Addiko Bank

Consolidated Interim Report
Half Year 2020

Addiko Bank

Key data based on the consolidated financial statements drawn up in accordance with IFRS

EUR m

Selected items of the Profit or Loss statement	1H20	1H19	(%)
Net banking income	117.5	123.0	-4.4%
Net interest income	88.6	91.0	-2.6%
Net fee and commission income	28.9	32.0	-9.6%
Net result on financial instruments	2.0	9.3	-78.8%
Other operating result	-8.6	-12.5	-31.3%
Operating expenses	-83.3	-95.6	-12.9%
Operating result before change in credit loss expense	**27.6**	**24.1**	**14.5%**
Credit loss expenses on financial assets	-29.2	1.9	>100%
Tax on income	-10.6	-5.8	>100%
Result after tax	**-12.2**	**20.2**	**>100%**

Performance ratios	1H20	1H19	(pts)
annualised			
Net interest income/total average assets	3.0%	3.0%	0.0
Return on average tangible equity	-3.0%	4.9%	-7.9
not annualised			
Cost/income ratio	70.9%	77.8%	-6.9
Cost of risk ratio	-0.6%	0.0%	-0.6

Selected items of the Statement of financial position	Jun20	Dec19	(%)
Loans and advances to customers	3,740.1	3,871.9	-3.4%
o/w gross performing loans	3,757.7	3,869.5	-2.9%
Deposits of customers	4,739.4	4,831.2	-1.9%
Equity	826.3	861.3	-4.1%
Total assets	5,939.0	6,083.6	-2.4%
Risk-weighted assets[1)]	4,165.4	4,571.5	-8.9%

Balance sheet ratios	Jun20	Dec19	(pts)
Loan to deposit ratio	78.9%	80.1%	-1.2
NPE ratio	3.6%	3.9%	-0.3
NPE coverage ratio	73.2%	73.8%	-0.6
Liquidity coverage ratio	198.6%	175.4%	23.2
Common equity tier 1 ratio[1)]	19.0%	17.7%	1.3
Total capital ratio[1)]	19.0%	17.7%	1.3

[1)]The Group has adopted the EU's regulatory transitional arrangements for IFRS 9 Financial Instruments. These apply to RWAs, regulatory capital and related ratios throughout this report, unless otherwise stated

Letter from the CEO

Dear shareholders, customers and employees,

during the first half of 2020, Addiko Group continued to execute its strategy of becoming a specialist banking group in CSEE, focusing on unsecured Consumer and SME lending and payments. Significant efforts went into an accelerated execution of our established strategy, especially improving our digital capabilities and managing our cost base despite the very challenging macroeconomic environment.

Following the introduction of some highly innovative digital services such as the Addiko Chat Banking in 2018, the Virtual Branch launched in Croatia and the much acclaimed mLoan in Serbia during 2019, we have launched a fully end-to-end mAccount service in May 2020 which allows customers to open a current account and obtain a loan through the Addiko Mobile banking application without ever visiting a branch or using any other channel. This feature is currently available on the Serbian market, and we are putting significant efforts into rolling this service out across all our CSEE subsidiaries. With such digital capabilities, we will live up to our promise of delivering modern digital solutions and services to our customers in our region.

In the current unprecedented global crisis, Addiko Group maintains its direction to support clients in their financial challenges, giving them smooth access to moratoriums, support targeted programs and help customers to continue making informed financial decisions in a straightforward manner.

The growth in our focus segments have been meeting our expectations up until mid-March but have been tampered in terms of new business opportunities in the subsequent months of 2020. This was caused by the outbreak of the Covid-19 pandemic and the unprecedented lockdowns triggering the economic downturn in our countries, as well as by our tightening of underwriting criteria. The latter was proactively and swiftly introduced as we continue to be committed to maintaining a sustainable business model. With our prudent risk approach, we have always preferred and will continue to prefer portfolio quality over new business and volume growth.

For the first six months of 2020, Addiko Group booked a net loss of EUR -12.2 million, which was mainly driven by the provisions associated with the deteriorated macroeconomic expectations due to Covid-19. Compared to our result after tax of EUR -8.4 million in 1Q20, our second quarter result was improving to EUR -3.8 million.

Our operating result, which is a more reliable indicator of performance in the current circumstances, reached EUR 27.6 million which represents an improvement of 14.5% YoY. This achievement was also supported by our stringent management of operating expenses amounting to EUR 83.3 million for the first six months, which largely compensated the negative business impact related to Covid-19 lockdowns and the subsequent economic and social inactivity.

Our NPE volumes, ratio (3.6%) and coverage (73.2%) have all remained stable, clearly being affected by the introduced moratoria preventing defaults for potentially impacted exposures. However, it is important to highlight that Addiko Group currently has only 15% of its total exposure in moratoria, and over 90% of our credit risk bearing exposures remain to be current (without any overdues).

Our non-focus segments have been decreasing according to our expectations, and we have considered opportunities for a potential faster exit, but have decided to put such projects on hold, as the current market conditions are very unlikely to result in truly value creating disposals (excess capital, less RWAs vs. loss of reliable non-focus income).

We have upheld our self-funding principle, and our funding and liquidity situation remained solid at EUR 4.7 billion customer deposits with our LCR being ca. 200%. Our capital ratio strengthened to a transitional CET1 ratio of 19.0% (IFRS 9 Fully loaded CET1 ratio of 18.2%), with the proposed 2019 dividend already being deducted. We remain committed to create value for our shareholders and we are looking forward to the lifting of the Europe-wide introduced ban on dividend distribution.

The first half 2020 has also been a period with changes in our leadership structures as well as in our shareholder base. While such transitions are usually part of the normal course of business, I personally wish for “calmer waters ahead”, so the unavoidable distraction caused by governance related topics can be minimised. This will enable Addiko’s leadership team to fully focus on what really matters: executing our strategy, creating value for all of our stakeholders and consequently improving our much-battered share price.

Finally, on behalf of the Management Board of the Addiko Group, I would like to thank all the stakeholders once again for their commitment, especially all employees of Addiko Group for the accountability, ownership and responsibility which they have once again shown during the last months. Their contribution was essential to ensure the continuity of the bank's operations in these challenging times. I am proud and thankful to all my colleagues who have adjusted to the new circumstances in a swift, professional and efficient manner, ensuring the smooth continuation of our services. It was and will remain to be a key priority for us to ensure the safety and well-being of our staff and customers.

I remain convinced that our efforts will not be in vain and we will weather the storm and come out of it stronger and better. We have very solid financial foundations. What lies ahead is the diligent execution of our strategy with accelerated focus on digital capabilities.

Stay healthy, remain positive, sincerely yours,

Csongor Németh
Chairman of the Management Board

Addiko Bank

Half Year Financial Report 2020

Condensed Group Management Report

1. Overview of 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 listed and 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 June 2020 approximately 0.8 million customers in CSEE, using a well-dispersed network of 176 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 continuous 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.

Following the initial public offering (IPO) in July 2019, AI Lake (Luxembourg) S.à r.l. was Addiko's single largest shareholder. In February 2020, DDM Invest III AG acquired a 9.9% stake from AI Lake, plus an option for a further stake of 10.1% which is subject to regulatory approval. As of 30 June 2020, further significant shareholders of Addiko Bank AG include the European Bank for Reconstruction and Development (EBRD, 8.4% of shares), Wellington Management Group LLP (7.18% of shares) and MW Funds PTE.LTD (5.0% of shares). Around 58.4% of the bank's shares are in free float.

Addiko Group's Investor relations website https://www.addiko.com/investor-relations/ contains further information, including financial and other information for investors.

1.1. Earnings performance in brief

Addiko Group reported in the first half of 2020 a solid operating result before change in credit loss expense at EUR 27.6 million, better by 14.5% compared with the first half of 2019. The operating result reflects a stable business development despite the Covid-19 crisis and a successful cost containment. The result after tax of EUR -12.2 million (1H19: EUR 20.2 million) was impacted by a significant increase in risk provisions due to Covid-19 deteriorated macroeconomic expectations.

The loan book in the focus segments remained stable, whereby Consumer and SME amount to 63.4% of the gross performing loan book (YE19: 62.0%). The NPE ratio of 3.6% (YE19: 3.9%) and the NPE provision coverage at 73.2% (YE19: 73.8%) reflect the effectiveness of the established underwriting policies, the close risk monitoring, as well as the strong receivables collection management.

Based on the measures taken by the governments where Addiko operates, the Group is granting an option of moratoriums on payment of obligations to all eligible borrowers due to Covid-19. By the end of June 2020 the Group granted 78,112 of such moratoriums in the total amount of EUR 1,110.3 million, of which EUR 736.1 million were granted in the focus segement and EUR 275.2 million in the non focus segment.

Addiko Group entered into this health crisis from a position of strength with a solid capital base, a stable funding and liquidity situation. The bank's capital position remains strong with a fully-loaded CET1 ratio of 18.2% even after having deducted EUR 40 million of earmarked dividends. The distribution is subject to regulatory environment, however the Group is fully committed to follow its initially communicated dividend proposal with timing being dependent on the lifting of the recently introduced Europe-wide regulatory measures.

1.2. How Addiko Group helps

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

Customers have remained the priority for Addiko Group throughout this crisis. A comprehensive range of measures have been implemented to support retail and business customers. Addiko accommodated the statutory requested payment moratoria which allow for deferrals of payments for 3 to 12 months, including interest and principal. At the end of June 2020, around 23% of Addiko's SME/Large Corporates/Public Sector clientele had participated and around 17% of its retail customers. Furthermore, Addiko Bank Croatia decided to take care of the profession that is currently on the front line of the fight against the coronavirus. Clients employed in the healthcare sector were exempted from paying monthly fees for maintaining their current accounts in April, May and June 2020. Also, Addiko Bank in Sarajevo and Banja Luka launched a new marketing campaign to remind clients of the flexibility of using Addiko Mobile where services are available from the comfort of their home. The Group strives to maintain a customer-first approach, even in times of epidemiological uncertainty. All Addiko Bank services are tailored to the needs of clients, with an additional focus on safety. 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.

1.3. Operational Stability

The Group has enabled safe working conditions for its personnel in their workplace. Extensive remote working was implemented, increasing the number of employees working from home from 200 to 2000 across Addiko Group within 3 weeks. 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 to ensure personal safety. The following measures were taken in the branches: Working hours were decreased in accordance to local regulations. All branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients. Through these measures, Addiko Group has ensured the availablility of services critical to the society during the Covid-19 crisis.

1.4. Rating agency Moody’s ba2 Baseline Credit Assessment to Addiko Bank AG remained unchanged

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.

On 26 June 2020 Moody’s Addiko Bank AG’s ratings remained unchanged. The outlook on Addiko's long-term deposit rating is stable.

1.5. Corporate Governance

During 1H20, the following changes in the Supervisory Board and Management Board of the Group took place:

Mr. Hermann-Josef Lamberti as the Chairman of the Supervisory Board resigned on 15 May 2020 from his function with immediate effect. On 20 May 2020 the Supervisory Board appointed Mr. Hans Lotter as the Chairman of the Supervisory Board of Addiko Bank AG. The extraordinary General Meeting of Addiko Bank AG held on 10 July 2020, has elected Mrs. Monika Wildner and Mr. Kurt Pribil as members of the Supervisory Board of Addiko Bank AG.

Mr. Johannes Proksch resigned as Chief Financial Officer (CFO) of Addiko Bank AG as of 29 May 2020. The Supervisory Board appointed Mr. Markus Krause, Chief Risk Officer (CRO), as new Chief Financial Officer in addition to his current tasks. Furthermore, Mr. Razvan Munteanu resigned as Chief Executive Officer (CEO) of Addiko Bank AG with effect from 1 July 2020. The Supervisory Board appointed Mr. Csongor Bulcsu Nemeth, Chief Corporate & SME Banking Officer (CCBO), as new Chief Executive Officer in addition to his current tasks. Mr. Ganesh Krishnamoorthi joined Addiko Bank AG on 1 August 2020 as Chief Retail, IT and Digitalization Officer.

2. Financial development of the Group

2.1. Detailed analysis of the profit or loss statement

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019	(%)
Net banking income	117.5	123.0	-4.4%
Net interest income	88.6	91.0	-2.6%
Net fee and commission income	28.9	32.0	-9.6%
Net result on financial instruments	2.0	9.3	-78.8%
Other operating result	-8.6	-12.5	-31.3%
Operating income	**110.9**	**119.7**	**-7.4%**
Operating expenses	**-83.3**	**-95.6**	**-12.9%**
Operating result before change in credit loss expense	**27.6**	**24.1**	**14.5%**
Credit loss expenses on financial assets	-29.2	1.9	>100%
Operating result before tax	**-1.6**	**26.0**	**>100%**
Tax on income	-10.6	-5.8	>100%
Result after tax	**-12.2**	**20.2**	**>100%**

Net interest income decreased from EUR 91.0 million at 1H19, by EUR -2.3 million, or -2.6%, to EUR 88.6 million at 1H20. The decrease in interest income, lower by EUR -5.2 million from EUR 105.5 million at 1H19 to EUR 100.3 million at 1H20, is due to the restrictive consumer lending regulations introduced during 2019, the Covid-19 impact on new loans disbursments in the focus segments and the planned run down of non-focus portfolio. Furthermore, the decline in interest income reflects lower yields in the bond portfolio, in connection with the current interest rate environment. The negative impact in interest income was partially compensated by the decrease in interest expenses from EUR -14.5 million at 1H19, by EUR -2.8 million, to EUR -11.7 million at 1H20, predominantly resulting from lower interest expenses for customer deposit of EUR -2.4 million, mainly caused by a shift from higher yield term deposits to lower yield current deposits. The **net interest margin** remains stable at 297bp at 1H20, compared to 297bp at 1H19.

Net fee and commission income slightly decreased to an amount of EUR 28.9 million (1H19: EUR 32.0 million). Thereof, fee and commission income decreased from EUR 39.3 million at 1H19 to EUR 36.2 million at 1H20, whereas fee and commission expenses stayed stable at EUR -7.3 million at 1H20 compared to EUR -7.4 million at 1H19. The decrease in fee and commission income was connected with the Covid-19 outbreak and is mainly visible on card operations as well as transactions, where fewer withdrawals and payments has been made by customers. This effect is partly compensated by the increase in accounts & packages.

Net result on financial instruments amounts to EUR 2.0 million at 1H20, compared to EUR 9.3 million at 1H19. In 2019 the position includes the result from the sale of bonds and financial instruments which the Group obtained within the extraordinary administration procedures of a large Croatian retailer.

Other operating result as the sum of other operating income and other operating expense improved from EUR -12.5 million at 1H19, by EUR 3.9 million, to EUR -8.6 million at 1H20. This position includes the following significant items:

- Front-loaded recognition of the expenses for the recovery and resolution fund which remained stable compared with the previous half-year (1H20: EUR -1.4 million, 1H19: EUR -1.3 million);
- Deposit guarantee expenses for the first half 2020 decreasing from EUR -4.5 million to EUR -3.9 million;
- Restructuring costs increasing from EUR -2.3 million to EUR -2.7 million connected with the recent changes in the management board structure of Addiko Bank AG and with further cost optimisation initiatives;
- Result from legal disputes improving from EUR -0.6 million to EUR +0.2 million, reflecting the collection of EUR 1.9 million in the first half of 2020 from the final court decision in favor of one entity of the Addiko Group in relation to a past damage claim.

Operating expenses decreased from EUR -95.6 million at 1H19 by EUR 12.3 million or -12.9% to EUR -83.3 million at the current reporting date:

- Personnel expenses declined compared to the previous period from EUR -49.7 million at 1H19 to EUR -41.9 million at 1H20. The decrease reflects the efficiency and right sizing programs conducted during 2019, which were leading to a decrease of employees expressed in full-time equivalent ('FTE') by 244.6 compared to 30 June 2019. Furthermore, in the light of the current environment and the hardships faced by many, the Management Board waived any potential bonuses for 2020 (1H19: EUR -4.6 million).

- Other administrative expenses decreased from EUR -36.5 million at 1H19 by EUR -5.0 million or 13.6% to EUR -31.5 million at 1H20. This development was mainly driven by lower advertising costs with marketing campaigns partially cancelled as a result of Covid-19 (1H20: EUR -2.2 million, 1H19: EUR -4.1 million) as well as lower legal and advisory costs (1H20: EUR -2.4 million, 1H19: EUR -4.8 million). Legal and advisory costs included in 1H19 EUR -1.5 million expenses in connection with the IPO preparation process.
- Depreciation and amortisation slightly increased from EUR -9.4 million at 1H19, by EUR -0.5 million, to EUR -9.9 million at 1H20.

Credit loss expenses on financial assets amount to EUR -29.2 million (1H19: EUR 1.9 million). The result 1H20 was significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

Tax on income amounts to EUR -10.6 million at 1H20 compared to EUR -5.8 million at 1H19 and also include the expected impact of the Covid-19 pandemic on the future profitability of the group, reflecting a reversal of recognition of deferred taxes on tax losses carried forward resulting in an expense of EUR -8.7 million. 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.

2.2. Detailed analysis of the statement of financial position

EUR m

	30.06.2020	31.12.2019	Change (%)
Cash reserves	968.1	899.4	7.6%
Financial assets held for trading	38.5	38.5	0.2%
Loans and receivables	3,789.6	3,885.9	-2.5%
Loans and advances to credit institutions	49.6	14.0	>100%
Loans and advances to customers	3,740.1	3,871.9	-3.4%
Investment securities	991.9	1,096.6	-9.5%
Tangible assets	81.6	85.9	-5.0%
Intangible assets	27.6	27.9	-1.2%
Tax assets	18.1	25.7	-29.7%
Current tax assets	2.2	1.8	20.8%
Deferred tax assets	15.9	23.9	-33.5%
Other assets	20.5	20.6	-0.4%
Non-current assets and disposal groups classified as held for sale	3.1	3.1	-2.4%
Total assets	**5,939.0**	**6,083.6**	**-2.4%**

The statement of financial position of Addiko Group shows the simple and solid interest-bearing asset structure: more than 63.0% 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 reflected by the increased share of these two segments of 63.4% of the gross performing loan book (1H19: 60.0%).

As of 1H20 the **total assets** of Addiko Group in the amount of EUR 5,939.0 million decreased by EUR -144.6 million or -2.4% compared with the YE19 level (EUR 6,083.6 million). The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) decreased to EUR 4,165.4 million (YE19: EUR 4,571.5 million) reflecting the decreases of volumes and the relief measures introduced in CRR as response to Covid-19.

Cash reserve increased by EUR 68.7 million to EUR 968.1 million as of 30 June 2020 (YE19: EUR 899.4 million). This reflects the strong liquidity position of the Group.

Overall **loans and receivables** decreased to EUR 3,789.6 million from EUR 3,885.9 million at year end 2019:

- Loans and receivables to credit institutions (net) increased by EUR 35.5 million to EUR 49.6 million (YE19: EUR 14.0 million).
- Loans and receivables to customers (net) decreased by EUR -131.8 million to EUR 3,740.1 million (YE19: EUR 3,871.9 million). The change was mainly in the non-focus segments with Mortgage Business and Large Corporate and Public Finance decreasing from EUR 1,497.2 million at year-end 2019 to EUR 1,385.0 million, which could not be compensated by the new disbursments in the focus segments, Consumer and SME lending, remaining stable at EUR 2,347.5 million (YE19: EUR 2,369.4 million).

