Addiko Bank

1Q20 Earnings release

1. About Addiko Bank

Addiko Group is a listed 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 approximately 0.8 million customers in CSEE, using a well-dispersed network of 178 branches and modern digital banking channels.

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

Addiko 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 Consumer and the SME segment, to improve efficiency, reduce risks and maintain asset quality.

2. Review of performance

Addiko Group **pre-provision operating result** increased by 31.4% to EUR 13.2 million compared with 1Q19. **Net banking income** slightly increased by EUR 0.2 million, or 0.3%, to EUR 60.6 million. **Net interest income** rose by 1.0% to EUR 45.3 million reflecting growth in the focus segments. **Net fee and commission income** remained stable at EUR 15.3 million. **Operating expenses** decreased by 9.9%, or EUR 4.8 million, as result of ongoing efficiency measures and the decision of the Management Board to waive potential bonus payments for 2020, in the light of the current environment and the hardship faced by many. The economic impact of the Covid-19 pandemic determined the recognition of incremental credit reserve of approximately EUR 13.6 million leading to total **risk costs** of EUR -14.4 million and a reversal of recognition of deferred tax assets in amount of EUR -4.8 million. These aspects contributed to a material fall in reported **result after tax** compared with the same period last year, with the Group recording a **loss** of EUR -8.4 million.

„The Covid-19 pandemic determined governments in our countries of operation to take essential measures such as business lockdowns and restrictions with regards to social contacts, which have affected strongly social and economic activities. Addiko entered into this crisis with a sound operational set-up, a solid capital and funding base and a well-prepared business continuity concept. A solid first quarter from an operational perspective provided us with the possibility to prudently reflect one-off provisions related to the deteriorated macroeconomic expectations. Our business model of providing straightforward lending and banking services to consumers and small companies, privileging digital solutions, is more relevant than ever. We are strongly committed to continue our path, support our staff, customers and our local economies and generate value for our shareholders. I am confident our team will navigate successfully through the uncertainties of these challenging times.", said Razvan Munteanu, CEO of Addiko Bank AG.

2.1. How Addiko Group helps

Customers remain the priority for Addiko Group through this crisis and a comprehensive range of measures have been implemented to support retail and business customers. Addiko Bank Croatia decided to take care of the profession that is currently on the front line of the fight against the coronavirus, with clients employed in the healthcare sector exempted from paying a monthly fee for maintaining their current account for April, May and June 2020. Also, Addiko Bank in Sarajevo and Banja Luka launched a new marketing campaign to remind the clients of the flexibility of using Addiko Mobile, that is, services are available from the comfort of their home. Even in times of uncertain epidemiological situation, the bank strives to maintain a customer-first approach, and this time all Addiko Bank services are tailored to the needs of clients, with an additional focus on safe use. The Group wants to give all clients an adequate incentive to stay in their homes and make bank transactions through digital services or use their contactless Addiko card.

To assure the safety of all employees already in the beginning of March travel and meeting restrictions were implemented as well as homeoffice regulations released. The bank transitioned effectively to “Work from Home” increasing the number of employees working from home from 200 to 2000 across Addiko Group in the first 3 weeks of March 2020. One third of Addiko employees remained working in the offices due to the nature of their job. Social distancing, behavior guidelines and increased office hygiene measures were put into place in early March in order to ensure personal safety. In the branches several measures were taken. Branch working hours were decreased in accordance to local regulations. All branches were quickly equipped with physical distancing measures including plexiglass separators and sanitary measures were further increased for staff and clients. Branch staff were provided with masks and gloves and spaciously positioned in the branch to ensure social distancing measures. Many forms of support have been offered to staff including organised and subsidised transport to work, crisis management support and change training. Branch staff were split into 3 teams. The first team recognised for their specific personal status (chronic illnesses, pregnant staff, staff with small children, caregivers etc.). This group was sent home and were later activated to support Call Centre and Branch staff remotely. The second and third teams worked in weekly shifts, with Team A working the first week and Team B working the second week. The purpose was to decrease the risk of infectious spreading. Feedback has been very positive appreciating the measures taken to protect employee and client safety and enable workplace effectiveness.

2.2. Annual General Meeting

In light of the lock-down related administrative restrictions and the ECB/FMA dividend recommendation the AGM originally scheduled for 21 April 2020 was postponed to the fourth quarter 2020, allowing to review the dividend 2019 proposal. An update of the dividend guidance 2020 is foreseen during the fourth quarter of the year 2020.

2.3. Outlook and targets

The Covid-19 pandemic forced governments in the countries of operation to take restrictive measures such as business lockdowns and restrictions with regards to social contacts, which has affected strongly social and economic activities. Governments, central banks and regulators provided measures to obtain public health, social and monetary support, amongst others also by loan repayment moratoria as wells as state guarantees and bridge financing to mitigate the negative impacts on the economy in the future. This will lead to a market environment which will be demanding and unpredictable over the next months.

For this reason, the Outlook 2020 is suspended until further clarity on Covid-19 related impacts while the Mid Term Targets remain unchanged despite likely delays in achieving them depending on the post pandemic recovery.

3. Financial development of the Group

3.1. Analysis of the consolidated profit or loss statement

EUR m

	01.01. - 31.03.2020	01.01. - 31.03.2019	(%)
Net banking income	60.6	60.4	0.3%
Net interest income	45.3	44.9	1.0%
Net fee and commission income	15.3	15.6	-2.2%
Net result on financial instruments	1.3	3.3	-60.6%
Other operating result	-5.2	-5.4	-3.4%
Operating income	**56.7**	**58.3**	**-2.8%**
Operating expenses	**-43.5**	**-48.3**	**-9.9%**
Operating result before change in credit loss expense	**13.2**	**10.0**	**31.4%**
Credit loss expenses on financial assets	-14.4	3.7	>100%
Operating result before tax	**-1.2**	**13.7**	**>100%**
Tax on income	-7.2	-3.6	100.0%
Result after tax	**-8.4**	**10.1**	**>100%**

Net interest income increased in 1Q20 from EUR 44.9 million at 1Q19, by EUR 0.4 million, or 1.0%, to EUR 45.3 million at 1Q20. This was primarily due to a decrease in interest expenses from EUR -7.5 million at 1Q19, by EUR -1.6 million, to EUR -5.9 million at 1Q20, predominantly resulting from lower interest expenses for customer deposit of EUR -1.2 million – mainly caused by a shift from higher yield term deposits to lower yield current deposits. Interest income moved from EUR 52.3 million at 1Q19, by EUR -1.1 million, to EUR 51.2 million at 1Q20 which is in light of restrictive consumer lending regulations introduced during 2019 and the Covid-19 impact still better than expected. The **net interest margin** amounts to 299bp at 1Q20, compared to 297bp 1Q19.

