Addiko Bank

Annual Report 2020

Key data based on UGB/BWG financial statements

Addiko Bank AG

EUR m

	2020	2019
Income statement	**1.1. - 31.12.**	**1.1. - 31.12.**
Net interest income	8.5	8.2
Income from Dividends	29.8	25.5
Net fee and commission income	-0.3	-0.3
Other operating income	5.1	3.0
Operating expenses	-39.7	-49.3
Operating result	3.4	-12.9
Net gain/loss on current financial assets, including risk provisions on loans and advances	0.1	6.3
Net gain/loss on financial fixed assets, including impairments on equity investments	-57.4	-130.9
Result from ordinary activities	-53.9	-137.5
Profit/loss for the year after tax	-54.1	-137.8
Balance sheet	**31.12.**	**31.12.**
Loans and advances to credit institutions	207.4	241.9
Shares in affiliated companies	650.3	707.7
Liabilities to credit institutions	96.7	184.8
Liabilities to customers	428.9	412.9
Equity	529.0	583.1
Total assets	1,071.5	1,203.3
Capital Ratios	**31.12.**	**31.12.**
Tier 1 ratio	45.2 %	46.8 %
Total capital ratio	45.2 %	46.8 %

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Management Report 2020

Addiko Bank AG is a fully-licensed bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and, since 07 October 2021, also by the European Central Bank. The Bank, together with its six subsidiaries, is operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates via 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.

1. Report on the business development and economic situation

1.1. Business development

General economic conditions 2020

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after the Covid-19 pandemic started to spread at the end of the first quarter of 2020. Lockdown measures brought European economies to a halt. While policy measures alleviated some of the pressures, and the summer rebound signaled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through such heavy storm proves to be quite a challenge, especially for the CSEE economies due to a rather distinct feature of the crisis that lies not in its intensity, although it is comparable in amplitude only to the last great depression of the 30´s, but in the fact that the contraction is more severe in the service sector due to social distancing measures. This atypical cyclical pattern exposed vulnerabilities of tourism-dependent economies and have significantly affected growth prospects of Addiko's countries of operation.

The main channels of impact for these economies can be split into two broad categories: (i) external - including weaker export demand, a reduction in FDI, lower rate of portfolio and remittance inflows, substandard tourists numbers; and (ii) internal - reflecting the imposition of severe lockdown measures and the negative economic knock-on effects. These factors brought down the average growth in the target markets by almost 10 p.p., from 3.2% in 2019 to -6.4% in 2020. Croatia exhibited the largest drop (estimated to be -9.4%), followed by Montenegro (-9.0%) and Slovenia (-6.7%). The contraction was somewhat cushioned in Serbia (-2.0%) and Bosnia and Herzegovina (-5.0%). It can also be expected that Serbia will likely reach its pre-crisis GDP level already in 2021, while for other countries it will surely take a year or two for this to materialize.

On the other hand, coordinated fiscal response and ample liquidity provided by central banks across Europe stabilized labor market developments and helped to keep interest rates low and price dynamics dampened. This is true also for Addiko's countries of operation as well. The fact that all of them, with the exemption of Serbia, have the Euro or managed/fixed exchange rates, only contributes to easier mirroring of the ECB policy effects. However, the crisis does not affect all entities in the Group in the same way, neither regarding economic weaknesses nor regarding policy actions taken by each country in question. Serbia, for example, has been impacted foremost by supply disruptions and weaker demand for its goods exports. As an example, we note that the Fiat-Chrysler plant was closed in February, the first industry shutdown related to the Covid-19 pandemic in Europe. The most open economy by far is Slovenia, and that is likely to be reflected in the final macroeconomic final data for 2020. Yet, Slovenia is far better equipped to move activities online than the rest of the target markets. Nevertheless, some characteristics do isolate Slovenia and Croatia from non-EU sample of countries in focus. They had substantial stimuli packages, reflecting to some degree their greater ability to borrow on international capital markets. In addition, their stringency measures were less severe compared to the non-EU countries. Contrary, the latter ones have shown to be highly exposed to fall in FDI and heavily reliant on foreign aid. Not least important to mention, the Non-EU countries also do have more favorable demographics.