The **investment securities** decreased from EUR 1,096.6 million at YE19 to EUR 991.9 million at 1H20. 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 18.1 million (YE19: EUR 25.7 million), as a consequence of the re-assessment of deferred tax assets on tax loss carried forward (1H20: EUR 6.2 million), this development is partially offset by the Covid-19 related market turmoil, which was leading to an additional recognition of deferred taxes on debt instruments accounted at FVTOCI.

Other assets remained stable at EUR 20.5 million (YE19: EUR 20.6 million). The main amounts in this position are related to prepaid expenses and accruals (1H20: EUR 12.3 million; YE19: EUR 11.4 million), furthermore, receivables for paid in deposits and receivables from card business are included.

EUR m

	30.06.2020	31.12.2019	Change (%)
Financial liabilities held for trading	9.5	6.0	58.8%
Financial liabilities measured at amortised cost	5,019.6	5,121.6	-2.0%
Deposits of credit institutions	227.2	233.9	-2.9%
Deposits of customers	4,739.4	4,831.2	-1.9%
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0%
Other financial liabilities	53.0	56.4	-6.1%
Provisions	59.9	66.9	-10.4%
Tax liabilities	0.0	0.0	-
Current tax liabilities	0.0	0.0	-
Deferred tax liabilities	0.0	0.0	0.0%
Other liabilities	23.7	27.9	-15.0%
Equity	826.3	861.3	-4.1%
Total equity and liabilities	**5,939.0**	**6,083.6**	**-2.4%**

On the liabilities' side, **financial liabilities measured at amortised cost** slightly decreased at EUR 5,019.6 million compared to EUR 5,121.6 million at year end 2019:

- Deposits of credit institutions remained stable comparing EUR 233.9 million at YE19 to EUR 227.2 million as of 1H20.
- Deposits of customers decreased to EUR 4,739.4 million (YE19: EUR 4,831.2 million).
- Other financial liabilities decreased from EUR 56.4 million at YE19 to EUR 53.0 million at 1H20.

Provisions decreased from EUR 66.9 million at YE19 to EUR 59.9 million at 1H20. 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 half of 2020.

Other liabilities decreased slightly from EUR 27.9 million at YE19 to EUR 23.7 million in 1H20 and mainly include accruals for services received but not yet invoiced (1H20: EUR 22.8 million, YE19: EUR 27.0 million) as well as liabilities for salaries and salary compensations not yet paid.

The development of **equity** from EUR 861.3 million to EUR 826.3 million is reflecting the total comprehensive income, which includes the profit and loss for the reporting period in the amount of EUR -12.2 million as well as changes in other comprehensive income in the amount of EUR -22.8 million. These changes were mainly due to market related movements from debt and equity instruments measured at FVTOCI (EUR -15.9 million) and from the changes of the FX reserves (EUR -6.9 million).

The **capital base** of Addiko Group is solely made up of CET1 and stands at 19.0% (YE19: 17.7%) on a IFRS 9 transitional basis and at 18.2% 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 May 2020. The increase in the total capital adequacy derives mainly from the RWA reduction, driven by the lower volumes generated in the first half of 2020 as well to the RWAs measures introduced by the EU as response to Covid-19. In the regulatory capital calculation, the Group continues to deduct the 2019 dividend proposal of EUR 40.0 million which has not yet been paid out following the recommendation of the ECB. As part of the received SREP decision, a P2G in the amount of 4.0% additional CET has been recommended. The FMA has requested Addiko Bank AG to present a capital plan by February 2021, which explains how and in what timeframe the P2G recommendation will be complied with.

The **liquidity position** of the Group remains strong, with LTD ratio (net) of 78.9% (YE19: 80.1%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Group.

3. Segment reporting

As of 1 January 2020, Addiko reports the segments "Mortgage" and "Consumer" as two separate segments. At 31 December 2019 these two segments were shown as parts of the Retail segment without separation of the position "operating expenses". This new presentation is aimed to enhance the visibility of the development of the strategic focus areas. Comparative figures have been adapted accordingly.

EUR m

30.06.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	71.4	20.1	9.7	7.5	3.4	5.4	117.5
Net interest income	53.3	12.2	9.7	4.9	2.9	5.6	88.6
o/w regular interest income	48.9	14.6	13.0	6.7	1.9	8.9	93.9
Net fee and commission income	18.1	7.9	0.0	2.6	0.5	-0.2	28.9
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Other operating result	0.0	0.0	0.0	0.0	0.0	-8.6	-8.6
Operating income	**71.4**	**20.1**	**9.7**	**7.5**	**3.4**	**-1.2**	**110.9**
Operating expenses	**-39.3**	**-11.7**	**-0.6**	**-1.9**	**-1.0**	**-28.7**	**-83.3**
Operating result before change in credit loss expense	**32.1**	**8.4**	**9.1**	**5.5**	**2.3**	**-29.9**	**27.6**
Credit loss expenses on financial assets	-16.9	-7.2	-5.8	-0.7	0.2	1.2	-29.2
Operating result before tax	**15.3**	**1.2**	**3.2**	**4.8**	**2.5**	**-28.7**	**-1.6**
Business volume							
Net loans and receivables	1,278.9	1,068.6	701.0	542.4	141.7	57.1	3,789.6
o/w gross performing loans customers	1,321.7	1,060.6	691.0	542.3	142.2		3,757.7
Gross disbursements	152.7	220.4	0.9	99.3	1.0		474.3
Financial liabilities at AC [1]	2,664.1	738.6		375.1	483.7	758.1	5,019.6
RWA [2]	962.2	891.6	417.9	572.3	81.9	627.2	3,553.1
Key ratios							
Net interest margin (NIM) [3]	5.9%	2.2%	1.5%	1.4%	1.2%		3.0%
Cost/Income Ratio	55.0%	58.1%	6.6%	26.0%	31.0%		70.9%
Cost of risk ratio	-1.1%	-0.4%	-0.8%	-0.1%	0.1%		-0.6%
Loan to deposit ratio	48.0%	144.7%	-	144.6%	29.3%		78.9%
NPE ratio (CRB based)	4.8%	3.9%	11.2%	2.1%	1.2%		4.8%
NPE coverage ratio	87.7%	69.3%	67.8%	54.7%	72.3%		73.2%
NPE collateral coverage	14.5%	59.8%	72.6%	61.3%	25.2%		50.9%
Change CL/GPL (simply Ø)	-1.3%	-0.7%	-0.8%	-0.1%	0.1%		-0.8%
Yield GPL (simply Ø)	7.4%	2.8%	3.6%	2.4%	2.6%		4.5%

[1] Financial liabilities at AC at 1H20 include the Direct deposits (Austria/Germany) amounting to EUR 422 million, EUR 227 million Deposits of credit institutions, EUR 109 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 June 2019.

EUR m

30.06.2019	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	71.6	19.9	12.2	8.3	4.0	7.0	123.0
Net interest income	51.5	11.5	12.2	5.4	3.3	7.2	91.0
o/w regular interest income	45.6	14.3	16.1	7.3	2.6	11.0	96.9
Net fee and commission income	20.1	8.5	0.0	2.9	0.7	-0.2	32.0
Net result on financial instruments	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	-12.5	-12.5
Operating income	**71.6**	**19.9**	**12.2**	**8.3**	**4.0**	**3.8**	**119.7**
Operating expenses	**-43.4**	**-11.6**	**-1.0**	**-2.2**	**-1.1**	**-36.4**	**-95.6**
Operating result before change in credit loss expense	**28.2**	**8.4**	**11.2**	**6.1**	**2.9**	**-32.6**	**24.1**
Credit loss expenses on financial assets	-9.3	3.4	0.8	5.2	0.5	1.3	1.9
Operating result before tax	**18.9**	**11.8**	**12.0**	**11.3**	**3.3**	**-31.3**	**26.0**
Business volume							
Net loans and receivables	1,240.7	1,059.3	818.2	602.1	173.0	12.9	3,906.1
o/w gross performing loans customers	1,267.1	1,056.5	801.2	578.7	171.6		3,875.1
Gross disbursements	322.3	308.5	6.1	157.2	1.8		795.7
Financial liabilities at AC [1]	2,749.5	638.0		426.2	567.4	865.4	5,246.5
RWA [2]	936.3	972.6	512.8	639.1	96.2	858.3	4,015.3
Key ratios							
Net interest margin (NIM) [3]	6.1%	2.3%	1.7%	1.5%	1.2%		3.0%
Cost/Income Ratio	60.6%	58.0%	8.0%	26.7%	28.5%		77.8%
Cost of risk ratio	-0.6%	0.2%	0.1%	0.6%	0.2%		0.0%
Loan to deposit ratio	45.1%	166.0%	-	141.3%	30.5%		80.1%
NPE ratio (CRB based)	6.2%	3.8%	13.7%	4.2%	4.4%		6.1%
NPE coverage ratio	91.3%	63.8%	73.6%	44.4%	74.1%		73.2%
NPE collateral coverage	17.5%	64.9%	59.3%	61.9%	50.9%		48.9%
Change CL/GPL (simply Ø)	-0.8%	-0.3%	0.1%	-0.9%	-0.3%		0.0%
Yield GPL (simply Ø)	7.5%	2.9%	3.9%	2.5%	2.9%		4.5%

[1] Financial liabilities at AC at 1H19 include the Direct deposits (Austria/Germany) amounting to EUR 428 million, EUR 313 million Deposits of credit institutions, EUR 124 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 and into non-focus segments, which are Large Corporates, Public Finance and Retail Mortgages.

Consumer 1H20 Business review

Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers, unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. The Bank delivers on its brand promise of a small, focused product set designed to deliver the essential banking needs to its target customers. Account packages are also one of the cornerstones of this strategy. Addiko Bank puts significant efforts in building digital capabilities and is recognised in its markets as a digital challenger. Addiko Bank Croatia offers E2E account opening and lending capabilities to the new to bank customers as part of the Virtual Branch available since the beginning of 2019. Recently Addiko Bank Serbia added E2E account opening to the existing digital lending capabilities provided for the existing customers. In the context of the Covid-19 crises, various processes were moved to alternative channels, in order to respond to the social distancing requirements and changing customer preferences.

The operating result in 1H20 amounted to EUR 32.1 million, which is 13.8% higher than in 1H19, driven by significant decrease in operating expenses by EUR 4.0 million, or 9.3% supported by the execution of back-office optimization and branch closure program by the end of 2019 as well as less expenditures of Marketing costs in 2020. In comparison to 1H19 the net interest income increased by EUR 1.9 million to EUR 53.3 million (1H19: EUR 51.5 million) at a NIM of 5.9%. The net fee and commission income decreased by EUR 2.0 million to EUR 18.1 million in 1H20 compared to EUR 20.1 million in 1H19, due to lower commission income (EUR -1.8 million) driven by Bancassurance, Cards and FX&DCC categories and impacted by Covid-19 crisis. Cost reductions and stable income stream led to a remarkably decreased Cost/Income ratio of 55.0% (1H19: 60.6%).

The second half of the first quarter was heavily impacted by the lockdown imposed in all countries where Addiko entities are present. As a result, the demand for loans and the number of transactions significantly dropped. The period after the lockdown was marked by a gradual recovery towards the end of the second quarter, with results still significantly below pre/crisis period. The most impacted market was Serbia, where the implementation of the opt-out moratorium for all unsecured lending products, practically stopped the new production for loans. To avoid higher risk costs in the future, stricter underwriting rules are applied following an industry approach. The same selective approach is also used in targeting the new customers for ensuring a better customer experience even in the context of the crisis.

All Addiko entities continued to promote personalized lending offers to the existing customer base, in addition to the improved digital experience. 1H20 was marked by a positive trend in digital adoption. Moreover, the digital engagement of the mobile customers significantly improved in the context of the Covid-19 crisis, proving the good reputation and capabilities of the mobile app throughout all Addiko entities.

The gross disbursements were lower in 1H20 in comparison with the comparative period mainly influenced by first Covid-19 crisis impact. The 1H20 consumer gross performing loans increased by 4.3% compared to 1H19 (-1.5% compared to YE19). The NPE ratio is lower by 1.4 pts showing the focus on the quality of the portfolio. The operating result before tax amounts to EUR 15.3 million (1H19: EUR 18.9 million), which is 19.1% lower than in 1H19 due to significantly higher allocations to risk provision in Consumer segment compared to the same period last year.

SME 1H20 Business review

In the first half of 2020 the SME loan book was characterised by a gross performing loan growth of 0.4% compared to 1H19 period (0.1% compared to YE19). Net interest income increased in 1H20 from EUR 11.5 million in 1H19, by EUR 0.8 million, or 6.6%, to EUR 12.2 million. This was primarily due to an increase in regular interest income from EUR 14.3 million in 1H19, by EUR 0.3 million, to EUR 14.6 million in 1H20 and interest like income increase from EUR 1.0 million in 1H19, by EUR 0.2 million, to EUR 1.1 million in 1H20. NIM was stable at 2.2%. Net fee and commission income decreased by 6.8% compared to 1H19, mainly arising from a drop in transactions as a result of decreased economic activity due to the Covid-19 crisis in 2020. Operating expenses remained stable and, in combination with retained income profitability, lead to a slightly lower Cost/Income Ratio by 7 pts. The SME segment has generated EUR 1.2 million operating result before tax. Credit losses increased in 1H20 by EUR -10.6 million, to EUR -7.2 million in comparison with the comparative period (1H19: EUR 3.4 million). Risk provisions in 1H20 have been strongly impacted by the updated macroeconomic scenarios included in the provisioning model, which resulted in an increase of provisions coverage for exposures in stage 1 and stage 2, as well as increased portfolio migrations from stage 1 to stage 2. The NPE ratio compared with 1H19 remained on a very low level of 3.9% (1H19: 3.8%), showing the overall solid quality of the portfolio.

Mortgage1H20 Business review

The mortgage segment is a strategic run-down portfolio. This is reflected in the operating result which in 1H20 amounts to EUR 9.1 million, reflecting a 19.0% decreased in comparison with EUR 11.2 million at 1H19, mainly driven by EUR 110.2 million lower gross loans and consequently lower net interest income. Nevertheless, the lower NPE ratio with a higher NPE collateral coverage shows positive trend in the remaining portfolio quality. Lower operating expenses in the amount of 33.7% compared to 1H19.

Large Corporates 1H20 Business review

As a non-focus segment Large Corporates records a slightly lower loan book portfolio as well as income in comparison with the comparative period. The NIM was stable at 1.4% in comparison with 1H19. Net fee and commission income amounts to EUR 2.6 million (1H19: EUR 2.9 million) and slightly decreased mainly due to lower transactions as a result of the decreased economic activity due to the Covid-19 crisis and a lower ultimo volume balance. Operating expenses are lower by 13.0% with consequently lower Cost/Income Ratio showing a positive development in the Cost /Income relation. The operating result before tax at EUR 4.8 million (1H19: EUR 11.3 million) was impacted by allocations for risk provision in the amount of EUR -5.9 million compared to 1H19. The non-performing exposure significantly decreased from EUR 38.3 million in 1H19 (YE19: EUR 22.8 million) to EUR 16.8 million in 1H20 evidencing the Group focus on a de-risked asset base. The NPE ratio decreased from 4.2% to 2.1%.

Public Finance 1H20 Business review

The net interest income in 1H20 amounts to EUR 2.9 million (1H19: EUR 3.3 million), with NIM at 1.2% (1H19: 1.2%). The decrease in net interest income occurred due to the strategic run-down of the portfolio (-17.1% in gross performing loans compared to 1H19; -7.4% compared to YE19). Net fee and commission income decreased by EUR -0.2 million compared to the comparative period and amounts to EUR 0.5 million (1H19: EUR 0.7 million). The Public Finance segment has generated EUR 2.3 million operating result (1H19: EUR 2.9 million) and EUR 2.5 million operating result before tax in 1H20 (1H19: EUR 3.3 million). The Cost/Income Ratio increased slightly to 31.0% (1H19: 28.5%) due to lower operating income, whereby the cost basis decreased by 8.5%.

Due to the strategy to decrease the lending activity in this segment, the credit risk bearing exposure of the segment further decreased and amounts to EUR 172.9 million (1H19: EUR 214.6 million). The NPE ratio decreased in 1H20 and it shows a low NPE share in the portfolio of 1.2% (1H19: 4.4%) with a NPE coverage ratio of 72.3% indicating significantly high provisions coverage.

Corporate Center 1H20 Business review

Net interest income in 1H20 amounts to EUR 5.6 million (1H19: EUR 7.2 million) driven by a decrease of interest income from the TSY bond portfolio mainly related to lower yields reflecting the current interest rate environment. The steep drop of net result from financial instruments which in 1H20 amounted to EUR 2.0 million (1H19: EUR 9.3 million) was driven by lower bond sales and a positive one-of effect in 1H2019. The other operating result in 1H20 amounted to EUR -8.6 million (1H19: EUR -12.5 million) and mainly includes incurred deposit insurance costs, the full year impact of charges to the Single Recovery & Resolution Fund, legal provisions as well as restructuring costs. Operating expenses decrease in 1H20 from EUR -36.4 million in 1H19, by EUR 7.6 million, to EUR -28.7 million and clearly shows the high commitment for the cost reduction strategy.

4. Risk management & Related parties

With respect to the explanations on financial and legal risk at Addiko Group as well as the goals and methods of risk management, please refer to the risk report section of the condensed consolidated interim financial statements. Furthermore, with regards to related party transactions, please refer to note (36) related party disclosures.

5. Outlook & Risk factors

5.1. Outlook

Given the Group's clear focus on the CSEE region, its performance is inextricably linked to the health of the economy in this region and therefore will be impacted by the Covid-19 pandemic, which forced governments in the countries of operation to take restrictive measures such as business lockdowns and restrictions with regards to social contacts, affecting strongly consumption, requests for financing as well as general social and economic activities.

Following the indications of the outbreak of Covid-19 in March, the Group has taken all possible and necessary measures to protect its customers and employees by ensuring the relevant safety conditions and is well prepared to continue offering its basic services without any operational disruptions.

As a result of the restrictive economic measures and the clear detriment of consumer and business sentiment caused by the Covid-19 crisis, wiiw (Vienna Institute for International Economic Studies in Austria) forecasts that the economic impact on the Group's countries of operation this year will vary. Croatia is expected to record a decline in real GDP of -11% in 2020, Slovenia is estimated with -9.5%, and Montenegro with ca. -8%. By contrast, wiiw forecasts more moderate (at least by CSEE standards) downturns in Serbia -4% and Bosnia and Herzegovina -5%. In Managements view these forecasts are subject to an unusually high degree of uncertainty, given the unique nature of the Covid-19 crisis, which makes it even harder to translate these forecasted effects into expected impacts on operational business development and especially on expected risk costs.

Wiiw projects that based on the level countries in CSEE will gradually recover from 2021 on with real GDP growth of 3% expected in Bosnia and Herzegovina, 4% in Croatia, Slovenia and Serbia, and 5% in Montenegro. The shape and speed of the recovery is naturally highly contingent on how well the spread of the pandemic is controlled and whether or not potential further wave(s) materialise, particularly after the autumn of 2020.

Addiko Group expects that the second half of 2020 will be characterized by lower levels of activity on new loan generation, mainly driven by higher unemployment rates, limited economic development and reduced demand for financing, which will certainly impact net banking income. An additional pressure on interest income in consumer lending is caused by the implementation of regulatory restrictions put in place during 2019 in many countries of Addikos operations.

