financial liabilities	12,830	12,830	6,829	0	24	4,708	1,269
Derivatives	343	343	343	0	0	0	0
Loan commitments	0	122,941	122,941	0	0	0	0
Financial guarantees	0	43,794	43,794	0	0	0	0
Other commitments	0	143,656	143,656	0	0	0	0
Total	**1,172,053**	**1,487,660**	**983,714**	**93,843**	**159,801**	**233,911**	**16,390**

(59) Operational risk

59.1. 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.

59.2. 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.

59.3. Risk monitoring

Local Operational Risk Controlling unit 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.

59.4. 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.

(60) Object risk

Object risk at Addiko Bank covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

The capital requirements for object risk are calculated according to the methodology of the Standardised Approach and included in the ICAAP evaluation. To this end, the market value is multiplied by a risk weighting of 100.0% and then by a weighting factor.

(61) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk
- Macro-economic risks
- Systemic risks
- Business risk/Strategic risk

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

Environmental, Social and Governance (ESG) Risks

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

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

In line with regulatory expectations, Addiko puts a special focus on climate-related and other environmental risk (C&E risk) management. In this context Addiko considers both physical and transition risks:

In line with regulatory expectations, Addiko puts a special focus on climate-related and other environmental risk (C&E risk) management. In this context Addiko considers both physical and transition risks:
- physical risk refers to the direct impact from climate-related or environmental changes, which can be “acute” (e.g. extreme weather events) or “chronic” in case of progressive changes,
- transition risk refers to the potential losses resulting from the adjustment towards a lower-carbon and more environmentally sustainable economy.

Addiko Group performed an assessment of climate-related and other environmental risks in two consecutive steps. In a first step the Group assessed the impact of climate and environmental change on its countries of operation considering various scenarios for the short, medium and long-term. In a second step Addiko Group analysed how the impact identified in the first step will transmit onto the Group. Based on this analysis, Addiko concluded that in particular its credit risk can be impacted climate-related and other environmental risk drivers. While due to the granularity and diversification of Addiko Group's loan portfolio, there is no immediate material threat to the quality of assets of Addiko Group, the potential impact on the economy in the area of Addiko operation drives the systemic risk Addiko is exposed to. In this context it is evident that acute and chronic climate and environmental risks already do impact macroeconomic indicators, whereby the severity of this impact over the medium- to long term is highly dependent on the measures taken to curb climate change. Consequently, Addiko also considered the impact from climate-related transition risks in the macroeconomic financial forecasts used in the calculation of the Expected Credit Loss, thus, directly impacting the risk provisions of the loan book.

While no immediate danger for Addiko was identified in the assessment of climate-related and other environmental risks, the urgency and uncertainty of the matter require continuous monitoring. Addiko focuses in particular on the strict limitation of any idiosyncratic C&E risk. In this context, Addiko has identified industries which are and might in the future be impacted by climate and environmental risk and set prudent limits on the maximum exposure to these industries, which are diligently tracked. Furthermore, within the operational credit-granting process, Addiko has defined measures to recognize the potential impact of climate and environmental risk on the asset quality of the clients. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the Bank that might appear in case that the Bank supports financing of the respective company.

(62) Legal Risk

62.1. 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.

62.2. Overview of legal disputes - Possible subsequent invalidity of agreed foreign currency

Particularly during 2004-2008, numerous private customers in Slovenia took out foreign currency loans or loans with F/X clauses (especially CHF loans). Since 2015, such loan agreements have increasingly become the subject of customer complaints and legal proceedings, in particular by associations of borrowers, who began to file claims for the nullity of loan contracts against the banks. The main allegation is that customers were not provided with enough information on the consequences of such agreements at the time when they were concluded, and/or that the foreign currency clauses applied ran contrary to the terms of the agreement.
The Bank has several ongoing legal disputes in connection with CHF loans, however the Bank is optimistic as regards the outcome of the proceedings, as first- and second-instance courts have passed multiple verdicts in favour of the banks, and the Slovenian Supreme Court rendered verdicts that give clearer guidance regarding the information and notification duty of banks regarding currency risks. No measures were adopted against the Bank by the regulator with regard to CHF loans. On 4 February 2022 the Slovenian National Assembly voted in favour of Act on Limitation and Distribution of Currency Risk between Lenders and Borrowers of Loans in Swiss Francs (ZOPVTKK) which was repealed in December 2022 after the Slovene banks filed a motion for the assessment of the constitutionality of the CHF Law to the Constitutional Court.

