Addiko Bank

3Q19 Earnings release

1. About Addiko Bank

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 30 September 2019 approximately 0.8 million customers in CSEE, using a well-dispersed network of 195 physical branches and modern digital banking channels.

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

Addiko Group delivers a modern customer experience in line with its strategy of providing straightforward banking – "focus on essentials, deliver on efficiency and communicate simplicity". Banking products and services have been standardised, especially in the Retail Segment and the SME Business Segment, to improve efficiency, reduce risks and maintain asset quality, and have, particularly in the Large Corporates Segment, been further tailored to better meet customer needs.

2. Summary highlights

2.1. Addiko Group goes public

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

Based on the total number of 19,500,000 shares and the offering price of EUR 16.0 per share, reflecting a market capitalization of EUR 312.0 million. This IPO was the third and largest listing in the top segment of the Vienna Stock Exchange this year and back than it was the largest listing in the European financial sector in 2019. On its second trading day, 15 July 2019, Addiko Bank AG was admitted to the ATX (Austrian Traded Index) Prime market.

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

2.2. Rating agency Moody's assigns first-time ba2 Baseline Credit Assessment to Addiko Bank AG

On 4 April 2019, Moody's Investors Service assigned for the first-time a ba2 Baseline Credit Assessment (BCA) and Adjusted BCA and a Ba2(cr)/NP(cr) Counterparty Risk Assessments to Addiko Bank AG. Concurrently, the rating agency assigned a Ba3 long-term and NP short-term deposit ratings and counterparty risk ratings to Addiko. The outlook on Addiko's long-term deposit rating is stable.

On 11 October 2019, Moody's assigned a Ba3 long-term local currency rating to Addiko's planned issuance of Subordinated Tier 2 Notes, and placed the rating on review for upgrade. Concurrently, the rating agency placed on review for upgrade Addiko's long- and short-term Ba3/NP deposits ratings, as well as the bank's long- and short-term Ba2(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments) and Ba3/NP Counterparty Risk Ratings analysis.

2.3. Digital transformation & building digital capabilities

One of the strategic focus points of the Group remains the digital transformation by creating new digital capabilities. Share of digitally originated consumer loans improved to 9.1% in 3Q19 (YE18: 3.8%). Furthermore, contribution of Bank@Work increased to 27.0% (YE18: 17.0%). Since the beginning of 2019, in Serbia and Slovenia it is possible to originate SME term loans digitally. The percentages of loans originated via this channel in the two countries increased from 9.0% in 1H19 to 17.3% in 3Q19.

3. Financial development of the Group

3.1. Analysis of the reported result

EUR m

Reported Result	3Q19(QTD)	3Q18(QTD)	Change (%)	3Q19	3Q18	Change (%)
Net banking income	63.3	61.2	3.4%	186.3	173.6	7.3%
Net interest income	45.7	44.6	2.4%	136.7	127.6	7.1%
Net fee and commission income	17.6	16.6	6.2%	49.6	46.0	7.9%
Net result on financial instruments	0.1	0.3	>100%	9.3	70.9	-86.8%
Other operating result	-12.4	-3.4	>100%	-24.9	-9.4	>100%
Operating income	**51.0**	**58.2**	**-12.4%**	**170.7**	**235.1**	**-27.4%**
Operating expenses	**-46.5**	**-47.0**	**-1.1%**	**-142.1**	**-139.9**	**1.6%**
Operating result before change in credit loss expense	**4.5**	**11.2**	**-59.4%**	**28.6**	**95.2**	**-69.9%**
Credit loss expenses on financial assets	-1.3	-8.1	-83.4%	0.5	4.6	-88.9%
Operating result before tax	**3.2**	**3.1**	**3.0%**	**29.2**	**99.8**	**-70.8%**
Tax on income	0.0	0.5	>100%	-5.8	-3.4	70.2%
Result after tax	**3.2**	**3.6**	**-11.7%**	**23.4**	**96.4**	**-75.7%**

Reported result after tax of EUR 23.4 million is EUR 73.0 million lower compared to 3Q18. While this represents a drop to last year, it includes a net adverse movement of significant items of EUR -16.3 million whereby 3Q18 included a net favourable movement of significant items of EUR 68.9 million. These adjustments are described in more detail in section 3.2.

Reported net interest income increased from EUR 127.6 million in 3Q18, by EUR 9.0 million, or 7.1%, to EUR 136.7 million in the first three quarters of 2019. This was predominantly due to a decrease in interest expenses from EUR -32.6 million in 3Q18, by EUR -11.1 million, to EUR -21.4 million in 3Q19, predominately resulting from lower interest expenses for customer deposit of EUR -6.6 million – mainly caused by the shift from higher yield term deposits to lower yield current deposits – and interest expenses of EUR 3.6 million from the waived Tier 2 capital in the comparative period 2018, which has ceased to exist in 2018. Interest income remained almost stable moving from EUR 160.2 million in 3Q18, by EUR 2.1 million, to EUR 158.1 million in 3Q19. This development is reflecting an increase of regular interest income within the focus areas Consumer and SME lending which overcompensated the decrease within the non-focus areas i.e. Mortgage and Public Finance, while interest income from NPEs was reduced by EUR 2.5 million compared to 3Q18 given the successful reduction of NPEs during 2019.

Reported net fee and commission income increased from EUR 46.0 million in the first three quarters of 2018, by EUR 3.6 million, or 7.9%, to EUR 49.6 million in the first three quarters of 2019. This was primarily due to the increase of fee and commission income from EUR 56.5 million in 3Q18, by EUR 4.9 million, to EUR 61.4 million in 3Q19, resulting from stronger income from bancassurance, transactions, dynamic currency conversion as well as the roll out of further functionalities for guarantee and trade finance products in the SME segment.

Reported net result on financial instruments is positive with EUR 9.3 million, mainly driven by the sale of debt instruments. The previous year result of EUR 70.9 million was strongly affected by the EUR 190 million waiver of the Tier 2 capital by the shareholder in the first quarter of the financial year 2018. The impact of the Tier 2 waiver on profit and loss amounted to EUR 61.0 million in the first quarter of 2018.

On a reported basis, the **other operating result** as sum of other operating income and other operating expense decreased from EUR -9.4 million in 3Q18, by EUR -15.5 million, to EUR -24.9 million in the first three quarters of 2019. The variance was mainly driven by the following significant items:

- Recognition of EUR -2.3 million restructuring costs (3Q18: EUR -1.3 million) as part of cost initiatives executed during the third quarter of 2019. The related impact, resulting predominantly from back office optimisation and branch closures, is expected to reduce the cost base in the 2020 financial year.
- Net increase of EUR -9.6 million in provision expenses was mainly driven by the recent development in relation to legal matters on CHF currency clauses in Croatia, which were partially compensated by the release of provisions in connection with the active settlement strategy for long term lasting court cases. This compared with a net release of EUR 3.5 million in 3Q18.

