Addiko Bank

Annual Report 2019

Key data based on UGB/BWG financial statements

Addiko Bank AG

EUR m

	2019	2018
Income statement	**1.1. - 31.12.**	**1.1. - 31.12.**
Net interest income	8.2	7.4
Income from Dividends	25.5	26.9
Net fee and commission income	-0.3	-0.1
Other operating income	3.0	63.5
Operating expenses	-49.3	-56.4
Operating result	-12.9	41.3
Net gain/loss on current financial assets, including risk provisions on loans and advances	6.3	-3.9
Net gain/loss on financial fixed assets, including impairments on equity investments	-130.9	33.5
Result from ordinary activities	-137.5	70.9
Profit/loss for the year after tax	-137.8	69.3
Balance sheet	**31.12.**	**31.12.**
Loans and advances to credit institutions	241.9	219.7
Liabilities to credit institutions	184.8	145.0
Liabilities to customers	412.9	360.4
Equity	583.1	770.9
Total assets	1,203.3	1,305.1
Capital Ratios	**31.12.**	**31.12.**
Tier 1 ratio	46.8 %	57.6 %
Total capital ratio	46.8 %	57.6 %

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Management Report 2019

Addiko Bank AG is a fully-licensed bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority. The Bank, together with its six subsidiaries, is operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro.

Addiko Bank AG, using its Austrian banking license, provides online deposits services for customers in Germany and Austria. These deposits provide Addiko Bank AG and the whole Addiko Group with a strategic liquidity reserve and are invested in liquid government bonds and similar financial assets. Addiko Bank AG manages its subsidiaries through group-wide strategies, policies and controls and manages Addiko Group's liquidity reserve.

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

1. Report on the business development and economic situation

1.1. Business development

General economic conditions 2019

Growth momentum remains quite strong by post-crisis standards and has even picked up in Croatia recently. However, the growth rates in excess of 4% recorded in 2018 in three of the countries of operation (Slovenia, Serbia and Montenegro) could not be sustained last year, albeit for varying reasons. Using an unweighted average, the pace of expansion across the five countries of operation slowed down from 4% in 2018 to an estimated 3.1% last year. Growth was strongest in Serbia (3.4%) and Montenegro (3.3%) and weakest in Bosnia and Herzegovina (2.7%), while the economies of Croatia and Slovenia grew by an estimated 3.0% and 2.9%, respectively.

Over the next two years, growth in the five countries of operation (unweighted average) is projected to slow down further – albeit only marginally, to 2.8% in both 2020 and 2021. There are two key reasons for this: (i) the weakening external demand, not least reflecting protectionist risks, and (ii) in some cases domestic capacity constraints, such as skills and labour shortages. Although most Addiko countries of operation continue to have quite high unemployment rates, these have fallen considerably in recent years, reflecting robust economic growth and consequently higher labour demand, as well as in many cases continued outward migration. These trends are highly likely to continue in the next 2-3 years, which will add further positive impetus to wage and private consumption growth. At the same time, in those countries where the labour shortages have been most pronounced, such as Slovenia and (to a lesser extent) Croatia, they started subsiding recently thanks to increased hiring of foreign labour.

Monetary conditions remain very loose, reflecting subdued inflation trends across most of Europe and ultra-loose ECB policy. Supply side factors in particular, such as depressed energy prices, indicate that inflationary pressure will not emerge anytime soon. Across all countries of operation, inflation has picked up somewhat from 2014-16 levels (when many countries experienced a period of deflation) but will remain at historically low levels. The main determining factor for credit growth in the next 2-3 years in Addiko countries will be the stance of the ECB. This makes sense, considering the very strong trade and investment integration between Addiko countries and the bloc and their fixed exchange rate regimes (except in Serbia). Slovenia is in fact part of the euro area, and Montenegro uses the euro as a legal tender. To this end, the signs for credit growth are quite positive. In September 2019, the ECB cut its deposit rate further to a record -0.5% and restarted its asset purchase programme in the volume of EUR 20 billion per month, while keeping its refinancing rate unchanged at 0%.

All five countries of operation are at a positive point in the credit cycle: lending growth to the non-financial private sector was firmly positive in all countries of operation last year. The strongest growth was observed in Serbia (8.9% year-on-year), followed by Bosnia and Herzegovina (6.7%), Montenegro (6.6%), Slovenia (4.6%) and Croatia (3.2%).[1] In all countries of operation, credit demand from households has been stronger than that from companies, which supported private consumption growth.

[1] The data for Serbia and Montenegro refer to December 2019, for the remaining three countries to November 2019.

In Croatia, real GDP growth accelerated to an estimated 3% last year (from 2.7% in 2018), not least thanks to tourism season surprising on the upside. However, for 2020-2021 Addiko projects a growth deceleration to 2.7% per year on account of the weakening external demand. The Croatian government aims to join the ERM 2 by January 2021 at the latest, paving the way for EUR accession two years later. To this end, the country committed itself to implement reforms in six policy areas, three of which are in the banking sector. The assessment of the country's progress in its application to join the ERM 2 (and the European Banking Union) by the ECB and the European Commission is expected in June-July of this year. Credit growth in Croatia has been sustained exclusively thanks to borrowing by households, whereas loans to the corporate sector have been declining slightly (by 1.7% as of November 2019, year-on-year).

In Slovenia, the very high real GDP growth from 2018 (4.1%) could not be repeated last year, but at an estimated 2.9% was still reasonably solid. However, Addiko expects growth to subside further going forward, to 2.6% in 2020 and 2.4% in 2021, mostly on account of the weakening external demand. The recent economic weakness in Germany has already affected Slovenian exports and the country's car production has suffered, but the performance of the important pharmaceuticals industry has remained strong. Following severe consumer loan restrictions imposed by the Central Bank in late 2019, household credit growth has started decelerating from the high growth rate of around 6% per year recorded last year.

In Serbia, growth slowdown has been not as pronounced as initially expected: real GDP still grew by an estimated 3.4% last year, partly thanks to the construction of the Serbian part of Turk Stream gas pipeline. For 2020 and 2021, the Addiko growth forecast has been revised upwards as well, to 3.4% and 3.2% respectively. This is partly due to the recent favourable international political developments, including improved Serbia-Kosovo relations and the related abolition of Kosovo's 100% import tariff on goods from Serbia and Bosnia and Herzegovina (which had been in place since late 2018). FDI inflows should continue to support investment, while rising wages and generous social policies will underpin private consumption growth. Credit growth picked up strongly in 2018 on the back of higher confidence, and although the current growth rate of around 9% per year may not be sustained, the outlook for the next two years is positive.

In Bosnia and Herzegovina, economic growth slowed down by nearly 1 pp last year (to an estimated 2.7%), mainly because of the disappointing export performance, with the weakness in the euro area increasingly spilling over. Growth is projected to subside further this year, to 2.5%, but should rebound to 2.8% in 2021, with the economy benefitting from remittance inflows and increased tourism exports. After more than a year of political deadlock, the formation of the new government should facilitate economic reforms this year, although the country's prospects of obtaining EU candidate status in the near future remain questionable and would require a major constitutional reform. Credit growth has picked up pace somewhat recently, and has approached nearly 8% year-on-year in the case of the household sector.

In Montenegro, growth slowdown has been particularly sharp, from 5.1% in 2018 to an estimated 3.3% last year, mainly on account of the fiscal consolidation in the face of high public (and foreign) debt, with spending cuts falling mostly on public investment projects. Growth is projected to subside further going forward, to 3.0% this year and 2.9% in 2021, reflecting weakening investment activity as well as a slump in private and public consumption. The current government strategy is to ensure a fiscal surplus in 2020-2022, which should help bring down the public debt to 62% of GDP. Given the already high levels of corporate and private debt, the pace of credit expansion may weaken from its current rather high rate in excess of 6% per year.

Organizational structure and Operating Model implementation

Addiko Group's Operating Model continued to be successfully put into practice in 2019, and non-critical "Central Steering" and "Group Shared Services" were centrally rendered.

This operating model aims to raise levels of productivity and improved efficiency across the organisation while assuring local execution of all critical services. The "Central Steering" and "Group Shared Services" provide each Addiko entity a higher degree of specialisation and standardisation by sharing best practices and therefore raising the quality of service delivery and steering while reducing simultaneously the cost of delivery across the Group.

The operating model ultimately ensures a higher level of service quality across the six countries, increase operational stability and enabling full leveraging of investments at the Group level. Furthermore, it offers interesting perspectives for highly skilled staff and experts.

Development of the Balance Sheet

EUR m

Assets	31.12.2019	31.12.2018
Cash in hand, balances with central banks	80.5	105.3
Loans and advances to credit institutions	241.9	219.7
Fixed income securities	158.1	118.5
Shares in associated and affiliated companies	707.7	839.0
Tangible, intangible, deferred and other assets	15.0	22.7
Total assets	**1,203.3**	**1,305.1**

Total assets as at 31 December 2019 in the amount of EUR 1,203.3 million decreased by EUR -101.8 million year-on-year (2018: EUR 1,305.1 million) reflecting the following changes:

Cash in hand, balances with central banks decreased by EUR -24.8 million to EUR 80.5 million as at 31 December 2019 (2018: EUR 105.3 million).

Loans and advances to credit institutions, which mainly comprise refinancing loans to subsidiary banks, amounted to EUR 241.9 million as at 31 December 2019 (2018: EUR 219.7 million). This includes subordinated loans and advances in the amount of EUR 192.6 million (2018: EUR 192.2 million). The increase is primarily related to short-term transactions with Addiko Bank AGs subsidiaries.

Fixed-income securities, which include debt instruments from public issuers in the amount of EUR 104.0 million (2018: EUR 69.7 million) as well as debt securities and other fixed-income securities in the amount of EUR 54.2 million (2018: EUR 48.8 million), increased overall by EUR 39.6 million to EUR 158.1 million as at 31 December 2019 (2018: EUR 118.5 million).

The shares in affiliated companies decreased from EUR 839.0 million as at 31 December 2018 to EUR 707.7 million as at 31 December 2019. This decrease of shares in affiliated companies is attributable to the write-off of the carrying value of the subsidiaries.

Tangible, intangible, deferred and other assets reduced from EUR 22.7 million as at 31 December 2018 by EUR -7.6 million to EUR 15.0 million as at 31 December 2019. The decline is the net result of the following matters:

- The depreciation of IT solutions for the customer business and a relocation of investments to operating subsidiaries result in an decrease in intangible assets by EUR -1.9 million to EUR 4.7 million as at 31 December 2019 (2018: EUR 6.6 million).
- The reduction in other assets from EUR 6.8 million as at 31 December 2018 by EUR -2.7 million to EUR 4.2 million as at 31 December 2019 is mainly caused by the decline in the business volume of derivatives.
- The decrease in deferred assets by EUR -2.9 million to EUR 5.4 million as at 31 December 2019 (2018: EUR 8.3 million) is mainly attributable to reduced accruals from intra-group charging.

EUR m

Equity and Liabilities	31.12.2019	31.12.2018
Liabilities to credit institutions	184.8	145.0
Liabilities to customers	412.9	360.4
Other liabilities and provisions	22.5	28.7
Equity	583.1	770.9
Total assets	**1,203.3**	**1,305.1**

Liabilities to credit institutions amounted to EUR 184.8 million as at 31 December 2019 (2018: EUR 145.0 million). The increase is primarily related to short-term transactions with Addiko Bank AGs subsidiaries. This line item did not include subordinated liabilities in the financial year 2019.

Liabilities to customers amounted to EUR 412.9 million as at 31 December 2019 (2018: EUR 360.4 million). The balance of EUR 412.9 million reported for the financial year 2019 exclusively results from online direct deposits (payable on demand and term deposits in Austria and Germany).

Other liabilities include other payables in the amount of EUR 6.8 million (2018: EUR 7.5 million) and provisions in the amount of EUR 15.8 million (2018: EUR 21.2 million). Changes are disclosed in the corresponding sections in the notes to the financial statements.

Equity decreased from EUR 770.9 million as at 31 December 2018 to EUR 583.1 million as at 31 December 2019. The change is primarily related to the valuation of the shares in affiliated companies and the distribution of a dividend in the amount of EUR 50.0 million.

Development of the result

EUR m

	1.1. - 31.12.2019	1.1. - 31.12.2018	Change
Net interest income	8.2	7.4	0.8
Income from affiliated companies	25.5	26.9	-1.4
Net fee and commission income	-0.3	-0.1	-0.2
Net income from trading activities	0.0	0.0	-0.0
Other operating income	3.0	63.5	-60.5
Operating income	36.4	97.7	-61.3
Operating expenses	-49.3	-56.4	7.1
Operating profit	-12.9	41.3	-54.2
Valuation/ Sales result of the current assets	6.3	-3.9	10.2
Valuation/ Sales result of the financial fixed assets	-130.9	33.5	-164.4
Loss from ordinary activities	-137.5	70.9	-208.4
Taxes	-0.3	-1.6	1.3
Profit/loss for the year after tax	-137.8	69.3	-207.1
Changes in reserves	177.8	-19.3	197.1
Net profit/loss for the year after changes in reserves	40.0	50.0	-10.0

Net interest income increased year-on-year by EUR 0.8 million to EUR 8.2 million (2018: EUR 7.4 million). The change compared to the previous year essentially results from the shareholder's waiver of the Tier 2 capital in 2018 and the corresponding reduction in interest expenses in 2019. This development is offset by the settlement of subordinate receivables from subsidiaries in 2018 which led to the reduction of interest income in the financial year 2019.

In the financial year 2019, dividends in the amount of EUR 25.5 million (2018: EUR 26.9 million) were distributed by the subsidiaries from the net profit after changes in reserves of the financial year 2018.

Fee and commission income amounted to EUR -0.3 million as at 31 December 2019 (2018: EUR -0.1 million). The negative net fee and commission income in the financial year 2019 is mainly attributable to commissions payable from the online direct deposit business (2019: EUR -0.3 million; 2018: EUR -0.5 million).

Other operating income decreased from EUR 63.5 million in 2018 to EUR 3.0 million in 2019. In the financial year 2018 this item included a debt waiver in amount of EUR 61.0 million of the shareholder Al Lake (Luxembourg) S.à r.l..