The Group's cost discipline will assure that the operating expenses for 2020 will continue on the downwards trend of the past years, and will end up significantly lower than YE 2019. Due to slower business operations linked to moratoriums and the crisis, some of the activities of the Group are expected to be cancelled or postponed, which is also contributing to lower costs, while the Group remains committed to continue to focus on investing in its digital capabilities and further process optimizations.

In addition, in light of the overall environment and ECB recommendation, the management Board has waived any potential bonuses for 2020, which will further support the cost reduction.

The overall slow-down of the economy is expected to have a negative impact on the existing loan portfolio quality. While state aid packages and moratoria programs introduced on the markets support citizens and companies, to some extent mitigating the negative economic effects, they also complicate a timely reflection of a potential deterioration of the loan portfolios. The cost of risk for the second half of 2020 will ultimately depend on the length and severity of the Covid-19 related disruption.

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

From the liquidity perspective the Group holds a very strong position and the impacts of the pandemic did not cause any material liquidity outflows. Even if a very unfavorable liquidity scenario would materialize going forward. The Group has sufficient liquidity reserves at the level of the Addiko Bank AG as well as in each subsidiary in the form of placements at the ECB and money market placements.

In terms of capital generation and distributions, lower new business volumes driven by lower demand and additionally introduced risk conditions, as well as the implementation of a new regulation amending the CRR rules on sovereign bonds, are expected to lead to lower RWA requirements. This is expected to neutralise and even overcompensate negative impacts on available capital caused by significant risk costs. The bank's capital position is expected to remain very strong, with a current fully-loaded CET1 ratio of 18.2%, which is an increase of 1.1 pts compared to year end 2019. The Management Board already deducted the previously announced and earmarked full-year 2019 dividend of EUR 40.0 million. The distribution is subject to regulatory environment and restrictions, however the Group remains committed to follow its communicated dividend proposal with timing being dependent on the lifting of the recently introduced Europe-wide regulatory measures.

In summary, for the full year 2020 the Group expects:

- Gross performing loans to amount to ca. EUR 3.5 billion
- Net Banking Income to be 7 - 10% below the level for the year 2019
- Operating expenses to remain below EUR 175 million
- Credit loss expenses on financial assets to be in the range of 1.1% to 2.2% on average net loans and advances to customers
- CET1 Ratio to be above 19% on a transitional basis (with the previously proposed 2019 dividend already being deducted)

5.2. Risk factors

In addition to the general economic uncertainties resulting from the spread of the Covid-19 pandemic, the following developments in the European banking sector are expected to continue. On the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the markets, and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. Furthermore, these activities of regulatory authorities, such as the implementation of consumer protection mechanisms limiting loan growth in the consumer sector, will in turn also have a negative influence on private consumption, further affecting the sector's profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments which allow customers to conduct their banking activities without visiting the branches.

Vienna, 18 August 2020
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

Condensed Consolidated Interim Financial Statements

I. Consolidated statement of comprehensive income

Statement of profit or loss

EUR m

	Note	01.01. - 30.06.2020	01.01. - 30.06.2019
Interest income calculated using the effective interest method		99.0	103.8
Other interest income		1.3	1.7
Interest expenses		-11.7	-14.5
Net interest income	**(6)**	**88.6**	**91.0**
Fee and commission income		36.2	39.3
Fee and commission expenses		-7.3	-7.4
Net fee and commission income	**(7)**	**28.9**	**32.0**
Net result on financial instruments	(8)	2.0	9.3
Other operating income	(9)	4.7	4.0
Other operating expenses	(9)	-13.3	-16.6
Operating income		**110.9**	**119.7**
Personnel expenses	(10)	-41.9	-49.7
Other administrative expenses	(11)	-31.5	-36.5
Depreciation and amortisation	(12)	-9.9	-9.4
Operating expenses		**-83.3**	**-95.6**
Operating result before change in credit loss expense		**27.6**	**24.1**
Credit loss expenses on financial assets	(13)	-29.2	1.9
Operating result before tax		**-1.6**	**26.0**
Tax on income	(14)	-10.6	-5.8
Result after tax		**-12.2**	**20.2**
thereof attributable to equity holders of parent		-12.2	20.2

	30.06.2020	30.06.2019
Result after tax attributable to ordinary shareholders (in EUR m)	-12.2	20.2
Weighted-average number of ordinary shares at 30 June (in units of shares)	19,500,000.0	19,500,000.0
Earnings/loss per share (in EUR)	-0.63	1.04
Weighted-average diluted number of ordinary shares at 30 June (in units of shares)	19,500,000.0	19,500,000.0
Diluted earnings/loss per share (in EUR)	-0.63	1.04

The subscribed capital of Addiko Bank AG is divided into 19,500,000 (1H19: 1,000) no-par registered shares. The calculation of earnings/loss per share and diluted earnings/loss per share were retrospectively adjusted in accordance with IAS 33.64.

Statement of other comprehensive income

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Result after tax	**-12.2**	**20.2**
Other comprehensive income	**-22.8**	**18.7**
Items that will not be reclassified to profit or loss	**0.1**	**1.0**
Fair value reserve - equity instruments	0.1	1.0
Net change in fair value	0.2	1.2
Income Tax	0.0	-0.2
Items that may be reclassified to profit or loss	**-23.0**	**17.7**
Foreign currency translation	-6.9	1.2
Gains/losses of the current period	-6.9	1.2
Fair value reserve - debt instruments	-16.1	16.5
Net change in fair value	-15.8	24.0
Net amount transferred to profit or loss	-2.4	-5.2
Income Tax	2.1	-2.3
Total comprehensive income for the year	**-35.1**	**38.9**
thereof attributable to equity holders of parent	-35.1	38.9

II. Consolidated statement of financial position

EUR m

	Note	30.06.2020	31.12.2019
Assets			
Cash reserves	(15)	968.1	899.4
Financial assets held for trading	(16)	38.5	38.5
Loans and receivables	(17)	3,789.6	3,885.9
Loans and advances to credit institutions		49.6	14.0
Loans and advances to customers		3,740.1	3,871.9
Investment securities	(18)	991.9	1,096.6
Tangible assets	(19)	81.6	85.9
Property, plant and equipment		77.6	81.8
Investment property		4.0	4.1
Intangible assets		27.6	27.9
Tax assets		18.1	25.7
Current tax assets		2.2	1.8
Deferred tax assets		15.9	23.9
Other assets	(20)	20.5	20.6
Non-current assets and disposal groups classified as held for sale	(21)	3.1	3.1
Total assets		**5,939.0**	**6,083.6**
Equity and liabilities			
Financial liabilities held for trading	(22)	9.5	6.0
Financial liabilities measured at amortised cost	(23)	5,019.6	5,121.6
Deposits of credit institutions		227.2	233.9
Deposits of customers		4,739.4	4,831.2
Issued bonds, subordinated and supplementary capital		0.1	0.1
Other financial liabilities		53.0	56.4
Provisions	(24)	59.9	66.9
Tax liabilities		0.0	0.0
Current tax liabilities		0.0	0.0
Deferred tax liabilities		0.0	0.0
Other liabilities	(25)	23.7	27.9
Equity		826.3	861.3
thereof attributable to equity holders of parent		826.2	861.3
Total equity and liabilities		**5,939.0**	**6,083.6**

III. Consolidated statement of changes in equity

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2020	**195.0**	**298.7**	**22.5**	**-6.6**	**351.7**	**861.3**	**0.0**	**861.3**
Result after tax	0.0	0.0	0.0	0.0	-12.2	-12.2	0.0	-12.2
Other comprehensive income	0.0	0.0	-15.9	-6.9	0.0	-22.8	0.0	-22.8
Total comprehensive income	0.0	0.0	-15.9	-6.9	-12.2	-35.0	0.0	-35.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 30.06.2020	**195.0**	**298.7**	**6.6**	**-13.5**	**339.5**	**826.3**	**0.0**	**826.3**

EUR m

	Subscribed capital	Capital reserves	Fair value reserve	Foreign currency reserve	Cumulated result and other reserves	Equity holders of parent	Non-controlling interest	Total
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Impact of adopting IFRS 16	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 01.01.2019	**195.0**	**476.5**	**5.4**	**-6.1**	**188.7**	**859.5**	**0.0**	**859.5**
Result after tax	0.0	0.0	0.0	0.0	20.2	20.2	0.0	20.2
Other comprehensive income	0.0	0.0	17.5	1.2	0.0	18.7	0.0	18.7
Total comprehensive income	0.0	0.0	17.5	1.2	20.2	38.9	0.0	38.9
Dividends paid	0.0	0.0	0.0	0.0	-50.0	-50.0	0.0	-50.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 30.06.2019	**195.0**	**476.5**	**22.8**	**-4.9**	**158.9**	**848.4**	**0.0**	**848.4**

IV. Condensed consolidated statement of cash flows

EUR m

	2020	2019*
Cash reserves at the end of previous period (01.01.)	**899.4**	**1,002.9**
Result after tax	**-12.2**	**20.2**
Non-cash items included in profit and reconciliation to cash flows from operating activities:	**29.7**	**28.0**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:	-31.1	-191.8
Interests received	105.1	112.2
Interests paid	-12.2	-15.5
Dividends received	0.0	0.0
Cash flows from operating activities	**79.3**	**-46.9**
Proceeds from the sale of:	1.7	0.8
Tangible assets, investment properties, lease assets and intangible assets	1.7	0.8
Payments for purchases of:	-5.5	-7.8
Tangible assets, investment properties, lease assets and intangible assets	-5.5	-7.8
Other changes	-0.7	-0.5
Cash flows from investing activities	**-4.5**	**-7.6**
Dividends paid	0.0	-50.0
Cash flows from financing activities	**0.0**	**-50.0**
Effect of exchange rate changes	-6.1	1.1
Cash reserves at end of period (30.06.)	**968.1**	**899.5**

*The HY19 figures were reclassified between proceeds from sale (EUR +3.4 million) to changes in assets and liabiliites arising from operating activities after corrections for non cash positions (EUR -3,4 million)

The cash flows from operating activities include the principle portion of lease payments in the amount of EUR -3.5 million (HY19: EUR -3.1 million). Reclassifications regarding non-current assets and liabilities classified as held for sale are considered in the respective items. Non-cash investing activities consist of acquisition of right of use assets arising from lease contracts in the amount of EUR 2.3 million (1H19: EUR 1.1 million). Interest paid as well as cash payments for the principal portion of lease liabilities are part of operating activities.

V. Condensed notes

Group accounting policies

(1) Accounting principles

The condensed consolidated interim financial statements ("interim financial statements") of Addiko Group for the period from 1 January to 30 June 2020 were prepared in accordance with the International Financial Reporting Standards (IFRS) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union (EU) as they apply in the European Union pursuant to Regulation (EC) No. 1606/2002 (IAS Regulation), in compliance with the requirements of IAS 34 "Interim Financial Reporting".

The interim financial statements of Addiko Group are based on financial information of the fully consolidated subsidiaries. Uniform accounting and measurement principles according to IFRS 10 are applied throughout the Addiko Group. The interim consolidated financial statements are prepared on a going concern basis. Regarding estimates and assumptions according to IAS 1, please refer to Note (3) Use of estimates and assumptions/material uncertainties in relation to estimates.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements. As these interim financial statements do not include all information and disclosures required in the annual consolidated financial statements, this document should be read in conjunction with Addiko Bank's Group annual report as of 31 December 2019.

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

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

The information in the interim financial statement has been neither audited nor reviewed by the external auditor.

(2) Application of new standards and amendments

Only new standards, interpretations and their amendments that are relevant for the business of Addiko Group are listed below. All other standards, interpretations and their amendments not yet adopted are not expected to be applicable for the Addiko Group.

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

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

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

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

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

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

(3) Use of estimates and assumptions/material uncertainties in relation to estimates

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

Credit risk provisions
The Addiko Group regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. The model for measurement of expected credit losses requires a 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). Furthermore, the model uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis. The development of the ECL charge will depend on the further path of the Covid-19 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.

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

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

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

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans.

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

In relation to existing taxable losses, although Addiko Group currently has no information or indications of a change of the relevant tax regulations, this may be revised in the future, with the imposition of a time limit or reduction for carry forward losses.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Group has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods.

Lease contracts
IFRS 16 requires the Addiko Group to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Addiko Group comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Addiko Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Addiko Group is reasonably certain not to exercise that option. Addiko Group reassesses lease terms whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. For lease contracts with indefinite term the Addiko Group estimates the length of the contract using the planning models.

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

(4) Public moratoria related to Covid-19 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 repayment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

Both, public moratoria and voluntarily granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies published in Addiko Group's consolidated financial statements as of 31 December 2019 on contractual modifications of financial assets apply accordingly. The relevant part is included below.

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. Contractual modifications would only lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument if the modified terms are substantially different from the original terms.

Based on the set of criteria developed by Addiko Group to assess whether or not a modification is substantial, described in the Note "14.3. Derecognition and contract modification" of the consolidated financial statements as of

31 December 2019, an analysis was conducted in each country which lead to the result that the public moratoria and payment holidays applied in the first half of 2020 in Addiko Group did not lead to derecognition. In particular this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase.

(5) Scope of consolidation

There were no changes to the scope of consolidation during the reporting period. For further information on this topic reference is made to the note of the same name in the 2019 Group annual report.

Notes to the profit or loss statement

(6) Net interest income

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Interest income calculated using the effective interest method	**99.0**	**103.8**
Financial assets at fair value through other comprehensive income	7.4	8.6
Financial assets at amortised cost	91.4	94.8
Negative interest from financial liabilities	0.3	0.4
Other interest income	**1.3**	**1.7**
Financial assets held for trading	1.1	1.5
Other assets	0.2	0.1
Total interest income	**100.3**	**105.5**
Financial liabilities measured at amortised cost	-10.4	-13.4
o/w lease liabilities	-0.2	-0.3
Financial liabilities held for trading	-0.6	-0.5
Negative interest from financial assets	-0.7	-0.6
Total interest expense	**-11.7**	**-14.5**
Net interest income	**88.6**	**91.0**

Interest expense of financial liabilities measured at amortised cost in the amount of EUR -10.4 million (1H19: EUR -13.4 million) includes expenses of EUR -6.3 million (1H19: EUR -8.8 million) related to customer deposits.

(7) Net fee and commission income

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Transactions	9.3	10.7
Accounts and Packages	10.3	8.9
Cards	4.9	6.2
FX & DCC	4.6	5.2
Securities	1.5	1.3
Bancassurance	1.2	2.4
Loans	1.5	1.6
Trade finance	2.4	2.4
Other	0.4	0.7
Fee and commission income	**36.2**	**39.3**
Cards	-3.4	-3.3
Transactions	-1.9	-2.1
Client incentives	-0.1	-0.3
Securities	-0.2	-0.2
Accounts and Packages	-0.6	-0.1
Bancassurance	-0.2	-0.2
Other	-0.8	-1.1
Fee and commission expenses	**-7.3**	**-7.4**
Net fee and commission income	**28.9**	**32.0**

The fees and commission presented in this note include income of EUR 16.7 million (1H19: EUR 16.6 million) and expenses of EUR -4.0 million (1H19: EUR -3.4 million) relating to financial assets and liabilities not measured at FVTPL.

(8) Net result on financial instruments

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Held for trading financial instruments	-1.1	-0.9
o/w exchange difference	1.4	3.4
o/w gain or losses on financial instruments	-2.5	-4.3
Non trading financial assets	0.0	4.3
Financial assets at fair value through other comprehensive income	3.2	5.9
Financial liabilities measured at amortised cost	0.0	0.0
Total	**2.0**	**9.3**

The line item "Non trading financial assets" includes in 1H19 the result from selling bond positions and financial instruments which the Group obtained within the extraordinary administration procedures of a large Croatian retailer.

(9) Other operating income and other operating expenses

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Other operating income	**4.7**	**4.0**
Release of provisions for legal cases and income from legal cases	2.8	2.3
Gain from sale of non financial assets	0.2	0.5
Income from operating lease assets	0.1	0.0
Income from assets classified as held for sale and disposal groups	0.1	0.2
Other income	1.5	1.0
Other operating expenses	**-13.3**	**-16.6**
Restructuring expenses	-2.7	-2.3
Allocation of provisions for passive legal cases and legal costs	-2.6	-2.9
Impairment on non-financial assets	-0.1	-0.8
Recovery and resolution fund	-1.4	-1.3
Deposit guarantee	-3.9	-4.5
Banking levies and other taxes	-1.4	-2.0
Other expenses	-1.1	-2.7
Total	**-8.6**	**-12.5**

The net result from legal disputes reflecting the sum of the position “Release of provisions for legal cases and income from legal cases” and “Allocation of provisions for passive legal cases and legal costs” was improving from EUR -0.6 million to EUR +0.2 million, mainly reflecting the collection of EUR 1.9 million in the first half of 2020 from the final court decision in favor of one entity of the Addiko Group in relation to a past damage claim.

The line item “Restructuring expenses” in the amount of EUR -2.7 million (1H19: EUR -2.3 million) includes the restructuring costs, which are part of cost initiatives initiated during the second half of 2019 as well as costs connected with the recent changes in the management board structure of Addiko Bank AG. The related impact, resulting from predominantly back office optimisation and branch closures, is reducing the cost base in the 2020 financial year.

The line item “Recovery and resolution fund” includes the front-loaded recognition of the expenses for the recovery and resolution fund which remained stable compared with the previous half-year (1H20: EUR -1.4 million, 1H19: EUR -1.3 million).

(10) Personnel expenses

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019*
Wages and salaries	-31.3	-33.7
Social security	-7.4	-8.0
Variable payments	-0.3	-5.5
Other personal tax expenses	-1.6	-1.8
Voluntary social expenses	-0.4	-0.5
Expenses for retirement benefits	-0.2	-0.2
Expenses for severance payments	-0.2	-0.2
Income from release of other employee provisions	0.1	0.2
Other personnel expenses	-0.5	-0.1
Total	**-41.9**	**-49.7**

*)To show a common presentation throughout the whole group in HY19 EUR -1.8 million were reclassified from Wages and salaries to Social Security (EUR 1.0 million), variable payments (EUR 0.3 million) and other personal tax expense (EUR 0.6 million)

(11) Other administrative expenses

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
IT expense	-17.0	-16.1
Premises expenses (rent and other building expenses)	-6.1	-6.7
Legal and advisory costs	-2.4	-4.8
Advertising costs	-2.2	-4.1
Other administrative expenses	-3.9	-4.8
Total	**-31.5**	**-36.5**

(12) Depreciation and amortisation

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Property, plant and equipment	-6.2	-6.3
o/w right of use assets	-3.6	-3.7
Intangible assets	-3.7	-3.1
Total	**-9.9**	**-9.4**

(13) Credit loss expenses on financial assets

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

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Change in CL on financial instruments at FVTOCI	**-2.1**	**0.8**
Change in CL on financial instruments at amortised cost	**-26.4**	**0.1**
Net allocation to risk provision	-29.1	-1.5
Proceeds from loans and receivables previously impaired	3.9	2.7
Directly recognised impairment losses	-1.2	-1.1
Net allocation of provisions for commitments and guarantees given	**-0.7**	**0.9**
Total	**-29.2**	**1.9**

The credit loss expenses in the first half of 2020 were significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

The positive result in the first half of 2019 was influenced by repayments and re-migrations to a lower risk portfolio in the non-focus segment Mortgage and Large Corporates as well as in the focus segment SME. This effect is offset by allocations within the Consumer portfolio.