EUR thousand

		31.12.2022		31.12.2021
	Exposure	Of which CHF	Exposure	Of which CHF
Addiko Bank Slovenia	1,606,929	33,770	1,674,785	43,710

In 2022, the Bank was able to further reduce its foreign exchange risk due to the CHF portfolio reduction from 43.7 million EUR at the end of 2021 to 33.7 million EUR at the end of 2022.

In 2022, there were no significant changes in court practice that would have an impact on the Bank.

62.3. Overview of legal disputes – Possible subsequent invalidity of agreed »floor« clause

In 2015, the reference interest rate EURIBOR became negative. To counteract negative consequences, the Bank introduced so called “floor clauses” into loan agreements with the interest rate tied to EURIBOR, so that the negative EURIBOR would be treated as having the value of 0. In September 2022, a consumer organization filed a collective claim against the Bank with the intent to nullify floor clauses. Similar to the CHF loans, the main allegation is that the customers were not provided with enough information on the consequences of such clauses. The same organization filed collective claims against all other banks on the Slovene market that offered EURIBOR loans. While the procedures are still in their beginning phase, the Bank remains optimistic regarding their outcome.

62.4. Legal risks

The total number of passive legal disputes has increased in 2022 compared to 2021. The significant majority as well as new proceedings are related to consumer loans with F/X clauses.

Supplementary information required by IFRS

(63) Analysis of remaining maturities of carrying amount

EUR thousand

Analysis of remaining maturity as at 31.12.2022	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 and cash equivalents	180,954	0	0	0	0	180,954	0	180,954
Financial assets held for trading	2,929	0	0	0	0	2,929	0	2,929
Financial assets mandatorily at fair value through profit or loss	313	0	0	0	0	313	0	313
Financial assets at fair value through other comprehensive income	11,580	4,191	10,815	35,382	6,018	26,586	41,400	67,986
Financial assets at amortised cost	74,412	63,979	168,898	533,331	212,699	307,289	746,030	1,053,320
Tangible assets	8,349	0	0	0	0	8,349	0	8,349
Intangible assets	2,192	0	0	0	0	2,192	0	2,192
Tax assets	13,124	0	0	0	0	13,124	0	13,124
Other assets	541	0	0	0	0	541	0	541
Non-current assets and disposal groups classified as held for sale, financial instruments	121	0	0	0	0	121	0	121
Total	**294,514**	**68,170**	**179,713**	**568,713**	**218,717**	**542,397**	**787,430**	**1,329,827**
Financial liabilities held for trading	2,531	0	0	0	0	2,531	0	2,531
Financial liabilities measured at amortised cost	648,003	106,414	227,620	109,510	26,346	982,037	135,856	1,117,893
Provisions	5,551	0	0	0	0	5,551	0	5,551
Tax liabilities	0	0	0	0	0	0	0	0
Other liabilities	2,354	0	0	0	0	2,354	0	2,354
Total	**658,439**	**106,414**	**227,620**	**109,510**	**26,346**	**992,473**	**135,856**	**1,128,329**

EUR thousand

Analysis of remaining maturity as at 31.12.2021	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash and cash equivalents	254,446	0	0	0	0	254,446	0	254,446
Financial assets held for trading	819	0	0	0	0	819	0	819
Financial assets mandatorily at fair value through profit or loss	313	0	0	0	0	313	0	313
Financial assets at fair value through other comprehensive income	13,136	13,140	17,989	42,125	12,186	44,265	54,311	98,575
Financial assets at amortised cost	50,099	50,960	149,510	481,692	249,449	250,569	731,141	981,711
Tangible assets	9,157	0	0	0	0	9,157	0	9,157
Intangible assets	2,312	0	0	0	0	2,312	0	2,312
Tax assets	11,551	0	0	0	0	11,551	0	11,551
Other assets	431	0	0	0	0	431	0	431
Non-current assets and disposal groups classified as held for sale, financial instruments	11,068	0	0	0	0	11,068	0	11,068
Total	**353,332**	**64,101**	**167,499**	**523,817**	**261,635**	**584,932**	**785,452**	**1,370,383**
Financial liabilities held for trading	1,432	0	0	0	0	1,432	0	1,432
Financial liabilities measured at amortised cost	689,570	89,248	149,255	207,694	36,641	928,074	244,335	1,172,408
Provisions	5,101	0	0	0	0	5,101	0	5,101
Tax liabilities	1,373	0	0	0	0	1,373	0	1,373
Other liabilities	2,888	0	0	0	0	2,888	0	2,888
Total	**700,364**	**89,248**	**149,255**	**207,694**	**36,641**	**938,867**	**244,335**	**1,183,202**