Operating income decreased from EUR 97.7 million in 2018 to EUR 36.4 million in 2019.

In the financial year 2019, operating expenses decreased by EUR -7.1 million to EUR -49.3 million and break down as follows:

- Personnel expenses of Addiko Bank AG amounted to EUR -20.3 million as at 31 December 2019 (2018: EUR -22.4 million). In the financial year 2019 the average number of staff decreased from 145 (2018 annual average) to 136 (2019 annual average).
- Other administrative expenses amounted to EUR -24.8 million compared to the previous year's figure of EUR -28.4 million. The reduction mainly results from legal and consulting expenses decreasing from EUR -8.9 million by EUR 2.5 million to EUR -6.4 million. In addition, the reduction was supported by the decrease of the yearly fees to be paid to the resolution fund from EUR -0.7 million to EUR 0 and by the decrease of IT costs in the amount of EUR 1.1 million from EUR -10.0 million to EUR -8.9 million. This positive development was partially compensated by the increase in expenses for outsourced functions by EUR 1.0 million from EUR -4.6 million to EUR -5.6 million.
- Impairment and depreciation expenses on tangible and intangible assets amounted to EUR -2.4 million in the financial year 2019 (2018: EUR -4.1 million). The year-on-year change essentially results from lower impairment on intangible assets decreased by EUR 1.5 million from EUR -1.9 million to EUR -0.4 million.
- Other operating expenses in the amount of EUR -1.8 million (2018: EUR -1.5 million) mainly relate to restructuring expenses of EUR -1.4 million (2018: EUR -1.2 million).

In total, the operating result of Addiko Bank AG, offsetting operating income and operating expenses, was EUR -12.9 million in the financial year 2019 (2018: EUR 41.3 million). By excluding the EUR 61.0 million positive impact of the T2 waiver in 2018, the operating result significantly improved by EUR 6.8 million from EUR -19.7 million to EUR -12.9 million.

Net income/expenses from the disposal and valuation of loans and advances as well as securities held as current assets amounted to EUR 6.3 million in the financial year 2019 (2018: EUR -3.9 million). The positive result is mainly attributable to the valuation of securities at market values.

Net income/expenses from the valuation and disposal of financial fixed assets and shares in associated and affiliated companies amounts to EUR -130.9 million in 2019 (2018: EUR 33.5 million), mainly driven by the valuation effects from shares in affiliated companies in the amount of EUR -131.2 million (2018: EUR 33.2 million).

Taking the above effects into account, Addiko Bank AG reported a loss from ordinary activities in the amount of EUR -137.5 million (2018: profit from ordinary activities EUR 70.9 million).

Taxes on income and other tax expenses for the financial year 2019 amounted to EUR -0.3 million (2018: EUR -1.6 million) and are mainly attributable to foreign withholding taxes.

After taking the tax effect into account, the loss for the financial year 2019 amounts to EUR -137.8 million (2018: profit after tax EUR 69.3 million). In the financial year 2019 the capital reserve was reversed in the amount of EUR 177.8 million. The net profit or loss for the year as at 31 December 2019 amounts to EUR 40.0 million (2018: EUR 50.0 million).

1.2. Report on Branches

Addiko Bank AG operates a branch in Klagenfurt am Wörthersee.

1.3. Financial and non-financial performance indicators

Own funds

As at the balance sheet date 31 December 2019, the total eligible capital as defined by Part Two of Regulation (EU) 575/2013 (CRR) amounted to EUR 538.2 million (2018: EUR 714.2 million) and was significantly higher than the minimum legal requirement of EUR 92.1 million (2018: EUR 99.2 million).

The total amount of risk-weighted assets (RWA) at Addiko Bank AG is mainly determined by the credit risk arising from equity investments and refinancing of the CSEE banking network and amounted to EUR 1,151.1 million (of which credit risk: EUR 1,004.5 million) as at 31 December 2019 (2018: EUR 1,240.0 million of which credit risk: EUR 1,098.0 million).

The change in the total amount of risk-weighted assets (RWA) mainly results from the write-off of the shares in affiliated companies and is also reflected in the declined credit risk.

As at 31 December 2019, the Tier 1 and the total capital ratio pursuant to Section 92 CCR with regard to the total exposure value was 46.8% (2018: 57.60%).

The Tier 1 capital ratio is calculated in accordance with Art. 92 (1) b CRR from the regulatory core capital (Tier 1) divided by the total risk exposure. The total capital ratio is calculated in accordance with Art. 92 (1) c CRR from the regulatory total capital divided by the total risk exposure.

Talent/Staff - Human Resources management

The Human Resources strategy underpins the cultural transformation of Addiko Bank AG. The Operating Model enables employees at all levels to drive for results via team work and cross-boundary collaboration. Building strong HR processes in performance, recruitment, talent, learning and leadership development is needed to ensure agility in employee attitudes and capabilities.

The performance and talent management frameworks are key processes used to identify, develop, reward and recognize high performance and talented employees. The two processes support Addiko Bank AG’s journey to build a great place to work, aiming to become an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

In 2019, the focus was placed on employee satisfaction. On a quarterly basis, the internal NPS (Net Promoter Score) was used to evaluate to which extent staff members would recommend Addiko Bank AG as an employer and to identify optimal areas and areas with room for improvement. Furthermore, an occupational psychology survey was conducted at both locations to make sure that Addiko Bank AG as an employer and workplace meets the needs of its staff members. In the course of this evaluation, a new internal portal was introduced in order to significantly improve internal communication and to ensure both transparent exchange and a high degree of service orientation. Several efficiency and rightsizing programs continued in 2019. At 2019 year-end, the Addiko Bank AG had 125 FTE's (2018: 144 FTE’s). In the upcoming period, the focus will be on elevating the cultural and business transformation ensuring that "Values and Behaviors" are integrated into daily performance. This will require effective HR metrics in place to ensure that the right employees hold key positions and that the Bank is developing critical skills needed to be a bank which is an innovation leader and a digital disruptor.

2. Report on the expected development of Addiko Bank AG

2.1. Expected development of Addiko Bank AG

The benign macroeconomic environment in the countries of operations of Addiko Group is expected to continue in the coming years. While on a global scale a slowdown of growth and continuing deflationary impulses are anticipated, the growth in CSEE economies remains resilient. Nevertheless, it seems unlikely that the growth rates of the countries of operation will reach the levels recorded in 2018. Based on an unweighted average, it is estimated that growth in the 5 countries of operations will remain comparably steady at approximately 2.8% for 2020 after a slow-down from 2018 to 2019. This growth expectation is driven by the estimation for Serbia (3.4%) and Montenegro (3.0%), while the expected rates of the remaining countries are also well above more developed European economies.

At the same time, developments in the European banking sector are expected to continue. On the one hand, the sector is facing challenges in the form of a low interest rate environment, general price pressure due to excess liquidity in the markets, and steadily increasing regulatory requirements, which are having a negative impact on the profitability of banks. 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 profitability. On the other hand, the pressure on market participants to innovate is increasing, and with it the need to make comprehensive investments.

In view of these challenges, but also these opportunities, the Addiko Group has continued to push ahead with its digital transformation and was thus able to take further significant steps towards achieving its medium-term goals. The locally operating banks have successfully positioned themselves as innovative and targeted specialist lenders in the areas of unsecured consumer loans and loans for small and medium-sized enterprises.

The potential impact of recently reported COVID-19 cases in Europe on the macroeconomic environment remains unclear and will largely depend on further developments.

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

Against this backdrop Addiko Group expects for 2020 to show continuous progress in the shift from non-focus to focus segments thereby increasing the share of focus business by another 5pp, to defend the margins and resulting in a growing net banking income. The net fee and commission income growth is expected to be comparable to 2019, accelerating towards the end of the year 2020 following the full implementation of the new cards platform. Addiko Group further expects its operating expenses for 2020 to continue the developments in 2019, while cost reductions resulting from optimisation in 2019 are widely eliminated by increases in IT related depreciation. Amid a stable low interest rate environment, cost of risk is expected to increase along a growing focus loan book and significantly less releases from the non focus areas.

No significant changes in the balance sheet structure of the Addiko Bank AG are assumed for the 2020 financial year. Consequently, in view of the expected continued moderate interest rate environment, no significant change in Addiko Bank AG's net interest income is expected. Net commission income in connection with the deposit-taking business is also anticipated to remain constant in the 2020 financial year. By contrast, it is expected that the increasing profitability of the subsidiaries will also be reflected in Addiko Banks AG's income from equity investments in the upcoming financial years.

2.2. Material uncertainties

Development of the participations of Addiko Bank AG

Due to the holding function of Addiko Bank AG, the economic development of its subsidiaries constitutes the most significant uncertainty. Both on the balance sheet side, in connection with the future valuation of the respective investments, and on the income statement side, in connection with future income from investments, the development of the subsidiaries has a significant influence on the economic situation of the Bank.

The level of competition in the CSEE banking sector has a significant impact on performance of the subsidiaries of Addiko Bank AG. Higher competitiveness in the banking sector typically would lead to increased competition in particular for lending products, creating downward pressure on the participation's net interest margin, and potentially their profitability, by forcing the subsidiaries to offer lower interest rates on loans. Accordingly, operating results of the subsidiaries of Addiko Bank AG could be materially impacted by changes in the competitive landscape in the CSEE banking sector.

Addiko Bank AG expects that the focus of its subsidiaries on unsecured consumer and SME lending will ultimately result in risk costs higher than a portfolio comprised of a heterogeneous product mix. However, Addiko Bank AG expects that such focus, characterised by shorter maturity structures and smaller average ticket sizes, as well as lower overall debt to income ratio is relatively more resilient and quicker to recover in cases of macro-economic downturns, as well as easier to manage in a cost-effective, automated, portfolio-focused approach.

Consequently, the development of the performance in the subsidiaries could affect the valuation of the participations.

3. Capital-, share-, voting and control rights

The following information complies with the regulations of Section 243a (1) UGB:

1) The share capital of the Company amounts to EUR 195,000,000.00 as at 31 December 2019 and is divided into 19,500,000 voting no-par value bearer shares. As at the balance sheet date, all 19,500,000 shares were in circulation.

2) The Company's statutes do not contain any restrictions relating to voting rights or the transfer of shares, and neither is the Management Board aware of any other such provisions.

3) Pursuant to the most recent voting rights notification dated 13 August 2019, AI Lake S.à r.l. holds approx. 45 per cent of the Company's share capital. The remaining shares of Addiko Bank AG are in free float. On February 21, 2020 DDM INVEST III AG announced that it has made a strategic investment by entering into an agreement to acquire a 9.9% stake in Addiko Bank AG. The investment also includes a call option to acquire an additional 10.1% stake in Addiko Bank AG for the same price per share as the initial investment, which is subject to regulatory approval. The Management Board is not aware of any further direct or indirect shareholdings in the Company's capital amounting to at least 10 per cent.

4) The Company's statutes do not contain any particular control rights of shareholders, and neither is the Management Board aware of any other such provisions.

5) There is no control of voting rights for employees who own shares.

6) There are no provisions other than those required by law relating to the appointment and removal of the members of the Management Board and Supervisory Board. The Supervisory Board may resolve on amendments relating only to the wording of the Company's statutes. The Supervisory Board is authorised to resolve on the requirements of the Company's statues relating to the issue of shares in the course of an approved capital increase or a conditional capital increase. There are no further provisions other than those required by law relating to the amendment of the Company's statutes

7) Since the General Assembly dated 6 June 2019, the Management Board – pursuant to Section 169 Austrian Stock Corporation Act (AktG) – has been authorised to increase the share capital subject to approval of the Supervisory Board, if necessary in several tranches, by up to EUR 97,500,000 by issuing up to 9,750,000 new voting no-par value bearer shares against cash and/or non-cash contributions (also indirectly through a credit institution pursuant to Section 153 (6) AktG) within five years after entering the corresponding amendment to the Company's statutes into the Austrian Commercial Register, and to determine the issue price and terms of issue in agreement with the Supervisory Board. Subject to approval of the Supervisory Board, the Management Board is authorised to exclude the shareholders' statutory subscription right if (i) the capital increase is made against a non-cash contribution, (ii) the capital increase is made against a cash contribution and the shares issued under exclusion of the shareholders' subscription right do not, in total, exceed 10% (ten per cent) of the Company's share capital or (iii) shares are issued to employees, executives or members of the Management Board of the Company in the course of an employee stock participation programme or stock option programme. The Supervisory Board is authorised to resolve on amendments to these statues relating to the issue of shares in the course of an approved capital increase.

   In the General Assembly dated 6 June 2019 and pursuant to Section 159 (2) No. 1 AktG, the share capital was conditionally increased (conditional capital) by up to EUR 19,500,000 by issuing up to 1,950,000 no-par value bearer shares. The conditional capital increase shall only be implemented to the extent that a conversion or subscription right, which the Company has granted to the creditors of convertible bonds or other instruments that provide their holders with a conversion of subscription right, is exercised. The issuing price and the conversion rate are to be determined on the basis of accepted simplified actuarial methods and the price of the Company's shares using a generally accepted pricing procedure (basis for the calculation of the issue amount); the issue amount is to be at least EUR 10 (ten euros) per share. Subject to approval of the Supervisory Board, the Management Board is authorised to determine the further details of the conditional capital increase. The Supervisory Board is authorised to resolve on amendments to these statues relating to the issue of shares in the course of a conditional capital increase.

   Within the meaning of Section 65 Austrian Stock Corporation Act, the Management Board is authorised to acquire own shares of the Company in the amount of up to ten per cent of the Company's share capital and to sell the acquired shares on the Vienna Stock Exchange pursuant to Section 65 (1) No. 8, (1a) and (1b) Austrian Stock Corporation Act, provided that the Company is a listed company.

   Within a period of five years from the date of the General Assembly dated 6 June 2019 and subject to approval of the Supervisory Board, the Management Board is authorised to issue - in one or several tranches against a cash and/or non-cash contribution even with a total or partial exclusion of subscription rights - financial instruments within the meaning of Section 174 Austrian Stock Corporation Act, including instruments within the meaning of Section 26 Austrian Banking Act, particularly convertible bonds and/or profit participation bonds, which grant subscription rights for up to 1,950,000 new, voting no-par value bearer shares, as well as to resolve on any and all conditions with regard to the issue of such instruments.