(14) Tax on income

EUR m

	01.01. - 30.06.2020	01.01. - 30.06.2019
Current tax	-0.6	-1.4
Deferred tax	-10.0	-4.3
Total	**-10.6**	**-5.8**

Deferred tax assets on losses carried forward are only recoverable when future tax profits that allow utilisation appear highly probable. Due to the Covid-19 pandemic Addiko performed a re-assessment of the future profitability leading to a decrease of deferred tax assets on losses carried forward in amount of EUR -8.7 million. The forecast is subject to greater uncertainty arising from the uncertain future economic development.

Notes to the consolidated statement of financial position

(15) Cash reserves

EUR m

30.06.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	130.1	0.0	130.1
Cash balances at central banks	729.8	-0.1	729.7
Other demand deposits	109.1	-0.8	108.2
Total	**969.0**	**-0.9**	**968.1**

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	120.9	0.0	120.9
Cash balances at central banks	671.1	0.0	671.1
Other demand deposits	107.8	-0.4	107.4
Total	**899.8**	**-0.4**	**899.4**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was EUR 273.4 million (YE19: EUR 266.3 million).

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

EUR m

	Stage 1
ECL allowance as at 01.01.2020	**-0.4**
Changes in the loss allowance	-0.5
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models	0.0
Foreign exchange and other movements	0.0
ECL allowance as at 30.06.2020	**-0.9**

EUR m

	Stage 1
ECL allowance as at 01.01.2019	**-4.0**
Changes in the loss allowance	3.6
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models	0.0
Foreign exchange and other movements	-0.1
ECL allowance as at 31.12.2019	**-0.4**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 (12-month ECL). The overall ECL allowance increased in the first half of 2020 due to inclusion of updated macro-economic parameters into ECL calculation, reflecting expected worsening in asset quality as a result of Covid-19.

(16) Financial assets held for trading

EUR m

	30.06.2020	31.12.2019
Derivatives	**3.2**	**2.5**
Debt securities	**35.3**	**36.0**
Governments	35.3	36.0
Total	**38.5**	**38.5**

(17) Loans and receivables

The Addiko Group measures all loans and receivables at amortised cost.

17.1. Loans and advances to credit institutions

EUR m

30.06.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	49.6	0.0	49.6
Credit institutions	49.6	0.0	49.6
Total	**49.6**	**0.0**	**49.6**

EUR m

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	14.1	0.0	14.0
Credit institutions	14.1	0.0	14.0
Total	**14.1**	**0.0**	**14.0**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Changes in the loss allowance	0.0	0.0	0.0	0.0	0.0
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2020	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

EUR m

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

17.2. Loans and advances to customers

EUR m

30.06.2020	Gross carrying amount	ECL				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	
Households	2,182.4	-20.4	-42.7	-112.7	-1.9	2,004.6
Non-financial corporations	1,668.0	-12.1	-8.2	-57.3	0.0	1,590.4
Governments	93.8	-0.4	-0.3	-0.1	0.0	93.0
Other financial corporations	52.9	-0.2	-0.4	-0.3	0.0	52.0
Total	**3,997.1**	**-33.2**	**-51.6**	**-170.4**	**-1.9**	**3,740.1**

EUR m

31.12.2019	Gross carrying amount	ECL				Carrying amount (net)
		Stage 1	Stage 2	Stage 3	POCI	Stage 1
Households	2.278,4	-20,3	-32,7	-135,4	-1,1	2.088,9
Non-financial corporations	1.731,2	-10,1	-3,5	-59,6	0,0	1.658,0
Governments	94,8	-0,3	0,0	-0,7	0,0	93,9
Other financial corporations	31,6	-0,2	0,0	-0,4	0,0	31,1
Total	**4.136,1**	**-30,9**	**-36,2**	**-196,0**	**-1,1**	**3.871,9**

17.2.1. LOANS AND ADVANCES TO HOUSEHOLDS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-20.3**	**-32.7**	**-135.4**	**-1.1**	**-189.5**
Changes in the loss allowance	6.8	-15.1	-12.2	-1.0	-21.5
Transfer between stages	-9.2	7.1	2.1	0.0	0.0
Write-offs	0.0	0.0	33.1	0.3	33.4
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	2.2	-2.1	-0.2	0.0	-0.1
ECL allowance as at 30.06.2020	**-20.4**	**-42.7**	**-112.7**	**-1.9**	**-177.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-19.3**	**-40.3**	**-171.5**	**-14.4**	**-245.5**
Changes in the loss allowance	29.5	-32.3	-10.6	-1.5	-14.9
Transfer between stages	-30.2	29.5	-4.8	5.5	0.0
Write-offs	0.0	10.6	55.6	9.5	75.8
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	-0.3	-0.3	-4.1	-0.2	-4.9
ECL allowance as at 31.12.2019	**-20.3**	**-32.7**	**-135.4**	**-1.1**	**-189.5**

The overall ECL allowance decreased in the first half of 2020 due to partial write offs (mainly in Bosnia & Herzegovina) of accrued interest exposures, although the coverage level was increased in the overall portfolio due to inclusion of updated macro-economic parameters into ECL calculation, reflecting expected worsening in asset quality as a result of Covid-19.

17.2.2. LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-10.1**	**-3.5**	**-59.6**	**0.0**	**-73.2**
Changes in the loss allowance	-2.9	-3.9	-0.5	0.0	-7.3
Transfer between stages	0.8	-0.8	0.0	0.0	0.0
Write-offs	0.0	0.0	3.1	0.0	3.1
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.0	-0.4	0.0	-0.3
ECL allowance as at 30.06.2020	**-12.1**	**-8.2**	**-57.3**	**0.0**	**-77.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-13.1**	**-7.1**	**-110.1**	**0.0**	**-130.3**
Changes in the loss allowance	-2.6	3.6	4.9	0.0	6.0
Transfer between stages	5.5	0.2	-5.8	0.0	0.0
Write-offs	0.0	0.0	47.4	0.0	47.4
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	-0.1	3.9	0.0	3.8
ECL allowance as at 31.12.2019	**-10.1**	**-3.5**	**-59.6**	**0.0**	**-73.2**

The overall ECL allowance increase in the first half of 2020 due to the inclusion of updated macro-economic parameters into the calculation, reflecting expected worsening in asset quality as a result of Covid-19. The increase in the stock of provisions was slightly compensated by write offs, but to a much lesser extent than in previous years, as collection and workout activities have been slowed due to Covid-19.

17.2.3. LOANS AND ADVANCES TO GENERAL GOVERNMENTS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.3**	**0.0**	**-0.7**	**0.0**	**-1.0**
Changes in the loss allowance	0.0	0.3	0.0	0.0	0.2
Transfer between stages	0.0	-0.6	0.6	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2020	**-0.4**	**-0.3**	**-0.1**	**0.0**	**-0.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.9**	**0.0**	**-0.9**	**0.0**	**-1.8**
Changes in the loss allowance	0.6	0.0	0.2	0.0	0.9
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.3**	**0.0**	**-0.7**	**0.0**	**-1.0**

The overall ECL allowance slightly decreased in the first half of 2020 due positive migration of gross carrying amount from stage 3 to stage 2, although the coverage level per stage increases due to inclusion of updated macro-economic parameters into ECL calculation, reflecting expected worsening in asset quality as a result of Covid-19.

17.2.4. LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.2**	**0.0**	**-0.4**	**0.0**	**-0.6**
Changes in the loss allowance	0.0	-0.3	0.1	0.0	-0.2
Transfer between stages	0.0	-0.1	0.0	0.0	-0.1
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2020	**-0.2**	**-0.4**	**-0.3**	**0.0**	**-0.9**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-0.4**	**0.0**	**-0.4**	**0.0**	**-0.8**
Changes in the loss allowance	0.2	0.0	0.0	0.0	0.3
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.2**	**0.0**	**-0.4**	**0.0**	**-0.6**

The overall loss allowance for other financial corporations remains largely on the same level, with a slight increase due to inclusion of updated macro-economic parameters into ECL calculation, reflecting expected worsening in asset quality as a result of Covid-19.

(18) Investment securities

EUR m

	30.06.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	991.6	1,079.9
Mandatorily at fair value through profit or loss (FVTPL)	0.3	16.7
Total	**991.9**	**1,096.6**

Investment securities - development of ECL allowance

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-0.7**	**0.0**	**0.0**	**0.0**	**-0.7**
Changes in the loss allowance	-1.9	0.0	0.0	0.0	-1.9
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	-0.2	0.0	0.0	0.0	-0.2
ECL allowance as at 30.06.2020	**-2.8**	**0.0**	**0.0**	**0.0**	**-2.8**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-1.7**	**0.0**	**0.0**	**0.0**	**-1.7**
Changes in the loss allowance	1.1	0.0	0.0	0.0	1.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-0.7**	**0.0**	**0.0**	**0.0**	**-0.7**

18.1. Fair value through other comprehensive income (FVTOCI)

EUR m

	30.06.2020	31.12.2019
Debt securities	**973.0**	**1,061.3**
Governments	658.4	743.3
Credit institutions	219.9	221.6
Other financial corporations	33.8	34.4
Non-financial corporations	60.9	62.0
Equity instruments	**18.6**	**18.6**
Governments*	13.2	13.2
Other financial corporations	5.2	5.1
Non-financial corporations	0.3	0.3
Total	**991.6**	**1,079.9**

*** this position solely includes the Slovenian Bank Resolution fund**

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

EUR m

	30.06.2020	31.12.2019
Debt securities	**0.0**	**16.4**
Other financial corporations	0.0	16.4
Equity instruments	**0.3**	**0.3**
Non-financial corporations	0.3	0.3
Total	**0.3**	**16.7**

(19) Tangible assets

EUR m

	30.06.2020	31.12.2019
Owned property, plant and equipment	52.7	55.2
Land and buildings	42.0	43.8
Plant and equipment	10.7	11.4
Right of use assets	24.9	26.6
Land and buildings	22.3	23.3
Plant and equipment	2.6	3.2
Investment property	4.0	4.1
Total	**81.6**	**85.9**

(20) Other assets

EUR m

	30.06.2020	31.12.2019
Prepayments and accrued income	12.3	11.4
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	4.1	4.4
Other remaining assets	4.1	4.8
Total	**20.5**	**20.6**

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

In the current reporting period, this position mainly includes real estate assets in Croatia and Bosnia & Herzegovina, which are part of a Group project to dispose non-core assets and are already actively marketed.

EUR m

	30.06.2020	31.12.2019
Loans and receivables	0.1	0.0
Property plant and equipment	3.0	3.1
Total	**3.1**	**3.1**

(22) Financial liabilities held for trading

EUR m

	30.06.2020	31.12.2019
Derivatives	9.5	6.0
Total	**9.5**	**6.0**

(23) Financial liabilities measured at amortised cost

EUR m

	30.06.2020	31.12.2019
Deposits	**4,966.5**	**5,065.1**
Deposits of credit institutions	227.2	233.9
Deposits of customers	4,739.4	4,831.2
Issued bonds, subordinated and supplementary capital	**0.1**	**0.1**
Debt securities issued	0.1	0.1
Other financial liabilities	**53.0**	**56.4**
o/w lease liabilities	24.8	26.0
Total	**5,019.6**	**5,121.6**

23.1. Deposits of credit institutions

EUR m

	30.06.2020	31.12.2019
Current accounts / overnight deposits	9.0	6.2
Deposits with agreed terms	218.2	217.3
Repurchase agreements	0.0	10.3
Total	**227.2**	**233.9**

23.2. Deposits of customers

EUR m

	30.06.2020	31.12.2019
Current accounts / overnight deposits	**2,818.6**	**2,660.4**
Governments	74.7	81.0
Other financial corporations	120.5	98.0
Non-financial corporations	805.7	752.8
Households	1,817.6	1,728.7
Deposits with agreed terms	**1,912.7**	**2,130.5**
Governments	150.1	181.0
Other financial corporations	151.7	206.5
Non-financial corporations	421.7	448.9
Households	1,189.2	1,294.1
Deposits redeemable at notice	**8.1**	**40.3**
Governments	1.0	3.3
Other financial corporations	4.0	10.8
Non-financial corporations	3.1	26.2
Total	**4,739.4**	**4,831.2**

23.3. Debt securities issued

EUR m

	30.06.2020	31.12.2019
Certificates of deposit	0.1	0.1
Total	**0.1**	**0.1**

(24) Provisions

EUR m

	30.06.2020	31.12.2019
Pending legal disputes and tax litigation	33.1	35.8
Commitments and guarantees granted	10.6	10.0
Provisions for variable payments	9.3	14.0
Pensions and other post employment defined benefit obligations	1.9	1.8
Restructuring measures	1.4	2.1
Other long term employee benefits	0.4	0.4
Other provisions	3.2	2.8
Total	**59.9**	**66.9**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims in the countries in which the Addiko Group operates. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group’s position in these legal disputes.

The line item "provision for variable payments" include long- and short-term bonus provision for key management as well as employees. In the light of the current environment and the recommendation issued by ECB in July 2020, the Management Board waived any potential bonuses for 2020, thus no provisions have been recognized in this respect.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason the final timing could significantly deviate from original estimate.

24.1. Provisions – development of loan commitments, financial guarantee and other commitments given

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-2.8**	**-0.6**	**-6.6**	**0.0**	**-10.0**
Changes in the loss allowance	-0.3	-1.0	0.6	0.0	-0.7
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 30.06.2020	**-3.1**	**-1.5**	**-6.1**	**0.0**	**-10.6**

EUR m

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-3.0**	**-1.8**	**-6.9**	**0.0**	**-11.7**
Changes in the loss allowance	1.1	0.3	0.2	0.0	1.5
Transfer between stages	-1.0	0.9	0.1	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.0	0.0	0.0	0.1
ECL allowance as at 31.12.2019	**-2.8**	**-0.7**	**-6.6**	**0.0**	**-10.0**

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly increased in the first half of 2020 due to inclusion of updated macro-economic parameters into ECL calculation, reflecting expected worsening in asset quality as a result of Covid-19.

(25) Other liabilities

EUR m

	30.06.2020	31.12.2019
Deferred income	0.9	0.9
Accruals and other liabilities	22.8	27.0
Total	**23.7**	**27.9**

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

Segment Reporting

The Addiko Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting that is regularly reviewed by the chief operating decision makers (CODM) to assess the performance of the segments and make decisions regarding the allocation of resources. The segments of the Addiko Group are based on a combination between Customer types, which are Retail Customers, Small and Medium Enterprises, Corporate Clients and Public Clients and Business types, which are Consumer loans and Mortgage loans.

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 presented as of which position of the segment Retail and included no separation of the position operating expenses. This new structure is aimed to make more visible the development of the strategic focus areas. The comparative figures have been adapted accordingly.

To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes, deposit volumes and belonging KPIs. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Group by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Addiko Group evaluates performance for each segment on the basis of (a) operating result before tax, (b) performing loans volumes and (c) deposit volumes as management´s consideration of the most relevant items in evaluating the results of the respective segments.

The net interest income in Corporate Center includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC) of EUR 21.7 million (1H19: EUR 21.7 million). The majority of the IGC in the amount of EUR 16.0 million (1H19: EUR 16.0 million) is distributed to the market segments according to their respective asset contribution. The IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Addiko Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, the IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. However, due to the fact that a certain percentage of longer-term assets is funded by shorter term liabilities, within the FTP methodology market segments are charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of the IGC is re-distributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment. The Corporate Center segment includes also the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense. The Addiko Group does not have revenues from transactions with one single external customer amounting to 10% or more of the Addiko Group's total revenues.

The segment reporting comprises the five following business segments:

- Consumer segment: Addiko Bank's strategy is to offer straightforward banking, focusing on products for the essential needs of customers - unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. Consumer segments consists of: Micro segment (includes private entrepreneurs and profit-oriented legal entities with less than EUR 0.5m Annual Gross Revenues (AGR) on a GoB level) and Private Individuals excluding mortgage & housing loans.
- SME Business: Addiko Bank offers the full product suite to circa 13 thousand SME clients (companies with annual turnover between EUR 0.5 and 50 million/until YE 2019 companies with annual turnover between EUR 0.5 and 40 million) in the CSEE region. SME business is a main strategic segment of Addiko Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.
- Mortgage segment: Private Individuals having mortgage and housing loans.

- Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than EUR 50 million (until YE 2019 annual gross revenues of more than EUR 40 million). Addiko Bank services the largest local and international companies by centralized and specialized local teams supported by a strong expert unit from the Holding with investment loans, working capital loans and revolving loans.
- Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in CSEE countries as ministries of finance, state enterprises and local governments.
- Corporate Center: This segment consists of Treasury business in the Holding and the countries as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation. In addition, this segment includes direct deposit activities in Austria and Germany.

Segments overview

EUR m

30.06.2020	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	71.4	20.1	9.7	7.5	3.4	5.4	117.5
Net interest income	53.3	12.2	9.7	4.9	2.9	5.6	88.6
o/w regular interest income	48.9	14.6	13.0	6.7	1.9	8.9	93.9
Net fee and commission income	18.1	7.9	0.0	2.6	0.5	-0.2	28.9
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Other operating result	0.0	0.0	0.0	0.0	0.0	-8.6	-8.6
Operating income	71.4	20.1	9.7	7.5	3.4	-1.2	110.9
Operating expenses	-39.3	-11.7	-0.6	-1.9	-1.0	-28.7	-83.3
Operating result before change in credit loss expense	32.1	8.4	9.1	5.5	2.3	-29.9	27.6
Credit loss expenses on financial assets	-16.9	-7.2	-5.8	-0.7	0.2	1.2	-29.2
Operating result before tax	15.3	1.2	3.2	4.8	2.5	-28.7	-1.6
Business volume							
Net loans and receivables	1,278.9	1,068.6	701.0	542.4	141.7	57.1	3,789.6
o/w gross performing loans customers	1,321.7	1,060.6	691.0	542.3	142.2		3,757.7
Gross disbursements	152.7	220.4	0.9	99.3	1.0		474.3
Financial liabilities at AC [1]	2,664.1	738.6		375.1	483.7	758.1	5,019.6
RWA [2]	962.2	891.6	417.9	572.3	81.9	627.2	3,553.1
Key ratios							
Net inerest margin (NIM) [3]	5.9%	2.2%	1.5%	1.4%	1.2%		3.0%
Cost/Income Ratio	55.0%	58.1%	6.6%	26.0%	31.0%		70.9%
Cost of risk ratio	-1.1%	-0.4%	-0.8%	-0.1%	0.1%		-0.6%
Loan to deposit ratio	48.0%	144.7%	-	144.6%	29.3%		78.9%
NPE ratio (CRB based)	4.8%	3.9%	11.2%	2.1%	1.2%		4.8%
NPE coverage ratio	87.7%	69.3%	67.8%	54.7%	72.3%		73.2%
NPE collateral coverage	14.5%	59.8%	72.6%	61.3%	25.2%		50.9%
Change CL/GPL (simply Ø)	-1.3%	-0.7%	-0.8%	-0.1%	0.1%		-0.8%
Yield GPL (simply Ø)	7.4%	2.8%	3.6%	2.4%	2.6%		4.5%

[1] Financial liabilities at AC at 1H20 include the Direct deposits (Austria/Germany) amounting to EUR 422 million, EUR 227 million Deposits of credit institutions, EUR 109 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 June 2019.