Net fee and commission income remained stable at an amount of EUR 15.3 million (1Q19: EUR 15.6 million). Thereof, fee and commission income increased from EUR 18.7 million at 1Q19 to EUR 19.1 million at 1Q20, whereas fee and commission expenses increased from EUR -3.1 million at 1Q19 to EUR -3.8 million at 1Q20.

Net result on financial instruments is positive with EUR 1.3 million at 1Q20, compared to EUR 3.3 million at 1Q19, the position is mainly driven by the sale of debt instruments.

Other operating result as sum of other operating income and other operating expense changed from EUR -5.4 million at 1Q19, by EUR 0.2 million, to EUR -5.2 million at 1Q20. This position includes the following significant items:

- Front-loaded recognition of the expenses for the recovery and resolution fund (1Q20: EUR -1.4 million, 1Q19: EUR -1.6 million)
- Deposit guarantee expenses for the first quarter 2020 in the amount of EUR -2.0 million (1Q19: EUR -2.2 million)

Operating expenses decreased from EUR -48.3 million at 1Q19, by EUR 4.8 million, or -9.9% to EUR -43.5 million at the current reporting date:

- Personnel expenses reduced compared to the previous period from EUR -24.8 million at 1Q19 to EUR -21.2 million at 1Q20. The decrease reflects the efficiency and right sizing programs conducted during 2019, which lead to a decrease of employees expressed in full-time equivalent (‘FTE’) by 200.6 FTEs compared to 31 March 2019. Furthermore, due to the current economic environment no provision for bonus was recognised in 1Q20 (1Q19: EUR -2.6 million).
- Other administrative expenses decreased from EUR -19.0 million at 1Q19, by EUR 1.7 million, or 8.8% to EUR -17.4 million at 1Q20. This development was mainly driven by lower advertising costs (1Q20: EUR -1.6 million, 1Q19: EUR -2.5 million) as well as lower legal and advisory costs (1Q20: EUR -1.4 million, 1Q19: EUR -1.9 million). Legal and advisory costs included in 1Q19 EUR -0.9 million expenses in connection with the IPO preparation process during 2019.

- Depreciation and amortisation slightly increased from EUR -4.5 million at 1Q19, by EUR -0.5 million, to EUR -5.0 million at 1Q20.

Credit loss expenses on financial assets amount to EUR -14.4 million (1Q19: EUR 3.7 million). The result 1Q20 was significantly influenced by the Covid-19 pandemic, with the recognition of a risk provision in amount of EUR 13.6 million. The Group's outlook and IFRS 9 base case economic scenario used to calculate expected credit loss (ECL) has been updated since the year end through post model adjustments, which reflected a different probability-weighted view of future economic scenarios. The ECL charge for 2020 will depend on the further path of the pandemic, the range and duration of economic impacts (including the effects of various government support packages), and its impact on customers' ability to repay their debt obligations.

Taxes on income amount at 1Q20 to EUR -7.2 million compared to EUR -3.6 million at 1Q19 and also include the possible impact of the Covid-19 pandemic, reflecting a reversal of recognition of EUR -4.8 million expenses. This impact is connected with the fact that the tax loss carried forward in most of the countries where the Group operates will expire in 2020 or in 2021.

3.2. Analysis of the consolidated statement of financial position

EUR m

	31.03.2020	31.12.2019	Change (%)
Cash reserves	1,035.6	899.4	15.1%
Financial assets held for trading	38.8	38.5	0.9%
Loans and receivables	3,888.2	3,885.9	0.1%
Loans and advances to credit institutions	63.4	14.0	>100%
Loans and advances to customers	3,824.8	3,871.9	-1.2%
Investment securities	988.0	1,096.6	-9.9%
Tangible assets	84.2	85.9	-2.0%
Intangible assets	28.1	27.9	0.8%
Tax assets	23.7	25.7	-7.7%
Current tax assets	2.1	1.8	15.7%
Deferred tax assets	21.6	23.9	-9.5%
Other assets	23.3	20.6	12.8%
Non-current assets and disposal groups classified as held for sale	3.1	3.1	-1.6%
Total assets	**6,112.9**	**6,083.6**	**0.5%**

The statement of financial position of Addiko Group shows the simple and solid interest-bearing asset structure: more than 62.6% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds. With regard to the statement of financial position, Addiko's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is shown by the increased share of these two segments of 62.5% of the gross performing loan book (1Q19: 57.8%).

As of 1Q20 the **total assets** of Addiko Group in the amount of EUR 6,112.9 million are slightly above the level as of YE19 of EUR 6,083.6 million, corresponding to a increase of EUR 29.3 million or 0.5%. The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) increased to EUR 4,512.0 million (YE19: EUR 4,571.5 million) reflecting the increases of volumes in the focus segments.

Cash reserve increased by EUR 136.2 million to EUR 1,035.6 million as of 31 March 2020 (YE19: EUR 899.4 million). This reflects the strong liquidity position of the Group.

Overall **loans and receivables** increased to EUR 3,888.2 million from EUR 3,885.9 million at year end 2019:

- Loans and receivables to credit institutions (net) increased by EUR 49.4 million to EUR 63.4 million (YE19: EUR 14.0 million).
- Loans and receivables to customers (net) decreased by EUR -47.0 million to EUR 3,824.8 million (YE19: EUR 3,871.9 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 1,096.6 million at YE19 million to EUR 988.0 million at 1Q20, they are largely invested in high rated government bonds and have maturities of less than five years. To ensure high levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets decreased to EUR 23.7 million (YE19: EUR 25.7 million), as a consequence of the re-assessment of deferred tax assets on tax loss carried forward (1Q20: EUR 4.8 million), this development is partially offset by the Covid-19 related market turmoil, which leads to an additional recognition of deferred taxes on debt instruments accounted at FVTOCI.

Other assets increased to EUR 23.3 million (YE19: EUR 20.6 million). The main amounts in this position are due to prepaid expenses and accruals (1Q20: EUR 13.7 million; YE19: EUR 11.4 million), furthermore, receivables for paid in deposits and receivables from card business are included.

EUR m

	31.03.2020	31.12.2019	Change (%)
Financial liabilities held for trading	10.5	6.0	>100%
Financial liabilities measured at amortised cost	5,204.3	5,121.6	1.6%
Deposits of credit institutions	397.2	233.9	69.8%
Deposits of customers	4,755.0	4,831.2	-1.6%
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0%
Other financial liabilities	52.1	56.4	-7.6%
Provisions	60.4	66.9	-9.7%
Tax liabilities	0.1	0.0	0.0%
Current tax liabilities	0.1	0.0	0.0%
Deferred tax liabilities	0.0	0.0	0.0%
Other liabilities	27.2	27.9	-2.5%
Equity	810.4	861.3	-5.9%
Total equity and liabilities	**6,112.9**	**6,083.6**	**0.5%**

On the liabilities' side, **financial liabilities measured at amortised cost** remained stable at EUR 5,204.3 million compared to EUR 5,121.6 million at year end 2019:

- Deposits of credit institutions increased from EUR 233.9 million at YE19 to EUR 397.2 million as of 1Q20.
- Deposits of customers decreased to EUR 4,755.0 million (YE19: EUR 4,831.2 million).
- Other financial liabilities decreased from EUR 56.4 million at YE19 to EUR 52.1 million at 1Q20.