8) There are no significant agreements in place to which Addiko Bank AG is a party and which take effect, are altered or terminated upon a change of control of Addiko Bank AG resulting from a takeover bid.

9) No compensation agreements have been concluded between Addiko Bank AG and its Management Board and Supervisory Board members or employees in case of a public takeover bid.

4. Risk Report

4.1. Risk control and monitoring

Addiko Bank AG steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, a set of different tools and governance have been implemented to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of the group.

The following central principles apply to the Bank's overall risk controlling:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Austrian Minimum Standards for the Credit Business (FMA-MSK) and the Austrian Banking Act (BWG).
- Appropriate, mutually compatible procedures are implemented for identifying, analyzing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

The material risk types at Addiko Bank AG can be summarised as follows:

- **Participation risks** are risks of potential value losses from providing equity, such as write-offs of equity investments, capital losses from sales, omissions of dividends or decline of hidden reserves. The participation risk is the biggest risk at Addiko Bank AG and contributes with more than 51% to the total Pillar 2 capital requirement.
- **Single name credit risk** is the risk of loss from the potential collapse of counterparties, particularly of borrowers in the conventional lending business, and any related credit losses. Single name credit risk is the second biggest risk type and contributes with 35.4% to the total Pillar 2 capital requirement.
- **Market risk** describes the risk of loss from unfavourable price changes in marketable and traded products, such as shares, fixed income securities and derivatives, as well as from interest and foreign exchange volatility and fluctuations in raw material prices.
- **Operational risk is the** risk of losses as a result of error or malfunction of internal procedures, humans and systems or external events.

Concentration risk, transfer risk, FX induced credit risk, funding spread risk, and object risk are identified as material but contribute minor capital to the required Pillar 2 capital.

4.2. Overall bank risk management

4.2.1. Risk strategy and Risk Appetite Framework (RAF)

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

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

Addiko Bank AG has established a Risk Appetite Framework (RAF) which sets the bank's risk profile and forms a part of process of development and implementation of the bank's business and risk strategy. The framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the Budget and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

4.2.2. ICAAP – Internal Capital Adequacy Assessment Process

Securing the ability to bear economic risks forms a central part of steering activities within Addiko Bank AG within ICAAP or "Internal Capital Adequacy Assessment Process". Risks are managed as part of the overall bank management process, which makes risk capital available to the types of risk involved so they can follow strategies, and restricts and monitors this capital by placing limits on it. Addiko Bank AG risk bearing capacity calculation is performed with the same methodologies and input parameters as for Addiko Group.

4.2.3. Risk organisation

Ensuring adequate risk management structures and processes is in the responsibility of the Group's Chief Risk Officer (CRO), who is a member of the Addiko Bank AG Management Board. The CRO acts independently of market and trading units, with a focus on the Austrian Minimum Standards for the Credit Business as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2019, the below mentioned organisational units were responsible for steering the risks of the Group. These functions are mainly located in Addiko Bank AG and cover the risks of Addiko Bank AG as well.

Corporate Credit Risk has the responsibility for credit risk management for all non-Retail customer segments i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns) and Corporate Center. That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications above internally defined subsidiary approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management. Additionally, it executes a governance role over units covering operative credit risk management for SME/Large Corporates in Addiko subsidiaries.

Retail Risk oversees all the Retail Risk and Collections departments across all Addiko banks. Its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings with all entities of the Addiko Group ensures that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This enables that the risk appetite of the lending products is in line with the risk appetite of the Group.

Integrated Risk Management manages all risk and regulatory topics which are of strategic importance across the entire Addiko Group. It provides the Group's risk strategy, economic capital management, stress testing and coordination of national bank examinations, represents a regulatory SPOC function and coordinates Risk Management units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects across the entire Addiko Group. Integrated Risk Management includes a **Market & Liquidity Risk** team, which defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of Addiko Group within the defined risk appetite, and regulatory limitations.

Model and Credit Risk Portfolio Management oversees the credit risk model landscape from a portfolio management perspective. It makes sure that applied models fulfil expected quality standards, while fitting within the model architecture also in terms of budget and strategy. Model and Credit Risk Portfolio Management includes a **Risk Validation** team, which provides the validation of the credit and market risk models to all the subsidiaries across the Addiko Group. The function is a fully independent GSS (Group Shared Services) unit that monitors model performance and stability; reviews model relationships and tests model outputs against outcomes.

Group Data Office provides services which are connected with the automated creation of standardised and regulatory risk reports and supports other group risk stakeholders with regards to preparing and maintaining risk databases and setting up technical solutions jointly with the IT units. The function is situated in Austria and works closely with local Credit Risk functions across the Addiko network.

Operational Risk provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

4.3. Participation risk

The participation risk is controlled by continuously monitoring the financial development of the subsidiaries, both at a consolidated and an individual level. In addition to the values used in external reporting, detailed information on the individual subsidiary banks is analyzed as part of internal accounting. This information is used in an annual financial planning process that provides a detailed overview of the most important expected developments and milestones for the individual units within the planning cycles. At least once a year, a valuation of the shares in the subsidiary banks is calculated based on this planning.

Participation risks are risks of potential value losses from providing equity, such as write-offs of equity investments, capital losses from sales, omissions of dividends or decline of hidden reserves. In Addiko Bank AG participation risk is the biggest risk driver in the Risk Bearing Capacity, calculated with the PD/LGD approach using the participation book values. The resulting Pillar 2 capital requirement amounts to EUR 171,4 million.

4.4. Credit risk

In economic risk control, market values are used to calculate the relevant exposure for securities and derivatives, whereas amortized cost is used for loans. The presentation in note “Credit risk (counterparty default risk)” is based on exposure before deduction of impairment and excluding exposure out of strategic participation. Furthermore, off-balance sheet derivative financial instruments with positive market values and without accrued interest are included in the credit risk exposure. The adjustments relate to accrued interest expenses.

The following table presents an overview of the credit risk exposure in Addiko Bank AG as at 31 December 2019:

EUR m

	Performing			Non Performing			Total	
Financial instruments	Exposure	Risk provision	Net exposure	Exposure	Risk provision	Net exposure	Exposure	Net exposure
Cash in hand, balances with central banks	80.5	-0.0	80.5	0.0	0.0	0.0	80.5	80.5
Securities	158.1	0.0	158.1	0.0	0.0	0.0	158.1	158.1
Loans and advances	242.9	-1.0	241.9	0.0	0.0	0.0	242.9	241.9
of which to credit institutions	242.9	-1.0	241.9	0.0	0.0	0.0	242.9	241.9
of which to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On balance total	481.6	-1.0	480.5	0.0	0.0	0.0	481.6	480.5
Loan exposures - guarantees - other commitments	0.6	-0.0	0.6	0.0	0.0	0.0	0.6	0.6
Total	482.1	-1.0	481.1	0.0	0.0	0.0	482.1	481.1
Derivatives with positive fair value	2.8	0.0	2.8	0.0	0.0	0.0	2.8	2.8
Adjustment	0.9	0.0	0.9	0.0	0.0	0.0	0.9	0.9
Credit risk exposure	485.9	-1.0	484.9	0.0	0.0	0.0	485.9	484.9

The following table contains the credit risk exposure as at 31 December 2018:

EUR m

	Performing			Non Performing			Total	
Financial instruments	Exposure	Risk provision	Net exposure	Exposure	Risk provision	Net exposure	Exposure	Net exposure
Cash in hand, balances with central banks	105.3	0.0	105.3	0.0	0.0	0.0	105.3	105.3
Securities	118.5	0.0	118.5	0.0	0.0	0.0	118.5	118.5
Loans and advances	220.9	-1.2	219.7	0.0	0.0	0.0	220.9	219.7
of which to credit institutions	220.9	-1.2	219.7	0.0	0.0	0.0	220.9	219.7
of which to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On balance total	444.7	-1.2	443.5	0.0	0.0	0.0	444.7	443.5
Loan exposures - guarantees - other commitments	6.7	0.0	6.7	0.0	0.0	0.0	6.7	6.7
Total	451.4	-1.3	450.2	0.0	0.0	0.0	451.4	450.2
Derivatives with positive fair value	5.3	0.0	5.3	0.0	0.0	0.0	5.3	5.3
Adjustment	0.6	0.0	0.6	0.0	0.0	0.0	0.6	0.6
Credit risk exposure	**457.2**	**-1.3**	**456.0**	**0.0**	**0.0**	**0.0**	**457.2**	**456.0**

Exposure by rating class at Addiko Bank AG

Roughly 51.9% (2018: 54.3%) of the exposure is categorized as rating classes 1A to 1E. This exposure relates to receivables from financial institutions and public institutions.

EUR m

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Loans to credit institutions	93.8	231.1	0.0	0.0	0.0	0.0	324.9
Securities	158.1	0.0	0.0	0.0	0.0	0.0	158.1
Derivatives	0.1	2.7	0.0	0.0	0.0	0.0	2.9
Total	**252.0**	**233.8**	**0.0**	**0.0**	**0.0**	**0.0**	**485.9**

EUR m

31.12.2018	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Loans to credit institutions	125.9	207.0	0.0	0.0	0.0	0.0	332.9
Securities	118.8	0.0	0.0	0.0	0.0	0.0	118.8
Derivatives	3.6	1.9	0.0	0.0	0.0	0.0	5.5
Total	**248.3**	**209.0**	**0.0**	**0.0**	**0.0**	**0.0**	**457.2**

Exposure by business sector and region

The “financial services providers” business sector mainly consists of receivables from the Oesterreichische Nationalbank (OeNB) and refinancing lines for subsidiary banks.

The following table shows the exposure by business sector and region as at 31 December 2019:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Financial services	148.1	233.8	0.0	0.0	381.9
Public sector	18.8	0.0	85.2	0.0	104.0
Industry	0.0	0.0	0.0	0.0	0.0
Total	**166.8**	**233.8**	**85.2**	**0.0**	**485.9**

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

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Financial services	163.5	209.0	0.0	0.0	372.5
Public sector	9.3	0.0	75.4	0.0	84.8
Industry	0.0	0.0	0.0	0.0	0.0
Total	**172.8**	**209.0**	**75.4**	**0.0**	**457.2**

4.4.1. Portfolio overview by country

The figures are broken down according to the customers country. The top 10 countries’ share in the overall volume stands at 89.6% (2018: 95.6%). Croatia and Austria account for the largest share. The following tables show the country share in top 10 total exposure in 2019 and in 2018.

31.12.2019	Exposure	% of Total Exposure
Croatia	141.2	29.1%
Austria	80.5	16.6%
Romania	48.3	9.9%
Serbia	34.3	7.1%
Italy	33.1	6.8%
Bosnia and Herzegovina	29.8	6.1%
Slovenia	18.0	3.7%
Netherlands	17.2	3.5%
Germany	16.8	3.4%
Poland	16.0	3.3%
Other	50.7	10.4%
Total	**485.9**	**100.0%**

31.12.2018	Exposure	% of Total Exposure
Croatia	152.7	33.4%
Austria	120.3	26.3%
Poland	33.6	7.3%
Serbia	33.4	7.3%
Romania	27.6	6.0%
Italy	19.7	4.3%
Slovenia	17.0	3.7%
Bulgaria	11.4	2.5%
Germany	11.3	2.5%
United Kingdom	10.2	2.2%
Other	20.1	4.4%
Total	**457.2**	**100.0%**

4.5. Liquidity risk

Addiko Bank AG defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

A bundle of different liquidity reserves ensures Addiko Bank AG’s solvency at all times, even during crisis situations. These liquidity reserves are subjected to different stress scenarios in order to maintain an overview of available liquidity resources through the respective units even during crisis situations.

In 2019, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 134.7% in December 2019 and its peak of 291.9% in March 2019.

At the end of 2019, the counterbalancing capacity, which quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favorable conditions, was structured as follows:

EUR m

Liquidity Buffer	31.12.2019
Securities eligible for Central Bank	117.7
Securities eligible for Repo*	23.9
Credit Claims eligible for Central Bank or Repo	0.0
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	15.0
Counterbalancing Measures	**156.6**
Other liquid Assets (short-, medium-term)	0.0
Committed/Required Credit Lines	0.0
New Issuance and Securitization	0.0
Total Counterbalancing Capacity	**156.6**

*Unencumbered market values after haircut

At the end of 2018, the counterbalancing capacity at Addiko Bank AG was structured as follows:

EUR m

Liquidity Buffer	31.12.2018
Securities eligible for Central Bank	67.8
Securities eligible for Repo*	23.2
Credit Claims eligible for Central Bank or Repo	0.0
Obligatory Reserves (countable)	0.0
Cash Reserves at Central Bank (locked)	15.0
Counterbalancing Measures	**106.0**
Other liquefiable Assets (short-, medium-term)	0.0
Committed/Required Credit Lines	0.0
New Issuance and Securitization	0.0
Total Counterbalancing Capacity	**106.0**

*Unencumbered market values after haircut

4.5.1. Overview – liquidity situation

Overall, the liquidity situation at Addiko Bank AG in 2019 was characterised by a liquidity surplus. During 2019, the volume of collected deposits increased by 25%. A significant part of the increase came from Austrian term deposits. At the same time, the collection of deposits from Germany, as in the year before, was further decreased. Based on anticipated inflows and outflows, a stable liquidity position is expected for the year 2020.

The discussion of the concentration of the liquidity risk is followed by the diversification of funding based on the main products and the most important currency. The biggest positions in the funding, apart from equity, are sight and term-deposits. Almost whole funding is denominated in EUR. Both, products and currencies are followed through time dimensions.

Below is a breakdown of maturities for the financial assets and liabilities of Addiko Bank AG, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day;
- For the rest of primary funds only the contracted due date is decisive;
- Equity components, tangible and intangible assets, provisions, taxes, impairment and positions not relevant to liquidity are not included.