EUR m

30.06.2019	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	71.6	19.9	12.2	8.3	4.0	7.0	123.0
Net interest income	51.5	11.5	12.2	5.4	3.3	7.2	91.0
o/w regular interest income	45.6	14.3	16.1	7.3	2.6	11.0	96.9
Net fee and commission income	20.1	8.5	0.0	2.9	0.7	-0.2	32.0
Net result on financial instruments	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	-12.5	-12.5
Operating income	**71.6**	**19.9**	**12.2**	**8.3**	**4.0**	**3.8**	**119.7**
Operating expenses	**-43.4**	**-11.6**	**-1.0**	**-2.2**	**-1.1**	**-36.4**	**-95.6**
Operating result before change in credit loss expense	**28.2**	**8.4**	**11.2**	**6.1**	**2.9**	**-32.6**	**24.1**
Credit loss expenses on financial assets	-9.3	3.4	0.8	5.2	0.5	1.3	1.9
Operating result before tax	**18.9**	**11.8**	**12.0**	**11.3**	**3.3**	**-31.3**	**26.0**
Business volume							
Net loans and receivables	1,240.7	1,059.3	818.2	602.1	173.0	12.9	3,906.1
o/w gross performing loans customers	1,267.1	1,056.5	801.2	578.7	171.6		3,875.1
Gross disbursements	322.3	308.5	6.1	157.2	1.8		795.7
Financial liabilities at AC [1]	2,749.5	638.0		426.2	567.4	865.4	5,246.5
RWA [2]	936.3	972.6	512.8	639.1	96.2	858.3	4,015.3
Key ratios							
Net interest margin (NIM) [3]	6.1%	2.3%	1.7%	1.5%	1.2%		3.0%
Cost/Income Ratio	60.6%	58.0%	8.0%	26.7%	28.5%		77.8%
Cost of risk ratio	-0.6%	0.2%	0.1%	0.6%	0.2%		0.0%
Loan to deposit ratio	45.1%	166.0%	-	141.3%	30.5%		80.1%
NPE ratio (CRB based)	6.2%	3.8%	13.7%	4.2%	4.4%		6.1%
NPE coverage ratio	91.3%	63.8%	73.6%	44.4%	74.1%		73.2%
NPE collateral coverage	17.5%	64.9%	59.3%	61.9%	50.9%		48.9%
Change CL/GPL (simply Ø)	-0.8%	-0.3%	0.1%	-0.9%	-0.3%		0.0%
Yield GPL (simply Ø)	7.5%	2.9%	3.9%	2.5%	2.9%		4.5%

[1] Financial liabilities at AC at 1H19 include the Direct deposits (Austria/Germany) amounting to EUR 428 million, EUR 313 million Deposits of credit institutions, EUR 124 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 net interest income breakdown explains the net interest income details per segment up to total bank. It lists all subpositions of the net interest income including the customer margin assets & liabilities, the basic items within the interest Gap Contribution and Asset Contribution.

EUR m

30.06.2020	Focus Segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgages	Large Corporates	Public Finance		
Net interest income	**53.3**	**12.2**	**9.7**	**4.9**	**2.9**	**5.6**	**88.6**
o/w Interest income	**52.0**	**16.1**	**14.1**	**7.1**	**2.0**	**8.9**	**100.3**
o/w Regular interest income	48.9	14.6	13.0	6.7	1.9	8.9	93.9
o/w Interest income on NPE	0.3	0.4	0.7	0.1	0.0	0.0	1.5
o/w Interest like income	2.9	1.1	0.5	0.3	0.0	0.0	4.8
o/w Interest expenses	**-5.2**	**-1.1**	**0.0**	**-0.7**	**-1.1**	**-3.6**	**-11.7**
o/w FTP (assets & liabilities)	**-2.2**	**-4.5**	**-8.0**	**-3.0**	**1.4**	**-5.4**	**-21.7**
o/w Interest gap contribution	**8.6**	**1.7**	**3.6**	**1.5**	**0.6**	**5.7**	**21.7**
o/w Asset contribution	8.6	1.7	3.6	1.5	0.6	-16.0	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	21.7	21.7

EUR m

30.06.2019	Focus Segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgages	Large Corporates	Public Finance		
Net interest income	**51.5**	**11.5**	**12.2**	**5.4**	**3.3**	**7.2**	**91.0**
o/w Interest income	**49.9**	**15.9**	**18.0**	**8.1**	**2.7**	**11.0**	**105.5**
o/w Regular interest income	45.6	14.3	16.1	7.3	2.6	11.0	96.9
o/w Interest income on NPE	0.5	0.7	1.0	0.4	0.0	0.0	2.5
o/w Interest like income	3.8	1.0	0.8	0.4	0.1	0.0	6.0
o/w Interest expenses	**-7.2**	**-1.1**	**0.0**	**-0.7**	**-1.8**	**-3.7**	**-14.5**
o/w FTP (assets & liabilities)	**0.7**	**-4.7**	**-9.7**	**-3.2**	**1.7**	**-6.0**	**-21.3**
o/w Interest gap contribution	**8.1**	**1.3**	**3.9**	**1.3**	**0.8**	**5.9**	**21.3**
o/w Asset contribution	8.1	1.3	3.9	1.3	0.8	-15.3	0.0
o/w Interest gap contribution	0.0	0.0	0.0	0.0	0.0	21.3	21.3

The relation between net fee and commission income and reportable segments can be seen in the tables below:

EUR m

30.06.2020	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
Transactions	4.2	3.7	0.7	0.4	0.2	9.3
Accounts and Packages	9.8	0.4	0.1	0.1	0.0	10.3
Cards	4.6	0.3	0.0	0.0	0.0	4.9
FX & DCC	2.6	1.8	0.2	0.0	0.1	4.6
Securities	0.4	0.0	1.2	0.0	0.0	1.5
Bancassurance	1.2	0.0	0.0	0.0	0.0	1.2
Loans	0.7	0.6	0.1	0.0	0.0	1.5
Trade finance	0.0	1.8	0.6	0.0	0.0	2.4
Other	0.2	0.0	0.1	0.0	0.0	0.4
Fee and commission income	**23.7**	**8.6**	**3.0**	**0.6**	**0.3**	**36.1**
Cards	-3.4	-0.1	0.0	0.0	0.0	-3.4
Transactions	-1.1	-0.5	-0.1	0.0	-0.1	-1.9
Client incentives	-0.1	0.0	0.0	0.0	0.0	-0.1
Securities	0.0	0.0	-0.2	0.0	0.0	-0.2
Accounts and Packages	-0.3	-0.1	0.0	0.0	-0.3	-0.6
Bancassurance	-0.2	0.0	0.0	0.0	0.0	-0.2
Other	-0.5	-0.1	-0.1	0.0	-0.1	-0.8
Fee and commission expense	**-5.6**	**-0.7**	**-0.4**	**-0.1**	**-0.5**	**-7.2**
Net fee and commission income	**18.1**	**7.9**	**2.6**	**0.5**	**-0.2**	**28.9**

EUR m

30.06.2019	Focus segments		Non-focus segments		Corporate Center	Total
	Consumer	SME Business	Large Corporates	Public Finance		
Transactions	4.6	4.3	0.9	0.6	0.3	10.7
Accounts and Packages	8.5	0.3	0.0	0.0	0.0	8.9
Cards	5.5	0.6	0.1	0.0	0.0	6.2
FX & DCC	3.0	1.7	0.3	0.0	0.1	5.2
Securities	0.2	0.0	1.1	0.0	0.0	1.3
Bancassurance	2.4	0.0	0.0	0.0	0.0	2.4
Loans	0.6	0.7	0.3	0.1	0.0	1.6
Trade finance	0.0	1.7	0.6	0.0	0.0	2.4
Other	0.6	0.1	0.1	0.0	0.0	0.7
Fee and commission income	**25.4**	**9.3**	**3.4**	**0.8**	**0.5**	**39.3**
Cards	-2.9	-0.3	-0.1	0.0	0.0	-3.3
Transactions	-1.3	-0.5	-0.1	-0.1	-0.1	-2.1
Client incentives	-0.3	0.0	0.0	0.0	0.0	-0.3
Securities	0.0	0.0	-0.1	0.0	-0.1	-0.2
Accounts and Packages	0.0	0.0	0.0	0.0	-0.1	-0.1
Bancassurance	-0.2	0.0	0.0	0.0	0.0	-0.2
Other	-0.6	-0.1	-0.1	0.0	-0.4	-1.1
Fee and commission expense	**-5.3**	**-0.9**	**-0.4**	**-0.1**	**-0.7**	**-7.4**
Net fee and commission income	**20.1**	**8.5**	**2.9**	**0.7**	**-0.2**	**32.0**

Geographical Segmentation

Addiko Bank is an international banking group headquartered in Vienna, Austria, operating through six banks with its core business in Croatia (ABC), Slovenia (ABS), Bosnia & Herzegovina with two banks in Banja Luka (ABBL) and Sarajevo (ABSA), Serbia (ABSE) and Montenegro (ABM). Therefore, the revenues are generated in the CSEE region. In Austria only online deposits for clients in Austria and Germany are provided. Customer groups are not aggregated and assigned to a single country but allocated to their respective countries on single entity level. The geographical segmentation of income from external customers is shown in compliance with IFRS and does not reflect the Group's management structure, the Management believes that the business segmentation provides a more informative description of the Group's activities. The Reco column includes mainly the intercompany reconciliation.

EUR m

30.06.2020	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	43.3	25.3	9.7	10.1	19.0	6.0	34.0	-29.8	117.5
Net interest income	30.4	20.6	6.7	7.0	14.5	5.3	34.1	-29.8	88.6
o/w regular interest income[1)	33.3	20.6	7.9	7.5	17.4	6.2	36.5	-35.5	93.9
Net fee and commission income	12.9	4.7	3.1	3.1	4.5	0.7	-0.1	0.0	28.9
Net result on financial instruments	0.3	0.4	0.1	0.7	0.1	0.0	-76.3	76.7	2.0
Other operating result	-3.2	-1.1	-1.6	0.5	-2.5	-0.6	0.4	-0.4	-8.6
Operating income	**40.3**	**24.6**	**8.2**	**11.3**	**16.6**	**5.3**	**-41.9**	**46.5**	**110.9**
Operating expenses	**-23.2**	**-12.5**	**-6.9**	**-7.8**	**-12.8**	**-3.8**	**-16.9**	**0.7**	**-83.3**
Operating result before change in credit loss expense	**17.1**	**12.1**	**1.3**	**3.4**	**3.7**	**1.6**	**-58.8**	**47.2**	**27.6**
Credit loss expenses on financial assets	-10.3	-9.3	-3.9	-6.3	-4.3	0.6	-3.8	8.1	-29.2
Operating result before tax	**6.8**	**2.7**	**-2.6**	**-2.9**	**-0.6**	**2.2**	**-62.6**	**55.4**	**-1.6**
Total assets	**2,292.2**	**1,557.0**	**407.1**	**498.7**	**859.6**	**217.8**	**1,109.6**	**-1,002.9**	**5,939.0**
Business volume									
Net loans and receivables	1,336.7	1,267.1	283.1	273.0	585.8	178.0	196.3	-330.4	3,789.6
o/w gross performing loans customers	1,259.9	1,158.2	288.0	274.5	596.9	180.3	0.0		3,757.7
Gross disbursements	199.1	61.3	40.5	50.3	113.3	9.8	0.0		474.3
Financial liabilities at AC [2)	1,884.4	1,374.1	324.1	381.5	664.6	189.0	570.3	-368.4	5,019.6
RWA [3)	1,250.8	882.5	303.8	371.5	546.1	157.2	41.3	-0.1	3,553.1
Key ratios									
Net interest margin (NIM)	2.6%	2.6%	3.2%	2.8%	3.5%	4.7%	5.9%		3.0%
Cost/Income Ratio	53.6%	49.6%	71.3%	77.8%	67.5%	62.9%	49.7%		70.9%
Cost of risk ratio	-0.6%	-0.6%	-1.0%	-1.5%	-0.5%	0.3%	-25.4%		-0.6%
Loan to deposit ratio	75.3%	96.8%	95.5%	72.7%	100.2%	101.4%			78.9%
NPE ratio (CRB based)	6.6%	2.0%	6.5%	8.6%	2.5%	7.4%			4.8%
NPE coverage ratio	69.1%	68.2%	82.9%	81.8%	76.9%	62.3%			73.2%
NPE collateral coverage	53.7%	50.9%	42.9%	58.1%	34.0%	48.9%			50.9%
Change CL/GPL (simply Ø)	-0.8%	-0.8%	-1.3%	-2.3%	-0.7%	0.3%			-0.8%
Yield GPL (simply Ø)	4.5%	3.4%	5.4%	5.2%	5.2%	6.7%			4.5%

[1) Regular interest income is related to booked interests excluding interest like income, interest income on NPE and funds transfer pricing [2) Direct deposits (Austria/Germany) amounting to EUR 422 million presented in ABH [3) Includes only credit risk (without application of IFRS 9 transitional rules)

EUR m

30.06.2019	ABC	ABS	ABBL	ABSA	ABSE	ABM	ABH	Reco	Addiko Group
Net banking income	47.1	25.4	9.2	9.9	20.8	6.8	29.2	-25.5	123.0
Net interest income	32.6	20.0	6.2	6.9	15.7	5.7	29.5	-25.5	91.0
o/w regular interest income [1]	36.4	20.1	7.4	7.3	18.5	6.4	32.4	-31.6	96.9
Net fee and commission income	14.5	5.4	2.9	3.0	5.2	1.1	-0.2	0.0	32.0
Net result on financial instruments	7.6	0.8	0.2	0.6	0.6	0.0	-0.2	-0.3	9.3
Other operating result	-10.0	-1.5	-0.4	-0.5	-1.1	-0.6	-1.4	2.9	-12.5
Operating income	**44.6**	**24.8**	**9.0**	**10.0**	**20.4**	**6.2**	**27.7**	**-22.9**	**119.7**
Operating expenses	**-27.8**	**-13.5**	**-7.2**	**-7.9**	**-14.7**	**-3.8**	**-20.1**	**-0.6**	**-95.6**
Operating result before change in credit loss expense	**16.8**	**11.3**	**1.8**	**2.1**	**5.6**	**2.4**	**7.6**	**-23.5**	**24.1**
Credit loss expenses on financial assets	2.7	1.5	0.0	0.3	-2.6	-0.5	0.1	0.5	1.9
Operating result before tax	**19.5**	**12.8**	**1.8**	**2.3**	**3.0**	**1.8**	**7.7**	**-23.0**	**26.0**
Total assets	**2,459.2**	**1,626.9**	**406.6**	**485.5**	**825.4**	**233.4**	**1,373.4**	**-1,221.5**	**6,188.8**
Business volume									
Net loans and receivables	1,412.3	1,302.3	274.5	276.6	584.6	189.5	221.4	-355.2	3,906.1
o/w gross performing loans customers	1,361.4	1,195.4	271.6	272.6	580.3	193.8	0.0		3,875.1
Gross disbursements	280.9	172.5	59.4	75.9	165.0	42.0	0.0		795.7
Financial liabilities at AC [2]	2,027.7	1,453.9	323.0	367.1	634.3	208.5	609.7	-377.8	5,246.5
RWA [3]	1,437.8	959.5	315.6	369.3	686.2	173.9	74.4	-1.4	4,015.3
Key ratios									
Net interest margin (NIM)	2.7%	2.5%	3.1%	3.0%	3.8%	4.9%	4.4%		3.0%
Cost/Income Ratio	59.1%	52.9%	78.4%	79.9%	70.7%	56.8%	68.7%		77.8%
Cost of risk ratio	0.1%	0.1%	0.0%	0.1%	-0.3%	-0.2%	0.2%		0.0%
Loan to deposit ratio	76.5%	99.4%	86.7%	78.4%	104.9%	97.3%			80.1%
NPE ratio (CRB based)	7.6%	2.2%	11.3%	11.3%	5.1%	7.0%			6.1%
NPE coverage ratio	68.8%	71.6%	85.6%	85.0%	58.9%	71.9%			73.2%
NPE collateral coverage	53.5%	52.9%	39.0%	36.0%	56.1%	47.4%			48.9%
Change CL/GPL (simply Ø)	-0.2%	-0.1%	0.0%	-0.1%	0.4%	0.3%			0.0%
Yield GPL (simply Ø)	4.7%	3.3%	5.5%	5.2%	5.2%	6.7%			4.5%

[1] Regular interest income is related to booked interests excluding interest like income, interest income on NPE and funds transfer pricing [2] Direct deposits (Austria/Germany) amounting to EUR 428 million presented in ABH [3] Includes only credit risk (without application of IFRS 9 transitional rules)

Risk Report

A summary of Addiko risk policies in relation to risk management, internal organization, risk strategy and risk appetite framework organisation is set out in the Note of the same name in the consolidated financial statements as of 31 December 2019.

(26) Credit risk

26.1. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown including the portfolio that is classified as held for sale according to IFRS 5.

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

Breakdown of net exposure within the Group in accordance with IFRS 7.36 as at 30 June 2020:

EUR m

30.06.2020	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	838.9	-0.9	837.9	0.0	0.0	0.0	838.9	837.9
Financial assets held for trading	38.5		38.5	0.0		0.0	38.5	38.5
Loans and receivables	3,814.4	-84.8	3,729.6	232.3	-172.3	60.0	4,046.7	3,789.6
of which credit institutions	49.6	0.0	49.6	0.0	0.0	0.0	49.6	49.6
of which customer loans [2]	3,764.8	-84.8	3,680.0	232.3	-172.3	60.0	3,997.1	3,740.1
Investment securities [3]	989.0	-2.8	986.2	0.0	0.0	0.0	989.0	986.2
Other Assets - IFRS 5	0.0	0.0	0.0	0.5	-0.4	0.1	0.5	0.1
On balance total	**5,680.8**	**-88.5**	**5,592.3**	**232.8**	**-172.7**	**60.1**	**5,913.6**	**5,652.4**
Off balance	957.1	-4.6	952.5	11.5	-6.1	5.5	968.6	958.0
ECL on FVTOCI debt securities [4]	-2.8	2.8	0.0	0.0	0.0	0.0	-2.8	0.0
Total	**6,635.1**	**-90.3**	**6,544.8**	**244.3**	**-178.8**	**65.6**	**6,879.4**	**6,610.4**
Adjustments [5]	2.0		2.0			0.0	2.0	2.0
Total credit risk exposure	**6,637.1**	**-90.3**	**6,546.8**	**244.3**	**-178.8**	**65.6**	**6,881.4**	**6,612.3**

[1]The position does not include cash on hand in amount of EUR 130.1 million [2]Including accrued interest [3]Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia [4]The loss allowance on debt securities at FVTOCI is not presented for credit risk purposes as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments [5]Adjustments includes reconciliation differences between the gross carrying amount and the carrying amount of the credit risk exposure components.