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.

(64) Leases from the view of Addiko Bank as lessor

64.1. Operating leases

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

EUR thousand

	31.12.2022	31.12.2021
up to 1 year	175	0
from 1 year to 2 years	27	0
from 2 year to 3 years	27	0
from 3 year to 4 years	27	0
from 4 year to 5 years	0	0
over 5 years	0	0
Total	255	0

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

EUR thousand

	31.12.2022	31.12.2021
Investment properties	769	0
Total	769	0

Rental income recognised by Addiko Bank during the year 2022 is EUR 151 thousand (2021: EUR 0 thousand).

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

Addiko Bank leases the majority of its offices and branches under various rental agreements. Addiko Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods up to 10 years. Extension and termination options are included in a number of property and equipment leases. 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 (7) Leases, and to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

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

Addiko Bank had total cash outflows for leases of EUR -1,351 thousand in 2022 (2021: EUR -1.3 thousand).

EUR thousand

	31.12.2022	31.12.2021
Payments for principal portion of lease liability	-1,230	-1,178
Payments for interest portion of lease liability	-116	-118
Payments for short-term, low value assets and variable lease payments not included in the measurement of the lease liability	-5	-4
Total	-1,351	-1,300

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

EUR thousand

Maturity analysis - contractual undiscounted cashflow	31.12.2022	31.12.2021
up to 1 year	1,308	1,254
from 1 year to 5 years	3,874	4,488
more than 5 years	448	392
Total undiscounted lease liabilities	5,630	6,134

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

EUR thousand

	31.12.2022	31.12.2021
Short-term leases	-3	-2
Leases of low value assets	-2	-2
Total	-5	-4

(66) Assets/liabilities denominated in foreign currencies

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

EUR thousand

	31.12.2022	31.12.2021
Assets	45,266	54,933
Liabilities	18,161	17,992

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

(67) Contingent liabilities and other liabilities not included in the statement of financial position

The following gross commitments not included in the statement of financial position existing at the reporting date:

EUR thousand

	31.12.2022	31.12.2021
Loan commitments, given	118,730	122,941
Financial guarantees, given	30,304	43,794
Other commitments, given	134,615	143,707
Total	283,649	310,442

The position other commitments, given includes mainly non-financial guarantees, like performance guarantees or warranty guarantees and guarantee frames.

Contingent liabilities in relation to legal cases

Addiko Bank is subject to a number of legal proceedings that are often highly complex, take considerable time and are difficult to predict or estimate. As of 31 December 2022, Addiko Bank's passive legal disputes (i.e., disputes where Addiko Bank is the defendant), for which the probability of a cash outflow was deemed to be not-likely (and consequently no provisions were recognised), amounted to claims of EUR 17,790 thousand (excluding accrued interest) relating to 64 cases, including the class action claim by a consumer protection organization aimed at reimbursement of overpayments due to "zero floor" clauses in the amount of dispute of EUR 11,747 thousand. The outcome of such proceedings is difficult to predict or estimate until late in the proceedings, which may also last for several years. Nevertheless, based on legal advice, management believes that its defense of the action will be successful.

(68) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. The Bank uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of Addiko. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. Addiko considers relevant and observable market prices in its valuations, where possible. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorised under the three levels of the fair value hierarchy:

- **Level I - Quoted prices in active markets.** The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- **Level II - Value determined using observable parameters.** If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.
- **Level III - Value determined using non-observable parameter.** This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not observable directly on the market.