EUR m

31.12.2019	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
to credit institutions	83.5	141.8	16.6	241.9
to customers	0.0	0.0	0.0	0.0
Subtotal	**83.5**	**141.8**	**16.6**	**241.9**
Financial liabilities				
from credit institutions	184.8	0.0	0.0	184.8
from customers	409.0	3.9	0.0	412.9
Subtotal	**593.8**	**3.9**	**0.0**	**597.7**
Total	**-510.3**	**137.9**	**16.6**	**-355.8**

The table shows that an amount of EUR 241.9 million consists of loans and advances to credit institutions. Liabilities to credit institutions and customers mainly consist of liabilities to customers. A large part of these liabilities - approx. EUR 409.0 million - is due in 1 year.

EUR m

31.12.2018	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
to credit institutions	47.5	155.1	17.1	219.7
to customers	0.0	0.0	0.0	0.0
Subtotal	**47.5**	**155.1**	**17.1**	**219.7**
Financial liabilities				
from credit institutions	125.0	20.0	0.0	145.0
from customers	355.9	4.5	0.0	360.4
Subtotal	**480.9**	**24.5**	**0.0**	**505.4**
Total	**-433.4**	**130.6**	**17.1**	**-285.7**

4.6. Market risk

Market Risk is measured in Addiko Bank AG using the following tools / elements:

- Value at Risk methods on the basis of one day holding period, with a confidence level of 99.0%. The main instrument used is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days.
- Determining the tied-up economic market risk capital for the risk-bearing capacity calculation, value at risk figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and a time period of 250 days for each risk factor.
- The interest rate risk in the banking book is determined as a present value risk - contractual cancellation rights are modelled as an option and taken into account in the risk calculation. In addition to value-at-risk calculations, classical methods of fixed-interest rate analysis are also used to measure interest rate risk in the banking book. All stochastic positions are accounted for in accordance with internal Group models.

4.6.1. Interest rate risk

The economic interest rate risk of Addiko Bank AG for 2019 amounts to EUR 0.4 million (comparable VaR figure as at 31 December 2018: EUR 0.2 million). The interest rate gap profile for Addiko Bank AG contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed or based on behavioural assumptions. The stochastic cash flows are presented using uniform Group standards. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures (as well as other measures of IRRBB) based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk. The methodology of regulatory interest risk calculation is based on the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02) and specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. On the basis of the consolidated interest rate gap profile, first the interest rate risks per defined currency are determined and in a second step the risk/equity ratio as a percentage of own funds is calculated.

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own fund may not exceed 20.0% and that impact on EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 may not exceed 15% of Tier 1 capital. The limits were far from being reached or exceeded at any point in the year.

4.6.2. Foreign currency risk

The database for determining the value at risk for foreign currency risk at Addiko Bank AG is based on figures from the data warehouse and contains operational business activities. The open currency position thus covers the FX risk at Addiko Bank AG. The main foreign currency risk driver is the currency USD. The total volume of open currency positions as at 31 December 2019 is roughly EUR 0.1 million (volume per 31 December 2018 of approx. EUR 0.1 million), with the majority attributed to the currency USD. The value at risk for foreign currency risk is approximately EUR 259.4 per day as at 31 December 2019 (value at risk as at 31 December 2018: EUR 807.7), at a confidence interval of 99.0%. The limit of EUR 60 thousand was adhered to as at 31 December 2019. In addition to monitoring VaR in respect of foreign currency, Addiko Bank AG also monitors any concentration of relevant single foreign exchange positions on single currency level.

4.6.3. Credit spread risk

The credit spread risk at Addiko Bank AG stood at EUR 0.2 million at year-end 2019 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2018: EUR 0.1 million). The limit of EUR 0.5 million was adhered to as at 31 December 2019. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at Addiko Bank AG. Consequently, there is not much room for reducing risk from these items. In addition to monitoring VaR in respect to the credit spread risk, Addiko Bank AG also monitors concentration risks within the bond portfolio.

5. Research & Development

Addiko Bank AG does not conduct any R&D activities of its own.

6. Internal Control System (ICS) for accounting procedures

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

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

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

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

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

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

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

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

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

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

Vienna
February 26, 2020
Addiko Bank AG
MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Annual financial statements according to UGB/BWG

Balance Sheet as at 31 December 2019

		EUR	EUR thousand
Assets		31.12.2019	31.12.2018
1. Cash in hand, balances with central banks		80,513,931.76	105,282
2. Treasury bills eligible for refinancing with central banks		103,970,079.24	69,668
3. Loans and advances to credit institutions			
a) Repayable on demand	31,815,319.94		28,711
b) Other loans and advances	210,098,282.81		190,977
		241,913,602.75	219,687
4. Loans and advances to customers		0.00	0
5. Bonds and other fixed income securities		54,151,006.56	48,817
a) Issued by the public sector	0.00		14,789
b) Issued by others	54,151,006.56		34,028
6. Shares in associated companies		3,529.61	4
7. Shares in affiliated companies		707,725,122.62	838,964
thereof: credit institutions		707,725,122.62	838,964
8. Intangible fixed assets		4,710,485.50	6,594
9. Tangible fixed assets		792,921.36	967
thereof:			
Land and buildings used by the company for its own activities		527,072.00	604
10. Other assets		4,157,559.78	6,822
11. Deferred assets		5,387,939.51	8,279
Total assets		**1,203,326,178.69**	**1,305,083**
Below-the-line memo items			
1. Foreign assets		1,116,086,117.68	1,175,539

Equity and Liabilities		EUR 31.12.2019	EUR thousand 31.12.2018
1. Liabilities to credit institutions			
a) Repayable on demand	44,449,755.23		7,601
b) With agreed maturities or periods of notice	140,340,290.33		137,396
		184,790,045.56	144,996
2. Liabilities to customers			
a) Other liabilities, thereof:			
aa) Repayable on demand	180,870,268.38		176,091
bb) With agreed maturities or periods of notice	232,032,377.12		184,308
		412,902,645.50	360,399
3. Other liabilities		6,774,505.59	7,541
4. Provisions			
a) Provisions for severance payments	654,578.00		635
b) Tax provisions	1,000,000.00		1,000
c) Other	14,098,593.07		19,568
		15,753,171.07	21,203
5. Issued capital		195,000,000.00	195,000
6. Reserves		298,662,652.45	476,500
a) Non fixed reserves	298,662,652.45		
7. Retained earnings		26,702,139.91	26,702
a) Legal reserves	19,500,000.00		19,500
b) Other reserves	7,202,139.91		7,202
8. Liability reserve under section 57 (5) BWG		22,741,018.61	22,741
9. Net profit for the year		40,000,000.00	50,000
Total equity and liabilities		**1,203,326,178.69**	**1,305,083**

Below-the-line memo items	EUR 31.12.2019	EUR thousand 31.12.2018
1. Contingent liabilities		
thereof:		
Guarantees and other collateral securities	575,000.00	6,714
2. Commitments	0.00	0
thereof: Commitments arising from repurchase transactions		
3. Total capital funds acc. to Part 2 of the regulation (EU) No. 575/2013		
	538,238,032.90	714,242
4. Total risk exposure amount acc. to Art 92	1,151,128,796.12	1,239,996
thereof: capital requirements acc. to Art 92 (1) lt a to c		
acc. to Art. 92 (1) lit. a of the regulation (EU) No. 575/2013	46.76%	57.60%
acc. to Art. 92 (1) lit. b of the regulation (EU) No. 575/2013	46.76%	57.60%
acc. to Art. 92 (1) lit. c of the regulation (EU) No. 575/2013	46.76%	57.60%
5. Foreign liabilities	219,565,735.06	259,137

Income statement for the period from January 1 to December 31, 2019

			EUR	EUR thousand
			31.12.2019	31.12.2018
1. Interest and similar income thereof: fixed-interest securities EUR 1,555,192,25 (previous year: TEUR 1,456)			16,027,415.51	20,079
2. Interest and similar expenses			(7,832,222.65)	(12,682)
I. NET INTEREST INCOME			**8,195,192.86**	**7,398**
3. Income from equity interests and investments			25,535,082.50	26,902
a) Income from affiliated companies		25,535,082.50		26,902
4. Fee and commission income			40,767.58	495
5. Fee and commission expenses			(373,074.56)	(621)
6. Net income from trading activities			5,049.39	40
7. Other operating income			2,997,687.46	63,452
II. OPERATING INCOME			**36,400,705.23**	**97,664**
8. General administrative expenses				
a) Personnel expenses: thereof				
aa) Wages and salaries	(16,201,596.60)			(18,394)
bb) Costs of statutory social security contributions and other pay-related contributions	(3,184,089.21)			(3,274)
cc) Other social welfare contributions	(245,182.89)			(303)
dd) Expenses for pensions and other retirement benefits	(63,948.90)			(60)
ee) Expenses for severance payments and contributions to severance funds	(556,978.26)			(321)
		(20,251,795.86)		(22,352)
b) Other administrative expenses		(24,785,433.07)		(28,376)
			(45,037,228.93)	(50,728)
9. Depreciation and amortisation of fixed assets (balance sheet items 8 and 9)			(2,404,453.24)	(4,103)
10. Other operating expenses			(1,817,782.18)	(1,538)
III. OPERATING EXPENSES			**(49,259,464.35)**	**(56,369)**
IV. OPERATING PROFIT			**(12,858,759.12)**	**41,295**
11./12. Net gain/loss from the valuation and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets			6,295,623.33	(3,904)
13./14. Net gain/loss from the valuation and disposal of securities held as financial fixed assets and from investments in associated and affiliated companies			(130,937,854.28)	33,480
V. RESULT FROM ORDINARY ACTIVITIES			**(137,500,990.07)**	**70,871**
15. Income taxes			(335,724.30)	(1,555)
16. Other taxes not recognised under the item 15			(633.18)	(49)
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX			**(137,837,347.55)**	**69,267**
17. Changes in reserves			177,837,347.55	(19,267)
VII. NET PROFIT OR LOSS FOR THE YEAR AFTER CHANGE IN RESERVES			**40,000,000.00**	**50,000**
VIII. NET ACCUMULATED PROFIT OR LOSS FOR THE YEAR			**40,000,000.00**	**50,000**

Notes to the financial statements for the financial year 2019

I. BASIS OF ACCOUNTING

The financial statements of Addiko Bank AG as at 31 December 2019 were prepared according to the regulations of the Austrian Banking Act (BWG) and – to the extent applicable – the provisions of the Austrian Commercial Code (UGB) and the Austrian Stock Corporation Act (AktG), respectively as amended and are based on the principle of going concern.

The financial statements consist of the balance sheet, the income statement and the notes. A management report was also prepared. The 2019 balance sheet and income statement are structured according to the layout included in Annex 2 of Section 43 BWG. Certain income statement items were summarized according to the accounting policy option in Sections 53 (3) and 54 (2) BWG.

All amounts are shown in EUR, the amounts of the previous year in EUR thousand. The tables shown may contain rounding differences.

II. ACCOUNTING PRINCIPLES

The financial statements as at 31 December 2019 of Addiko Bank AG were prepared in compliance with Austrian generally accepted accounting principles and under observance of the general principle to present a true and fair view of the Company's net assets, financial position and results of operations.

The valuation of assets and liabilities was based on the principle of individual valuation.

Under consideration of the particular characteristics of the banking business, the principle of prudence was observed insofar as only the profits realized as at the balance sheet date were reported and all known risks and contingent losses were taken into account during valuation.

Assets and liabilities in foreign currencies are translated using the average exchange rate at the balance sheet date. Forward transactions are translated at the applicable forward rate.

Loans and advances to credit institutions and loans and advances to customers are generally recognized at their nominal amount, less any credit risk provisions.

The **risk arising from the lending business** was taken into account by setting up portfolio risk provisions for loans and advances included in the balance sheet and off-balance sheet transactions.

Securities for the purpose of continuous business operations and assigned accordingly are recognized as financial assets pursuant to Section 56 (1) BWG and valued according to the moderate lower of cost or market principle. For securities included in financial assets, the difference between acquisition costs and the amount repayable according to Section 56 (2) BWG are allocated pro rata temporis. The accounting policy option according to Section 56 (3) BWG is not used. Write-downs of financial assets are made where the diminution in value is expected to be permanent. The bank checks on an event-driven basis or at least annually whether financial assets are permanently impaired. Where a permanent deterioration of the credit quality of an issuer has been identified, an extraordinary write-down is made. Other securities (liquidity reserve) are assigned to current assets and recognized at market value according to Section 56 (5) BWG, if these are listed securities. Unlisted securities are valued according to the strict lower of cost or market principle.

Repurchase agreements are contracts under which a lender transfers the legal ownership of an asset to a borrower for a limited period of time in return for payment, and under which it is simultaneously agreed that an asset must or may be re-transferred to the lender at a later point in time in return for payment of a sum agreed in advance. If it is a "genuine" repurchase agreement, the assets transferred continue to be recorded in the balance sheet of Addiko Bank AG and recognised according to the provisions applicable to the respective item. The lender is to recognize a liability to the borrower equal to the amount received for the transfer. The obligations resulting therefrom are recorded in the item liabilities to credit institutions.

Shares in associated and affiliated companies are valued at acquisition cost unless write-downs are required due to a permanent decrease in value. Where the reasons for impairment ceased to exist, a write-up is recognized in the amount of the value increase, but capped with costs of acquisition. Addiko Bank AG performs an annual impairment test on the balance sheet date, although an impairment test is also carried out during the year if evidence exists that might indicate an impairment.

The value is determined using a discounted cash flow model (DCF model), which incorporates the specific characteristics of the banking business, including the need to comply with capital adequacy regulations. Methodologically, this is carried out following IAS 36, whereby the recoverable amount is considered to be the present value of the expected future dividends that may be distributed to the shareholders after meeting all appropriate capital adequacy regulations. The estimation of future earnings distributable to shareholders is based on a five-year detailed planning period as approved by the management. In addition, an interim phase of five years is defined without extending the detailed planning phase. During the detailed planning period and the interim phase, companies can distribute full dividends without violating expected capital adequacy regulations. Any earnings forecast beyond the interim phase are derived based on the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows. In the calculation of the terminal value, the model assumes a normalized, economically sustainable earnings situation in which the return on equity and the costs of equity capital converge.