Provisions decreased from EUR 66.9 million at YE19 to EUR 60.4 million at 1Q20. The development was primarily influenced by the payout of the bonus 2019 in certain countries, whereas no bonus provision was built for 2020. Furthermore, the provisions for legal cases as well as for commitments and guarantees decreased in the first quarter 2020.

Other liabilities decreased slightly from EUR 27.9 million at YE19 to EUR 27.2 million in 1Q20 and mainly include accruals for services received but not yet invoiced (1Q20: EUR 16.5 million, YE19: EUR 11.5 million) as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 861.3 million to EUR 810.4 million is reflecting the total comprehensive income, which includes the profit and loss for the reporting period in the amount of EUR -8.4 million as well as changes in other comprehensive income in the amount of EUR -42.5 million. This change is mainly due to market related movements from debt and equity instruments measured at FVTOCI (EUR -32.9 million) and from the changes of the FX reserves (EUR -9.6 million).

The **capital base** of Addiko Group is solely made up of CET1 and stands at 16.9% (YE19: 17.7%) on a IFRS 9 transitional basis and at 16.3% without applying IFRS 9 transitional rules (YE19: 17.1%), well above the Overall Capital Requirements of 14.6% based on the currently valid SREP 2019 decision received in June 2019. In the regulatory capital calculation, the Group continues to deduct the 2019 dividend proposal of EUR 40.0 million until the management board has clarity on the consequences of the Covid-19 and guidance on recommendations from ECB and the FMA allowing to update its dividend recommendation ahead of the postponed AGM in the fourth quarter.

4. Segment reporting

As of 1 January 2020, the segments structure shows Mortgage and Consumer as two separate segments, compared to 31 December 2019 where the segments were shown as of which position of the segment Retail and no separation of the position operating expenses. This new presentation should make more visible the development of the strategic focus areas. Comparative figures have been adapted accordingly.

EUR m

31.03.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	36.5	10.4	5.0	3.9	1.7	3.1	60.6
Net interest income	26.9	6.2	5.0	2.6	1.5	3.2	45.3
o/w regular interest income	24.6	7.3	6.6	3.4	1.0	4.7	47.7
Net fee and commission income	9.5	4.2	0.0	1.3	0.3	-0.1	15.3
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	1.3	1.3
Other operating result	0.0	0.0	0.0	0.0	0.0	-5.2	-5.2
Operating income	36.5	10.4	5.0	3.9	1.7	-0.8	56.7
Operating expenses	-20.1	-5.8	-0.3	-1.0	-0.5	-15.8	-43.5
Operating result	16.4	4.6	4.6	2.9	1.2	-16.6	13.2
Change in CL	-2.9	-0.5	1.8	1.5	0.5	-14.7	-14.4
Operating result before tax	13.5	4.1	6.4	4.4	1.7	-31.3	-1.2
Business volume							
Net loans and receivables	1.311.4	1.056.4	731.1	586.7	151.6	51.1	3.888.2
o/w gross performing loans customers	1.347.7	1.053.9	716.5	575.4	151.4		3.845.0
Gross disbursements	116.5	121.1	0.6	80.4	0.5		319.1
Financial liabilities at AC [1]	2.665.2	722.5		376.6	541.1	898.9	5.204.3
RWA [2]	988.0	941.1	438.9	634.5	86.9	802.8	3.892.3
Key ratios							
Net inerest margin (NIM) [3]	6.0%	2.4%	1.6%	1.5%	1.2%		3.0%
Cost/Income ratio	55.1%	55.4%	6.7%	25.0%	31.2%		71.9%
Cost of risk ratio	-0.2%	0.0%	0.2%	0.2%	0.3%		-0.3%
Loan to deposit ratio	49.2%	146.2%	-	155.8%	28.0%		80.4%
NPE ratio (CRB based)	4.5%	3.9%	10.6%	2.1%	1.2%		4.6%
NPE coverage ratio	88.8%	68.4%	68.5%	55.3%	72.6%		73.3%
NPE collateral coverage	15.0%	63.3%	72.0%	62.0%	24.7%		52.3%
Change CL/GPL (simply Ø)	-0.2%	0.0%	0.2%	0.3%	0.3%		-0.4%
Yield GPL (simply Ø)	7.4%	2.8%	3.6%	2.4%	2.6%		4.5%

[1] Financial liabilities at AC at 1Q20 include the Direct deposits (Austria/Germany) amounting to EUR 394 million, EUR 397 million Deposits of credit institutions, EUR 108 million Other liabilities [2] Includes only credit risk (without application of IFRS 9 transitional rules) [3] Net interest margin annualised on segment level is the 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 31 March 2019.

EUR m

31.03.2019	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	35.4	9.5	6.1	4.2	2.1	3.2	60.4
Net interest income	25.2	5.5	6.1	2.8	1.7	3.6	44.9
o/w regular interest income [1]	22.5	7.0	8.2	3.7	1.4	5.6	48.3
Net fee and commission income	10.3	4.0	0.0	1.4	0.3	-0.4	15.6
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	3.3	3.3
Other operating result	0.0	0.0	0.0	0.0	0.0	-5.4	-5.4
Operating income	35.4	9.5	6.1	4.2	2.1	1.1	58.3
Operating expenses	-21.7	-5.8	-0.5	-1.1	-0.6	-18.7	-48.3
Operating result	13.7	3.7	5.6	3.1	1.5	-17.6	10.0
Change in CL	-4.5	2.1	3.0	1.6	0.2	1.3	3.7
Operating result before tax	9.3	5.8	8.5	4.7	1.6	-16.3	13.7
Business volume							
Net loans and receivables	1.199.0	994.4	858.8	603.9	195.4	27.8	3.879.2
o/w gross performing loans customers	1.229.1	991.5	846.7	580.2	193.9		3.841.4
Gross disbursements	155.4	144.6	2.4	55.1	0.4		357.9
Financial liabilities at AC [2]	2.759.0	604.9		415.5	579.7	828.8	5.187.9
RWA [3]	910.0	922.0	546.9	661.6	120.3	813.1	3.973.9
Key ratios							
Net interest margin (NIM)[4]	6.1%	2.4%	1.7%	1.5%	1.4%		3.0%
Cost/Income ratio	61.2%	60.6%	8.5%	26.0%	28.6%		80.0%
Cost of risk ratio	-0.3%	0.1%	0.3%	0.2%	0.1%		0.1%
Loan to deposit ratio	43.5%	164.4%	-	145.3%	33.7%		79.6%
NPE ratio (CRB based)	6.9%	4.5%	14.1%	8.0%	4.2%		7.4%
NPE coverage ratio	91.6%	62.1%	74.6%	70.1%	75.3%		75.8%
NPE collateral coverage	17.6%	63.6%	59.5%	34.4%	51.3%		44.7%
Change CL/GPL (simply Ø)	-0.4%	0.2%	0.3%	0.3%	0.1%		0.1%
Yield GPL (simply Ø)	7.5%	2.9%	3.8%	2.6%	2.9%		4.6%

[1] Regular interest income is related to booked interests excluding interest like income, interest income on NPE and funds transfer pricing [2] Financial liabilities at AC at 1Q19 include the Direct deposits (Austria/Germany) amounting to EUR 433 million, EUR 273 million Deposits of credit institutions, EUR 123 million Other liabilities [3] Includes only credit risk (without application of IFRS 9 transitional rules) [4] Net interest margin annualised on segment level is the 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.