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

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

- Equity instruments - Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.
- Derivatives - The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement technique; they are reported under level II or level III depending on the input factors used.
- Debt financial assets and liabilities - The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques where expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

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

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

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

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

Non-observable input factors for level III items:

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

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

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

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

OIS discounting

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

68.1. Fair value of financial instruments carried at fair value

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

EUR thousand

31.12.2022	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	2,929	0	2,929
Derivatives	0	2,929	0	2,929
Investment securities	0	0	0	0
Investment securities mandatorily at FVTPL	0	0	313	313
Equity instruments	0	0	313	313
Investment securities	0	0	0	0
Investment securities at FVTOCI	12,553	50,470	4,963	67,986
Equity instruments	12,553	0	0	12,553
Investment securities	0	50,470	4,963	55,433
Total	**12,553**	**53,398**	**5,276**	**71,227**
Liabilities				
Financial liabilities held for trading	0	2,531	0	2,531
Derivatives	0	2,531	0	2,531
Total	**0**	**2,531**	**0**	**2,531**

EUR thousand

31.12.2021	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	819	0	**819**
Derivatives	0	819	0	**819**
Investment securities	0	0	0	**0**
Investment securities mandatorily at FVTPL	0	0	313	**313**
Equity instruments	0	0	313	**313**
Investment securities	0	0	0	**0**
Investment securities at FVTOCI	13,136	80,959	4,480	**98,575**
Equity instruments	13,136	0	0	**13,136**
Investment securities	0	80,959	4,480	**85,439**
Total	**13,136**	**81,778**	**4,793**	**99,707**
Liabilities				
Financial liabilities held for trading	0	1,432	0	**1,432**
Derivatives	0	1,432	0	**1,432**
Total	**0**	**1,432**	**0**	**1,432**

Transfers between level I and level II

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

There were no transfers between levels in 2022.

Unobservable inputs and sensitivity analysis for Level 3 measurements
For investment securities classified in level III, which is an illiquid unlisted corporate bond, the main input parameter is the discount factor. If the credit spreads used in the calculation of the fair value increased by 100 basis points, the cumulative valuation result as of 31 December 2022 would have decreased by EUR 46 thousand. If the credit spreads used in the calculation of the fair value decreased by 100 basis points, the cumulative valuation result as of 31 December 2022 would have increased by EUR 46 thousand. The development of Level III is presented as follows.

The development of level III was as follows:

EUR thousand

2022	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into level III	Transfer into/out of other levels	Other (+/-)	31.12.
Assets									
Investment securities mandatorily at FVTPL	313	0	0	0	0	0	0	0	313
Equity instruments	313	0	0	0	0	0	0	0	313
Investment securities at FVTOCI	4,480	0	0	2,962	-2,479	0	0	0	4,963
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	4,480	0	0	2,962	-2,479	0	0	0	4,963
Total	**4,793**	**0**	**0**	**2,962**	**-2,479**	**0**	**0**	**0**	**5,276**

EUR thousand

2021	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Disposals (-)	Transfer into level III	Transfer into/out of other levels	Other (+/-)	31.12.
Assets									
Investment securities mandatorily at FVTPL	313	0	0	0	0	0	0	0	313
Equity instruments	313	0	0	0	0	0	0	0	313
Investment securities at FVTOCI	2,002	0	0	2,479	0	0	0	0	4,480
Equity instruments	0	0	0	0	0	0	0	0	0
Debt instruments	2,002	0	0	2,479	0	0	0	0	4,480
Total	**2,314**	**0**	**0**	**2,479**	**0**	**0**	**0**	**0**	**4,793**

With regards to level III in the current and in the previous reporting period no transfers into/out of other levels took place.

68.2. Fair value of financial instruments and assets not carried at fair value

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

EUR thousand

31.12.2022	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 and cash equivalents*	180,954	180,954	0	180,954	0	0
Financial assets at amortised cost	1,053,320	1,054,666	1,347	0	61,318	993,348
Loans and advances	990,381	993,348	2,967	0	0	993,348
Non-current assets and disposal groups classified as held for sale	121	121	0	0	0	121
Total	**1,234,394**	**1,235,741**	**1,347**	**180,954**	**61,318**	**993,470**
Liabilities						