The deposit guarantee costs in the amount of EUR -6.8 million essentially correspond to previous year figures; the upfront booking of the full year impact of charges to the recovery and resolution fund decreased from EUR -2.4 million to EUR -1.3 million.

Reported operating expenses increased from EUR -139.9 million in the first three quarters of 2018, by EUR 2.2 million, or 1.6% to EUR -142.1 million in the current reporting period:

- Personnel expenses were reduced compared to the previous period. The number of employees expressed in full-time equivalent ('FTE') at 30 September 2019 was 2,900.4, a decrease of 67.6 FTE from 30 June 2019 following the announced optimisation initiative.
- Other administrative expenses decreased from EUR -56.4 million in 3Q18, by EUR -1.7 million, or 3.0% to EUR -54.8 million in 3Q19. This development was mainly driven by the implementation of the new leasing standard (IFRS 16 Leases, starting from 1 January 2019) and the corresponding shift of expenses from rental expenses to depreciation. The cost reduction was partially offset by the recognition of EUR -2.0 million legal and advisory expenses in connection with the IPO preparation process during 2019 (3Q18: EUR -1.1 million). In addition, 3Q18 included a non-recurring release of EUR 1.5 million provision for onerous contracts. The residual increase of the administrative expenses is primarily reflecting investments to grow the business and enhance the digital capabilities of the Group. The impact of inflation was partially absorbed by the cost savings from the productivity programmes within the Group.
- Depreciation and amortisation increased from EUR -8.3 million in 3Q18, by EUR -5.6 million, to EUR -13.9 million in 3Q19. This increase included EUR -5.3 million depreciation for the right of use asset driven by the first-time implementation of the new leasing standard IFRS 16 and the corresponding shift of expenses from rental expenses to depreciation.

Due to net releases, the **reported credit loss expenses on financial assets** amount to EUR 0.5 million (3Q18: EUR 4.6 million). The negative balance of allocation of provisions within the Consumer and SME portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate. The first three quarters of 2019 were significantly influenced by the negative impact in amount of EUR 8.1 million from a conversion law regarding CHF mortgage loans which was enacted in Serbia on 29 April 2019 and came into force on 7 May 2019. The law obliges all banks to grant a 38% reduction on the outstanding loan amount (excluding penalty interests), whereas the conversion rate will be the CHF-EUR currency rate as of the day of the conversion. The Republic of Serbia will participate in the amount of 17% of the reduction. The reported expected credit loss expenses include also EUR 3.0 million releases which were recorded in connection with transactions with corporate clients where exposures would not be granted under the current Addiko strategy.

Reported taxes on income amount at 3Q19 to EUR -5.8 million compared to EUR -3.4 million at the end of the third quarter 2018 and include the additional recognition of deferred tax assets on tax loss carried forward in amount of EUR 2.1 million (3Q18: EUR 8.1 million).

3.2. Analysis of the adjusted result

Adjusted performance is computed by adjusting reported results for the effect of certain significant items, which distort period on period comparison. The adjusted performance represents non-financial alternative performance measures which provides useful information to the reader of the financial statements by identifying and quantifying items which the management believes to be significant and providing insight into how management assesses period on period performance. The adjusted results presented below show a sustainable and comparable earnings base, i.e. earnings generated under "normal" conditions with Addiko Group's current operating business model.

EUR m

Adjusted Result	3Q19(QTD)	3Q18(QTD)	Change (%)	3Q19	3Q18	Change (%)
Net banking income	63.3	61.2	3.4%	186.3	177.2	5.1%
Net interest income	45.7	44.6	2.4%	136.7	131.2	4.2%
Net fee and commission income	17.6	16.6	5.9%	49.6	46.0	7.8%
Net result on financial instruments	0.1	0.3	-82.0%	9.3	9.9	-5.5%
Other operating result	-3.6	-6.1	-41.2%	-13.2	-13.1	1.0%
Operating income	**59.7**	**55.4**	**7.9%**	**182.4**	**174.0**	**4.8%**
Operating expenses	**-45.9**	**-46.6**	**-1.5%**	**-140.1**	**-140.2**	**-0.1%**
Operating result before change in credit loss expense	**13.8**	**8.7**	**57.8%**	**42.3**	**33.8**	**25.0%**
Credit loss expenses on financial assets	-1.9	0.9	>100%	5.6	5.1	8.9%
Operating result before tax	**11.9**	**9.7**	**23.3%**	**47.9**	**39.0**	**22.9%**
Tax on income	-0.8	-2.1	-61.4%	-8.3	-11.5	-28.3%
Result after tax	**11.1**	**7.6**	**46.3%**	**39.6**	**27.4**	**44.4%**

Adjusted result after tax increased from EUR 27.4 million in 3Q18, by EUR 12.2 million, or 44.4% to EUR 39.6 million in 3Q19, mainly due to higher adjusted net interest income and higher net fee and commission income as well as lower tax on income.

On an adjusted basis, **net interest income** is EUR 5.5 million or 4.2% higher compared with the previous reporting period and increased from EUR 131.2 million at 3Q18 to EUR 136.7 million at 3Q19. The positive development was driven by a continuous shift from non-focus assets i.e. Mortgage, Large Corporates and Public Finance towards Consumer and SME lending and also by an increase of the overall size of the loan portfolio, despite reduction in adjusted interest income from NPEs by EUR 2.5 million compared to 3Q18, given the successfully reduction of NPEs during the first three quarters of 2019. In addition, the positive development was supported by a decrease in adjusted interest expenses from EUR -29.0 million in 3Q18, by EUR -7.6 million, to EUR -21.4 million in 3Q19, predominantly resulting from lower interest expenses for customer deposit of EUR -6.6 million, mainly due to a shift from higher yield term deposits to lower yield current deposits. The decrease in interest expenses was partially compensated by the additional interest expenses of EUR -0.4 million in connection with the first time implementation of the new leasing standard IFRS 16 which was not considered as an adjusted item. The **adjusted net interest margin** amounts to 296bp at 3Q19, compared to 276bp 3Q18.

Adjusted net fee and commission income increased by EUR 3.6 million to EUR 49.6 million (3Q18: EUR 46.0 million), with the difference being mainly driven by stronger income from bancassurance, transactions, dynamic currency conversion as well as roll out of further functionalities for guarantee and trade finance products in the SME segment.

Adjusted net result on financial instruments is positive in 3Q19 with EUR 9.3 million, mainly driven by the sale of debt instruments and in line with the previous year result.