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

EUR m

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves [1]	778.9	-0.4	778.4	0.0	0.0	0.0	778.9	778.4
Financial assets held for trading	38.5		38.5	0.0		0.0	38.5	38.5
Loans and receivables	3,887.4	-67.1	3,820.3	262.7	-197.1	65.6	4,150.2	3,885.9
of which credit institutions	14.1	0.0	14.0	0.0	0.0	0.0	14.1	14.0
of which customer loans [2]	3,873.4	-67.1	3,806.3	262.7	-197.1	65.6	4,136.1	3,871.9
Investment securities [3]	1,091.5	-0.7	1,090.9	0.0	0.0	0.0	1,091.5	1,090.9
Other Assets - IFRS 5	0.0	0.0	0.0	0.2	-0.2	0.0	0.2	0.0
On balance total	**5,796.3**	**-68.3**	**5,728.1**	**263.0**	**-197.4**	**65.6**	**6,059.3**	**5,793.7**
Off balance	993.7	-3.4	990.3	13.5	-6.6	6.9	1,007.3	997.3
ECL on FVTOCI debt securities [4]	-0.7	0.7	0.0	0.0	0.0	0.0	-0.7	0.0
Total	**6,789.4**	**-71.0**	**6,718.4**	**276.5**	**-204.0**	**72.6**	**7,065.9**	**6,791.0**
Adjustments [5]	-7.4		-7.4			0.0	-7.4	-7.4
Total credit risk exposure	**6,782.0**	**-71.0**	**6,711.0**	**276.5**	**-204.0**	**72.6**	**7,058.5**	**6,783.6**

[1]The position does not include cash on hand in amount of EUR 120.9 million [2]Including accrued interest [3]Investment securities, without equity instruments, including participation in the bank resolution fund in Slovenia [4]The loss allowance on debt securities at FVTOCI is not presented for credit risk purposes as part of the gross carrying amount as this is already reflecting the fair value of the underlying instruments [5]Adjustments include other exposures (i.e. other receivables not directly connected with clients), which are not considered as credit risk relevant exposures towards third parties

26.2. Allocation of credit risk exposure within the Group

As at 30 June 2020, the overall gross exposure within the Group shows a decrease compared to 31 December 2019 (decrease by EUR 177.1 million). Reductions in the exposures are recognised in all Addiko entities except in Addiko Holding as well as in Addiko Serbia. 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 recognized, come along with an overall reduction of the core and non core portfolio since beginning of the year. Within the Group, the credit risk exposure split per country is presented in the table below.

EUR m

	30.06.2020	31.12.2019
Addiko Croatia	2,558.5	2,702.8
Addiko Slovenia	1,735.1	1,773.4
Addiko Serbia	1,042.9	1,001.4
Addiko in Bosnia and Herzegovina	1,043.8	1,076.5
Addiko Montenegro	237.8	252.4
Addiko Holding	263.2	252.0
Total	**6,881.4**	**7,058.5**

26.3. Credit risk exposure by rating class

At 30 June 2019 roughly 26.1% (YE19: 24.9%) of the exposure is categorised as rating classes 1A to 1E.

During the first half of 2020 the NPE stock reduced by EUR 32.2 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 the majority of the countries.

The following table shows the exposure by rating classes and market segment as at 30 June 2020:

EUR m

30.06.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	189.4	824.1	276.4	140.1	71.6	3.5	1,505.1
SME	174.8	824.2	597.9	56.7	67.3	1.1	1,722.1
Non-Focus	460.5	782.3	333.1	50.7	105.4	0.4	1,732.3
o/w Large Corporate	109.5	411.4	243.7	1.7	16.8	0.3	783.4
o/w Mortgage	312.8	293.8	43.8	39.0	86.6	0.1	776.1
o/w Public Finance	38.3	77.0	45.5	10.0	2.0	0.0	172.9
Corporate Center	969.1	817.7	135.2	0.0	0.0	0.0	1,922.0
Total	**1,793.8**	**3,248.1**	**1,342.5**	**247.6**	**244.3**	**5.0**	**6,881.4**

1)Corporate Center includes financial institutions considering national bank exposure, on demand 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, on demand deposits as well as securities

The classification of credit assets into risk grades is based on Addiko internal ratings. For external reporting, internal rating grades are grouped into the following five risk categories:

- 1A-1E: representing customers with a very low risk, having the best, excellent or very good credit standing,
- 2A-2E: representing customers with a good or moderate credit standing,
- 3A-3E: representing customers with a medium or high credit risk,
- Watch: representing customers with a very high credit risk or who are likely to default. This class includes customers which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term,
- NPE (default): one or more of the default criteria under Article 178 CRR are met: among others, interest or principal payments on a material exposure have been overdue for more than 90 days, the bank significantly doubts the customer’s credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realisation of a loan loss or bankruptcy proceedings are initiated.

The Addiko Group applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers’s performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

EUR m

30.06.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	612.6	16.1	0.0	0.7	629.4
2A-2E	1,906.5	17.8	0.0	1.4	1,925.8
3A-3E	878.6	81.5	0.0	0.6	960.8
Watch	35.9	205.6	0.6	1.4	243.5
NPE	0.0	0.0	226.1	5.6	231.7
No rating	4.4	0.5	1.0	0.0	5.9
Total gross carrying amount	**3,438.0**	**321.6**	**227.7**	**9.8**	**3,997.1**
Loss allowance	-33.2	-51.5	-170.4	-1.9	-257.0
Carrying amount	**3,404.8**	**270.1**	**57.3**	**7.9**	**3,740.1**

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	639.8	17.1	18.7	0.8	676.4
2A-2E	2,074.8	13.7	0.0	1.3	2,089.8
3A-3E	877.0	16.3	0.1	0.1	893.5
Watch	43.8	174.2	0.5	0.0	218.5
NPE	0.2	0.0	238.7	8.7	247.6
No rating	10.2	0.1	0.0	0.0	10.3
Total gross carrying amount	**3,645.8**	**221.4**	**257.9**	**11.0**	**4,136.1**
Loss allowance	-30.9	-36.2	-196.0	-1.1	-264.2
Carrying amount	**3,614.9**	**185.2**	**61.9**	**9.8**	**3,871.9**

Loans and advances to banks at amortised cost:

EUR m

30.06.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	48.1	0.0	0.0	0.0	48.1
2A-2E	1.5	0.0	0.0	0.0	1.5
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**49.6**	**0.0**	**0.0**	**0.0**	**49.6**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**49.6**	**0.0**	**0.0**	**0.0**	**49.6**

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	11.1	0.0	0.0	0.0	11.1
2A-2E	3.0	0.0	0.0	0.0	3.0
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**14.1**	**0.0**	**0.0**	**0.0**	**14.1**
Loss allowance	0.0	0.0	0.0	0.0	0.0
Carrying amount	**14.0**	**0.0**	**0.0**	**0.0**	**14.0**

Debt instruments measured at FVTOCI:

EUR m

30.06.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	600.4	0.0	0.0	0.0	600.4
2A-2E	362.7	0.0	0.0	0.0	362.7
3A-3E	3.0	0.0	0.0	0.0	3.0
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	9.7	0.0	0.0	0.0	9.7
Total gross carrying amount	**975.8**	**0.0**	**0.0**	**0.0**	**975.8**
Loss allowance	-2.8	0.0	0.0	0.0	-2.8
Carrying amount	**973.0**	**0.0**	**0.0**	**0.0**	**973.0**

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	644.9	0.0	0.0	0.0	644.9
2A-2E	402.3	0.0	0.0	0.0	402.3
3A-3E	7.8	0.0	0.0	0.0	7.8
Watch	0.0	0.0	0.0	0.0	0.0
NPE	0.0	0.0	0.0	0.0	0.0
No rating	7.1	0.0	0.0	0.0	7.1
Total gross carrying amount	**1,062.0**	**0.0**	**0.0**	**0.0**	**1,062.0**
Loss allowance	-0.7	0.0	0.0	0.0	-0.7
Carrying amount	**1,061.3**	**0.0**	**0.0**	**0.0**	**1,061.3**

Commitments and financial guarantees given:

EUR m

30.06.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	194.0	0.1	0.0	0.0	194.0
2A-2E	506.4	0.3	0.0	0.0	506.7
3A-3E	228.4	13.0	0.0	0.0	241.4
Watch	5.5	8.7	0.0	0.0	14.3
NPE	0.0	0.0	10.9	0.0	10.9
No rating	0.7	0.0	0.6	0.0	1.3
Total gross carrying amount	**935.0**	**22.1**	**11.5**	**0.0**	**968.6**
Loss allowance	-3.1	-1.5	-6.1	0.0	-10.6
Carrying amount	**931.9**	**20.6**	**5.5**	**0.0**	**958.0**

EUR m

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	155.9	0.0	0.0	0.0	155.9
2A-2E	557.9	0.3	0.0	0.0	558.2
3A-3E	265.4	0.1	0.0	0.0	265.5
Watch	3.3	9.9	0.0	0.0	13.2
NPE	0.0	0.0	13.0	0.0	13.0
No rating	0.8	0.0	0.5	0.0	1.3
Total gross carrying amount	**983.4**	**10.4**	**13.5**	**0.0**	**1,007.3**
Loss allowance	-2.8	-0.6	-6.6	0.0	-10.0
Carrying amount	**980.5**	**9.8**	**6.9**	**0.0**	**997.3**

26.4. Credit risk exposure by region

The Addiko Group's country portfolio focuses on Central and South Eastern Europe. The following table shows the breakdown of exposure by region within the Group (at customer level):

EUR m

	30.06.2020	31.12.2019
SEE	6,045.2	6,257.4
Europe (excl. CEE/SEE)	495.8	501.2
CEE	263.0	229.6
Other	77.4	70.4
Total	**6,881.4**	**7,058.5**

26.5. Exposure by business sector and region

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

The lower-risk business sector groups - financial institutions and the public sector - account for a share of 30.3% at June 2020 (YE19: 29.8%). The well-diversified private customers sector accounts for a share of 25.4% (YE19: 25.6%).

EUR m

30.06.2020 Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Private	2.2	1,746.9	0.0	0.1	1,749.2
Financial services	414.4	784.0	0.0	64.7	1,263.1
Public sector	55.4	505.0	263.0	0.0	823.4
Construction / Manufacturing Industries	17.2	1,046.4	0.0	5.1	1,068.7
Trade and commerce	0.0	677.7	0.0	4.6	682.3
Services	6.3	520.6	0.0	1.0	527.9
Real estate business	0.0	87.5	0.0	0.0	87.5
Tourism	0.0	114.5	0.0	0.0	114.5
Agriculture	0.0	55.7	0.0	0.0	55.7
Other	0.3	506.8	0.0	1.8	509.0
Total	**495.8**	**6,045.2**	**263.0**	**77.4**	**6,881.4**

EUR m

31.12.2019 Business sector	Europe (excl. CEE/CSEE)	CSEE	CEE	Other	Total
Private	1.5	1,802.2	0.0	0.1	1,803.8
Financial services	375.8	751.6	0.0	56.0	1,183.4
Public sector	99.8	591.0	229.5	0.0	920.4
Construction / Manufacturing Industries	17.4	1,057.3	0.0	5.3	1,080.0
Trade and commerce	0.0	717.9	0.0	4.7	722.6
Services	6.3	535.6	0.0	2.6	544.6
Real estate business	0.0	90.3	0.0	0.0	90.3
Tourism	0.0	118.1	0.0	0.0	118.1
Agriculture	0.0	59.4	0.0	0.0	59.4
Other	0.3	533.9	0.0	1.8	536.0
Total	**501.2**	**6,257.4**	**229.6**	**70.4**	**7,058.5**

The figures are broken down according to the country of the customer's registered office. Corporate and Retail business is mainly focused on the Addiko Group's core countries in Central and South Eastern Europe. The business strategy envisages a further increase in this portion, particularly in the Retail business.

26.6. Presentation of exposure by overdue days

EUR m

30.06.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	1,398.9	37.5	5.5	4.9	58.2	1,505.1
SME	1,610.4	54.7	5.4	2.4	49.0	1,722.1
Non-Focus	1,572.6	50.3	20.2	6.6	82.6	1,732.3
o/w Large Corporate	726.8	29.5	15.6	0.0	11.6	783.4
o/w Mortgage	676.8	20.7	2.5	6.3	69.7	776.1
o/w Public Finance	169.0	0.1	2.1	0.3	1.4	172.9
Corporate Center	1,922.0	0.0	0.0	0.0	0.0	1,922.0
Total	**6,503.9**	**142.5**	**31.2**	**14.0**	**189.9**	**6,881.4**

Addiko has concluded so far that all moratoria introduced in the markets of operation fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered thus did not result in an increase of days past due.

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**

26.7. Presentation of exposure by size classes

As of 30 June 2020 around 42.4% (YE19: 42.4%) of the exposure is found in the size range < EUR 1 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area.

The amount of EUR 1,107.8 million (YE19: EUR 1,053.0 million) of exposure in the range > EUR 100 million is entirely attributable to national banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers (GoBs).

		30.06.2020		31.12.2019
Size classes	Exposure EUR m	GoBs	Exposure EUR m	GoBs
< 10,000	557.2	291,718	570.4	294,723
10,000-50,000	1,246.2	60,074	1,266.2	60,479
50,000-100,000	333.2	4,822	353.7	5,137
100,000-250,000	307.5	2,097	324.8	2,221
250,000-500,000	202.5	588	202.6	592
500,000-1,000,000	271.8	398	278.5	398
1,000,000-10,000,000	1,621.0	574	1,620.1	579
10,000,000-50,000,000	959.0	50	1,136.2	57
50,000,000-100,000,000	275.3	3	253.1	3
> 100,000,000	1,107.8	6	1,053.0	5
Total	**6,881.4**	**360,330**	**7,058.5**	**364,194**

26.8. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	30.06.2020 Exposure	30.06.2020 Collateral	31.12.2019 Exposure	31.12.2019 Collateral
1A-1E	1,789.4	375.8	1,751.8	401.3
2A-2E	3,206.3	709.0	3,445.0	770.1
3A-3E	1,261.5	374.0	1,215.7	348.6
Watch	198.1	66.1	190.0	58.4
NPL	1.7	1.0	1.1	0.9
No rating	5.0	0.1	18.0	2.9
Total	**6,462.1**	**1,526.1**	**6,621.5**	**1,582.1**

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

Overdue but not impaired financial assets:

EUR m

	30.06.2020 Exposure	30.06.2020 Collateral	31.12.2019 Exposure	31.12.2019 Collateral
Loans and advances to customers (on- and off-balance)				
- overdue to 30 days	138.0	47.0	151.7	67.9
- overdue 31 to 60 days	29.8	19.4	6.9	1.9
- overdue 61 to 90 days	11.0	5.9	3.0	0.5
- overdue 91 to 180 days	0.0	0.0	0.1	0.1
- overdue 181 to 365 days	0.0	0.0	0.1	0.1
- overdue over 1 year	0.0	0.0	0.6	0.6
Total	**179.0**	**72.4**	**162.4**	**70.9**

Impaired financial instruments:

EUR m

Loans and advances to customers (on- and off-balance)	30.06.2020	31.12.2019
Exposure	240.4	274.7
Provisions	178.8	204.0
Collateral	121.1	140.0

All financial assets which show a positive impairment trigger are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation is performed according to Note "56. Method of calculating provisions" of the 2019 Group annual report. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

26.8.1. FORBEARANCE

Forbearance measures are defined as concessions towards a borrower facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Forbearance measures and risks are monitored by the operative risk units responsible for Corporate / SME, Consumer and Mortgage. Additionally, forbearance measures represent a trigger event in order to perform impairment tests in accordance with IFRS requirements.

During the first half of 2020, payment moratoria were granted on a significant number of exposures to a significant number of clients, due to special circumstances related to Covid-19. All the payment moratoria granted in Addiko fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020, and also with local regulation issued specifically for this purpose. As a consequence moratoria granted to clients impacted by Covid-19 was not considered an automatic forbearance (or default) trigger, and as such have not impacted the forbearance amounts, but are being disclosed in a separate table below.

The following chart provides an overview of the forbearance development in the course of the first half of 2020.

EUR m

	01.01.2020	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	30.06.2020
Central banks	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General governments and government related entities	1,8	0,0	-0,1	0,0	0,0	0,0	1,8
Credit institutions	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other financial corporations	0,3	0,0	0,0	0,0	0,0	0,0	0,3
Non-financial corporations	49,9	5,1	-2,2	0,0	-0,4	-6,8	45,5
Households	34,8	3,4	-3,4	0,0	-0,3	-4,0	30,6
Loans and advances	**86,8**	**8,5**	**-5,7**	**0,0**	**-0,7**	**-10,7**	**78,2**
Loan commitments given	0,2	0,2	-0,1	0,0	0,0	0,0	0,4

The following chart provides an overview of the forbearance development in the course of the year 2019:

EUR m

	01.01.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2019
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	2.0	0.0	-0.2	0.0	0.0	0.0	1.8
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Non-financial corporations	74.3	39.9	-21.6	-10.1	0.0	-32.6	49.9
Households	41.1	12.8	-5.2	0.0	0.0	-13.8	34.8
Loans and advances	**117.6**	**52.7**	**-27.0**	**-10.1**	**0.0**	**-46.4**	**86.8**
Loan commitments given	0.3	0.1	-0.2	0.0	0.0	0.1	0.2

The following tables shows the forbearance exposure at 30 June 2020:

EUR m

	Closing Balance 30.06.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	Interest income recognised in respect of forborne assets
General governments and government related entities	1.8	1.8	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.3	0.0
Non-financial corporations	45.5	8.3	4.4	32.9	0.1
Households	30.6	12.4	1.5	16.7	0.1
Loans and advances	**78.2**	**22.5**	**5.9**	**49.8**	**0.2**

The following tables shows the forbearance exposure at 31 December 2019:

EUR m

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	Interest income recognised in respect of forborne assets
General governments and government related entities	1.8	0.0	0.0	1.8	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.3	0.0	0.0	0.3	0.0
Non-financial corporations	49.9	9.7	2.2	38.0	0.5
Households	34.8	16.2	1.8	16.8	0.5
Loans and advances	**86.8**	**25.8**	**4.0**	**56.9**	**1.0**

The following table shows the collateral allocation for the forbearance exposure at HY 2020:

EUR m

Internal Collateral Value (ICV) in respect of forborne assets	ICV	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.0	2.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	6.4	5.2	0.0	0.0	0.0	1.2
Medium and Small Corporate	23.4	16.7	1.6	0.2	1.8	3.0
Retail	18.3	3.3	14.4	0.0	0.5	0.1
Total	**50.1**	**27.2**	**16.0**	**0.2**	**2.4**	**4.3**

Following table shows the collateral allocation for the forbearance exposure at the YE19:

EUR m

Internal Collateral Value (ICV) in respect of forborne assets	ICV	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	4.6	2.1	0.0	0.0	0.0	2.6
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	10.7	9.5	0.0	0.0	0.0	1.2
Medium and Small Corporate	22.4	16.4	1.3	0.1	1.7	2.8
Retail	20.7	4.3	15.8	0.0	0.6	0.0
Total	**58.5**	**32.3**	**17.1**	**0.1**	**2.4**	**6.6**

26.8.2. MORATORIA DUE TO COVID-19

Based on intervention acts relating to the debt payment moratorium imposed by governments where Addiko operates, the Group banking members by the end of June 2020 granted 78,112 such moratoriums in the total amount of EUR 1,011.3 million, of which EUR 445.8 million to its SME clients and EUR 290.3 million to its consumer and mortgage clients.

Most of these moratoriums were concluded in April, while in some countries partially already in March 2020. It should be noted that markets such as Serbia implemented such schemes on an opt-out basis or as strong obligatory measure such as Montenegro, which means that a relatively large share of exposures have been included. Other countries like Bosnia and Hercegovina, Slovenia and Croatia, adopted an approach in which the decision to grant the moratoria is on the bank, based on client´s request, and therefore lower volumes have been requested.

The moratorium applies to a large group of obligors predefined on the basis of broad criteria (national law, business segment, product range, etc) and envisages only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time. Moratoriums are granted for the period between 3 to 12 months, subject to applicable government measure.