This interest rate used for discounting is based on the (expected) yield from an adequate alternative use of capital in comparison to the valuation object. In determining the value of the participation, the yield that can be achieved with a bundle of shares listed on the capital market (share portfolio) is generally assumed to determine the typical alternative yield and is adapted to the risk structure of the valuation object. The adjustment to the risk structure of the valuation object is performed based on the capital asset pricing model (CAPM).

Institute	Risk Free Rate	Market Risk Premium MRP	Country Risk Premium	Beta	Inflations-differential	COE	Gordon Growth / correction	Country Risk Premium	COE Terminal Value
Addiko Bank d.d., Ljubljana	0.34%	7.91%	1.57%	1.15	0.10%	11.36%	-1.00%	0.57%	10.26%
Addiko Bank d.d., Zagreb	0.34%	7.91%	2.96%	1.15	0.00%	12.85%	-1.50%	1.46%	11.18%
Addiko Bank d.d., Sarajevo	0.34%	7.91%	6.42%	1.15	0.20%	17.03%	-2.50%	3.92%	14.20%
Addiko Bank A.D., Banja Luka	0.34%	7.91%	6.42%	1.15	0.20%	17.03%	-2.50%	3.92%	14.20%
Addiko Bank A.D, Beograd	0.34%	7.91%	3.55%	1.15	0.70%	14.23%	-1.50%	2.05%	12.56%
Addiko Bank A.D., Podgorica	0.34%	7.91%	4.44%	1.15	0.20%	14.75%	-2.00%	2.44%	12.50%

The cost of equity is calculated taking into consideration the following components: risk-free rate (RFR), market risk premium (MRP), country risk premium (CRP), Beta, inflation differential, where RFR + (MRP + CRP) * Beta + inflation differential.

A yield curve for a term of 30 years that takes into account the current interest level and the yield curve data published by the Deutsche Bundesbank (Germany's central bank) was assumed when deriving the risk-free rate using Svensson's formula. The interest structure data used was estimated based on observed current yields on (quasi) risk-free level coupon bonds. The yield curve that was determined shows the relationship between interest rates and maturities as it would apply to zero coupon bonds with no default risk.

Entrepreneurial commitment always goes hand in hand with risks and opportunities, which is why the calculation of the discounting interest rate considers risk premiums. In doing so, capital market pricing models (alternative in-vestment) were used to measure the risk premium. According to the CAPM, the company-specific risk premium is obtained by multiplying what is known as a company’s beta factor by the market risk premium (MRP) before personal taxes, where the beta factor is a measurement of the company risk in proportion to the market risk. The Chamber of Public Accountants and Tax Advisors (Austria) recommends a market risk premium including risk-free rate within the range of 7.50% to 9.00%.

The country risk premium (CRP), which consist of political and legal risks and considered volatility multiplier is published on yearly base by Professor Aswath Damodaran (http://pages.stern.nyu.edu/~adamodar/).

Since the subsidiaries of Addiko Bank AG are not listed, it is not possible to determine specific beta factors for them based on empirical values. The beta factors of comparable listed companies had to be used instead. To select and define the relevant comparative companies, listed financial institutions in Austria, CEE and SEE were chosen that are active in the retail and corporate customer business with a business model matching that of Addiko Bank AG as closely as possible.

To represent the currency risk arising from the conversion of the business plans to euros based on historical spot rates, an inflation differential between EMU and the respective country was applied.

Growth of the future distributable earnings results from an increase in productivity and efficiency as well as organically from price, quantity and structural effects. In the detailed planning period, this growth potential is included in corporate planning. A growth reduction of 1.00% is usually recognized for saturated economies. Since the economies in which the bank participations of Addiko Bank AG operate have greater development potential compared to Western Europe, a growth reduction in the range between 1.00% and 3.00% is considered.

Intangible and tangible fixed assets are valued at the cost of acquisition or production reduced by scheduled depreciation and amortization and, if needed, write-downs. Scheduled depreciation and amortization is applied on a straight-line basis. Amortization and depreciation rates are between 14.3% and 25.0% for moveable assets and between 14,3% and 50.0% for software. Low-value assets with an acquisition cost below EUR 400 including VAT are written-off immediately in the year of acquisition.

Liabilities are recognized at the amount repayable.

Provisions for anniversary bonuses were determined by means of actuarial calculations using the projected unit credit method in accordance with the opinion 27 issued by the AFRAC and IAS 19. The calculation was performed with an interest rate of 0.9% (2018: 2.0%) and a salary trend of 3.2% p.a. (2018: 3.0%) under consideration of a staff turnover deduction depending on the period of service between 0.0% and 4.5% (2018: 4.3% independent from the period of service).

In accordance with IAS 19, **provisions for severance payments** were calculated using actuarial principles based on the projected unit credit method. The calculation was performed with an interest rate of 0.9% (2018: 2.0%) and a salary trend of 3.2% p.a. (2018: 3.0%) under consideration of a staff turnover deduction depending on the period of service between 0.0% and 4.5% (2018: 4.3% independent from the period of service). Biometric basic data are taken into account using the AVÖ 2018 P generation mortality tables (2018: AVÖ 2018 P generation mortality tables) for salaried employees. The calculations are based on an estimated retirement age of 60 years for women and 65 years for men, taking into account the statutory transitional provisions and special features of individual contracts. As of the valuation date, the provision for severance payments is determined on the assumption that the savings are distributed evenly until the date of payment.

The **pension obligations** for active employees were transferred to VBV Pensionskasse AG.

Other provisions were recognized at their estimated settlement amounts. They represent all liabilities for which the amount and/or maturity has not yet been determined.

Derivative financial transactions are allocated to the bank or trading portfolio depending on their purpose. As they are pending transactions, they are generally not recognized in the balance sheet. Derivatives allocated to the trading book (forward exchange transactions and credit default swaps) are recognized at market value under Austrian GAAP and included under other assets or other liabilities. If banking book derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses – and for not fully effective hedging relationships – is shown in the balance sheet for any negative market value existing at the balance sheet date. Option premiums paid or received are accrued or deferred under other assets or other liabilities. Options are valued with option price models based on the Black-Scholes models or the Hull-White models which take into account current market parameters.

III. NOTES TO THE BALANCE SHEET

(1) Relations to affiliated and associated companies

The following balance sheet items include loans and advances and liabilities in respect of affiliated or associated companies:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
A3: Loans and advances to credit institutions	**241,913,603**	**219,687**
of which to affiliated companies	228,673,204	199,038
of which to associated companies	0	0
of which to non-group companies	13,240,399	20,649
A4: Loans and advances to customers	**0**	**0**
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	0	0
P1: Liabilities to credit institutions	**184,790,046**	**144,996**
of which to affiliated companies	174,130,197	126,683
of which to associated companies	0	0
of which to non-group companies	10,659,848	18,313
P2: Liabilities to customers	**412,902,646**	**360,399**
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	412,902,646	360,399

Loans and advances to credit institutions increased in the financial year 2019 from EUR 219,687 thousand to EUR 241,913,603, by EUR 22,226,192. Loans and advances to credit institutions include subordinated loans in the amount of EUR 192,612,581 (2018: EUR 192,206 thousand).

The liabilities to customers solely result from online direct deposits (payable on demand and time deposits in Austria and Germany).

(2) Maturities of balance sheet items

	in EUR	EUR thousand
	31.12.2019	31.12.2018
A3: Loans and advances to credit institutions	**241,913,603**	**219,687**
- payable on demand	31,815,320	28,711
- up to three months	19,495,981	3,422
- three months to one year	32,186,738	15,399
- one year to five years	141,825,203	155,072
- over five years	16,590,361	17,084
A4: Loans and advances to customers	**0**	**0**
- payable on demand	0	0
- up to three months	0	0
- three months to one year	0	0
- one year to five years	0	0
- over five years	0	0
P1: Liabilities to credit institutions	**184,790,046**	**144,996**
- payable on demand	44,449,755	7,601
- up to three months	70,340,290	67,396
- three months to one year	70,000,000	50,000
- one year to five years	0	20,000
- over five years	0	0
P2: Liabilities to customers	**412,902,646**	**360,399**
- payable on demand	180,870,268	176,091
- up to three months	118,547,042	133,394
- three months to one year	109,632,180	46,440
- one year to five years	3,853,155	4,474
- over five years	0	0

The remaining maturity of other assets in the amount of EUR 3,909,786 (2018[1]: EUR 6,574 thousand) is less than one year whereby one receivable in the amount of EUR 247,774 (2018[2]: EUR 247.8 thousand) has a maturity of more than one year. The other liabilities reported in the balance sheet in the amount of EUR 6,774,506 have a remaining maturity of less than one year as well. In 2018, other liabilities in the amount of EUR 937 thousand had a remaining maturity of more than one year.

[1] Prior-year figure adjusted
[2] Prior-year figure adjusted

(3) Securities

Disclosures according to Section 64 (1) No.10 and 11 BWG:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Treasury bills and other bills eligible for refinancing with central banks	**103,970,079**	**69,668**
of which listed	103,970,079	69,668
of which not listed	0	0
of which fixed assets	0	9,940
of which accrued interest	0	385
of which current assets	103,273,570	58,830
of which accrued interest	696,509	513
Bonds and other fixed income securities	**54,151,007**	**48,817**
of which listed	54,151,007	48,817
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	53,860,845	48,231
of which accrued interest	290,162	586
Shares in associated companies	**3,530**	**4**
of which listed	0	0
of which not listed	3,530	4
Shares in affiliated companies	**707,725,123**	**838,964**
of which listed	0	0
of which not listed	707,725,123	838,964

The difference between the securities valued at the higher market value (Section 56 (5) BWG) and the acquisition costs amounts to EUR 4,292,572 (2018: EUR 457 thousand).

In 2020, fixed-income securities from the bank's own holdings in the amount of EUR 102,784 will mature (2019: EUR 0 thousand).

Fixed-income securities of non-public issuers eligible for refinancing with the Austrian National Bank at the balance sheet date amounted to EUR 28,684,620 (2018: EUR 12,365 thousand).

Securities include transferred but not entirely derecognized fixed-income securities ("genuine" repurchase agreements) at a book value in the amount of EUR 11,498,702 (2018: EUR 23,672 thousand). The securities transferred remain the economic property of Addiko Bank AG and are blocked for sale for the term of the repurchase agreement. These securities will continue to be recognized in Addiko Bank AG's balance sheet and are measured at fair value through profit or loss.

In the financial year 2019 or in the previous year, there were no subordinated securities in accordance with section 45 (2) BWG. Furthermore, in the financial year 2019, Addiko Bank AG allocated forward exchange transactions and credit default swaps to a trading book in the amount of EUR 12,301,548 (2018: EUR 27,734 thousand). However, a securities trading book was not held.

Debt securities including fixed-income securities break down as follows:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
a) Issued by the public sector	**0**	**14,789**
b) Issued by others	**54,151,007**	**34,028**
Own issues	0	0
Domestic bonds (credit institutions)	0	0
Foreign bonds (credit institutions)	33,273,325	15,575
Mortgage bonds and municipal bonds	0	0
Convertible bonds	0	0
Other bonds	20,877,682	18,453
Total	**54,151,007**	**48,817**

In 2019, impairment of financial fixed assets only concerned shares in associated and affiliated companies

(4) Shares in associated and affiliated companies

Attachment 3 to the notes presents disclosures of interests in associated and affiliated companies as required under Section 238 No. 2 UGB.

In the financial year 2019, write-downs on shares in affiliated companies totalling EUR -131,238.445 (2018: write-up EUR 33,206 thousand) were recognised.

According to Section 93 BWG, Addiko Bank AG is obligated to maintain a membership in the deposit guarantee fund Einlagensicherung AUSTRIA Ges.m.b.H.

(5) Intangible and tangible fixed assets

Attachment 1 to the notes includes the fixed assets schedule, showing a breakdown of the individual items and their development in the reporting year.

(6) Other assets

The breakdown of other assets is as follows:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Receivables to affiliated companies	2,714,269	1,650
Receivables arising from the foreign exchange valuation of banking book derivatives	812,346	3,832
Interest income	316,507	383
- of which to be paid after the closing date	316,507	341
Trade receivables	264,027	377
Offset claim	46,505	579
Receivables from trading book derivatives	3,906	0
Total	**4,157,560**	**6,822**

The decrease in other assets by EUR -2,663,990 to EUR 4,157,560 (2018: EUR 6,822 thousand) mainly results from the foreign exchange valuation of banking book derivatives (currency swaps).

(7) Deferred assets

This item includes prepaid expenses to be recognised as expense over the respective terms. Total deferred assets as at 31 December 2019 amount to EUR 5,387,940 (2018: EUR 8,279 thousand). The prepayments mainly relate to purchased IT services in the amount of EUR 4,166,042 (2018: EUR 7,168 thousand), which are provided directly to the subsidiaries and subsequently charged to them.

(8) Other liabilities

The breakdown of other liabilities is as follows:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Liability from cost allocation from services charged from associated companies	2,151,004	918
Trade payables	1,712,915	3,866
Fees and levies	1,398,819	816
Liability from restructuring	1,026,623	550
Interest expenses	310,664	522
- of which to be paid after the closing date	310,664	522
Liabilities from trading book derivatives	157,819	80
Clearing account balances	3,695	104
Liabilities from foreign currency measurement of banking book derivatives	12,967	684
Total	**6,774,506**	**7,541**

Other liabilities decreased year-on-year by EUR 766,971 to EUR 6,774,506 .

The decrease of liabilities from foreign currency valuation of banking book derivatives (currency swaps) in the amount of EUR 671,301 to EUR 12,967 is attributable to changes in the exchange rate.

Trade payables decreased year-on-year by EUR 2,153,566 to EUR 1,712,915.

(9) Provisions

Of the total provisions of EUR 15,753,171 (2018: EUR 21,203 thousand), other provisions comprise the following:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Bonus	6,147,813	6,288
Contingent losses from derivatives	3,227,566	527
Miscellaneous provisions	2,303,659	6,660
Legal and advisory costs	1,238,596	4,732
Holiday not taken and overtime	921,256	1,139
Long-service bonuses	259,704	223
Total	**14,098,594**	**19,568**

The item miscellaneous provisions include a provision for uncertain liabilities in connection with the implementation of IT projects in the amount of EUR 188,141 (2018: EUR 2,868 thousand). The remaining miscellaneous provisions primarily relate to services not yet invoiced by the subsidiaries or external service providers.