Adjusted other operating result as sum of other operating income and other operating expense remained stable with an amount of EUR -13.2 million compared to EUR -13.1 million at 3Q18. This position includes, amongst others, deposit guarantee costs in the amount of EUR -6.8 million and the upfront booking of the full year impact of charges to the recovery and resolution fund which decreased from EUR -2.4 million to EUR -1.3 million.

Adjusted operating expenses slightly decreased to EUR -140.1 million at the current reporting date (3Q18: EUR -140.2 million). Included are expenses which primarily reflect investments to grow the business and enhance the digital capabilities of the Group. The impact of inflation was partially absorbed by the cost savings from the initiated productivity programmes.

Due to net releases, the **adjusted credit loss expenses on financial assets** amount to EUR 5.6 million (3Q18: EUR 5.1 million). The negative balance of allocation of provisions within the Consumer and SME portfolio was offset by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Corporate.

Adjusted taxes on income amount to EUR -8.3 million at 3Q19 compared to EUR -11.5 million at the end of the third quarter 2018 and reflect the theoretical tax burden of Addiko Group, without taking in consideration the recognition of deferred tax assets on tax loss carried forward.

The table presents a reconciliation between the reported and the adjusted result:

EUR m

Reconciliation of adjusted to reported result after tax	3Q19	3Q18
Adjusted result after tax	**39.6**	**27.4**
- Tier 2 expenses	-	-3.6
- Tier 2 waiver	-	60.8
- active legal settlements	1.3	3.7
- restructuring costs	-2.3	-
- net provision on unilateral interest clauses	-1.9	-
- net provision on CHF currency clauses	-8.7	-
- onerous contracts	-	1.5
- costs for capital market readiness	-2.0	-1.1
- risk related impact from legacy corporate exposures excl. from the New Risk Framework	3.0	-0.5
- costs on CHF conversion law in Serbia	-8.1	-
- deferred tax ramp up	2.1	8.1
Reported result after tax	**23.4**	**96.4**

3.3. Analysis of the consolidated statement of financial position

EUR m

	30.09.2019	31.12.2018	Change (%)
Assets			
Cash reserves	915.6	1,002.9	-8.7%
Financial assets held for trading	24.1	24.3	-0.8%
Loans and receivables	3,913.7	3,792.9	3.2%
Loans and advances to credit institutions	9.5	5.6	69.7%
Loans and advances to customers	3,904.2	3,787.3	3.1%
Investment securities	1,143.9	1,184.6	-3.4%
Tangible assets	86.5	57.7	49.8%
Intangible assets	32.2	30.3	6.5%
Tax assets	21.3	28.3	-24.7%
Current tax assets	1.7	1.7	-3.6%
Deferred tax assets	19.7	26.6	-26.0%
Other assets	37.9	25.5	48.7%
Non-current assets and disposal groups classified as held for sale	6.5	5.7	14.1%
Total assets	**6,181.8**	**6,152.1**	**0.5%**

The statement of financial position of Addiko Group shows the simple and solid interest-bearing asset structure: more than 63.2% of the assets are represented by customer loans and most of those are already in the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds.

As of 3Q19 the **total assets** of Addiko Group slightly increased by EUR 29.6 million or 0.5% from EUR 6,152.1 million at YE18 to EUR 6,181.8 million. The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) increased to EUR 4,717.4 million (YE18: EUR 4,545.0 million) reflecting the increases of volumes in the focus segments.

Cash reserve decreased by EUR 87.3 million to EUR 915.6 million as of 30 September 2019 (YE18: EUR 1,002.9 million). This was primarily due to the shift from cash to loans and receivables as well as the payment of the dividend for the financial year 2018 in the amount of EUR 50.0 million. The regulatory required minimum reserves included in the cash balances at central banks increased from EUR 316.5 million as of 31 December 2018 by EUR 12.5 million to EUR 329.1 million as of 30 September 2019.

Overall **loans and receivables** increased to EUR 3,913.7 million from EUR 3,792.9 million at year end 2018:

- Loans and receivables to credit institutions (net) slightly increased by EUR 3.9 million to EUR 9.5 million (YE18: EUR 5.6 million).
- Loans and receivables to customers (net) increased by EUR 116.9 million to EUR 3,904.2 million (YE18: EUR 3,787.3 million). In line with the Group's strategy, within the loans and receivables to customers the business composition continued to change during the reporting period, with an increased share of higher value adding Consumer and SME lending, which was partly offset by the decrease in the Mortgage Business.

The **investment securities** slightly decreased from EUR 1,184.6 million to EUR 1,143.9 million in 3Q19, they are largely invested in high rated government bonds and having a maturity of less than five years. To ensure high levels of liquidity and transparency in securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tangible assets increased to EUR 86.5 million compared to EUR 57.7 million at YE18, which is mainly due to the first-time implementation of IFRS 16 Leases, leading to the recognition of a right of use asset in the amount of EUR 29.5 million.

Tax assets decreased to EUR 21.3 million (YE18: EUR 28.3 million), as a consequence of the utilisation of deferred tax assets on tax loss carried forward.

Other assets increased to EUR 37.9 million (YE18: EUR 25.5 million) driven by the recognition of the compensation rights from the State of Serbia in connection with the CHF conversion law. In addition, this position includes mainly advance payments in relation to IT projects aimed to increase operational efficiency.

EUR m

	30.09.2019	31.12.2018	Change (%)
Equity and liabilities			
Financial liabilities held for trading	7.8	2.1	>100%
Financial liabilities measured at amortised cost	5,218.8	5,202.5	0.3%
Deposits of credit institutions	254.4	324.4	-21.6%
Deposits of customers	4,908.9	4,836.7	1.5%
Issued bonds, subordinated and supplementary capital	0.1	1.1	-94.8%
Other financial liabilities	55.4	40.3	37.4%
Provisions	67.6	62.0	9.2%
Tax liabilities	0.1	1.0	-87.1%
Current tax liabilities	0.0	0.9	-100.0%
Deferred tax liabilities	0.1	0.1	4.2%
Other liabilities	30.7	25.1	22.6%
Equity	856.7	859.5	-0.3%
Total equity and liabilities	**6,181.8**	**6,152.1**	**0.5%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 5,218.8 million compared to EUR 5,202.5 million at year end 2018:

- Deposits of credit institutions decreased from EUR 324.4 million to EUR 254.4 million in 3Q19.
- Deposits of customers increased to EUR 4,908.9 million (YE18: EUR 4,836.7 million).
- Other financial liabilities increased from EUR 40.3 million at YE18 to EUR 55.4 million in 3Q19, which is mainly due to the first-time implementation of IFRS 16 Leases regulations.

Provisions increased from EUR 62.0 million at YE18 to EUR 67.6 million in 3Q19. The development was primarily influenced by the allocation of provision for legal matters on CHF currency clauses in Croatia. This development was offset by a reduction of provisions for loan commitments and guarantees granted.