As previously disclosed, Addiko has concluded so far that all moratoria introduced in the markets of operation fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic triggering of forbearance or default classificaton. However, Addiko Group continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

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

EUR m

30.06.2020	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	278.3	14.9	12.0	10.1	290.3	25.0
SME	440.8	6.3	5.0	3.7	445.8	10.0
Non Focus	264.9	8.2	10.4	5.5	275.2	13.7
o/w Large Corporate	145.5	1.9	0.0	0.0	145.5	1.9
o/w Mortgage	97.2	5.9	10.0	5.3	107.2	11.3
o/w Public Finance	22.2	0.4	0.3	0.2	22.5	0.6
Corporate Center	0.0	0.0	0.0	0.0	0.0	0.0
Total	**984.0**	**29.3**	**27.4**	**19.4**	**1,011.3**	**48.8**

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

EUR m

30.06.2020	Performing		Non Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Addiko Croatia	154.1	3.0	2.9	1.2	157.0	4.3
Addiko Slovenia	131.7	3.4	1.2	0.8	132.9	4.2
Addiko Serbia	550.3	15.7	18.9	14.6	569.2	30.3
Addiko in Bosnia and Herzegovina	105.0	5.4	1.7	1.1	106.7	6.5
Addiko Montenegro	42.8	1.8	2.7	1.7	45.5	3.5
Addiko Holding	0.0	0.0	0.0	0.0	0.0	0.0
Total	**984.0**	**29.3**	**27.4**	**19.4**	**1,011.3**	**48.8**

(27) Development of risk provisions

27.1. Method of calculating risk provisions

Concerning the methodology applied in the calculation of the risk provisions in the half year financial statements, reference is made to Note 14 of the 2019 Group annual report.

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

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

The following tables provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate 1H20 ECL. The amounts shown represent the average value of the macroeconomic variables for 2020 and the remaining 2-year forecast period (2021, 2022) for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

30.06.2020	Baseline case		Optimistic case	Pessimistic case
	2020[1)]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
Real GDP (constant prices)				
Croatia	-11,0	3,8	0,4	-2,7
Slovenia	-9,5	3,8	1,3	-2,5
Bosnia & Herzegovina	-5,0	3,3	1,4	-0,3
Serbia	-4,0	3,8	2,1	0,3
Montenegro	-8,0	4,8	1,4	-0,4
EMU	-7,5	4,5	1,8	-0,9
Unemployment Rate (ILO, average %)				
Croatia	11,0	9,6	8,7	11,4
Slovenia	9,0	7,7	6,6	9,6
Bosnia & Herzegovina	19,0	16,3	15,8	18,6
Serbia	13,4	12,2	11,2	14,0
Montenegro	21,0	18,2	17,7	20,6
EMU	10,4	9,8	9,1	10,9
Real-Estate (% of change)				
Croatia	-8,5	0,5	0,6	-5,6
Slovenia	-7,0	1,1	3,3	-6,5
EMU	-5,0	1,4	4,0	-5,5
CPI Inflation (average % YoY)				
Croatia	1,0	1,4	1,9	0,5
Slovenia	0,5	1,4	1,9	0,4
Bosnia & Herzegovina	-0,5	1,5	1,5	0,1
Serbia	1,1	2,0	2,4	0,9
Montenegro	0,5	1,5	1,9	0,4
EMU	0,2	1,5	1,5	0,6

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

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

- Baseline: European economies will record unprecedented deep recessions in 1H20 and the full-year also due to Covid-19 shock and group of countries in Addiko´s portfolio will experience larger hit since global financial crisis and earlier. As restrictive measures are relaxed after a few months, recovery will start, although it is likely to be sluggish. What will account for the difference in the recovery patterns are country-specific structural weaknesses and financial constraints. Western European countries will probably experience quicker rebound for this reason, strengthening foreign demand in the countries where the Group operates. However, internal vulnerabilities in SEE countries could offset those gains, although much depends on the vast range of (counter)measures they will take, as well as the financial support they will have from international agencies. A relatively firm and uniform bounce-back is expected by the second half of 2021, subject to material downside risks. Looking at longer-term dynamics, cumulative growth in the critical first three years is expected to remain positive, specifically in Bosnia and Herzegovina and Serbia (whose economies are less vulnerable to changes of the tourism market have somewhat larger fiscal space and younger population overall), while negative growth impact will still burden Slovenian, Montenegrian and Croatian economies that constitute 2/3 of Addiko´s portfolio (exactly for the opposite factors in play). However, due to the lag effects on unemployment and second-round wage bargaining, consumer spending could remain sluggish, contributing to dampened business confidence and lower investment expectations, amplifying uncertainty surrounding the recovery phase. Global monetary conditions were already extraordinary loose before the coronavirus crisis, and this is now even more the case so one can expect ultra-low interest rates and large asset purchase program by the major central banks to continue until at least mid-2021. This fact in conjuction with depressed demand will keep interest rates and prices fluctuating within narrow range across all countries where Addiko operates. Perhaps some modest inflationary pressure will come from rising food prices and relatively weaking euro against dollar. Exchange rates however should not be volatile, especially after Croatia has entered ERM II.

- Optimistic: This scenario reflects a combination of the factors such as quicker-than-expected rollout of mass testing capacities, creation of a widely available vaccine, more robust upturn in the key Asian economies than currently projected, and consequently higher demand for European exports. Larger commitment of European institutions to the common recovery fund and ameliorating internal tensions between north and south Europe would of course additionally help to boost the recovery. The positive spill-overs to regional markets would be immediately felt, although in 2020 this would still entail negative growth rates. However, the GDP loss would be dampened in relation to other scenarios, with consumer and producer prices gaining momentum. It can also be expected that in relatively more fiscally constrained markets like Slovenia and Croatia, the public debt would still remain elevated.

- Pessimistic: This scenario implies a second wave of infections and longer-than-expected waiting period for a mass vaccine, requiring the reinstatement of severe lockdown measures across Europe, including in the Addiko countries of operation. Less effective and not optimally coordinated monetary, fiscal and banking policies and measures will put a pressure on the recovery, thus enabling vulnerabilities, inherited from pre-crisis industrial production contraction and generated through exhausted corporate balance sheet positions during the crisis, to become new reality. Unemployment will stay higher and further contribute to dampened demand, despite potential wage-conservation measures that might be seen after policy intervention is provoked by such developments. However, moving to more restrictive conditions that forecasters have to envisage in designing scenarios this time entails great uncertainty. It is not only difficult to anticipate policy reactions or their effectiveness, but also their feedback on the uncertainty. A possible second wave is hard to predict, but estimating the impact on the supply chain in case such events would occur would be an even harder task. On top of all that, there is scarcity of similar events that could provide useful empirical guidance.

31.12.2019	Baseline case First 12 months[1]	Baseline case Remaining 2-year period[1]	Optimistic case 3-year period[1]	Pessimistic case 3-year period[1]
Real GDP (constant prices)				
Croatia	2.7	2.1	4.5	0.9
Slovenia	2.8	2.6	5.2	1.3
Bosnia & Herzegovina	2.7	3.0	4.9	1.5
Serbia	3.5	2.8	5.4	1.7
Montenegro	3.0	2.9	5.4	1.4
EMU	1.2	1.3	2.5	0.5
Unemployment Rate (ILO, average %)				
Croatia	6.0	5.5	4.3	7.3
Slovenia	4.0	4.1	3.2	5.4
Bosnia & Herzegovina	15.0	13.6	12.7	15.4
Serbia	10.8	10.0	8.8	11.5
Montenegro	14.0	13.5	12.3	15.0
EMU	7.5	7.4	6.5	8.3
Real-Estate (% of change)				
Croatia	4.5	2.4	4.7	0.1
Slovenia	6.2	2.8	5.6	0.2
EMU	3.0	2.3	4.2	-1.2
CPI Inflation (average % YoY)				
Croatia	1.5	1.6	2.3	0.8
Slovenia	1.7	1.8	2.5	1.0
Bosnia & Herzegovina	1.6	1.7	2.4	0.9
Serbia	1.8	2.2	3.0	1.5
Montenegro	1.8	2.0	2.7	1.2
EMU	1.0	1.5	1.8	0.9

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

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

EUR m

30.06.2020	Probability weighted	Optimistic case	Base case	Pessimistic case
Consumer	46.5	44.4	46.1	48.0
SME	16.4	14.1	15.9	18.0
Non focus	25.2	21.2	24.2	28.5
Corporate Center	1.3	0.3	0.8	2.5
Total (Stage 1 and 2)	**89.3**	**79.9**	**87.1**	**97.0**

27.2. Development of risk provisions

The significant increase of risk provisions in 1H2020 is caused mainly by recognition of Covid-19 impact on the macro economic environment. The impact was, as described above, included in the ECL calculation model, rising overall ECL coverage for performing loans (stage 1 and stage 2). Partially due to moratoria granted by the bank, as well as due to various supportive measures initiated by governments, the impact of Covid-19 did not generated a material decrease of the asset quality in the first half of 2020 (no material increase in NPE and related risk provisions).

27.3. Development of the coverage ratio

The coverage ratio (calculated as the ratio of the total risk provisions to non-performing exposure) remains on approximately the same level (73.2%) compared to 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 2 additionally considers collaterals):

EUR m

30.06.2020	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	1,505.1	71.6	62.8	10.4	4.8%	87.7%	102.2%
SME	1,722.1	67.3	46.7	40.2	3.9%	69.3%	129.1%
Non Focus	1,732.3	105.4	69.3	73.6	6.1%	65.8%	135.6%
o/w Large Corporate	783.4	16.8	9.2	10.3	2.1%	54.7%	115.9%
o/w Mortgage	776.1	86.6	58.7	62.8	11.2%	67.8%	140.3%
o/w Public Finance	172.9	2.0	1.5	0.5	1.2%	72.3%	97.5%
Corporate Center	1,922.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**6,881.4**	**244.3**	**178.8**	**124.3**	**3.6%**	**73.2%**	**124.0%**
o/w Credit Risk Bearing	**5,119.2**	**244.3**	**178.8**	**124.3**	**4.8%**	**73.2%**	**124.0%**

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

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

EUR m

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
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%**

(28) Measurement of real estate collateral and other collateral

A summary of Addiko policies in relation to the measurement of real estate collateral is set out in the Note 57 of the same name in the consolidated financial statements as of 31 December 2019.

The real estate market in Addiko operating countries is closely monitored from the beginning of the Covid-19 crisis. During the lock down, the real estate market was completely inactive and in last two month an increase in number of transactions can be observed. Still the number of transactions on the market is low because sellers are reluctant to decrease prices and investors are waiting for prices to decrease. Generally, Addiko estimates that prices on the real estate market take time to adjust to the circumstances and a decrease of the prices is expected in the last quarter of 2020 and at the beginning of 2021. Since prices on the market still don't show significant negative trend and Addiko is using conservative haircuts for the calculation of the internal collateral values, which buffer potential losses, a re-assessment of the market values for collaterals was not considered to be necessary in the preparation of the half year financial statements.

The internal collateral values (ICV) are shown in the following table for 30 June 2020 as well as 31 December 2019:

EUR m

Collateral Distribution	30.06.2020	31.12.2019
Exposure	6,881.4	7,058.5
Internal Collateral Value (ICV)	1,719.5	1,793.1
therof CRE	672.7	703.8
thereof RRE	598.8	635.6
thereof financial collateral	26.2	27.3
thereof guarantees	298.9	293.4
thereof other	122.9	133.0
ICV coverage rate	**25.0%**	**25.4%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estates given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail. Collateral coverage remains on approximately same level (25.0%) compared to YE19 (25.4%).

(29) Market risk

A summary of Addiko policies in relation to the market risk is set out in the Note 58 of the same name in the consolidated financial statements as of 31 December 2019.

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

EUR m

	30.06.2020	31.12.2019
Interest Rate Risk (Banking and Trading Book)	18.1	31.6
Credit Spread Risk	25.4	15.5
Foreign Exchange Risk	22.5	11.6
Equity Risk - Investments	0.0	0.0
Equity Risk - Client Default	0.1	0.1

An increase in the total market risk exposure could be observed largely as the effect of increased market volatility within the Covid-19-affected environment. As such, there was an increase in Credit Spread risk to EUR 25.4 million at 30 June 2020 against the value of EUR 15.5 million at 31 December 2019, coming largely on the back of increased volatility of credit default swaps. Also, an increase in the foreign exchange risk could be observed to EUR 22.5 million at 30 June 2020 against EUR 11.6 million at 31 December 2019, mirroring an increase in FX rate volatility. A drop in interest rate risk was driven by the very recent stabilization in interest rates, hence offsetting effects from the above-mentioned market risks onto total internal capital requirement.

(30) Liquidity risk

A summary of Addiko policies in relation to the liquidity risk is set out in the Note 59 of the same name in the consolidated financial statements as of 31 December 2019.

In 1H20, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 176% and its peak of 211%.

The counterbalancing capacity at the Addiko Group was structured as follows:

EUR m

Liquidity Buffer	30.06.2020	31.12.2019
Securities eligible for central bank	428.4	382.5
Securities eligible for repo	454.3	410.1
Credit claims eligible for central bank or repo	0.0	0.0
Obligatory reserves (countable)	0.0	0.0
Cash reserves at central bank (locked)	185.0	158.4
Counterbalancing Measures		
Other liquefiable assets (short-, medium-term)	0.0	0.0
Committed/required credit lines	0.0	0.0
New issuance and securitization	0.0	0.0
Total Counterbalancing Capacity	**1,067.6**	**951.0**

The liquidity situation of the Addiko Group in 1H20 was characterised by a robust liquidity surplus. As such, the Covid-19 situation did not lead to any material disruption in Addiko's liquidity position, with stable funding and limited cash flow effects of moratorium behind. That said, the Addiko Group recorded a stable level of deposits around EUR 4.7 billion. Based on anticipated cash flow profile going forward, it is also expected a stable liquidity situation in the rest of 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.

(31) Operational risk

The definition of operational risk and the approach to risk measurement did not materially change compared to the disclosures from the consolidated financial statements as of 31 December 2019.

Since the outbreak of the Covid-19 pandemic communication related to thereby triggered operational risks and losses has been increased. Operational losses related to Covid-19 have been collected and are reported on a regular basis. Having been prepared properly in advance, the loss impact due to operational risk has been minor and is mainly related to additional safety and protection measures.

Moreover, critical key process that are relevant for the business continuity of Addiko group have been identified. It was considered which risks could occur due to the crisis situation and whether processes have been changed as a result. Consequently, the possible impact of these changes to the risk profile was estimated.

(32) Legal risk

During the first half of 2020 Addiko could execute the collection of EUR 1.9 million following the 2017 Supreme Court decision in favor of one entity of the Group in relation to a past damage claim, where the Group had to pay in 2016 about EUR 10 million after the initial decision in first and second instance in favor of the plaintiff. In relation to the residual passive legal disputes no material changes have occurred since year-end 2019. Reference is made to the disclosures from the consolidated financial statements as of 31 December 2019.

Supplementary information required by IFRS

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

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

EUR m

	30.06.2020	31.12.2019
Loan commitments given	544.8	593.0
Financial guarantees given	182.3	189.5
Other commitments, given	241.5	224.7
Total	**968.6**	**1,007.3**

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

Contingent liabilities in relation to legal cases

Addiko Group, in particular its operating subsidiaries in Bosnia & Herzegovina and Croatia, faces a number of passive legal cases, where former customers filed claims against Addiko Group seeking compensation for damages, mainly related to FX and unilateral interest change clauses. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Group's position in these legal disputes.

(34) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Addiko Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of Addiko Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. Addiko Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level I - Quoted prices in active markets. The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.
- Level II - Value determined using observable parameters. If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.
- Level III - Value determined using non-observable parameters. This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

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

The following approach is used in the classification of the specific financial instrument:

- Equity instruments - Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.
- Derivatives - The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement model; they are reported under level II or level III depending on the input factors used.
- Debt financial assets and liabilities - The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques whereby expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

Measurement methods used to determine the fair value of level II and level III items

The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used. The fair value of financial instruments with short-terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

The following measurement techniques are applied to items that are measured internally based on models:

- Present value of the future cash flows (discounted cash flow method) - Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.
- Option measurement models - The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items:

- Volatilities and correlations - Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.
- Risk premiums - Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer’s country and sector. This applies to the risk premium of the Addiko Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.
- Loss given default - The loss given default is a parameter that is never directly observable before an entity default.
- Probability of default - Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

Fair value adjustments - Credit value adjustment (CVA) and debt value adjustment (DVA)

Credit value adjustment (CVA) and debt value adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here, the portfolio CVA is distributed in proportion to the individual CVAs. The full CVA approach is applied to items not secured by collateral. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First, the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves available; and are composed of country-specific curves and an internal rating.

OIS discounting

The Addiko Group measures derivatives taking into account base spread influences by applying various interest curves to calculate the forward rates and discount factors (multi-curve framework). According to the current market standards, overnight-indexed swap rates (OIS interest rates) are used for discounting in the measurement of OTC derivatives secured by collateral. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

34.1. Fair value of financial instruments carried at fair value

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

EUR m

30.06.2020	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	11.4	27.2	0.0	38.5
Derivatives	0.0	3.2	0.0	3.2
Debt securities	11.3	24.0	0.0	35.3
Investment securities mandatorily at FVTPL	0.0	0.0	0.3	0.3
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	0.0	0.0	0.0	0.0
Investment securities at FVTOCI	803.7	185.4	2.6	991.6
Equity instruments	18.0	0.0	0.6	18.6
Debt securities	785.7	185.4	2.0	973.0
Total	**815.0**	**212.5**	**2.9**	**1,030.5**
Liabilities				
Financial liabilities held for trading	0.0	9.5	0.0	9.5
Derivatives	0.0	9.5	0.0	9.5
Total	**0.1**	**9.5**	**0.0**	**9.5**

EUR m

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	5.6	32.8	0.0	38.5
Derivatives	0.0	2.5	0.0	2.5
Debt securities	5.6	30.4	0.0	36.0
Investment securities mandatorily at FVTPL	16.4	0.0	0.3	16.7
Equity instruments	0.0	0.0	0.3	0.3
Debt securities	16.4	0.0	0.0	16.4
Investment securities at FVTOCI	861.0	216.3	2.7	1,079.9
Equity instruments	13.2	4.8	0.7	18.6
Debt securities	847.8	211.5	2.0	1,061.3
Total	**883.0**	**249.1**	**3.0**	**1,135.1**
Liabilities				
Financial liabilities held for trading	0.0	6.0	0.0	6.0
Derivatives	0.0	6.0	0.0	6.0
Total	**0.1**	**6.0**	**0.0**	**6.0**

Transfers between level I and level II

Addiko Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the financial instrument does no longer meet the criteria described above for the categorisation in the respective level.

Debt securities at FVTOCI with a book value of EUR 70.6 million (YE19: EUR 16.9 million) and debt securities held for trading with a book value of EUR 4.2 million (YE19: EUR 10.8 million) were transferred from level I to level II due to subsequent illiquid markets. Debt securities at FVTOCI with a book value of EUR 0.0 million (YE19: EUR 109.3 million) and debt securities held for trading with a book value of EUR 2.1 million (YE19: EUR 2.1 million) were moved from level II to level I due to a more liquid market.

Unobservable inputs and sensitivity analysis for Level 3 measurements

For investment securities classified in level III, which is an illiquid unlisted corporate bond, the main input parameter is the discount factor. If the credit spreads used in the calculation of the fair value increased by 100 basis points, the cumulative valuation result as of 30 June 2020 would have decreased by EUR 0.1 million. If the credit spreads used in the calculation of the fair value decreased by 100 basis points, the cumulative valuation result as of 30 June 2020 would have increased by EUR 0.1 million.