Financial liabilities measured at amortised cost	1,117,893	1,089,636	-28,257	0	0	1,089,636
Deposits	1,088,420	1,060,908	-27,512	0	0	1,060,908
Issued bonds, subordinated and supplementary capital	15,059	14,679	-381	0	0	14,679
Other financial liabilities	14,414	14,050	-364	0	0	14,050
Total	**1,117,893**	**1,089,636**	**-28,257**	**0**	**0**	**1,089,636**

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

EUR thousand

31.12.2021	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash and cash equivalents*	254,446	254,446	0	254,446	0	0
Financial assets at amortised cost	981,711	1,032,646	50,936	0	0	1,032,646
Loans and advances	981,711	1,032,646	50,936	0	0	1,032,646
Non-current assets and disposal groups classified as held for sale	11,068	11,643	574	0	0	11,643
Total	**1,247,225**	**1,298,735**	**51,510**	**254,446**	**0**	**1,044,289**
Liabilities						
Financial liabilities measured at amortised cost	1,172,408	1,167,588	-4,820	0	0	1,167,588
Deposits	1,144,524	1,139,818	-4,706	0	0	1,139,818
Issued bonds, subordinated and supplementary capital	15,055	14,993	-62	0	0	14,993
Other financial liabilities	12,830	12,777	-53	0	0	12,777
Total	**1,172,408**	**1,167,588**	**-4,820**	**0**	**0**	**1,167,588**

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

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.

68.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At 31 December 2022 the carrying amount of investment properties amounts to EUR 769 thousand (YE21: EUR 0 thousand), whereas the fair value amounts to EUR 770 thousand (YE21: EUR 0 thousand). All investment properties are classified in level III (YE21: /).

(69) Derivative financial instruments

69.1. Derivatives held for trading

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

EUR thousand

	31.12.2022			31.12.2021		
	Nominal amounts	Fair values		Nominal amounts	Fair values	
		Positive	Negative		Positive	Negative
a) Interest rate						
OTC-products	68,034	2,553	-2,449	95,111	661	-528
OTC options	19,627	802	-784	10,299	47	-43
OTC other	58,221	1,751	-1,664	84,811	614	-486
b) Foreign exchange and gold						
OTC-products	31,719	368	-76	57,297	148	-894
OTC other	31,719	368	-76	57,297	148	-894
c) Credit derivatives	0	0	0	0	0	0
Credit default swap	0	0	0	0	0	0

(70) Related party disclosures

Addiko Bank is 100-percent owned by Addiko Bank AG.

Related parties as defined by Addiko Bank are other entities within 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 2022, in all transactions held with the parent bank and other related parties, the Bank received adequate payments and repayments and was not disadvantaged on the basis of any transactions.

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

EUR thousand

31.12.2022	Parent company	Subsidiaries and other Group companies	Key personnel of the institution or its parent	Other related parties
Cash and cash equivalents	129	3,693	0	0
Financial assets held for trading	1,301	0	0	0
Loan and advances	50,474	0	145	0
Financial liabilities held for trading	14	0	0	0
Deposits	16,509	1,171	1,149	0
Loan commitments, financial guarantees and other commitments received	0	29	48	0

EUR thousand

31.12.2021	Parent company	Subsidiaries and other Group companies	Key personnel of the institution or its parent	Other related parties
Cash and cash equivalents	1,412	7,029	0	0
Financial assets held for trading	11	0	0	0
Loan and advances	50,593	7	2	0
Financial liabilities held for trading	1,088	0	0	0

Deposits	15,005	698	636	0
Loan commitments, financial guarantees and other commitments received	0	52	8	0

EUR thousand

31.12.2022	Parent company	Subsidiaries and other Group companies	Key personnel of the institution or its parent	Other related parties
Interest and similar income	384	0	4	0
Interest expenses	-1,819	-4	-3	0
Fee and commission income	0	4	3	0
Fee and commission expenses	-4	-4	0	0
Other administrative expenses	-131	-573	0	0
Other expenses/income	678	1	0	0
Total	**-892**	**-576**	**4**	**0**

EUR thousand

31.12.2021	Parent company	Subsidiaries and other Group companies	Key personnel of the institution or its parent	Other related parties
Interest and similar income	250	0	0	0
Interest expenses	-1,994	-3	-2	0
Fee and commission income	0	10	1	0
Fee and commission expenses	-3	-5	0	0
Other administrative expenses	-196	-462	0	0
Other expenses/income	782	2	1	0
Total	**-1,161**	**-458**	**0**	**0**