Other liabilities increased slightly from EUR 25.1 million to EUR 30.7 million and include accruals for services received but not yet invoiced as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 859.5 million to EUR 856.7 million is related to a dividend payment in the amount of EUR 50.0 million which was partially compensated by the total comprehensive income, which includes result after tax for the reporting period in the amount of EUR 23.4 million as well as changes in other comprehensive income in the amount of EUR 23.9 million. This change is mainly due to favourable market related movements from debt instruments measured at FVTOCI.

The **capital base** of Addiko Group is solely made up of CET1 following the Tier 2 waiver in 2018 and excluding retained earnings for the quarter stands at 17.4% (YE18: 17.7%) on a IFRS 9 transitional basis and 16.8% without applying IFRS 9 transitional rules (YE18: 16.9%), well above the Overall Capital Requirements of 14.6% based on the currently valid final SREP 2019 decision received in June 2019.

4. Segment reporting

EUR m

30.09.2019	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	128.0	18.1	109.9	31.0	12.6	6.1	8.6	186.3
Net interest income	96.7	18.1	78.6	17.8	8.2	5.0	8.9	136.7
o/w regular interest income	93.0	23.5	69.5	21.8	10.8	3.7	16.1	145.4
Net fee and commission income	31.4	0.0	31.4	13.1	4.3	1.0	-0.2	49.6
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.3
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-24.9	-24.9
Operating income	128.0	18.1	109.9	31.0	12.6	6.1	-6.9	170.7
Operating expenses	-66.2			-17.3	-3.3	-1.6	-53.6	-142.1
Operating result	61.8			13.6	9.3	4.4	-60.5	28.6
Change in CL	-11.3	5.7	-17.1	-1.8	6.0	1.2	6.4	0.5
Operating result before tax	50.5			11.9	15.3	5.6	-54.1	29.2
Business volume								
Loans and receivables	2,064.7	788.8	1,275.9	1,070.5	597.0	166.8	14.7	3,913.7
o/w gross performing loans	2,086.0	772.8	1,313.2	1,066.7	578.3	165.3		3,896.3
Gross disbursements	488.5	8.6	479.9	471.1	220.3	3.0		1,182.9
Financial liabilities at AC [1]	2,743.0		2,743.0	724.5	433.0	558.5	759.7	5,218.8
RWA [2]	1,455.1	492.9	962.2	978.0	615.8	95.4	934.6	4,079.0
Key ratios								
Net interest margin (NIM) [3]	4.6%	1.7%	6.1%	2.3%	1.5%	1.2%		3.0%
Cost/income ratio	51.7%			56.0%	25.9%	27.2%		76.3%
Cost of risk ratio	-0.5%	0.6%	-1.1%	-0.1%	0.7%	0.6%		0.0%
Loan to deposit ratio	75.3%			147.8%	137.9%	29.9%		79.5%
NPE ratio (CRB based)	8.7%	13.2%	6.1%	3.9%	3.3%	5.5%		6.0%
NPE coverage ratio	81.6%	73.5%	92.0%	67.2%	48.8%	70.5%		75.3%
NPE collateral coverage	40.2%	58.9%	16.2%	65.6%	66.5%	61.4%		48.7%
Change CL/GPL (simply Ø)	0.5%	-0.7%	1.4%	0.2%	-1.0%	-0.7%		0.0%
Yield GPL (simply Ø)	6.0%	3.8%	7.4%	2.9%	2.5%	2.8%		4.5%

[1] Financial liabilities at AC at 3Q19 include the Direct deposits (Austria/Germany) amounting to EUR 578 million, EUR 390 million Deposits of credit institutions, EUR 187 million Other

[2] Includes only credit risk (without application of IFRS 9 transitional rules) [3] Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

The business volumes presented in the table below show figures as of 30 September 2018.

EUR m

30.09.2018	Retail	o/w Mortgage	o/w Consumer	SME Business	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	120.1	20.5	99.6	28.6	13.8	7.6	3.5	173.6
Net interest income	89.6	20.5	69.1	17.7	9.2	6.8	4.2	127.6
o/w regular interest income	90.4	27.9	62.5	20.6	10.4	4.9	18.3	144.4
Net fee and commission income	30.5	0.0	30.5	10.9	4.6	0.8	-0.7	46.0
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	70.9	70.9
Other operating result	0.0	0.0	0.0	0.0	0.0	0.0	-9.4	-9.4
Operating income	120.1	20.5	99.6	28.6	13.8	7.6	64.9	235.1
Operating expenses	-66.7			-16.4	-3.1	-1.8	-51.9	-139.9
Operating result	53.4			12.2	10.7	5.7	13.0	95.2
Change in CL	0.2	11.0	-10.8	-0.9	4.0	2.6	-1.3	4.6
Operating result before tax	53.6			11.4	14.7	8.3	11.8	99.8
Business volume								
Loans and receivables	2,051.4	922.2	1,129.2	929.9	578.0	205.7	71.7	3,836.8
o/w gross performing loans	2,056.3	902.6	1,153.7	910.3	562.7	204.9		3,734.2
Gross disbursements	444.5	7.6	436.8	397.4	213.5	13.9		1,069.2
Financial liabilities at AC [1]	2,744.1		2,744.1	598.7	571.1	634.7	738.7	5,287.4
RWA [2]	1,451.1	595.7	855.4	860.2	656.9	120.2	865.5	3,953.8
Key ratios								
Net interest margin (NIM) [3]	4.4%	1.8%	6.1%	2.9%	1.5%	1.8%		2.7%
Cost/income ratio	55.5%			57.2%	22.4%	24.2%		80.6%
Cost of risk ratio	0.0%	1.0%	-0.8%	-0.1%	0.4%	1.1%		0.1%
Loan to deposit ratio	74.8%			155.3%	101.2%	32.4%		76.1%
NPE ratio (CRB based)	12.5%	17.6%	8.4%	4.6%	10.7%	1.5%		9.1%
NPE coverage ratio	83.0%	77.4%	92.3%	57.7%	68.7%	42.8%		76.2%
NPE collateral coverage	42.4%	55.8%	20.2%	70.0%	29.3%	64.6%		43.8%
Change CL/GPL (simply Ø)	0.0%	-1.2%	1.0%	0.1%	-0.8%	-1.1%		-0.1%
Yield GPL (simply Ø)	5.9%	3.9%	7.7%	3.2%	2.7%	2.7%		4.6%

[1] Financial liabilities at AC at 3Q18 include the Direct deposits (Austria/Germany) amounting to EUR 493 million, EUR 356 million Deposits of credit institutions, EUR 137 million Other [2] Includes only credit risk (without application of IFRS 9 transitional rules) [3] Net interest margin annualised on segment level is sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances

The segment reporting presents the results of the operating business segments of Addiko Bank, prepared based on the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments of Addiko Bank and into non-focus segments, which are Large Corporates, Public Finance and Retail Mortgages.