Focus Segments

Consumer 1Q20 Business review

The operating result in 1Q20 amounted to EUR 16.4 million, which is 19.0% higher than in 1Q19, driven by significant decrease in operating expenses by EUR 1.6 million, or 7.3%, and the increase in net banking income by EUR 1.0 million. Cost reduction and improved efficiency on the income side led to a remarkably decreased Cost/Income ratio of 55.1% (1Q19: 61.2%). In comparison to 1Q19 net interest income increased by EUR 1.8 million to EUR 26.9 million (1Q19: EUR 25.2 million) at a NIM of 6.0%.
The net fee and commission income decreased by EUR 0.7 million to EUR 9.5 million in 1Q20 compared to EUR 10.3 million in 1Q19, due to higher commission expenses (EUR -1.2 million) driven by reallocation of MasterCard support

expenses from the Corporate Center to the market segments as of 2Q19, additional Mastercard implementation costs, exceptional bancassurance effect in January 2020 and higher processing fee.
Commission income increased by EUR 0.4 million driven by accounts and packages within Addiko Bank's brand promise of straightforward banking with a small, focused product set designed to deliver the essential banking needs to its target customers and account packages are a cornerstone of this strategy.
The gross disbursements are lower in 1Q20 in comparison with the comparative period mainly influenced by more restrictive consumer lending regulations introduced during 2019. The 1Q20 consumer gross performing loans increased by 9.7% compared to 1Q19 (0.4% compared to YE19). The NPE ratio is lower by 2.4 pts showing focus on quality of the portfolio.
The operating result before tax amounts to EUR 13.5 million (1Q19: EUR 9.3 million), which is 44.7% higher than in 1Q19 due to significantly lower allocations for risk provision in the Consumer segment compared to the same period last year.

SME 1Q20 Business review

In the first quarter 2020 the SME loan book increased by 6.3% compared to 1Q19 (-0.5% compared to YE19) and also includes a re-segmentation of EUR-3.5 million to the non-focus portfolio within 1Q20. Net interest income increased in 1Q20 from EUR 5.5 million in 1Q19, by EUR 0.7 million, or 12.7%, to EUR 6.2 million in 1Q20. This was primarily due to an increase in regular interest income from EUR 7.0 million in 1Q19, by EUR 0.3 million, to EUR 7.3 million in 1Q20 and interest like income increase from EUR 0.5 million in 1Q19, by EUR 0.2 million, to EUR 0.7 million in 1Q20. Despite the highly competitive market Addiko was able to keep the NIM stable at 2.4% as a consequence of the implementation of its highly automated loan process. Net fee and commission income increased by 5.1% compared to 1Q19, mainly arising from FX&DCC activities, loans and trade finance. Operating expenses remained stable and, in combination with increased income, lead to lower Cost/Income ratio by 5.2 pts. The SME segment has generated a EUR 4.1 million operating result before tax. Credit losses increased in 1Q20 from EUR 2.1 million in 1Q19 (releases in 1Q19 due to repayments and restructuring of some larger ticket) by EUR -2.6 million, to EUR -0.5 million in 1Q20.
The NPE ratio decreased compared with 1Q19 and remained on very low level of 3.9% (1Q19: 4.5%), showing the overall excellent quality of the portfolio.

Non-Focus Segments

Mortgage1Q20 Business review

The Mortgage portfolios contraction is managed with a run-down focus. This can be seen as the operating result in 1Q20 amounts to EUR 4.6 million, which is a 16.5% decrease in comparison with EUR 5.6 million in 1Q19, mainly driven by EUR 130.1 million lower gross loans and consequently lower net interest income. Nevertheless, the lower NPE ratio with a higher NPE collateral coverage showing positive trend in the remaining portfolio quality. Lower operating expenses in the amount of EUR 0.2 million contributing to lower Cost/Income ratio which in 1Q20 amounts 6.7% compared to 8.5% in 1Q19.

Large Corporates 1Q20 Business review

As a non-focus segment Large Corporates records a slightly lower loan book portfolio as well as income performance compared to the previous years period. NIM is stable at 1.5%, showing the same level as in 1Q19. Net fee and commission income amount to EUR 1.3 million (1Q19: EUR 1.4 million) slightly decreased mainly due to transactions. Operating expenses are lower by 9.5% which resulted in a lower Cost/Income ratio. The operating result before tax at EUR 4.4 million (1Q19: EUR 4.7 million) impacted by slightly lower credit loss releases on financial assets by EUR 0.1 million compared to 1Q19. The non-performing exposure continued to decrease significantly from EUR 73.7 million in 1Q19 (YE19: EUR 22.8 million) to EUR 16.7 million in 1Q20 evidencing the Group focus on a de-risked asset base. Furthermore, within the extraordinary administration procedures for a large Croatian retailer, a material amount of NPE was exchanged for equity shares and convertible bonds in 2Q19 due to which the NPE ratio decreased from 8.0% to 2.1%.

Public Finance 1Q20 Business review

Net interest income in 1Q20 amounts to EUR 1.5 million (1Q19: EUR 1.7 million), with NIM at 1.2% (1Q19: 1.4%). The decrease in net interest income occurred due to the strategic run-down of the portfolio (-21.9% in gross performing loans compared to 1Q19; -1.4% compared to YE19). Net fee and commission income are at approximately the same level compared to the comparative period and amount to EUR 0.3 million (1Q19: EUR 0.3 million). The Public Finance segment has generated EUR 1.2 million operating result (1Q19: EUR 1.5 million) and EUR 1.7 million operating result before tax in 1Q20 (1Q19: EUR 1.6 million). Cost/Income ratio increased slightly to 31.2% (1Q19: 28.6%) due to lower operating income, whereby the cost basis decreased by 8.0%.

Due to the strategy to decrease the lending activity in this segment, credit risk bearing exposure of the segment further decreased, and amounts to EUR 184.9 million (1Q19: EUR 222.0 million). NPE ratio decreased in 1Q20 and it shows low NPE share in portfolio of 1.2% (1Q19: 4.2%) with NPE coverage ratio at 72.6% indicating significantly high provisions coverage.