(10) Information on risk provisions

The following risk provisions were recognized in the balance sheet as at 31 December 2019:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Loans and advances to credit institutions	**1,009,175**	**1,253**
Specific risk provisions	0	0
Portfolio-based provisions	1,009,175	1,253
Loans and advances to customers	**0**	**0**
Specific risk provisions	0	0
Portfolio-based provisions	0	0
Off-balance-sheet risks from the lending business	**340**	**0**
Individual provisions	0	0
Portfolio-based provisions	340	0
Total	**1,009,515**	**1,253**

Credit defaults that are expected as at the balance sheet date were taken into account by way of a risk provision in the amount of EUR 1,009,515 (2018: EUR 1,253 thousand). The reduction in provisions is mainly attributable to changes in the calculation parameters.

(11) Issued capital

The share capital of Addiko Bank AG amounts to EUR 195,000,000 as at the balance sheet date (2018: EUR 195,000 thousand) and is divided into 19,500,000 (2018: 1,000) no-par bearer shares.

Addiko Bank AG's share capital was divided into 19,500,000 shares in 2019 in preparation for the IPO.

(12) Reserves

in EUR

	At start of year 1.1.2019	Additions	Reversals	Reclassification	At the end of year 31.12.2019
Capital reserve	**476,500,000**	**0**	**-177,837,348**	**0**	**298,662,652**
Retained earnings	**26,702,140**	**0**	**0**	**0**	**26,702,140**
thereof legal reserve	19,500,000	0	0	0	19,500,000
thereof other reserve	7,202,140	0	0	0	7,202,140
Liability reserve	**22,741,019**	**0**	**0**	**0**	**22,741,019**

Pursuant to Section 229 (6) UGB, at least 5% of net profit for the year less the loss carried forward is to be allocated to legal reserve until the committed reserves amount to 10% of the nominal capital. The total amount required (EUR 19,500,000) was allocated in the financial year 2018.

The uncommitted capital reserves were released in the financial year 2019 in the amount of EUR 177,837,348 (2018: release of EUR 7,435 thousand).

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 40,000,000 in the financial year 2019.

IV. OFF-BALANCE SHEET TRANSACTIONS

(13) Derivative financial instruments

As at the balance sheet date 31 December 2019, the following transactions were unsettled (please note: all fair values and/or market values presented in the table and in the following paragraphs are stated inclusive of the respective accrued interest):

in EUR

		Nominal	Positive accrued interest	Negative accrued interest	Fair value positive	Fair value negative
a)	**Interest-related business**					
	OTC-products	270,438,720	249,819	285,043	2,008,666	2,248,043
	Interest rate swaps	269,281,447	249,819	285,043	2,008,629	2,248,006
	Interest swaptions Purchase	524,262	0	0	37	0
	Interest swaptions Sales	633,012	0	0	0	37
b)	**Currency-related business**					
	OTC-products	329,687,125	17,909	0	836,352	2,774,580
	Currency swaps	65,587,125	17,909	0	0	2,594,540
	Cross currency swaps	260,700,000	0	0	832,447	176,475
	Forward exchange contracts	3,400,000	0	0	3,906	3,565
c)	**Shares and index related business**					
	OTC-products	0	0	0	0	0
d)	**c) Other**					
	OTC-products	8,901,549	0	2,720	0	156,974
	Credit Default Swaps	8,901,549	0	2,720	0	156,974

Derivative transactions are used only to hedge against fluctuations in interest rates, exchange rates, market prices and changes in creditworthiness. The majority of derivative transactions are made to manage interest rate risk. In most cases, hedges are used to hedge transactions under assets. Foreign exchange swaps and currency swaps are the primary tools for the bank to hedge currency risks. In the financial year 2019, the fair value from currency-related transactions amounts to EUR -1,938,227 (2018: EUR 3,223 thousand). The current number of credit default swaps (also allocated to trading book as forward exchange transactions) serves to hedge credit risks at Group level.

Securities held by Addiko Bank AG as current assets for which a fixed interest rate has been agreed are hedged against interest rate risk. Primarily the existing foreign exchange refinancing lines with subsidiaries are hedged against currency risk. Furthermore, banking book derivatives are hedged with opposing derivatives.

The comparable figures as at 31 December 2018 are as follows:

EUR thousand

		Nominal	Positive accrued interest	Negative accrued interest	Fair value positive	Fair value negative
a)	**Interest-related business**					
	OTC-products	317,505	231	344	1,359	1,479
	Interest rate swaps	316,110	231	344	1,358	1,478
	Interest swaptions Purchase	591	0	0	0	0
	Interest swaptions Sales	804	0	0	0	0
	Exchange-traded products	0	0	0	0	0
b)	**Currency-related business**					
	OTC-products	**651,527**	**6**	**0**	**3,894**	**671**
	Currency swaps	130,227	6	0	2,723	84
	Cross currency swaps	502,300	0	0	1,172	587
	Forward exchange contracts	19,000	0	0	0	0
c)	**Shares and index related business**					
	OTC-products	**0**	**0**	**0**	**0**	**0**
d)	**Other**					
	OTC-products	8,734	0	0	0	83
	Credit Default Swaps	8,734	0	0	0	83

From an accounting perspective, there are the following portfolios of derivative financial instruments:

- Fair value hedge:

  Transactions designated as fair value hedges in accordance with the International Financial Reporting Standards (IFRS) are assumed to be micro hedges also under UGB/BWG.

  At the beginning of the financial year 2018, the last micro hedge relationship was terminated following the sale of the hedged security. The hedge derivative used in the hedging relationship has been accounted as stand-alone derivative since then. The fair value of fair value hedge derivatives thus amounts to EUR 0 at the balance sheet date (2018: EUR 0 thousand).

- Stand-alone derivatives to hedge interest and currency risks:

  This portfolio includes all currency swaps (Cross Currency Swaps und FX Swaps) used to hedge the currency risk of foreign currency refinancing lines with subsidiaries. The fair value of such derivatives amounts to EUR -1,938,568 as at 31 December 2019 (2018: EUR 2,639 thousand). A further component is an interest rate swap portfolio to hedge the interest rate risk of securities classified as current assets and which is not presented in the form of micro hedges. The fair value of these interest rate swaps amounts to EUR -285,470 as at 31 December 2019 (2018: EUR 168 thousand). If fair values relating to this portfolio are negative without taking accrued interest into account, a contingent loss provision has to be recorded. As at December 31,2019, a loss provision in the amount of EUR 3,225,955 (2018: EUR 524 thousand) was recognised.

- Stand-alone mirror transactions:

  The remaining swap portfolio – known as mirror transactions where the Bank acts as the counterparty to the external market participant, and which are subsequently transferred to Group companies – is assessed with regard to the existence of valuation units, with an existing surplus, if any, included in the calculation. These transactions constitute interest rate swaps as well as caps where it has been made sure that the market values largely balance each other out (maximum difference of 1-3 basis points for the bank). The critical parameters of the derivatives that are part of a valuation unit are identical but opposite to each other (critical term match). In case of a negative surplus at the individual transaction level, a contingent loss provision has to be recognized. In the financial year 2019, the fair value of this portfolio amounted to EUR 45,313 (2018: EUR 46 thousand), with the major part of this portfolio including a fair value of EUR 24,588 (2018: EUR 40 thousand) has a remaining maturity of more than 5 years. The positive fair value of the derivatives in a valuation unit amounted to EUR 1,574,761, whereby the negative fair value of the corresponding derivatives amounted to EUR 1,529,449. As at 31 December 2019, a loss provision in the amount of EUR 1,611 was recognised (2018: EUR 3 thousand).

According to the circular of the Austrian Financial Market Authority regarding accounting issues related to interest-managing derivatives and value adjustments for derivatives (Section 57 BWG), the model valuation of derivatives has to take the counterparty risk into account using accepted economic methods to the extent it is relevant for valuation. This gives rise either to a credit value adjustment (when the counterparty's default risk predominates) or to a debt value adjustment (when the bank's own default risk dominates). These or alternative methods may be used as long as they correspond to the market standard. Debt value adjustments are not taken into account due to the principle of prudence. The counterparty risks also did not impact the effectiveness of existing hedges.

(14) Other off-balance sheet financial obligations

The financial obligations shown as off-balance sheet items are as follows:

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Contingent liabilities	**575,000**	**6,714**
Guarantees and other collateral securities	0	200
Letters of credit	575,000	6,514
Commitments	**0**	**0**

Beyond the contingent liabilities reported as off-balance sheet, there is also an obligation resulting from the membership in the deposit guarantee fund of Banken und Bankiers GmbH required under Section 93 BWG.

Aside from the contingent liabilities and loan commitments reported as off-balance sheet, there are no liquidity commitments or soft letters of comfort to individual Group companies.

Addiko Bank AG's obligations from the use of tangible assets not reported in the balance sheet (lease and rental obligations) amount to EUR 515,708 (2019: EUR 532 thousand) for the financial year 2020 and amount to EUR 2,578,542 for the financial years 2020 through 2024 (prior-year figure for 2019-2023: EUR 2,662 thousand).

(15) Fiduciary transactions

As at the balance sheet date 31 December 2019 as well as at 31 December 2018, there were no fiduciary transactions at Addiko Bank AG not reported in the balance sheet.

V. NOTES TO THE INCOME STATEMENT

(16) Regional breakdown of income and expenses

Interest income and expenses are shown as a regional breakdown, with allocation to a region depending on the location of the registered office of the company.

	in EUR	EUR thousand
Interest and similar income	1.1. - 31.12.2019	1.1. - 31.12.2018
Loans and advances to credit institutions (including central banks) and customers	**11,976,479**	**16,217**
of which Austria	-259,119	-375
of which International	12,235,598	16,592
Fixed-income securities	**1,555,192**	**1,456**
of which Austria	0	0
of which International	1,555,192	1,456
Other assets	**2,495,744**	**2,406**
of which Austria	998,416	838
of which International	1,497,328	1,568
Total interest and similar income	**16,027,415**	**20,079**

The decrease in interest and similar income is caused by the settlement of subordinate receivables from subsidiaries in 2018 which led to the reduction of interest income in the financial year 2019. The negative interest income on domestic loans and advances to credit institutions and customers include interests from the minimum reserve in the amount of EUR -259,119 (2018: EUR -379 thousand).

	in EUR	EUR thousand
Interest and similar expenses	1.1. - 31.12.2019	1.1. - 31.12.2018
Liabilities to credit institutions and customers	**5,226,748**	**6,776**
of which Austria	2,220,738	1,552
of which International	3,006,010	5,224
Other liabilities	**2,605,475**	**2,317**
of which Austria	1,520,667	1,414
of which International	1,084,808	903
Supplementary capital	**0**	**3,588**
of which Austria	0	0
of which International	0	3,588
Total interest and similar expenses	**7,832,223**	**12,682**

The change in interest and similar expenses in the financial year 2019 compared to the financial year 2018 is mainly attributable to the waiver of Tier 2 capital of the shareholder AI Lake (Luxembourg) S.à r.l. In the first quarter of 2018, interest expenses in the amount of EUR -3,588 thousand resulted from the Tier 2 capital amounting to EUR 190,000 thousand.

(17) Net fee and commission income

	in EUR	EUR thousand
	1.1. - 31.12.2019	1.1. - 31.12.2018
From the lending business	**-240,930**	**-27**
Fee and commission income	28,107	483
Fee and commission expenses	-269,037	-510
From the securities business	**-73,853**	**-73**
Fee and commission income	0	0
Fee and commission expenses	-73,853	-73
From other transactions	**-17,524**	**-26**
Fee and commission income	12,660	12
Fee and commission expenses	-30,184	-38
Total	**-332,307**	**-127**

The decrease in net commission income is mainly driven by the absence of intragroup commissions. The reduction in the commission expenses from the direct deposit business has a compensatory effect.

(18) Other operating income

	in EUR	EUR thousand
	1.1. - 31.12.2019	1.1. - 31.12.2018
Income from selling real estates	11,354	3
Income from release of provisions	504,723	448
Charging of intra-group services	1,467,425	1,612
Income from debt waiver	0	60,994
Other operating income	1,014,186	395
Total	**2,997,688**	**63,452**

The item charging of intra-group services includes external services passed on in the amount of EUR 317,330 (2018: EUR 882 thousand), and cost allocation of investments and services provided by Addiko Bank AG to its subsidiaries in the amount of EUR 1,150.095 (2018: EUR 730 thousand).

The item other operating income refers to credit notes for services received in prior periods.

The decrease in other operating income mainly results from the one-off effect due to the waiver of supplementary capital by the owner AI Lake (Luxembourg) S.à r.l. in 2018.

(19) Other administrative expenses (operating expenses)

	in EUR	in TEUR
	1.1. - 31.12.2019	1.1. - 31.12.2018
Legal and advisory costs	6,388,741	8,904
IT costs	8,882,982	9,992
Expenses for outsourced functions	5,516,749	4,630
Insurance	946,022	731
Rental and leasing expenses	762,529	722
Travel expenses	474,913	657
Training expenses	317,761	441
Telephone/postage costs	149,492	376
Advertising expenses	33,610	126
Costs in connection with company legal structure	345,699	315
Fleet costs	111,646	168
Miscellaneous operating expenses	855,291	1,315
Total	**24,785,435**	**28,377**

Due to the holding function of Addiko Bank AG centrally purchased external services such as IT and insurance services are passed on to the Group companies. Expenses in the amount of EUR 317,330 (2018: EUR 882 thousand) pertaining to the expenses stated above were passed on to subsidiaries in the financial year 2019. The associated income is shown under other operating income. The change is due to the completion of group-wide consulting projects as well as IT services invoiced directly by the suppliers to subsidiaries.

Expenses for outsourced functions also include costs for services rendered by subsidiaries resulting from the Central Steering Function (CSF) and the Group Shared Services (GSS) in the amount of EUR 4,829,368 (2018: EUR 3,803 thousand).