(71) Capital management

71.1. Own funds and capital management

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

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

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

The Bank continuously monitors the development of the Bank's business, analyses changes in its risk-weighted assets and own funds and fulfil all the time the required level of capital adequacy in line with regulatory requirement. Capital management is also part of the business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar II capital guidance (risk coverage ratio) are set for the Bank. In addition to the minimum capital ratios required by the regulators, the Bank defines early warning and recovery levels in the Addiko Group's recovery plan and the corresponding processes, where all relevant ratios are set also for Addiko Bank. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared in line with Bank Recovery and Resolution Directive (BRRD).

Additionally, also all new regulatory changes have been followed, e.g. minimum requirement for own funds and eligible liabilities (MREL) and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

71.2. Own funds and capital requirements

Own funds according to the CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount. 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 2022 and 31 December 2021 amount to:

	31.12.2022			31.12.2021		
	CET1	T1	TCR	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement	1.83%	2.44%	3.25%	1.83%	2.44%	3.25%
Total SREP Capital Requirement (TSCR)	**6.33%**	**8.44%**	**11.25%**	**6.33%**	**8.44%**	**11.25%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined Buffer Requirements (CBR)	**2.50%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**
Overall Capital Requirement (OCR)	**8.83%**	**10.94%**	**13.75%**	**8.83%**	**10.94%**	**13.75%**
Pillar 2 guidance (P2G)	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%
OCR + P2G	**10.83%**	**12.94%**	**15.75%**	**10.33%**	**12.44%**	**15.25%**

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

The Bank during the year 2022 and 2021 did not use any transitional rules when calculating capital adequacy.

In the table below the composition of the own funds of the Bank is presented as of 31.12.2022 and 31.12.2021.

EUR thousand

	31.12.2022	31.12.2021
Available capital		
1 Common Equity Tier 1 (CET1) capital	168,289	174,950
5 Total capital (TC)	179,017	188,677
Risk-weighted assets		
7 Total RWAs	835,080	864,675
Capital ratios %		
9 CET1	20.15%	20.23%
13 TC	21.44%	21.82%
Leverage ratio (LR)		
15 LR total exposure measure	1,425,326	1,481,810
16 LR	11.81%	11.81%

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

Total capital decreased by EUR -9.6 million during the reporting period, reflecting the net impact of the following components:

- a decrease by -3 million of the TIER2 due to amortisation,
- a decrease by EUR -5.2 million of the other comprehensive income mainly due to the valuation of debt instruments,

- an increase in regulatory deduction items in the amount of EUR -1.3 million as net impact of increase in deferred tax assets on existing taxable losses (EUR -0.1 million) and increase of deduction item for additional allocation of provisions for credit risk (EUR -1.2 million based on Commission Delegated Regulation (Eu) No 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments).

The table below shows the components of capital.

EUR thousand

		31.12.2022	31.12.2021
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	108,773	108,773
2	Retained earnings	78,141	78,284
3	Accumulated other comprehensive income (and other reserves)	-5,111	85
6	**CET1 capital before regulatory adjustments**	**181,803**	**187,141**
CET1 capital: regulatory adjustments			
7	Additional value adjustments	-74	-101
8	Intangible assets (net of related tax liability)	-1,031	-914
10	Deferred tax assets that rely on future profitability excluding	-11,252	-11,175
12	Negative amounts resulting from the calculation of expected loss amounts	-1,158	0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-13,515**	**-12,191**
29	**Common Equity Tier 1 (CET1) capital**	**168,289**	**174,950**
Tier 2 (T2) capital: instruments and provisions			
58	Tier 2 (T2) capital	10,728	13,727
59	Total capital (TC = T1 + T2)	179,017	188,677
60	Total risk weighted assets	835,080	864,675
Capital ratios and buffers %			
61	CET1 ratio	20.15%	20.23%
63	TC ratio	21.44%	21.82%

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

71.3. Capital requirements (risk-weighted assets)

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, the Bank uses the standardized approach for credit and market risk and basic indicator approach for operational risk. Risk weighted assets decreased by EUR 29.6 million during the reporting period, which is mainly connected with the decrease in the amount of granted loans during 2022.