Corporate Center 1Q20 Business review

Net interest income in 1Q20 amounts to EUR 3.2 million (1Q19: EUR 3.6 million) driven by the decrease of the interest income from the bond portfolio mainly driven by lower yields (reflecting the current interest rate environment). The steep drop of net result from financial instruments which in 1Q20 amounted to EUR 1.3 million (1Q19: EUR 3.3 million) is driven by lower bond sales and negative mark-to-market movements on interest rate swaps for hedging purposes. The other operating result includes mainly incurred deposit insurance costs, the full year impact of charges to the recovery and resolution fund and legal provisions and amounted in 1Q20 to EUR -5.2 million (1Q19: EUR -5.4 million).
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. Operating expenses decrease in 1Q20 from EUR -18.7 million in 1Q19, by EUR 2.9 million, or 15.4%, to EUR -15.8 million reflecting the focus on cost reduction.

Lower releases of risk provisions in 1Q20 compared to 1Q19 are driven by exposures related to the category financial institutions. In 1Q19 large releases were recognised due to improvement of ratings and decreases of exposure to national banks.
In addition, the significant increase in risk provisions was mainly driven by a proactive EUR 13.6 million IFRS 9 provision reflecting changed macro parameters.

5. Summary of consolidated statement of profit or loss

EUR m

	01.01. - 31.03.2020	01.01. - 31.03.2019
Interest income calculated using the effective interest method	50.5	51.5
Other interest income	0.7	0.9
Interest expenses	-5.9	-7.5
Net interest income	45.3	44.9
Fee and commission income	19.1	18.7
Fee and commission expenses	-3.8	-3.1
Net fee and commission income	15.3	15.6
Net result on financial instruments	1.3	3.3
Other operating income	1.5	2.6
Other operating expenses	-6.7	-8.0
Operating income	**56.7**	**58.3**
Personnel expenses	-21.2	-24.8
Other administrative expenses	-17.4	-19.0
Depreciation and amortisation	-5.0	-4.5
Operating expenses	**-43.5**	**-48.3**
Operating result before change in credit loss expense	**13.2**	**10.0**
Credit loss expenses on financial assets	-14.4	3.7
Operating result before tax	**-1.2**	**13.7**
Tax on income	-7.2	-3.6
Result after tax	**-8.4**	**10.1**
thereof attributable to equity holders of parent	-8.4	10.1

EUR m

	01.01. - 31.03.2020	01.01. - 31.03.2019
Result after tax	**-8.4**	**10.1**
Other comprehensive income	**-42.5**	**8.5**
Items that will not be reclassified to profit or loss	**-0.6**	**0.7**
Fair value reserve - equity instruments	-0.6	0.7
Net change in fair value	-0.7	0.8
Income Tax	0.1	-0.1
Items that may be reclassified to profit or loss	**-41.9**	**7.8**
Foreign currency translation	-9.6	-0.7
Gains/losses of the current period	-9.6	-0.7
Reclassification amounts	0.0	0.0
Fair value reserve - debt instruments	-32.3	8.6
Net change in fair value	-33.9	7.2
Net amount transferred to profit or loss	-2.7	2.6
Income Tax	4.3	-1.2
Total comprehensive income for the year	**-50.9**	**18.6**
thereof attributable to equity holders of parent	-50.9	18.6

6. Summary of consolidated statement of financial position

EUR m

	31.03.2020	31.12.2019
Assets		
Cash reserves	1,035.6	899.4
Financial assets held for trading	38.8	38.5
Loans and receivables	3,888.2	3,885.9
Loans and advances to credit institutions	63.4	14.0
Loans and advances to customers	3,824.8	3,871.9
Investment securities	988.0	1,096.6
Tangible assets	84.2	85.9
Property, plant and equipment	80.1	81.8
Investment property	4.0	4.1
Intangible assets	28.1	27.9
Tax assets	23.7	25.7
Current tax assets	2.1	1.8
Deferred tax assets	21.6	23.9
Other assets	23.3	20.6
Non-current assets and disposal groups classified as held for sale	3.1	3.1
Total assets	**6,112.9**	**6,083.6**
Equity and liabilities		
Financial liabilities held for trading	10.5	6.0
Financial liabilities measured at amortised cost	5,204.3	5,121.6
Deposits of credit institutions	397.2	233.9
Deposits of customers	4,755.0	4,831.2
Issued bonds, subordinated and supplementary capital	0.1	0.1
Other financial liabilities	52.1	56.4
Provisions	60.4	66.9
Tax liabilities	0.1	0.0
Current tax liabilities	0.1	0.0
Deferred tax liabilities	0.0	0.0
Other liabilities	27.2	27.9
Equity	810.4	861.3
thereof attributable to equity holders of parent	810.4	861.3
Total equity and liabilities	**6,112.9**	**6,083.6**

7. Accounting treatment of issues related to Covid-19

7.1. Public moratoria and modification of financial instruments

In the beginning of March, the World Health Organisation declared the Covid-19 outbreak as a global pandemic which is having a massive impact on world trade, leading to sudden supply- and demand shocks and market volatility. All countries where Addiko Group operates have taken a variety of measures, aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays between three to twelve months. Further, some banks are offering renegotiations of re-payment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

Both, public moratoria and voluntarily granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9.

For financial instrument not measured at FVTPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in the profit or loss statement. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the statement of profit or loss, the modification gain or loss is presented in the line Net result on financial instruments if the modification relates to financial assets in stage 1. For financial assets in stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line Credit loss expenses on financial assets. Contractual modifications would only lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument if the modified terms are substantially different from the original terms.

The following table shows the number as well as gross exposure of customers taking part in the moratorium as of 31 March 2020:

31.03.2020	Number of customers:	o/w Stage 1	o/w Stage 2	o/w Stage 3	o/w POCI
Loans and advances	43.797	36.716	4.961	1.839	281
Central banks	0	0	0	0	0
General governments	3	3	0	0	0
Credit institutions	1	1	0	0	0
Other financial corporations	59	54	2	3	0
Non-financial corporations	8.672	7.882	429	359	2
Of which: Small and Medium-sized Enterprises	8.624	7.838	426	358	2
Households	35.062	28.776	4.530	1.477	279
Of which: Secured	2.795	2.174	261	179	181
Of which: Unsecured	32.267	26.602	4.269	1.298	98

EUR m

31.03.2020	Gross exposure in MEUR	o/w Stage 1	o/w Stage 2	o/w Stage 3	o/w POCI
Loans and advances	609.0	530.8	50.9	23.9	3.3
Central banks	0.0	0.0	0.0	0.0	0.0
General governments	0.9	0.9	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.1	0.1	0.0	0.0	0.0
Non-financial corporations	301.8	281.7	12.3	7.8	0.0
Of which: Small and Medium-sized Enterprises	270.1	250.0	12.3	7.8	0.0
Households	306.2	248.0	38.6	16.2	3.3
Of which: Secured	59.3	44.5	7.2	5.4	2.2
Of which: Unsecured	246.9	203.5	31.4	10.8	1.1

Based on the set of criteria developed by Addiko Group to assess whether or not a modification is substantial, an analysis was conducted in each country which lead to the result that the public moratoria and payment holidays applied in the first quarter of 2020 in Addiko Group did not lead to derecognition. In addition, it was assessed the modification gains losses to be insignificant due to the following factors:

- The possibility to apply for a moratorium became effective in most of the countries only between the last week of March and the first week of April and for this reason, at the reporting date, only a limited number of customers made use of this option;
- The period of moratorium and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase.