(20) Net gain/loss from the valuation and disposal of loans and advances, contingent liabilities, loan exposures and securities held as current assets

In the financial year 2019, this item in the amount of EUR 6,295,623 (2018: EUR -3,904 thousand) primarily includes the result from release of and allocation to risk provisions in the amount of EUR 242,137 (2018: EUR -1,251 thousand) and expenses resulting from interest derivatives in the amount of EUR -655,748 (2018: EUR -450 thousand). Additionally, changes in the market value of securities led to valuation results in the amount of EUR 6,833,803 (2018: EUR -2,203 thousand).

(21) Net gain/loss from impairment, securities stated as financial investments and investments and shares in affiliated companies

The net gain/loss from impairment on the book value of the subsidiaries amounts to EUR -131,238,445 in the financial year 2019 (2018: EUR 33,206 thousand).

VI. OTHER DISCLOSURES

(22) Assets transferred as collateral pursuant to Section 64 (1) No. 8 BWG

Assets in the amount of EUR 9,690,000 (2018: EUR 5,090 thousand) were pledged as collateral for own debts to third parties at terms which are usual and customary for such activities. These are cash collaterals pledged as collateral in relation to derivatives.

Collaterals in the amount of EUR 11,498,702 (2018: EUR 23,672 thousand) were pledged as a result of repurchase agreements.

Furthermore, as of December 31, 2019, no securities (2018: EUR 0 thousand) were deposited with Oesterreichische Nationalbank (OeNB) as security for refinancing.

(23) Important proceedings

Addiko Bank AG is not involved as a defendant party in any important proceedings as at 31 December 2019.

In September 2017, the Company (together with its Croatian subsidiary) filed two Requests for Arbitration with the ICSID in Washington, DC against Montenegro and the Republic of Croatia regarding the Conversion Laws claiming EUR 10 million and EUR 165 million, respectively. The Company claims that the Bilateral Investment Treaties (BIT) with the respective country regarding the fair and equivalent treatment under the respective BIT was violated. Counter memorials by the respondents have been submitted to the tribunals denying any damages and liability in relation to these proceedings.

(24) Material agreements

The new intercompany service charging method applied by the Addiko Group is based on the OECD Transfer Pricing Guidelines for intercompany services. In the financial year 2019, several services were rendered between Addiko Bank AG and the subsidiaries, with Addiko Bank AG having acted both as service provider as well as service recipient. The entire direct costs plus a premium of these services were charged based on the arm's length principle. This new strategy and cost structure helped improve the intra-group cooperation and leverage on group competencies. In the financial year 2019, two categories of services / activities were provided:

- Central Steering Function (CSF), i.e., activities similar to shareholder activities and thus being made available and charged to Addiko Bank AG.
- Group Shared Services (GSS), i.e., services from which the Group companies benefited and that do not necessarily relate to shareholder activities and which therefore are charged on and made available to the companies that benefit from these services.

From a contractual point of view, Addiko Bank AG entered into a Group-wide framework agreement as well as into individual Service Level Agreements (SLAs) with subsidiaries. Among other things, the Service Level Agreements define the type of the service, the service fee, the true-up mechanism and the invoice details.

In the financial year 2019, Addiko Bank AG received CSF and GSS services in a total gross amount of EUR 4,829,368 (2018: EUR 3,803 thousand). In the same period, Addiko Bank AG rendered a GSS and received EUR 151,449 (2018: EUR 103 thousand) for this service.

(25) Own funds and capital requirements

25.1. Own funds and capital requirements

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

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

	31.12.2019			31.12.2018		
	CET1	T1	TCR	CET1	T1	TCR
Pillar I requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar II requirement	4.10%	4.10%	4.10%	4.70%	4.70%	4.70%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**9.20%**	**10.70%**	**12.70%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	1.875%	1.875%	1.875%
Counter-Cyclical Capital Buffer	0.002%	0.002%	0.002%	0.002%	0.002%	0.002%
Overall Capital Requirement (OCR)	**11.102%**	**12.602%**	**14.602%**	**11.077%**	**12.577%**	**14.577%**

In addition to Pillar I minimum capital ratios, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2017 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level additional 4.7% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. At the beginning of January 2019, Addiko Bank AG received a decision as result of the 2018 SREP process, based on which own funds are deemed adequate both at the consolidated and the holding level as well as the Slovenian and Croatian subsidiaries. Starting from the 24 June 2019, when the corresponding decision was issued by the FMA, the additional Pillar II requirement decreased from 4.7% to 4.1%. The Pillar II requirement of 4.1% was confirmed in the 2019 SREP decision and an additional Pillar 2 guidance (P2G) in the amount of 4% was introduced. The starting date of application of the P2G has still to be communicated by the FMA.

According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%.

A breach of the combined buffer requirement (the CCB and the systemic risk buffer) would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements in force during the year, including a sufficient buffer, were met at all times on a consolidated basis.

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 Financial Market Authority (FMA) the formal decision of the Single Resolution Board (SRB) relating to MREL requirement (minimum requirement for own funds and eligible liabilities), which amounts to 20.58% of Total Liabilities and Own Funds (TLOF) on consolidated level. The MREL requirement shall be reached by 31 December 2023 and from that date shall be met at all times. The decision for the MREL requirement is based on the Single Point of Entry (SPE) approach, while ADDIKO Bank AG is on preparation to meet all requirements for a Multiple Point of Entry (MPE).

25.2. Own funds and capital requirements of Addiko Bank AG

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Common Equity Tier 1 (CET1) capital	**538,238,033**	**714,242**
Paid-in capital	195,000,000	195,000
Reserves	348,105,811	525,943
Intangible assets	-4,710,486	-6,594
Net accumulated losses	0	0
Regulatory adjustments to the CET1 capital	-157,293	-107
Tier 2 capital	**0**	**0**
Supplementary capital	0	0
Subordinated capital	0	0
Total capital (TC = T1 + T2)	**538,238,033**	**714,242**
Total capital requirement	**92,090,304**	**99,200**
Surplus/shortfall (TC)	**446,147,729**	**615,042**
Surplus/shortfall (Tier 1)	**469,170,305**	**639,842**
Coverage	584.5%	720.0%

	in EUR	EUR thousand
Risk weighted assets by risk type	31.12.2019	31.12.2018
Credit risk pursuant standard approach	1,004,490,956	1,097,975
Market risk	97,137,966	99,799
Operational risk	46,569,384	36,492
Riskpositions for adjustments of the credit rating (CVA)	2,930,490	5,730
Total risk exposure amount	**1,151,128,796**	**1,239,996**

		in %
Capital ratio according to Art. 92 CRR	31.12.2019	31.12.2018
Tier 1-Ratio	46.8%	57.6%
TC ratio	46.8%	57.6%

	in EUR	EUR thousand
Large exposure limit	31.12.2019	31.12.2018
Eligible capital according to Art. 4 (71) CRR	**538,238,033**	**714,242**
thereof 10% acc. to Art. 392 (1) CRR	53,823,803	71,424
thereof 25% (upper limit) acc. to Art. 392 (1) CRR	134,559,508	178,561

25.3. Own funds and capital requirements of Addiko Group

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

		in EUR	in TEUR
		31.12.2019 ADDIKO	31.12.2018 ADDIKO
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	195,000,000	195,000
2	Retained earnings	615,302,801	561,042
3	Accumulated other comprehensive income	15,881,654	-776
5	Minority interests (amount allowed in consolidated CET1)	1,627	2
5a	Independently reviewed profits net of any foreseeable charge or dividend	-4,922,857	54,203
6	**CET1 capital before regulatory adjustments**	**821,263,226**	**809,465**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-1,141,094	-1,211
8	Intangible assets (net of related tax liability)	-27,904,671	-30,269
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	-16,400,000	-19,000
[#]	IFRS 9 transitional rules	34,021,743	43,761
28	**Total regulatory adjustments to CET1**	**-11,424,022**	**-6,719**
29	**Common Equity Tier 1 (CET1) capital**	**809,839,203**	**802,752**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0**
59	**Total capital (TC = T1 + T2)**	**809,839,203**	**802,752**
60	Total risk weighted assets	4,571,531,160	4,544,989
	Capital ratios and buffers %		
61	CET1 ratio	17,7%	17,7%
63	TC ratio	17,7%	17,7%

[1] The references identify the lines prescribed in the EBA template, which are applicable and contain data. 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.

In relation to the 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, reference is made to the respective statements in the 2019 consolidated financial statements of Addiko Bank AG.

(26) Group structure

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

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

Therefore, Addiko Bank AG is no longer under the control of AI Lake (Luxembourg) S.à r.l., and is no longer included as a subsidiary in the consolidated financial statements of AI Lake (Luxembourg) S.à r.l..

The consolidated financial statements pursuant to Section 59a BWG are published in the official journal of the Austrian newspaper "Wiener Zeitung". Addiko Bank AG meets the disclosure obligations according to the Capital Requirements Regulation (CRR) based on the consolidated financial position at Addiko Group level. Disclosure is made on Addiko Bank AG's website at www.addiko.com (-> Publications -> Financial Statements).

(27) Other supplementary information

Liabilities to customers do not include any trustee saving accounts.

The amount for deferred tax assets not reported separately in the balance sheet that can be capitalized (25%) pursuant to Section 198 (10) UGB) is EUR 40,700,988 (2018: EUR 33,140 thousand). Since these assets result entirely from loss carry-forwards and there are no sufficient future taxable profits, no deferred tax assets were capitalized.

The return on total assets (ratio of the profit or loss for the year after tax divided by total assets at the balance sheet date) amounts to -11.5% for 2019 (2018: 5.8%).

The balance sheet total contains the following amounts denominated in foreign currency (equivalent value in EUR):

	in EUR	EUR thousand
	31.12.2019	31.12.2018
Assets	2,583,384	51,468
Equity and Liabilities	19,009,143	1,098

Most of the difference in the amount of EUR -16,425,759 (2018: EUR 50,370 thousand) is hedged by foreign exchange swaps, forward exchange transactions as well as currency swaps.

As at 31 December 2019, the Company did not conduct any related party transactions pursuant to IAS 24 that were not concluded at arm's length conditions.

(28) Audit expenses

Details are included in the Consolidated Financial Statements.

(29) Employees

The average number of staff pursuant to Section 239 (1) No. 1 UGB during the year was as follows:

	31.12.2019	31.12.2018
Salaried employees	136	145
Hourly-paid employees	0	0
Total	**136**	**145**

(30) Expenses for severance payments and pensions

		in EUR		EUR thousand
		1.1. - 31.12.2019		1.1. - 31.12.2018
	Severance pay	Pensions	Severance pay	Pensions
Members of Management Board	31,032	0	48	0
Key management personnel	37,927	8,340	52	8
Other employees	488,019	55,609	222	51
Total	**556,978**	**63,949**	**321**	**60**

Expenses for severance payments and contributions to severance funds break down into expenses for severance payments in the amount of EUR 335,788 (2018: EUR 90 thousand) and contributions to severance funds in the amount of EUR 221,191 (2018: EUR 232 thousand).

In the financial year 2019, expenses in the amount of EUR 63,949 (2018: EUR 60 thousand) were incurred for pensions of the severance funds.

(31) Information on board members

The board members active in the financial year 2019 are shown in Attachment 2 to the notes.

31.1. Advances, loans and liabilities with regard to board members

As at 31 December 2019, the Company has not granted any advances or loans to board members, nor did it assume any liabilities on their behalf.

31.2. Remuneration received by management board members

	in EUR	EUR thousand
	1.1. - 31.12.2019	1.1. - 31.12.2018
Management Board	2,952,969	5,279
Supervisory Board	261,094	153
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	1,490,540	401
Total	**4,704,602**	**5,833**

The Attachment includes the disclosure of the total remuneration received by the members of the Management Board and of the Supervisory Board or similar bodies (salaries, profit participation, allowances, insurance fees, commissions and fringe benefits of all kinds) in the financial year 2019. Total remuneration includes paid and payable amounts in the respective reporting period.

(32) Events after the reporting date

No significant events occurred after the balance sheet date.

(33) Proposed appropriation of profits

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 40,000.000 (in words: forty million euros) in the financial year 2019. In the next General Assembly a proposal will be made to appropriate this profit as follows:

- An amount of EUR 40 million (in words: forty million euros) will be distributed by the Company as a dividend. The dividend per share will be EUR 2.05.