EUR thousand

		31.12.2022	31.12.2021
1	Credit risk	730,342	765,648
6	Counterparty credit risk	3,983	1,191
19	Market risk	721	1,173
23	Operational risk	100,034	96,664
Total risk exposure amount (RWA)		**835,080**	**864,675**

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

71.4. Leverage ratio

The leverage ratio calculated in accordance with the CRR was 11.81% at 31 December 2022 and 11.81% at 31 December 2021.

EUR thousand

		31.12.2022	31.12.2021
20	Tier 1 capital	168,289	174,950
21	Total leverage ratio exposure	1,425,326	1,481,810
22	**Leverage ratio %**	**11.81%**	**11.81%**

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

(72) Expenses for the auditor

The following expenses for the external auditor were incurred in the reporting period:

EUR thousand

	31.12.2022	31.12.2021
Audit fees for the annual financial statements	**119**	**75**
Expenses for the current year	115	75
Expenses relating to the previous year	4	0
Fees for other services	**7**	**3**
Other assurance services	7	3
Total services	**125**	**78**

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

EUR thousand

2022	Fixed ongoing payments	Variable ongoing payments	Repayments of variable remuneration from previous year	Cost reimbursement	Supplementary pension insurance	Other payments	Total
Management board	439	46	106	5	0	6	602
Supervisory Board	10	0	0	0	0	0	10
Ex members of management Board	0	33	59	0	0	0	92
Key management personnel with individual contracts	1,554	115	0	36	0	40	1,745
Total	**2,003**	**194**	**165**	**41**	**0**	**46**	**2,449**

EUR thousand

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

(74) Events after the business year 2022

Since 31 December 2022, there were there were no adjusting or non-adjusting events that would materially affect the financial statements herein.

(75) Accumulated profit

Net profit for the financial year may be used for:

- setting aside legal reserves.
- setting aside reserves for own interests.
- setting aside statutory reserves and
- setting aside other revenue reserves.

Addiko Bank generated a profit after tax in the amount of EUR 19,649 thousand in the financial year 2022 (2021: EUR 25,284 thousand).

The Bank will propose at the General Meeting the distribution of the total accumulated profit of the year 2022 in amount of EUR 19,649 thousand:

- EUR 78,141 thousand remains unallocated and represents the retained earnings,
- EUR 19,649 thousand will be distributed as a dividend.

The accumulated profit is shown in the table below:

EUR thousand

	31.12.2022	31.12.2021
Profit for the financial year	19,649	25,284
Retained earnings	78,141	53,000
Total accumulated profit	**97,791**	**78,284**

Glossary

Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams regularly visit large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers apply for a loan
CDS	Credit default swap; a financial instrument that securitises credit risks, for example those associated with loans or securities
CL	Credit loss
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures (not annualised)
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR (“undertaking the business of taking deposits or other repayable funds from the public and granting credits for its own account”) and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non-performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
ECL	Expected Credit Loss
ESG	Environmental, social, governance
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
General governments	Central governments, state or regional governments and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross exposure	Exposure of on and off balance loans including accrued interest, gross amount of provisions of performing loans and non-performing loans
Gross performing loans	Exposure of on balance loans without accrued interest but including gross amount of provisions of performing loans
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions that serve households (“NPISH”) and that are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk

Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households
Net banking income	The sum of net interest income and net fee and commission income
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible assets, tangible assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to 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 profit 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 profit after tax (pre-tax result adjusted for non-recurring items, assuming a theoretical tax rate and costs for T2) over average tangible equity

	(i.e. shareholder equity reduced by intangible assets), excluding excess capital over 14.1% CET1 ratio.
SME	SME contains all legal entities and private entrepreneurs with Annual Gross Revenues (AGR) from EUR 0.5 to 40.0 million, while all with higher than EUR 40.0 million AGR are segmented to the Large Corporates subsegment
Stage 1	Impairment stage that relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage that relates to financial instruments for which expected credit loss model applies and which are subject to significant increase in credit risk that has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage that relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	All the eligible own fund according to Article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Article 62 to 71. Tier 2 means instruments or subordinated loans with an original maturity of at least five years and that do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity

Business Centres and Branch Offices

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