7.2. Impairment under IFRS 9

IFRS 9 requires forward-looking information (including macro-economic information) to be considered both when assessing whether there has been a significant increase in credit risk and when measuring the expected credit loss (ECL).

With respect to the assessment of significant increases in credit risk (SICR), EBA has indicated that generalised payment delays due to legislative initiatives and addressed to all borrowers, do not lead to an automatic classification in default, foreborn or unlikely to pay. In line with this guidance Addiko Group does not consider the public moratoria and payment holidays in itself as automatic SICR triggers, but applies its specific assessment rules consisting of qualitative information and quantitative thresholds.

In relation to the measurement of the ECL, Addiko Group build a risk provision of EUR 13.6 million in 1Q20 in order to address this deteriorating macroeconomic environment. The Group's outlook and IFRS 9 economic scenarios used to calculate ECL has been updated since the year-end through post model adjustments, which reflected a different probability-weighted view of future economic scenarios.

The ECL charge for 2020 will depend on the further path of the pandemic, the range and duration of economic impacts (including the effects of various government support packages), and its impact on customers' ability to repay their debt obligations.

7.3. Deferred tax assets on taxable losses

Deferred tax assets on losses carried forward are only recoverable when future tax profits that allow utilisation appear highly probable. Due to the additional uncertainty arising from the Covid-19 pandemic and the impact on the reliableness of the estimations regarding the future profitability, Addiko performed a re-assessment leading to a decrease of deferred tax assets on losses carried forward in amount of EUR 4.8 million.

7.4. Events after the reporting date in relation to Covid-19

During April 2020, governments and regulators have taken various further measures to address the impacts of the Covid-19 pandemic on the economy. Legal regulations requiring banks to offer payment moratoria for the repayment of loans have been adopted in almost all jurisdictions where Addiko Group operates. The payment moratoria aim to support clients to bypass liquidity shortages as a consequence of the Covid-19 restrictions. In general, they are set-up in a way that clients can apply for a postponement of interest and principal loan repayments for a period between three to twelve months. In most cases, banks are entitled to receive contractual interest for the period of the moratorium.

The Covid-19 pandemic and the consequences for the economy as well as the measures taken by governments and regulators are likely to affect Addiko Group's financial performance and position, including potentially significant impacts for expected credit losses, as well as impacts on operating income. Due to high uncertainties reflected in the current economic environment estimates of financial implications on Addiko are as a consequence also highly uncertain. The bank follows the developments closely and will recognise the related effects as the situation becomes clearer throughout 2020. For the payment moratoria the bank does not expect significant modification losses in cases where it is entitled to the contractual interest rate. But the uncertainty is high since there are multiple, currently unclear factors which will affect the amounts of modification losses. Notably, the magnitude of the effect depends on the number of individual contracts that would be modified and to what extent payments of the contractual interest would be deferred.

8. Credit risk

8.1. Allocation of credit risk exposure within the Group

As at 31 March 2020, the overall gross exposure within the Group shows a slight decrease compared to 31 December 2019 (decrease by EUR 22.6 million). Within the Group, credit risk exposure split per country is presented in the table below.

EUR m

	31.03.2020	31.12.2019
Addiko Croatia	2,693.9	2,702.8
Addiko Slovenia	1,771.5	1,773.4
Addiko Serbia	957.1	1,001.4
Addiko in Bosnia and Herzegovina	1,061.3	1,076.5
Addiko Montenegro	246.3	252.4
Addiko Holding	305.7	252.0
Total	**7,035.9**	**7,058.5**

8.2. Credit risk exposure by rating class

At 31 March 2020 roughly 25.6% (YE19: 24.9%) of the exposure is categorised as rating classes 1A to 1E.

During the first quarter 2020 the NPE stock reduced by EUR 37.4 million, mainly in the Consumer and Mortgage portfolio in Addiko Bank Sarajevo and Addiko Bank Banja Luka as a result of write offs as well as due to collection effects in majority of the countries.

The following table shows the exposure by rating classes and market segment as of 31 March 2020:

EUR m

31.03.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	193.4	866.0	253.5	132.0	67.7	9.5	1,522.2
SME	157.8	871.4	572.8	48.2	67.4	1.7	1,719.2
Non-Focus	440.3	868.6	341.6	45.6	104.1	0.4	1,800.5
o/w Large Corporate	70.5	468.6	255.4	4.8	16.7	0.2	816.2
o/w Mortgage	328.0	316.9	38.7	30.4	85.1	0.3	799.4
o/w Public Finance	41.8	83.1	47.4	10.4	2.2	0.0	184.9
Corporate Center[1)]	1,008.1	838.5	144.9	0.0	0.0	2.4	1,993.9
Total	**1,799.6**	**3,444.5**	**1,312.7**	**225.8**	**239.2**	**14.1**	**7,035.9**

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

EUR m

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	193.9	858.5	251.1	130.5	84.3	13.2	1,531.5
SME	156.9	909.2	571.9	50.8	69.3	0.6	1,758.6
Non-Focus	461.7	874.7	330.7	45.6	122.9	3.6	1,839.1
o/w Large Corporate	83.6	453.7	247.8	2.6	22.8	0.1	810.6
o/w Mortgage	336.9	325.7	42.2	34.2	94.6	3.4	837.0
o/w Public Finance	41.2	95.3	40.7	8.8	5.5	0.0	191.5
Corporate Center[1)]	944.1	847.9	136.4	0.0	0.0	0.9	1,929.3
Total	**1,756.7**	**3,490.2**	**1,290.0**	**226.8**	**276.5**	**18.3**	**7,058.5**

[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

31.03.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,410.2	47.8	7.5	3.9	52.8	1,522.2
SME	1,607.4	50.0	14.2	1.6	46.1	1,719.2
Non-Focus	1,649.9	55.9	12.6	1.4	80.7	1,800.5
o/w Large Corporate	766.1	36.0	2.9	0.0	11.3	816.2
o/w Mortgage	704.1	19.9	6.1	1.4	67.9	799.4
o/w Public Finance	179.7	0.0	3.7	0.0	1.5	184.9
Corporate Center	1,993.9	0.0	0.0	0.0	0.0	1,993.9
Total	**6,661.3**	**153.7**	**34.4**	**7.0**	**179.5**	**7,035.9**