Vienna
February 26, 2020
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Fixed assets schedule Attachment 1 to the notes

Asset		Acquisition costs 01.01.2019	Addition 2019	Disposals 2019	Reclassifications 2019	Acquisition costs 31.12.2019
2.	Treasury bills					
	Financial investments	10,325,267.10	0.00	-10,325,267.10	0.00	0.00
3.	Loans and advances to credit institutions					
	Financial investments	0.00	0.00	0.00	0.00	0.00
4.	Loans and advances to customers					
	Financial investments	0.00	0.00	0.00	0.00	0.00
5.	Bonds and other fixed income securities					
	Financial investments	0.00	0.00	0.00	0.00	0.00
7.	Shares in associated companies	3,529.61	0.00	0.00	0.00	3,529.61
8.	Shares in affiliated companies	1,344,982,946.24	0.00	0.00	0.00	1,344,982,946.24
9.	Intangible fixed assets	13,796,447.26	1,478,625.29	-2,173,572.96	0.00	13,101,499.59
10.	Tangible fixed assets	1,522,544.69	68,963.84	-81,507.82	0.00	1,510,000.71
	Total	**1,370,630,734.90**	**1,547,589.13**	**-12,580,347.88**	**0.00**	**1,359,597,976.15**

Accumulated depreciation/impairment 01.01.2019	Addition depreciation 2019	Impairment 2019	Write-ups 2019	Disposals 2019	Accumulated depreciation/impairment 31.12.2019	Carrying amount 31.12.2019	Carrying amount 31.12.2018
0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,325,267.10
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	3,529.61	3,529.61
-506,019,379.05	0.00	-156,248,405.45	25,009,960.88	0.00	-637,257,823.62	707,725,122.62	838,963,567.19
-7,202,640.79	-1,775,435.04	-394,873.29	0.00	981,935.03	-8,391,014.09	4,710,485.50	6,593,806.47
-555,213.40	-234,144.91	0.00	0.00	72,278.96	-717,079.35	792,921.36	967,331.29
-513,777,233.24	**-2,009,579.95**	**-156,643,278.74**	**25,009,960.88**	**1,054,213.99**	**-646,365,917.06**	**713,232,059.09**	**856,853,501.66**

Boards and officers of the Company Attachment 2 to the notes

1 January to 31 December 2019

Members of the Supervisory Board:

Chairman of the Supervisory Board:
Hermann-Josef Lamberti

Deputy Chairman of the Supervisory Board:
Hans-Hermann Lotter
Henning Giesecke

Members of the Supervisory Board:
Dragica Pilipović-Chaffey
Sebastian Prinz Schoenaich-Carolath (since June 2019)

Delegated by the Works Council:
Horst Floriantschitz (until July 2019)
Thomas Wieser (since July 2019)
Christian Lobner

Governmental supervision

State Commissioner:
Judith Schmidl (until December 2018)
Vanessa Koch (since March 2019)

Deputy State Commissioner:
Vanessa Koch (until March 2019)
Lisa-Maria Pölzer (since March 2019)

Management Board

Razvan Munteanu, Chairman of the Management Board
Johannes Proksch, Member of the Management Board
Markus Krause, Member of the Management Board
Csongor Bulcsu Németh, Member of the Management Board

List of investments Attachment 3 to the notes

pursuant to Section 238 UGB

Direct investments of Addiko Bank AG

The following list shows the direct investments (greater than 20%) of Addiko Bank AG pursuant to Section 238 No. 4 UGB:

Name of enterprise	Registered office	Capital share	Equity in EUR thousand	Result after tax in EUR thousand	Date of closing	Line of business
Addiko Bank d.d.	Ljubljana	100.0000	171,784	22,894	31.12.2019	CI
Addiko Bank d.d. Sarajevo	Sarajevo	99.9985	111,312	4,648	31.12.2019	CI
Addiko Bank d.d.	Zagreb	100.0000	405,728	28,035	31.12.2019	CI
Addiko Bank a.d. Beograd	Belgrade	100.0000	191,206	10,047	31.12.2019	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8730	83,226	4,763	31.12.2019	CI
Addiko Bank AD	Podgorica	100.0000	25,067	3,747	31.12.2019	CI

The equity and results reported for the fully consolidated companies were determined under the Group's uniform measurement policy pursuant to International Financial Reporting Standards (IFRS) and may therefore deviate from the published separate financial statements prepared according to the respective national regulations. The information refers to data prior to consolidation.

[1)] Equity = total equity of the company; the proportional representation of equity (corresponding to direct shareholding) is omitted

[2)] Result = net profit/loss for the period after taxes and before minority interests; the proportional representation of results (corresponding to direct shareholding) is omitted

Vienna
February 26, 2020
Addiko Bank AG

MANAGEMENT BOARD

Razvan Munteanu
(Chairman)

Markus Krause

Johannes Proksch

Csongor Bulcsu Németh

Statement of all legal representatives

We confirm to the best of our knowledge that the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the company faces.

Vienna
February 26, 2020
Addiko Bank AG
MANAGEMENT BOARD

Razvan Munteanu
Chief Executive Officer

Markus Krause
Member of the Management Board

Johannes Proksch
Member of the Management Board

Csongor Bulcsu Németh
Member of the Management Board

Auditor´s report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Addiko Bank AG, Vienna, which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, and notes to the financial statements.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2019, and its financial performance in accordance with Austrian Generally Accepted Ac-counting Principles and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Valuation of shares in affiliated companies

Description and Issue

As at December 31, 2019, Addiko Bank AG reports shares in affiliated companies totaling EUR 707.7 million. After depreciation of EUR 131.2 million in 2019 accumulated write-downs amounting to EUR 637.3 million. The Company tests book values for changes in value as required, or at least once a year close to the balance sheet date.

To determine the current value, expected future financial surpluses are discounted to the valuation date using a suitable interest rate.

We refer to the disclosures made in the Notes to the Financial Statements (II. Accounting Principles), in the fixed assets schedule (Attachment 1 to the Notes) and in the list of investments (Attachment 3 to the Notes).

The assumptions upon which valuation is based require a high degree of judgment. Slight changes to these assumptions or the calculated discount rates will lead to significantly deviating results. Due to the sensitivity of the valuation model and the high degree of judgment required for the assumptions, we identified the valuation of shares in affiliated companies as a key audit matter.

Our response

The adequacy of the valuation model and the discount rate applied was assessed by valuation experts based on professional standards and using current capital market data. Furthermore, the mathematical accuracy of the calculation was checked.

We compared the assumptions and estimates made with regard to future financial sur-pluses with past performance and past planning accuracy. The figures and planning assumptions used were discussed with management and the responsible employees, and plausibility checks were performed using internal and external forecasts. In addition, we reconciled the future financial surpluses used in the calculation with the 2020 annual budgets approved by the supervisory board as well as the accepted medium-term budget for the next five years.

Other information

Management is responsible for the other information. The other information comprises all information in the annual report, but does not include the financial statements, the management report and our auditor's report thereon. The annual report (without Report of the supervisory board) we obtained prior to the date of this auditor's report, Report of the supervisory board is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. With respect to the information in the management report we refer to the section "Report on the Audit of the Management Report".

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Regulation (EU) No 537/2014 and with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that give a true and fair view.

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements includes appropriate disclosures according to section 243a UGB and is consistent with the financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the general meeting on July 31, 2018 and commissioned by the supervisory board on August 23, 2018 to audit the financial statements for the financial year ending December 31, 2019. Furthermore we were appointed by the general meeting on June 6, 2019 and commissioned by the supervisory board on June 19, 2019 to audit the following financial year. We have been auditing the Company uninterrupted since the financial year ending December 31, 2014.

We confirm that our opinion expressed in the section "Report on the Audit of the Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Company in conducting the audit.

Engagement Partner

The engagement partner responsible for the audit is Mag. Thomas Becker.

Vienna, March 2, 2020

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Thomas Becker m.p.
Certified Public Accountant

Mag. Wolfgang Wurm m.p.
Certified Public Accountant

This report is a translation of the long-form audit report according to section 273 of the Austrian Commercial Code (UGB). The translation is presented for the convenience of the reader only. The German wording of the long-form audit report is solely valid and is the only legally binding version. Section 281(2) UGB applies.

Report of the Supervisory Board

Dear Shareholders,

Following the economic turnaround in the financial year 2017 and the specification of the business strategy in the financial year 2018, the financial year 2019 was characterised by a continuous and consistent implementation of the planned measures in the strategic focus segments. As a result of the Company's successful development, Addiko Bank AG went public and was admitted to the Vienna Stock Exchange in July 2019.

In line with its business strategy, the Addiko Group placed the focus of its activities on Consumer and SME financing in Central and South-Eastern Europe and, moreover, on providing payment services. The Addiko Group offers convenient and quick banking services to its customers and puts a particular emphasis on innovative digital solutions in its business activities. Online & mobile banking services for the aforementioned focus segments were further improved in the course of the ongoing digitisation of business processes. The so-called strategic non-focus segments such as mortgage financing or loans to public institutions or large corporates was further reduced in the financial year 2019.

Sustainable cost efficiency and maintaining a balanced risk profile remain the pillars of Addiko's strategy. A prudent risk management on the back of a robust risk strategy contributes to an appropriate balance between risk and return. In this way, the Addiko Group is able to actively manage and optimally monitor all risks.

Since 12 July 2019, Addiko Bank AG has been listed on the prime market of the Vienna Stock Exchange. As per 15 July 2019, the share was included into the ATX Prime Index which comprises approx. 40 values. In addition to BAWAG Group AG, Erste Group Bank AG and Raiffeisen Bank International AG, Addiko Bank AG is the fourth banking institution in this market segment. Holding approx. 45% of the share capital in Addiko Bank AG, AI Lake (Luxembourg) S.à r.l. remains the core shareholder of the Company, with 55% of the shares being in free float.

Activities of the Supervisory Board
During the reporting year, the Supervisory Board performed all of the duties incumbent upon it in a highly conscientious manner and in accordance with the law, the Company's statutes and its own rules of procedure.

It held six meetings in total in the financial year 2019 and assisted the Management Board in an advisory capacity and by continually monitoring the governance of the enterprise. At the meetings of the Supervisory Board and its Committees, the Management Board reported in depth on the Addiko Group's financial situation and business performance. The Management Board discussed in detail strategies and major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board.

In this context, the Supervisory Board undertook the measures necessary to assure that the governance of the Addiko Group's affairs was lawful, compliant and appropriate.

The Supervisory Board had formed the following five standing Committees:

- the Audit and Compliance Committee (which held six meetings in 2019),
- the Credit Committee (which held six meetings in 2019),
- the Risk Committee (which held five meetings in 2019),
- the Nomination & Remuneration Committee (which held one meeting in 2019) and
- the Committee for Management Board Matters (which held one meeting in 2019).

The Chairman of the Supervisory Board, as well as the Chairmen of the Committees of Addiko Bank AG's Supervisory Board were in regular contact with the Management Board.

Within meetings taking place at least once every quarter, the Supervisory Board regularly received information on the following topics: business performance in the previous quarter, financial performance, risk development and significant matters, as well as major legal disputes. Between the quarterly reports, the Management Board also informed the Supervisory Board of current economic developments. In addition, the Supervisory Board received regular reports of key executives, especially of the Compliance Officer and Internal Audit Officer.

Changes to the Management Board and the Supervisory Board
The Management Board of Addiko Bank AG remained unchanged during the financial year 2019 and continues to consist of four members.

In 2019, the Supervisory Board of Addiko Bank AG changed in such a way that Sebastian Prinz Schoenaich-Carolath was appointed to the Supervisory Board as an additional member by the General Assembly on 6 June 2019. As per 29 July 2019, Mr. Thomas Wieser was delegated by the Workers Council, replacing Mr. Horst Floriantschitz. Accordingly, the Supervisory Board consists of seven members, thereof two delegated by the Workers Council.

Consolidated Corporate Governance Report, Austrian Code of Corporate Governance
Deloitte Audit Wirtschaftsprüfungs GmbH (with regard to Rules 1 to 76 of the Austrian Code of Corporate Governance) and CMS Reich-Rohrwig Heinz Rechtsanwälte GmbH (with regard to Rules 77 to 83 of the Austrian Code of Corporate Governance) audited the Consolidated Corporate Governance Report of Addiko Bank AG pursuant to Section 96 (2) Austrian Stock Corporation Act, and issued a report thereon to the Management Board and the Supervisory Board. In its meeting dated 4 March 2020, the Supervisory Board examined the Consolidated Corporate Governance Report based on the report of the Audit Committee from 4 March 2020 pursuant to Section 96 Austrian Stock Corporation Act, with this examination not resulting in any objections. Being a publicly listed entity, Addiko Bank AG adheres to the Austrian Code of Corporate Governance. The Supervisory Board determined that Addiko Bank AG is to comply with the Austrian Code of Corporate Governance as amended in January 2018 from 12 July 2019 onwards. The Supervisory Board strives to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this context, the Supervisory Board complies with all Rules relating to the cooperation of the Supervisory Board and the Management Board, and to the Supervisory Board itself, except for the deviations presented in the Corporate Governance Report.

Separate and Consolidated Financial Statements 2019
Deloitte Audit Wirtschaftsprüfungs GmbH audited the separate Financial Statements of Addiko Bank AG and the Consolidated Financial Statements of the Addiko Group as at 31 December 2019, issuing unqualified audit opinions. Pursuant to statutory provisions, the Management Report and the Group Management Report have been audited as to whether they are consistent with the separate and Consolidated Financial Statements and have been prepared in accordance with the applicable legal requirements. The Consolidated Non-Financial Report was read and considered not to be materially inconsistent with the Consolidated Financial Statements nor to be materially misstated.

The separate Financial Statements of Addiko Bank AG were prepared in accordance with the regulations of the Austrian Banking Act (BWG) and – where applicable – with the provisions of the Austrian Commercial Code (UGB). The Consolidated Financial Statements of the Addiko Group were prepared in accordance with IFRS as adopted by the EU and in compliance with the requirements under Section 245a Austrian Commercial Code (UGB) and Article 59a Austrian Banking Act (BWG). The Annual Report, the Group Annual Report, the Consolidated Corporate Governance Report, the Consolidated Non-Financial Report and the Management Board's proposal for the allocation of the annual profit 2019 – all prepared by the Management Board – were discussed in detail with Deloitte Audit Wirtschaftsprüfungs GmbH at the meeting of the Audit and Compliance Committee held on 4 March 2020.

At the meeting, the aforementioned Committee inter alia resolved to propose approval of the separate Financial Statements of Addiko Bank AG by the Supervisory Board.

The Chairman of the Audit and Compliance Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on 4 March 2020. At this meeting, the separate and Consolidated Financial Statements were examined thoroughly in the presence of the auditor and verified by the Supervisory Board to ensure, in particular, that they were lawful, compliant and appropriate.

The Management Report of Addiko Bank AG as well as that of the Addiko Group, the Consolidated Corporate Governance Report and the Consolidated Non-Financial-Report were examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements.

The Supervisory Board has examined and endorses the Management Board's proposal for the allocation of the annual profit as follows: Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net profit for the year in the amount of EUR 40.0 million in the financial year 2019. At the next General Assembly a proposal will therefore be made to distribute an amount of EUR 39.975 million by the Company as a dividend.

The result of the examination is that the Supervisory Board had no objections to the separate Financial Statements, the Consolidated Financial Statements and the audit performed by the auditor.

The Supervisory Board, therefore, concurred with the results of the audit on 4 March 2020 and approved the separate Financial Statements of Addiko Bank AG. The separate Financial Statements have, therefore, been adopted.

The Supervisory Board would like to express thanks to the members of the Management Board and to the entire staff for their outstanding commitment and excellent achievements in 2019, particularly for the support in the course of the IPO, and to the employee representatives for their valued cooperation.

On behalf of the Supervisory Board

Hermann-Josef Lamberti m.p.
Chairman of the Supervisory Board

Vienna, 4 March 2020

Imprint

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Forward-looking statements and forecasts are based on information and data available at the time of going to press. Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a translation. Only the German is the authentic language version. The Group Annual Report was produced in-house using the software of Firesys GmbH.