The reconciliation of the assets reported under level III as at 30 June 2020 was as follows:

EUR m

30.06.2020	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	2.7	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	2.6
Equity instruments	0.7	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**3.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**2.9**

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

EUR m

31.12.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities mandatorily at FVTPL	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Equity instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Investment securities at FVTOCI	0.6	0.0	0.0	2.0	0.0	0.1	0.0	0.0	2.7
Equity instruments	0.6	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.7
Debt securities	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	2.0
Total	**0.9**	**0.0**	**0.0**	**2.0**	**0.0**	**0.1**	**0.0**	**0.0**	**3.0**

34.2. Fair value of financial instruments and assets not carried at fair value

The carrying amounts of recognised financial instruments not carried at fair value are compared to the respective fair values below:

EUR m

30.06.2020	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves[1]	968.1	968.1	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,789.6	4,032.6	243.0	0.0	0.0	4,032.6
Loans and receivables	3,789.6	4,032.6	243.0	0.0	0.0	4,032.6
Total	**4,757.7**	**5,000.7**	**243.0**	**0.0**	**0.0**	**4,032.6**
Liabilities						
Financial liabilities measured at amortised cost	5,019.6	5,027.7	-8.1	0.0	0.0	5,027.7
Deposits	4,966.5	4,974.7	-8.1	0.0	0.0	4,974.7
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1
Other financial liabilities	53.0	53.0	0.0	0.0	0.0	53.0
Total	**5,019.6**	**5,027.7**	**-8.1**	**0.0**	**0.0**	**5,027.7**

[1]Cash reserves have not been assigned to a level as the carrying amount always approximates their fair value due to their short-term nature

EUR m

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves[1]	899.4	899.4	0.0	0.0	0.0	0.0
Financial assets at amortised cost	3,885.9	4,218.2	332.3	0.0	0.0	4,218.2
Loans and receivables	3,885.9	4,218.2	332.3	0.0	0.0	4,218.2
Total	**4,785.3**	**5,117.5**	**332.3**	**0.0**	**0.0**	**4,218.2**
Liabilities						
Financial liabilities measured at amortised cost	5,121.6	5,137.4	-15.8	0.0	0.0	5,137.4
Deposits	5,065.1	5,080.9	-15.8	0.0	0.0	5,080.9
Issued bonds, subordinated and supplementary capital	0.1	0.1	0.0	0.0	0.0	0.1
Other financial liabilities	56.4	56.4	0.0	0.0	0.0	56.4
Total	**5,121.6**	**5,137.4**	**-15.8**	**0.0**	**0.0**	**5,137.4**

[1]Cash reserves have not been assigned to a level as the carrying amount always approximates their fair value due to their short-term nature

Financial instruments not carried at fair value are not managed on a fair value basis and their fair values are calculated only for disclosure purposes and do not impact the statement of financial position and the income statement. The fair value of receivables and liabilities is determined according to the present value of future cash flows. The risk premium amounts for receivables depend on the internal or external rating of the borrower taking into account the country risk. For liabilities, the own credit spread is taken into account in the discount factor. Due to the fact that no debt issues of the Addiko Group are placed on the market, the calculation of credit spread curves for senior unsecured liabilities is based on quoted credit default swap curves or credit spreads from senior unsecured bonds in a weighted peer group consisting of banking groups operating in CSEE whose markets and estimated credit standing is as similar to that of the Addiko Group as possible. For liabilities covered, a weighted credit spread curve from available benchmark-covered bonds from the peer group was used. Due to the existing uncertainties, a broad range exists for the fair values to be determined.

Addiko Group assessed that the fair value of cash positions approximately corresponds to their carrying amounts largely due to the short-term maturities of these instruments.

34.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. If no market-based estimate exists, the fair value is determined using a discounted cash flow method. At 1H20 the carrying amount of investment properties amounts to EUR 4.0 million (YE19: EUR 4.1 million), whereas the fair value amounts to EUR 4.1 million (YE19: EUR 4.2 million). All investment properties were classified in level III (2019: level III).

(35) Derivative financial instruments

35.1. Derivatives held for trading

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

EUR m

	30.06.2020			31.12.2019		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate						
OTC-products	**390.3**	**2.7**	**5.4**	**417.8**	**2.2**	**2.9**
OTC options	35.5	0.0	0.0	38.8	0.1	0.1
OTC other	354.8	2.6	5.4	379.0	2.1	2.8
b) Foreign exchange and gold						
OTC-products	**212.3**	**0.5**	**4.0**	**205.4**	**0.3**	**3.0**
OTC other	212.3	0.5	4.0	205.4	0.3	3.0
c) Credit derivatives	**8.9**	**0.0**	**0.1**	**8.9**	**0.0**	**0.2**
Credit default swap	8.9	0.0	0.1	8.9	0.0	0.2

(36) Related party disclosures

Following the initial public offering (IPO) in July 2019, AI Lake (Luxembourg) S.à r.l. was Addiko's single largest shareholder. During the first half of 2020 AI Lake (Luxembourg) S.à r.l. sold its residual stake up to 10.1%. Thereof, DDM Invest III AG acquired 9.9% plus an option for the remaining stake of 10.1% which is subject to regulatory approval.

During the first half of 2020 service level agreements between Addiko Bank AG or its subsidiaries and AI Lake (Luxembourg) S.à r.l. existed in relation to Real Estate Sales Program, Business Continuity Management and Corporate Communication / Marketing. These service level agreements have been cancelled in July 2020.

Related parties as defined by the Addiko Group are subsidiaries, associates, other entities excluded from consolidation as well as key personnel of the institution. Key personnel of the Company are the Management Board and the Supervisory Board of Addiko Bank AG as well as the management boards and supervisory boards of the subsidiaries including their close family members. Transactions between Addiko Bank AG and the fully consolidated entities are not disclosed in the notes to the consolidated interim financial statements, as they are eliminated in the course of consolidation.

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

EUR m

30.06.2020	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.1	0.0
Loan and advances	0.0	0.1	0.0
Financial liabilities	0.0	1.7	0.0
Deposits	0.0	1.7	0.0
Other liabilities	0.0	0.0	0.0

EUR m

31.12.2019	Entities with significant influence	Key personnel of the institution or its parent	Other related parties
Financial assets	0.0	0.1	0.0
Loan and advances	0.0	0.1	0.0
Financial liabilities	0.0	1.3	0.0
Deposits	0.2	1.3	0.0
Other liabilities	0.2	0.0	0.0

(37) Own funds and capital requirements

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

The regulatory minimum capital ratios, including the regulatory buffers as of 30 June 2020 and 31 December 2019 amount to:

	30.06.2020			31.12.2019		
	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%	4.10%	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)]	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.000%	0.000%	0.000%	0.003%	0.003%	0.003%
Combined Buffer Requirements (CBR)	**2.500%**	**2.500%**	**2.500%**	**2.503%**	**2.503%**	**2.503%**
Overall Capital Requirement (OCR)	**11.100%**	**12.600%**	**14.600%**	**11.103%**	**12.603%**	**14.603%**
Pillar II guidance (P2G)[1) 2)]	4.00%	4.00%	4.00%	na	na	na
OCR + P2G	**15.100%**	**16.600%**	**18.600%**	**11.103%**	**12.603%**	**14.603%**
Temporary requirements after capital relief by ECB (without CCB + P2G)[2)]	**8.600%**	**10.100%**	**12.100%**	**na**	**na**	**na**

1) As part of the 2019 SREP decision received on the 26 May 2020, Addiko Bank AG received a Pillar II guidance in amount of 4.0%. FMA requested to receive a capital plan by February 2021, which explains how and in what timeframe the P2G recommendation will be complied with.

2) As response to the Covid-19 pandemic, CCB and P2G are part of the capital relief acc. to the 12 March 2020 press release by ECB Banking Supervision.

In addition to Pillar I minimum capital ratios (P1R), institutions also have to fulfil other capital requirements that are being imposed by the supervisory institution or by the legislation:

- Pillar II requirement (P2R): bank specific, obligatory requirement set by the supervisory institution through the Supervisory Review and Evaluation Process (SREP) (together with the P1R it represents the minimum total SREP requirement – TSCR). As a result of the 2019 SREP process, on the 26 May 2020 the FMA informed Addiko Bank AG by way of an official notification to hold at the level of Addiko Bank AG 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 I.
- 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%.
- Pillar II Guidance (P2G): capital recommendation over and above the OCR to withstand stressed situations, 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. On the 26 May 2020, Addiko Bank AG received as part of the 2019 SREP decision a P2G in the amount of 4.0% additional CET1 on Addiko Bank AGs level as well as at the level of the Addiko Group. The FMA has requested Addiko Bank AG, after determining the effects of Covid-19, to present a capital plan by February 2021, which explains how and in what timeframe the P2G recommendation will be complied with.

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 P2R, the full usage of the capital conservation buffer as well as the P2G, Addiko Group’s CET1 requirement amounts to 8.600%, its T1 requirement amounts to 10.100% and its total own funds requirement amounts to 12.100%.

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 30 June 2020 and 31 December 2019 pursuant to CRR applying IFRS figures.

EUR m

Ref[1]		30.06.2020	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)	-6.9	15.9
5a	Independently reviewed profits net of any foreseeable charge or dividend	0.0	-4.9
6	**CET1 capital before regulatory adjustments**	**798.4**	**821.3**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1.0	-1.1
8	Intangible assets (net of related tax liability)	-27.6	-27.9
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differ ences (net of related tax liability where the conditions in Article 38 (3) are met)	-6.2	-16.4
25a	Losses of the current financial year (negative amount)	-12.2	0.0
[#]	IFRS 9 transitional rules	39.4	34.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-7.6**	**-11.4**
29	**Common Equity Tier 1 (CET1) capital**	**790.8**	**809.8**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**790.8**	**809.8**
60	Total risk weighted assets	4,165.4	4,571.5
	Capital ratios and buffers %		
61	CET1 ratio	19.0%	17.7%
63	TC ratio	19.0%	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 19.0 million during the reporting period, reflecting the net impact of the following components:

- A decrease by EUR 22.8 million of the other comprehensive income mainly due to the negative development of market values of debt instruments in the amount of EUR 16.1 million, a slight market value increase of equity instruments in the amount of EUR 0.2 million and a decrease of the foreign currency reserves in amount of EUR 6.9 million;
- A positive impact of EUR 5.4 million in connection with the application of the IFRS 9 transitional capital rules. This effect results from 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 as amended on the 24 June 2020 by the regulation EU 2020/873, which allow to add back to capital the risen stock of stage 1 and stage 2 ECL in the first half of 2020, resulting in an increase of EUR 11.4 million;
- A decrease in regulatory deduction items in the amount of EUR 10.6 million composed of a decrease in investments in intangible assets (EUR 0.3 million), a decrease in deferred tax assets on existing taxable losses (EUR 10.2 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 12.2 million was deducted from the calculation of the regulatory capital.

In the calculation of regulatory capital, the Group continues to deduct the 2019 dividend proposal of EUR 40.0 million, which has not yet been paid out following the recommendation of the ECB.

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

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, Addiko Group uses the standardised approach in the calculation of all three types of risk. RWAs decreased by EUR 406.1 million during the reporting period:

- The RWA for credit risk decreased by EUR 365.5 million. The primary reason for the reduction is that Addiko Group has applied certain adjustments to the CRR and CRR II which became effective on 27 June 2020 in order to mitigate the Covid-19 pandemic impact (EU Regulation No. 2020/873). The temporary treatment of public debt issued in the currency of another EU member state, with a risk weight of 0% until 31 December 2022, has led to a deduction of EUR 201,0 million in credit risk. In addition, the extension of the threshold for SME exposures of up to EUR 2,5 million for a reduction in risk weight (SME supporting factor) resulted in a reduction of credit risk by EUR 28.0 million. Furthermore, in December 2019, the European Commission has approved a decision to include Serbia on the list of third countries and territories whose supervisory and regulatory arrangements are considered as equivalent to the corresponding supervisory and regulatory arrangements applied in the EU (EU Regulation No. 2019/2166). The resulting risk weight of 0% for exposures to Serbia funded in domestic currency has led to a reduction in credit risk by EUR 111.0 million.
- The decrease of RWAs for market risk by EUR 40.5 million is mainly caused by the lower specific and general risk in trading book due to the application of the 0% risk weight (instead of 100% before) for debt securities in RSD (EUR 25.0 million RWA decrease) and less open positions in domestic currencies of non-euro subsidiaries banks. The RWA for counterparty credit risk and operational risks remained stable in line with previous year.
- The RWA for operational risks is based on the three-year average of relevant income, which represents the basis for the calculation.

EUR m

Ref[1)]		30.06.2020	31.12.2019
1	Credit risk pursuant to Standardised Approach	3,592.5	3,958.0
6	Counterparty credit risk	3.7	3.8
19	Market risk	163.7	204.2
23	Operational risk	405.5	405.5
Total risk exposure amount		**4,165.4**	**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 CRD IV, was 12.6% at 30 June 2020, up from 12.5% at 31 December 2019. The development was driven by a higher reduction in leverage exposure than in Tier 1 capital.

EUR m

Ref[1)]		30.06.2020	31.12.2019
20	Tier 1 capital	790.8	809.8
21	Total leverage ratio exposure	6,299.1	6,475.8
22	**Leverage ratio %**	**12.6%**	**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)]	30.06.2020	31.12.2019
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	790.8	809.8
2 CET1 capital as if IFRS 9 had not been applied	751.4	775.8
5 Total capital (TC)	790.8	809.8
6 TC as if IFRS 9 transitional rules had not been applied	751.4	775.8
Risk-weighted assets		
7 Total RWAs	4,165.4	4,571.5
Total RWAs as if IFRS 9 transitional rules had not been applied	4,126.0	4,534.5
Capital ratios %		
9 CET1	19.0%	17.7%
10 CET1 as if IFRS 9 transitional rules had not been applied	18.2%	17.1%
13 TC	19.0%	17.7%
14 TC as if IFRS 9 transitional rules had not been applied	18.2%	17.1%
Leverage ratio (LR)		
15 LR total exposure measure	6,299.1	6,475.8
16 LR	12.6%	12.5%
17 LR as if IFRS 9 transitional rules had not been applied	12.0%	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 and amended on the 24 June 2020. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances. The portion that banks may add back amounts to 95%, 85%, 70%, 50% and 25% each in the first five years of IFRS 9. The impact of IFRS 9 on loan loss allowances is defined as (i) the increase in loan loss allowances on day one of IFRS 9 adoption, plus (ii) any subsequent increase in expected credit losses in the non-credit-impaired (stage 1 and stage 2) booked thereafter. In addition, as response of the Covid-19 pandemic, the Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) 575/2013 and (EU) 2019/676 was published to mitigate the potential impact of an increase in ECL provisions. In accordance with these changes, any additional ECL provisions in stage 1 and stage 2 since 1.1.2020 are included in the dynamic component. This dynamic component allows banks to add-back 100% (for 2020/2021), 75%, 50% and 25% (for 2024) to their own funds. Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposures and RWAs.

Based on these transitional arrangements, EUR 39.4 million (YE19: EUR 34.0 million) have been added back to Addiko Group CET1. This comprises of EUR 28.5 million (YE19: EUR 34.6 million) in impairment allowances, less EUR 0.5 million (YE19: EUR 0.6 million) in deferred tax. According to the new regulation EU 2020/873 additional EUR 11.4 million have been added back to CET1. The corresponding impact on RWAs is an increase of EUR 39.4 million (YE19: EUR 37.0 million).

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 Point of Entry approach at the consolidated level of Addiko Bank AG (in previous financial statements referred as single point of entry, SPE), while the Group is on preparation to meet all requirements for a Point of Entry at the level of Addiko Bank d.d. (Croatia) (in previous financial statements referred as multiple point of entry, MPE).

(38) Events after the reporting date

Ganesh Krishnamoorthi appointed Chief Retail, IT and Digitalization Officer
Ganesh Krishnamoorthi joined Addiko Bank AG on 1 August 2020 as Chief Retail, IT and Digitalization Officer. Mr Krishnamoorthi is an experienced banker and has held several leadership roles in the financial sector over the past 22 years. He began his banking career at Santander Consumer Bank (formerly GE Money Bank), where over a decade he assumed various leadership positions in the areas of IT as well as Retail management and was also responsible for building their digital business. He later joined Western Union Bank as General Manager and led the launch of their digital business across 18 countries in Europe. During the last 3 years, Mr Krishnamoorthi worked in BAWAG and Austrian Anadi Bank. In the latter case he was responsible for the turnaround of their Retail franchise while accelerating digital capabilities and most recently holding also the Interim CEO role.

Further moratorium on loans due to Covid-19 outbreak
On 27 July 2020 the National Bank of Serbia (“NBS”) adopted further decisions concerning emergency measures to facilitate the position of citizens and businesses in servicing debt towards local banks and financial leasing companies in times of the prolonged Covid-19 pandemic crisis. The decisions are essentially an extension of the initial 90-day moratorium that was introduced in March 2020. The decisions imposed an obligation on local banks to offer a moratorium on loans and other credit products. The moratorium applies to all debtors – individuals, farmers, entrepreneurs and companies – and imposes a standstill period in repayment of obligations otherwise falling due as of 1 August 2020 throughout 30 September 2020. As was the case previously, debtors who are still willing to make repayments may opt to keep their original repayment terms. Similar extensions are also currently being discussed in other countries where the Group operates.

Commerzialbank Mattersburg im Burgenland AG
On 14 July 2020, the Austrian Financial Market Authority prohibited Commerzialbank Mattersburg im Burgenland AG from continuing its business operations. The bank is expected to be wound up and secured deposits will be paid out by the Austrian deposit guarantee scheme (ESA/ Einlagensicherung Austria). It is not yet possible to estimate the financial impact on Addiko Group. Addiko Group has no direct exposure to Commerzialbank Mattersburg im Burgenland AG.

Vienna, 18 August 2020
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

Statement of all legal representatives

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Vienna, 18 August 2020
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
Member of the Management Board

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
Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
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
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
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). The most important derivatives are futures, options and swaps
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
E2E	End-to-End
EMU	Economic and Monetary Union of the European Union
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	Austrian Financial Market Authority
FTP	Funds Transfer Pricing
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on

	their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
GDP	Gross Domestic Product
GoB	Group of Borrowers
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, gross amount of provisions for performing loans and non performing loans
Gross performing loans (GPL)	Exposure of on balance loans without accrued interest and no deduction 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
ILO	International Labour Organization
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRR
Loan to deposit ratio (LTD 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 assets, tangible assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to 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 exposure that has been classified as defaulted non-performing in relation to the entire 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 portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non performing exposure/Total exposure (on and off balance).
NPE ratio (CRB based)	Is an economic ratio to demonstrate the proportion of exposure that have been classified as defaulted non-performing in relation to the entire credit risk bearing exposure. 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 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; Securities, Derivatives and Deposits at / Exposure towards National Banks are not considered).
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
OCI	Other comprehensive income
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
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
POCI	Purchased or originated credit impaired assets
Public Finance	The segment Public Finance includes all state-owner 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) Nbr 575/2013
Return on average tangible equity	Calculated as result after tax divided by the simple average of tangible equity attributable to the owners of the parent for the respective period
RSD	Serbian Dinar – the Serbian Dinar is the local currency of Serbia
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross

	revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
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
Tier 1 capital (T1)	Sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution
Total capital ratio (TCR)	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds 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 / simply Ø gross performing loans
wiiw	Wiener Institut für internationale Wirtschaftsvergleiche; Vienna Institute for International Economic Studies in Austria

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