EUR m

31.12.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,424.6	28.6	5.3	4.1	68.9	1,531.5
SME	1,648.1	62.9	4.1	0.3	43.2	1,758.6
Non-Focus	1,679.4	64.7	3.2	1.7	90.1	1,839.1
o/w Large Corporate	764.2	34.6	0.1	0.0	11.7	810.6
o/w Mortgage	737.4	19.4	3.1	1.6	75.4	837.0
o/w Public Finance	177.9	10.7	0.0	0.1	2.9	191.5
Corporate Center	1,929.3	0.0	0.0	0.0	0.0	1,929.3
Total	**6,681.4**	**156.1**	**12.6**	**6.1**	**202.3**	**7,058.5**

Due to an executed re-segmentation of clients during first quarter of 2020, a shift of portfolio from core segments to the non-core segments is recognised, come along with an overall reduction of the non core portfolio since beginning of the year.

8.4. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions for exposure in stage 3 to non-performing exposure) remains on the same level (73.3%) compared to the YE19 (73.8%). The slight reduction is resulting out of the performed write offs in the Consumer and Mortgage portfolio in Addiko Bank Sarajevo and Addiko Bank Banja Luka.

The following table shows the NPE and coverage ratio (coverage ratio 1 considers stage 3 allowances, while coverage ratio 3 additionally considers collaterals at internally recognised value):

EUR m

31.03.2020	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 3
Consumer	1,522.2	67.7	60.2	10.2	4.5%	88.8%	103.8%
SME	1,719.2	67.4	46.1	42.6	3.9%	68.4%	131.7%
Non-Focus	1,800.5	104.1	69.2	72.2	5.8%	66.5%	135.9%
o/w Large Corporate	816.2	16.7	9.3	10.4	2.1%	55.3%	117.3%
o/w Mortgage	799.4	85.1	58.3	61.3	10.6%	68.5%	140.5%
o/w Public Finance	184.9	2.2	1.6	0.5	1.2%	72.6%	97.3%
Corporate Center	1,993.9	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,035.9**	**239.2**	**175.4**	**125.0**	**3.4%**	**73.3%**	**125.6%**
o/w Credit Risk Bearing	**5,211.4**	**239.2**	**175.4**	**125.0**	**4.6%**	**73.3%**	**125.6%**

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 2019:

EUR m

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 3
Consumer	1,531.5	84.3	77.5	12.0	5.5%	91.9%	106.1%
SME	1,758.6	69.3	45.8	44.0	3.9%	66.1%	129.6%
Non-Focus	1,839.1	122.9	80.7	85.7	6.7%	65.6%	135.4%
o/w Large Corporate	810.6	22.8	10.8	14.9	2.8%	47.5%	112.5%
o/w Mortgage	837.0	94.6	66.8	66.2	11.3%	70.7%	140.7%
o/w Public Finance	191.5	5.5	3.0	4.6	2.9%	54.2%	138.4%
Corporate Center	1,929.3	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**7,058.5**	**276.5**	**204.0**	**141.7**	**3.9%**	**73.8%**	**125.0%**
o/w Credit Risk Bearing	**5,250.7**	**276.5**	**204.0**	**141.7**	**5.3%**	**73.8%**	**125.0%**

9. Liquidity risk

9.1. Risk control

A bundle of different liquidity reserves ensures the Addiko Group's 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 and securities that can be quickly sold.

In the first quarter of 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 175.9 % in February 2020 and its peak of 181.0 % in March 2020.

In March 2020, the counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for central bank	288.9
Securities eligible for repo	318.4
Credit claims eligible for central bank or repo	0.0
Obligatory reserves (countable)	0.0
Cash reserves at central bank (locked)	190.0
Counterbalancing Measures	
Other liquefiable assets (short-, medium-term)	0.0
Committed/required credit lines	0.0
New issuance and securitisation	0.0
Total Counterbalancing Capacity	**797.3**

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

EUR m

Liquidity Buffer	Addiko Group countable
Securities eligible for central bank	382.5
Securities eligible for repo	410.1
Credit claims eligible for central bank or repo	0.0
Obligatory reserves (countable)	0.0
Cash reserves at central bank (locked)	158.4
Counterbalancing Measures	
Other liquefiable assets (short-, medium-term)	0.0
Committed/required credit lines	0.0
New issuance and securitisation	0.0
Total Counterbalancing Capacity	**951.0**

Liquidity Controlling for the Addiko Group is carried out at a local level on the one hand (in particular for HRK, RSD and BAM) as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by 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 the proper liquidity management. The liquidity reserves are subjected to a regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured that general regulatory requirements in the legal entities countries are adhered as well.

9.2. Overview - liquidity situation

In the first quarter of 2020, the liquidity situation of the Addiko Group was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

The Addiko Group recorded a stable level of deposits around EUR 5.1 billion. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2020.

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 (almost 70%) is EUR, followed by HRK and BAM. Both, products and currencies are tracked through different time buckets and time frames. In addition, the Group is monitoring the impact of customers with high volume business: the biggest ten counterparties which are compared with the volume of total financial liabilities.

Collateral exchanges as part of the relevant margining procedures underlying the derivatives business is taken into account in all the relevant liquidity risk calculations and as such form the relevant input used in both regulatory reporting as well as internal management.

10. Own funds and capital requirements

The regulatory minimum capital ratios including the regulatory buffers as of 31 March 2020 and 31 December 2019 amount to:

	31.03.2020			31.12.2019		
	CET1	T1	TCR	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**8.60%**	**10.10%**	**12.10%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.003%	0.003%	0.003%	0.003%	0.003%	0.003%
Combined Buffer Requirements (CBR)	**2.503%**	**2.503%**	**2.503%**	**2.503%**	**2.503%**	**2.503%**
Overall Capital Requirement (OCR)	**11.103%**	**12.603%**	**14.603%**	**11.103%**	**12.603%**	**14.603%**

In addition to Pillar 1 minimum capital ratios, institutions also have to fulfil other capital requirements that are being imposed by the supervisory institution or by the legislation:

- Pillar 2 requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the Supervisory Review and Evaluation Process (SREP) (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR). As a result of the 2018 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group additional 4.1% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar 1. At the beginning of January 2020, Addiko Bank AG received an updated SREP letter as result of the 2019 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. The new requirement, which will become applicable starting from the date the corresponding decision is issued by the FMA, is confirming the previous Pillar 2 requirement of 4.1%.
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in the payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR). According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. The increase of the requirement in comparison to the 2018 level is due to the phasing-in of the capital conservation buffer. As prescribed by CRD IV and the Banking Act (BWG), CCB was linearly increasing and has reached the fully loaded level of 2.5% in 2019.
- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital; however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital. At the beginning of January 2020, Addiko Bank AG received as part of the 2019 SREP decision a Pillar 2 guidance (P2G) in the amount of 4%. The starting date of application of the P2G has still to be communicated by the FMA.