Retail 3Q19 Business review

Retail segment result is driven by the business strategy to focus on Consumer lending and payments, while reducing the Mortgage portfolio. Operating result in 3Q19 is EUR 61.8 million, increase of 15.7% compared to 3Q18, driven by a 6.6% increase in operating income and 0.7% decrease in operating expenses. Cost reduction and improved efficiency on income side led to a significantly decreased cost/income ratio of 51.7% (3Q18: 55.5%). In comparison to 3Q18 net interest income increased by EUR 7.0 million to EUR 96.7 million at a NIM of 4.6%. Gross disbursements grew by 9.9%, driven by Consumer lending while the NPE ratio was reduced by 3.7 pts showing focus on prudent underwriting and quality of the portfolio. Net fee commission income increased by EUR 0.9 million to EUR 31.4 million in 3Q19, due to improving sales of account packages and significant increase of 66.2% in bancassurance revenues compared to 3Q18. The operating result before tax amounts to EUR 50.5 million, reflecting a 5.8% decrease compared to 3Q18 due to higher risk provisions in 3Q19 related to the continued increase in Consumer lending portfolio as well as lower releases from the Mortgage portfolio. Retail gross performing loans increased by 1.4% in 3Q19 in comparison with 3Q18, as a consequence of continued growth in unsecured consumer loans largely neutralised by the managed run-down of the mortgage loan book.

SME 3Q19 Business review

In the first three quarters of 2019, the bank continued to grow the SME loan book by originating EUR 471.1 million of new loans, which translates into gross performing loan growth of 17.2% compared to the end of 3Q18 period. These results were delivered at a continued focus on disciplined underwriting standards. Net interest income amounts to EUR 17.8 million, with NIM at 2.3%. Net fee and commission income increased by 20.9% compared to 3Q18, mainly arising from FX&DCC activities, payments and trade finance products. The SME segment has generated EUR 13.6 million operating result, which corresponds to an increase of 11.4% compared to 3Q18. Despite slightly higher credit losses driven by the default of clients in Croatia, result before tax improved to EUR 11.9 million. The positive development of operating result led to a further decrease in the cost/income ratio to 56.0% (3Q18: 57.2%). Credit risk bearing exposure increased by EUR 258.2 million from 3Q18 to 3Q19, showing 17.2% growth of the performing part. The NPE ratio further decreased to a low level of 3.9% reflecting the overall excellent quality of the SME portfolio.

Large Corporates 3Q19 Business review

The increase in regular interest income by EUR 0.5 million supported by short term lending was neutralised on a interest income level by a natural drop in interest income from NPEs, driven by the continued reduction of non-performing loans. The net fee and commission income in the amount of EUR 4.3 million, decreased mainly due to FX&DCC activities, the effect was partially compensated with other categories such as trade finance and securities exceeding expectations. The operating result before tax increased by EUR 2.1 million to EUR 15.3 million due to higher positive credit loss expenses on financial assets compared to 3Q18. The non-performing exposure decreased significantly from EUR 97.7 million as of 3Q18 to EUR 27.1 million as a consequence of further successful de-risking of the asset base. With that said, in the course of the extraordinary administration procedures for a large Croatian retailer, a material amount of NPEs was exchanged for equity shares and convertible bonds which reduced the NPE ratio decreased from 10.7% in 3Q18 to 3.3% in 3Q19.

Public Finance 3Q19 Business review

Net interest income in 3Q19 amounts to EUR 5.0 million, with NIM at 1.2%. The decrease in net interest income is related to the strategic run-down of the portfolio and a breakage fee received in 2018 related to an early repayment of a public client in Croatia. Net fee and commission income increased by 34.8% to EUR 1.0 million driven by tariff increase in transaction payments. The Public Finance segment has generated an operating result of EUR 4.4 million and an operating result before tax of EUR 5.6 million in 3Q19. Due to lower operating income related to the run-down the cost/income ratio increased slightly to 27.2%. Similarly credit risk bearing exposure of the segment further decreased, and amounts to EUR 214.6 million due to the strategy to decrease the lending activity in this segment. The increase of the NPE ratio in 3Q19 was caused by a re-segmentation of a now state-owned Serbian company after nationalisation, which was previously segmented as Large Corporate. Overall the NPE portfolio shows a high provision coverage.

Corporate Center 3Q19 Business review

The positive development of net interest income in 3Q19 against 3Q18 originates primarily from the reduction in interest expenses realated to the waiver of the existing Tier 2 supplementary capital in March 2018 by the previous sole shareholder AI Lake (Luxembourg) S.à r.l. Further positive contributor to net interest income is the group wide bond portfolio, mainly invested in government bonds of CSEE and European countries. The residual part of the bond portfolio consists of securities of global operating financial institutions and highly rated corporate issuers. The significant drop of the net result from financial instruments is a result of the one-off effect from the EUR 190.0 million Tier 2 waiver from the previous sole shareholder AI Lake (Luxembourg) S.à r.l. reflected in 3Q18 with a EUR 61.0 million one-off income. In addition, this line item includes the result from selling equity shares and convertible bonds related to extraordinary administration procedures for a large Croatian retailer. The other operating result mainly comprises incurred deposit insurance costs and the full year impact of charges for the Single Recovery & Resolution Fund. In the other operating result in 3Q19 expenses for legal provisions mostly related to CHF claims in Croatia are the main driver for the increase compared to 3Q18. In addition, this position contains restructuring expenses in the amount of EUR 2.3 million related to planned back-office optimisation and branch closure initiatives as already reflected in 1H19 results. Operating expenses include all headquarter and back-office costs for the countries as well as the Holding which have not been allocated to the business segments. Furtermore, capital market readiness costs incurred prior to the listing are included in this position.

5. Mid-Term Targets and Outlook 2019

5.1. Mid-Term Targets

In comparison to the strategic financial objectives Addiko Group continued its progress towards achieving mid-term target levels. This is a continuation of the established track record and a visible result of the strategy as a specialist with a focus on Consumer and SME lending activities as well as payment services ("focus areas"), offering unsecured personal loan products for consumers and working capital loans for SME customers in the CSEE region.

The challenging low interest rate environment, the adjusted net interest margin remained stable at 3.0%, with further room for improvement via the continuous shift of the loan book from the "non-focus" to the "focus areas", complemented by a further optimisation of the funding position towards the mid-term targeted LDR of ~100% (79.5% as of 3Q19).

Adjusted net fee and commission income growth as of 3Q19 of 7.8% compared to 3Q18 remained below the low-teens CAGR target in the mid-term.

The main reason for having accelerated the issuance of the Tier 2 capital was to benefit from the attractive yield environment, optimise the capital structure and redistribute the resulting excess capital. All of this is still valid with two amendments:

- Given the unexpectedly high P2G of 4% included in the draft SREP decision the bank is seeking alignment with the regulator and can therefore accommodate a longer timeline for the Tier 2 issuance.
- There was a wider range of yield requirements from investors than anticipated and the terms were not as favorable as expected.

Addiko has tested the market and ultimately did not raise the Tier 2 so far, since pricing expectations came in a wide range above Addiko's threshold for a reasonably sized transaction. The bank also engaged in discussions with potential anchor investors who require more time to assess, which the bank can accommodate given that there is no need to raise capital now before there is clarity that excess capital can be distributed.

On the back of this and reflecting the effects of the planned counter-measures, the 5 years plan and mid-term targets will be reviewed and communicated in the context of the 2019 year end financials. Addiko's focus remains to execute the specialist strategy ensuring distribution of dividends and healthy returns to investors over the mid term.

5.2. Outlook 2019

Addiko Group expects a continuation of the benign macroeconomic environment in its countries of operation. Growth momentum remains quite strong by post-crisis standards and has even picked up in Croatia recently. However, the growth rates in excess of 4% recorded in 2018 in three of the countries of operation (Slovenia, Serbia and Montenegro) could not be sustained in 2019, albeit for varying reasons. Using an unweighted average, the pace of expansion across the five countries of operation has slowed down from 4% in 2018 to an estimated 2.9% for the year 2019. Growth is estimated to be strongest in Montenegro (3.1%) and weakest in Bosnia and Herzegovina (2.6%), with the remaining three countries growing at 2.9% and well above more developed European economies.

Although most Addiko countries of operation continue to have quite high unemployment rates (with the notable exception of Slovenia, and to a lesser extent Croatia), these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth.

The region Addiko operates in is currently at a fairly positive point in the credit cycle with lending growth to the non-financial private sector firmly positive in all countries of operation. In all countries except Serbia, credit demand from households appears to be stronger than that from corporates, which should continue to support private consumption growth. The regions economic growth however will also be influenced by local regulatory activities such as the implementation of consumer protection mechanisms limiting loan growth in the consumer sector, which can have a negative influence on private consumption. On 12 September the ECB cut its deposit rate further into negative territory and restarted its asset purchase programme.

On the back of this Addiko remains with the expectation of a moderately slower growth outlook on the back of very loose monetary condition, increased complexity of regulations and overall geopolitical uncertainties. The main risk factors influencing the banking industry include worsened interest rate outlooks, political or regulatory measures against banks as well as geopolitical and global economic uncertainties. Addiko Bank will continue to execute its focused strategy as a consumer and SME specialist lender in the CSEE region, and further drive digital transformation along the value proposition convenience and speed.

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

Addiko Bank

6. Summary of consolidated statement of profit or loss

EUR m

	01.01. - 30.09.2019	01.01. - 30.09.2018
Interest income calculated using the effective interest method	155.5	157.0
Other interest income	2.5	3.2
Interest expenses	-21.4	-32.6
Net interest income	**136.7**	**127.6**
Fee and commission income	61.4	56.5
Fee and commission expenses	-11.7	-10.5
Net fee and commission income	**49.6**	**46.0**
Net result on financial instruments	9.3	70.9
Other operating income	9.6	18.0
Other operating expenses	-34.5	-27.5
Operating income	**170.7**	**235.1**
Personnel expenses	-73.4	-75.1
Other administrative expenses	-54.8	-56.4
Depreciation and amortisation	-13.9	-8.3
Operating expenses	**-142.1**	**-139.9**
Operating result before change in credit loss expense	**28.6**	**95.2**
Credit loss expenses on financial assets	0.5	4.6
Operating result before tax	**29.2**	**99.8**
Tax on income	-5.8	-3.4
Result after tax	**23.4**	**96.4**
thereof attributable to equity holders of parent	23.4	96.4

EUR m

	01.01. - 30.09.2019	01.01. - 30.09.2018
Result after tax	**23.4**	**96.4**
Other comprehensive income	**23.9**	**-12.7**
Items that will not be reclassified to profit or loss	**1.1**	**0.6**
Fair value reserve - equity instruments	1.1	0.6
Net change in fair value	1.3	0.7
Income Tax	-0.2	-0.1
Items that may be reclassified to profit or loss	**22.8**	**-13.3**
Foreign currency translation	1.1	0.3
Gains/losses of the current period	1.1	0.3
Reclassification amounts	0.0	0.0
Fair value reserve - debt instruments	21.7	-13.6
Net change in fair value	30.9	-8.2
Net amount transferred to profit or loss	-6.3	-7.1
Income Tax	-3.0	1.8
Total comprehensive income for the year	**47.2**	**83.6**
thereof attributable to equity holders of parent	47.2	83.6

7. Summary of consolidated statement of financial position

EUR m

	30.09.2019	31.12.2018
Assets		
Cash reserves	915.6	1,002.9
Financial assets held for trading	24.1	24.3
Loans and receivables	3,913.7	3,792.9
Loans and advances to credit institutions	9.5	5.6
Loans and advances to customers	3,904.2	3,787.3
Investment securities	1,143.9	1,184.6
Tangible assets	86.5	57.7
Property, plant and equipment	84.1	55.7
Investment property	2.4	2.0
Intangible assets	32.2	30.3
Tax assets	21.3	28.3
Current tax assets	1.7	1.7
Deferred tax assets	19.7	26.6
Other assets	37.9	25.5
Non-current assets and disposal groups classified as held for sale	6.5	5.7
Total assets	**6,181.8**	**6,152.1**
Equity and liabilities		
Financial liabilities held for trading	7.8	2.1
Financial liabilities measured at amortised cost	5,218.8	5,202.5
Deposits of credit institutions	254.4	324.4
Deposits of customers	4,908.9	4,836.7
Issued bonds, subordinated and supplementary capital	0.1	1.1
Other financial liabilities	55.4	40.3
Provisions	67.6	62.0
Tax liabilities	0.1	1.0
Current tax liabilities	0.0	0.9
Deferred tax liabilities	0.1	0.1
Other liabilities	30.7	25.1
Equity	856.7	859.5
thereof attributable to equity holders of parent	856.7	859.5
Total equity and liabilities	**6,181.8**	**6,152.1**

8. Credit risk

8.1. Allocation of credit risk exposure within the Group

As at 30 September 2019, the overall gross exposure within the Group shows a slight decrease compared to 31 December 2018 (decrease by EUR 67.0 million). Reductions in the exposures are recognised at Addiko Bank Croatia, Addiko Bank Serbia, Addiko Bank Slovenia and Addiko Bank Montenegro which are partially offset by increased exposure in Addiko Holding, Addiko Bank Sarajevo and Addiko Bank Banja Luka. The increase of the exposure in the core segments Consumer Lending and SME was compensated by the volume reduction in the non-core segments Large Corporate, Public Finance, Mortgages and Corporate Center. Within the Group, credit risk exposure split per country is presented in the table below.