As announced by the European Central Bank (ECB) in its press release on 12 March 2020, European banks are not obliged to fully comply with the capital conservation buffer of 2.5% during the current Covid-19 crisis. In the "Frequently Asked Questions - FAQs" published on 20 March 2020, however, the ECB states that the incomplete fulfillment of the combined buffer requirement leads to restrictions on distributions and banks are only allowed to make distributions within the limits of the maximum distributable amount (MDA).

Taking into account ECB's communication on the temporary capital relief measures with regard to the Pillar 2 requirement, the full usage of the capital conservation buffer as well as the Pillar 2 guidance (P2G), Addiko Group's CET1 requirement amounts to 8.603%, its T1 requirement amounts to 10.103% and its total own funds requirement amounts to 12.103%.

Regulatory reporting on a consolidated basis is performed on the level of Addiko Bank AG as the EU parent financial holding company of the group of credit institutions. The following table shows the breakdown of own funds requirements within the Group by applying transitional rules as per 31 March 2020 and 31 December 2019 pursuant to CRR applying IFRS figures.

EUR m

Ref[1]		31.03.2020	31.12.2019
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	610.4	615.3
3	Accumulated other comprehensive income (and other reserves)	-26.6	15.9
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	-4.9
6	**CET1 capital before regulatory adjustments**	**778.8**	**821.3**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.0	-1.1
8	Intangible assets (net of related tax liability)	-28.1	-27.9
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)	-9.3	-16.4
25a	Losses of the current financial year (negative amount)	-8.4	0.0
[#]	IFRS 9 transitional rules	29.3	34.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-17.6**	**-11.4**
29	**Common Equity Tier 1 (CET1) capital**	**761.2**	**809.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**761.2**	**809.8**
60	Total risk weighted assets	4,512.0	4,571.5
	Capital ratios and buffers %		
61	CET1 ratio	16.9%	17.7%
63	TC ratio	16.9%	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 decreased by EUR 48.7 million during the reporting period, reflecting the net impact of the following components:

- A decrease by EUR 42.5 million of the other comprehensive income mainly due to the negative development of market values of debt instruments in amount of EUR 32.3 million, of equity instruments in the amount of EUR 0.6 million and a decrease by EUR 9.6 million of the foreign currency reserves;
- A negative impact of EUR 4.8 million in connection with the application of the IFRS 9 transitional capital rules. This effect results out of the following two components: based on the relevant regulation, starting with the 1 January 2020, the portion of the initial ECL which could be added back decreases from 85% to 70%, leading to an EUR 6.0 million negative impact on capital. This negative impact was partially compensated by the dynamic component of the IFRS 9 transitional rules, which allow to add back to capital the development of stage 1 and stage 2 ECL in first quarter of 2020, resulting in an increase of EUR 1.2 million;
- A decrease in regulatory deduction items in the amount of EUR 7.0 million composed of an increase in investments in intangible assets (EUR 0.2 million), a decrease in deferred tax assets on existing taxable losses (EUR 7.1 million) and a decrease in the prudential valuation adjustments connected with assets/liabilities measured at fair value (EUR 0.1 million);
- In accordance with CRR requirements Art. 36 (1) a) the interim loss in the amount of EUR 8.4 million was included in the calculation.

In the calculation of regulatory capital, the Group continues to deduct the 2019 dividend proposal of EUR 40.0 million and will wait for further guidance from regulators regarding capital distributions later in the year.

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

RWAs decreased by EUR 59.6 million at the level of Addiko Group during the reporting period. The development primarily relates to the inclusion of Serbia in the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures in accordance with CRR (EU 2019/2166) and a lower amount of open foreign currency positions.

EUR m

Ref[1]		31.03.2020	31.12.2019
1	Credit risk pursuant to Standardised Approach	3,922.5	3,958.0
6	Counterparty credit risk	4.4	3.8
19	Market risk	179.6	204.2
23	Operational risk	405.5	405.5
Total risk exposure amount		**4,512.0**	**4,571.5**

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 11.7% on 31 March 2020, after 12.5% at 31 December 2019. The development was mainly driven by the decline in Tier 1 capital.

EUR m

Ref[1]		31.03.2020	31.12.2019
20	Tier 1 capital	761.2	809.8
21	Total leverage ratio exposure	6,533.6	6,475.8
22	**Leverage ratio %**	**11.7%**	**12.5%**

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

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

EUR m

Ref[1)]	31.03.2020	31.12.2019
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	761.2	809.8
2 CET1 capital as if IFRS 9 had not been applied	731.9	775.8
5 Total capital (TC)	761.2	809.8
6 TC as if IFRS 9 transitional rules had not been applied	731.9	775.8
Risk-weighted assets		
7 Total RWAs	4,512.0	4,571.5
Total RWAs as if IFRS 9 transitional rules had not been applied	4,481.7	4,534.5
Capital ratios %		
9 CET1	16.9%	17.7%
10 CET1 as if IFRS 9 transitional rules had not been applied	16.3%	17.1%
13 TC	16.9%	17.7%
14 TC as if IFRS 9 transitional rules had not been applied	16.3%	17.1%
Leverage ratio (LR)		
15 LR total exposure measure	6,533.6	6,475.8
16 LR	11.7%	12.5%
17 LR as if IFRS 9 transitional rules had not been applied	11.3%	12.0%

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

Addiko has opted at the level of the Addiko Group to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9.

MREL

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, Austrian banks are required by the BaSAG (and potentially also the SRM Regulation) to meet MREL at all times. MREL targets are determined on a case-by-case basis for each institution or banking group by the competent resolution authority, which is the SRB in the case of Addiko Group. Under the currently applicable legal regime, MREL targets are expressed as a percentage of Total Liabilities and Own Funds ("TLOF") of the relevant institution. ADDIKO Bank AG received on 17 December 2019 from the FMA the formal decision of SRB relating to MREL requirement (minimum requirement for own funds and eligible liabilities), which amounts to 20.58% of Total Liabilities and Own Funds (TLOF) on consolidated level. The MREL requirement shall be reached by 31 December 2023 and from that date shall be met at all times. The decision for the MREL requirement is based on the Single Point of Entry (SPE) approach, while ADDIKO Bank AG is on preparation to meet all requirements for a Multiple Point of Entry (MPE).

11. 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
AGM	Annual general meeting
BaSAG	Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Recovery and Resolution Act"
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)
ECB	European central bank
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
FMA	Finanzmarktaufsicht
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
Interest like income	Includes penalty interest income and accrued fees on loan processing
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
MREL	Minimum requirement for own funds and eligible liabilities
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 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 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
SRB	Single resolution board
SRM	Single resolution mechanism
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

12. Contact

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13. Disclaimer

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