EUR m

	30.09.2019	31.12.2018
Addiko Croatia	2,810.2	2,850.1
Addiko Slovenia	1,744.3	1,795.8
Addiko Serbia	1,034.2	1,044.0
Addiko in Bosnia and Herzegovina	1,053.9	1,026.4
Addiko Montenegro	255.7	271.2
Addiko Holding	270.4	248.3
Total	**7,168.7**	**7,235.7**

8.2. Credit risk exposure by rating class

At 30 September 2019 roughly 24.2% (YE18: 27.0%) of the exposure is categorised as rating classes 1A to 1E.

Until the third quarter 2019 the NPE stock reduced by EUR 86.5 million, mainly in the Large Corporate segments in Addiko Bank Croatia (write off of a large big ticket) and Addiko Bank Serbia (repayment of big ticket) as well as in the Consumer and Mortgage portfolio due to write offs and collection effects in the majority of countries.

The following table shows the exposure by rating classes and market segment as of 30 September 2019:

EUR m

30.09.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	200.4	847.4	250.8	122.5	92.2	1.0	1,514.4
SME	151.5	890.2	585.1	44.8	68.5	1.6	1,741.8
Non-Focus	472.3	907.6	329.8	55.2	156.7	0.8	1,922.4
o/w Large Corporate	78.0	469.8	241.0	2.9	27.1	0.1	818.9
o/w Mortgage	348.9	329.2	49.9	42.6	117.7	0.6	888.9
o/w Public Finance	45.5	108.6	38.9	9.8	11.9	0.1	214.6
Corporate Center[1)]	912.4	944.3	128.7	0.0	0.0	4.7	1,990.1
Total	**1,736.7**	**3,589.5**	**1,294.4**	**222.5**	**317.3**	**8.2**	**7,168.7**

[1)] Corporate Center includes financial institutions considering National Bank exposure, deposits as well as securities.

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	197.5	786.5	212.4	114.6	103.6	0.3	1,415.0
SME	129.8	740.2	558.3	60.1	70.7	0.3	1,559.3
Non-Focus	563.9	881.9	381.8	84.9	229.5	3.8	2,145.8
o/w Large Corporates	111.2	416.8	267.6	26.9	81.0	3.5	907.0
o/w Mortgage	400.6	364.8	57.3	47.8	145.2	0.0	1,015.7
o/w Public Finance	52.2	100.3	57.0	10.1	3.4	0.3	223.2
Corporate Center[1)]	1,063.9	893.0	153.6	0.0	0.0	5.1	2,115.5
Total	**1,955.2**	**3,301.5**	**1,306.1**	**259.6**	**403.8**	**9.5**	**7,235.7**

[1)] Corporate Center includes financial institutions considering National Bank Exposure, deposits as well as securities.

8.3. Presentation of exposure by overdue days

EUR m

30.09.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,380.5	46.0	5.0	3.2	79.7	1,514.4
SME	1,616.8	77.7	0.5	7.4	39.4	1,741.8
Non-Focus	1,756.4	39.8	3.7	2.1	120.4	1,922.4
o/w Large Corporate	790.3	8.8	1.0	0.0	18.8	818.9
o/w Mortgage	759.1	26.2	2.8	2.1	98.7	888.9
o/w Public Finance	206.9	4.7	0.0	0.0	3.0	214.6
Corporate Center	1,990.1	0.0	0.0	0.0	0.0	1,990.1
Total	**6,743.8**	**163.4**	**9.2**	**12.7**	**239.6**	**7,168.7**

EUR m

31.12.2018	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,285.1	33.3	5.2	3.1	88.2	1,415.0
SME	1,456.5	63.2	0.2	1.5	38.0	1,559.3
Non-Focus	1,911.7	43.0	7.7	3.2	180.2	2,145.8
o/w Large Corporates	830.4	15.2	1.0	0.0	60.4	907.0
o/w Mortgage	861.4	25.0	6.7	3.2	119.4	1,015.7
o/w Public Finance	219.8	2.9	0.0	0.0	0.4	223.2
Corporate Center	2,115.5	0.0	0.0	0.0	0.0	2,115.5
Total	**6,768.7**	**139.6**	**13.1**	**7.8**	**306.4**	**7,235.7**

8.4. Development of the coverage ratio

The NPE coverage ratio remains on the same level (75.3%) compared to the YE18 (75.4%).

The following table shows the NPE and NPE coverage ratio:

EUR m

30.09.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,514.4	92.2	84.8	15.0	6.1%	92.0%	108.2%
SME	1,741.8	68.5	46.0	44.9	3.9%	67.2%	132.8%
Non Focus	1,922.4	156.7	108.1	94.7	8.1%	69.0%	129.4%
o/w Large Corporate	818.9	27.1	13.2	18.0	3.3%	48.8%	115.3%
o/w Mortgage	888.9	117.7	86.5	69.4	13.2%	73.5%	132.4%
o/w Public Finance	214.6	11.9	8.4	7.3	5.5%	70.5%	131.9%
Corporate Center	1,990.1	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,168.7**	**317.3**	**238.9**	**154.5**	**4.4%**	**75.3%**	**124.0%**
o/w Credit Risk Bearing	**5,297.6**	**317.3**	**238.9**	**154.5**	**6.0%**	**75.3%**	**124.0%**

The Credit Risk Bearing exposure does not include exposure towards National Banks as well as securities and derivatives.

The following table shows provisions and coverage ratio according to the internal segmentation valid as of 31 December 2018:

EUR m

31.12.2018	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	NPE Coverage Ratio	NPE Coverage Ratio (incl collateral)
Consumer	1,415.0	103.6	94.4	18.2	7.3%	91.1%	108.7%
SME	1,559.3	70.7	45.0	48.3	4.5%	63.7%	132.0%
Non Focus	2,145.8	229.5	165.0	117.0	10.7%	71.9%	122.9%
o/w Large Corporates	907.0	81.0	56.8	28.0	8.9%	70.1%	104.6%
o/w Mortgage	1,015.7	145.2	106.8	86.8	14.3%	73.6%	133.4%
o/w Public Finance	223.2	3.4	1.4	2.2	1.5%	42.0%	108.4%
Corporate Center	2,115.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,235.7**	**403.8**	**304.4**	**183.5**	**5.6%**	**75.4%**	**120.8%**
o/w Credit Risk Bearing	**5,236.6**	**403.8**	**304.4**	**183.5**	**7.7%**	**75.4%**	**120.8%**

9. Own funds and capital requirements

The regulatory minimum capital ratios including the regulatory buffers as of 30 September 2019 and 31 December 2018 amount to:

	30.09.2019			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	4.10%	4.10%	4.10%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.003%	0.003%	0.003%	0.002%	0.002%	0.002%
Overall Capital Requirement (OCR)	**11.103%**	**12.603%**	**14.603%**	**11.077%**	**12.577%**	**14.577%**

In the beginning of October 2019, Addiko Bank AG received a draft decision as result of the yearly SREP process, based on which own funds are deemed adequate both at the consolidated and the Holding level. The draft decision prescribes a Pillar 2 requirement (P2R) of 4.3% (4.1% for 2019) and contains a Pillar 2 guidance (P2G) in the amount of 4%. Addiko Bank AG approached the supervisory authority to address technical aspects regarding the draft P2R and P2G decision.
Addiko Group expects that the Single Resolution Board (SRB) will decide on the minimum requirements for own funds and eligible liabilities (MREL) target for Addiko Group, which have to be met after a transitional period of up to 4 years, until the end of 2019. SRB envisaged, in its preliminary announcement received on the 30 July 2019 a TLOF ratio of 20.58% and a “single-point-of-entry” (SPE) approach as resolution strategy, as a result of which Addiko Group shall comply with MREL on a consolidated basis until 31 December 2023. The Management Board of Addiko is, however, of the view that Addiko Group performs critical functions for bank resolution purposes only in Croatia. Consequently, a "multiple-point-of-entry" (MPE) resolution approach, should be the adequate approach.

The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 30 September 2019 and 31 December 2018:

EUR m

Ref[1]		30.09.2019	31.12.2018
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	195.0	195.0
2	Retained earnings	615.3	561.0
3	Accumulated other comprehensive income (and other reserves)	23.0	-0.8
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	54.2
6	**CET1 capital before regulatory adjustments**	**833.3**	**809.5**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.2	-1.2
8	Intangible assets (net of related tax liability)	-32.2	-30.3
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-14.5	-19.0
	IFRS 9 transitional rules	34.0	43.8
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-13.9**	**-6.7**
29	**Common Equity Tier 1 (CET1) capital**	**819.4**	**802.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**819.4**	**802.8**
60	Total risk weighted assets	4,717.4	4,545.0
	Capital ratios and buffers %		
61	CET1 ratio	17.4%	17.7%
63	TC ratio	17.4%	17.7%

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

Total capital increased by EUR 16.7 million during the reporting period, reflecting the net impact of the following components:

- An increase by EUR 23.9 million of the other comprehensive income mainly due to the positive development of market values of debt instruments in amount of EUR 21.7 million, of equity instruments in the amount of EUR 1.1 million and an increase by EUR 1.1 million of the foreign currency reserves;
- A negative impact of EUR -9.7 million in connection with the application of the IFRS 9 transitional capital rules, which prescribe that, starting with the 1 January 2019, the portion of the initial ECL which could be added back decreases from 95% to 85% (EUR -4.6 million). In addition, the IFRS 9 amount which could be added back to capital decreased compared with the beginning of the year following the dynamic component and the related development of Stage 1 and Stage 2 ECL in the first nine months of 2019 (EUR -5.1 million);
- A decrease in regulatory deduction items in the amount of EUR 2.5 million composed of an increase in investments in intangible assets (EUR 2.0 million) and decrease in deferred tax assets on existing taxable losses (EUR 4.5 million);
- In accordance with CRR requirements Art. 26 (2) the 3Q19 interim profit in the amount of EUR 23.4 million was not included in the 3Q19 calculation.

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

RWAs increased by EUR 172.4 million at the level of Addiko Group during the reporting period. The development primarily relates to the increase of the customer loan portfolio in connection with new business and higher risk weights according to transitional rule of Art. 114 (6) CRR.

EUR m

Ref[1]		30.09.2019	31.12.2018
1	Credit risk pursuant to Standardised Approach	4,114.3	3,958.5
6	Counterparty credit risk	5.3	5.4
19	Market risk	189.9	173.2
23	Operational risk	407.9	407.9
Total risk exposure amount		**4,717.4**	**4,545.0**

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

Leverage ratio on a transitional basis

The leverage ratio for Addiko Group, calculated in accordance with the CRR, was 12.4% at 30 September 2019, up from 12.2% at 31 December 2018. The development was mainly driven by growth in Tier 1 capital.

EUR m

Ref[1]		30.09.2019	31.12.2018
20	Tier 1 capital	819.4	802.8
21	Total leverage ratio exposure	6,584.9	6,559.0
22	**Leverage ratio %**	**12.4%**	**12.2%**

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

10. Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
Common Equity Tier 1 (CET1)	Own funds as defined by Art 26 et seq. CRR which represent the highest quality of capital
Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
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)
CRB	Credit risk bearing
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR (“undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account”) and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
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)
ECL	Expected credit loss
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FVTOCI	Fair value through other comprehensive income
FX & DCC	Foreign exchange and dynamic currency conversions
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions.
Gross exposure	Exposure of on and off balance loans including accrued interest and gross amount of provisions for performing loans and non performing loans
Gross performing loans (GPL)	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 which

	serve households ("NPISH") and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRR
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time
PI	Private individuals
Pillar 2 Guidance (P2G)	The level and quality of own funds the institution is expected to hold in excess of its overall capital requirements. The Pillar 2 guidance is a non-legally binding expectation of the regulatory authorities
Pillar 2 Requirement (P2R)	Additional own funds requirements imposed in accordance with Article 104(1)(a) of Directive 2013/36/EU. The Pillar 2 requirement covers risks underestimated or not covered by Pillar 1
Public Finance	The segment Public Finance includes all state-owned entities

Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Retail (PI/Micro)	The segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off balance positions, which shall be risk weighted according to (EU) No 575/2013
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 Large Corporates segment
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
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 1 capital (T1)	Sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution
Tier 2 capital	Own funds consisting of the sum of Tier 1 capital and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 refers to instruments or subordinated loans with an original maturity of at least five years that do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity (and fulfill other requirements)
TLOF	Total liabilities and own funds
Yield GPL (simply Ø)	Regular interest income annualised / simply Ø gross performing loans

11. Contact

Publisher of the Earnings release
and responsible for the content:
Addiko Bank AG
Wipplingerstraße 34/4 OG
1010 Wien
Tel. +43 (0) 50 232-0
Fax +43 (0) 50 232-3000
www.addiko.com

12. Disclaimer

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

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

Neither Addiko Bank AG nor any of its affiliates or representatives shall be liable for whatever reason for any kind of damage, loss, cost or expenses of any kind arising directly and/or indirectly out of or in connection with any use of this report or its content or otherwise arising in connection with this document.

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

Any data is presented on the Addiko Group level (referred to as Addiko Bank or the Group throughout the document) unless stated otherwise. The tables in this report may contain rounding differences.