In general, the Croatian economy will suffer a severe setback in 2020, since Covid-19 caused domestic and international demand to shrink drastically. The reason for this is the country's reliance on its dominant tourism sector, which accounts for a quarter of Croatia's GDP. On top of the disruptions in tourism, Croatia had to cope with the impact of strong earthquakes which struck its capital Zagreb and its surroundings during the year 2020, causing damage estimated in the region of EUR 5.7 billion. To relieve local businesses with aggravated circumstances for loans repayments, a moratorium for three months on obligations to banks was introduced already in the first quarter. The Croatian Banking Association additionally agreed to defer the repayment of loans to the tourism sector, which had been severely hit by Covid-19, until mid-2021. The Croatian Bank for Reconstruction and Development (HBOR) also issued a moratorium on debt service for three months and further announced that it would extend its export loan insurance program. Private lending towards the end of 2020 mainly relied on housing loans. The second wave of infections should therefore be offset somewhat by the resilient private consumption whose increase should extend into 2021, supported by low inflation, changes in income tax, accumulated involuntary savings and the fact that large-scale layoffs have been avoided.

In Slovenia, the lockdown measures and consumer pessimism contributed to a sharp fall in private spending, while investment contracted together with a shrinking of orders in manufacturing, most noteably in exporting sectors. Public spending was the only component of the GDP which rose. The government responded by adopting several stimulus packages totalling ca. EUR 7 billion. Several measures to control unemployment, and government-issued tourist vouchers remain in place. A 12-months long deferral on loan payments on capital and interest coming due was put in place in March 2020. A public guarantee of EUR 2.2 billion was also introduced to cover loans extended to non-banking enterprises. Companies will remain conservative in their investment spending, especially after signs of firms building-up their inventories to hedge against renewed disruption to supply chains, and Slovenian consumers are expected to remain one of the more savings-oriented populations in the EU. However, there seems to be quite strong purchasing impulses within the household sector. Prospects for a strong recovery in 2021 exist, depending, of course, on the economic situation of the country's trading partners and the stabilizing role of households´ spending. The government will look to restart the public and private investment cycle in construction; it has published a priority list of infrastructure projects and has high hopes for getting the most out of the allocated EU Recovery Fund.

In Bosnia and Herzegovina, the Covid-19 pandemic will weigh severely on private consumption, which accounts for almost 75% of the country's GDP. The Federation of Bosnia and Herzegovina and its capital Sarajevo will suffer in particular, given their higher reliance on the services sector, including tourism. Data show that the tourism sector was hit particularly badly in April by Covid-19, as was the case in the rest of the region, with a drop of 99% year on year in terms of tourist arrivals. The BiH banking agencies announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities in light of the economic downturn caused by the pandemic. As fas as 2021 is concerned, it can be expected that investments will pick up again in light of postponed public projects such as the expansion of the country's energy and transport infrastructure. This will help real GDP growth to reach around 3% next year, but will remain among the weakest in the region, reflecting, among other factors, a more conservative policy stance and in particular less scope for fiscal stimulus, simultaneously increasing the country's reliance on foreign aid and loans.

The Covid-19 pandemic deeply affected Montenegro's economic growth in 2020, since tourism is the most important pillar of the country's economy with a share of around 22% of GDP and income from tourism generating revenue in the amount of EUR 1.1 - 1.3 billion. Tourism directly and indirectly creates a total of around 36,000 jobs and thus a fifth of all employment. In addition to tourism, Montenegro is also counting on its growing role as a hub for electricity traffic between the Balkans and Italy, but this will suffer from the temporary shutdown of large investment projects in the energy and construction sectors caused by Covid-19. The country's GDP is expected to contract by 9% in 2020, to be followed in 2021 with a recovery of 5% in 2021. In July the Central Bank announced that banks are obliged to grant a moratorium to borrowers from the country's tourism as well as agriculture, forestry, and fishing sectors. The announced moratorium was activated in September 2020 and will run until August 2021. The moratorium is available to borrowers who are not past due in loan repayments for more than 90 days and whose loans were not classified as non-performing assets as of 31 December 2019.

The most benign consequences of these extremely deep recessions caused by the pandemic have been felt in Serbia, which demonstrated satisfactory resilience already during the first wave in the first half of 2020. The relatively good results are partly due to the supportive fiscal policy, including credit guarantee schemes and credit lines to corporates, direct cash support to the population as well as a moratorium on loan repayments, which lasted five months in total, and was used by around two thirds of the clients. In addition, Serbia broadened economic interactions with outside-EU partners, primarily China. While some progress has been made in the reforms of the tax administration and the privatization of state-owned banks, other structural reforms of public administration and state-owned enterprises advanced slowly. Nevertheless, industrial sector and private consumptions seem to remain quite robust and will certainly prove to be important drivers of future growth.

Organizational structure and Operating Model implementation

Although 2020 was dominated by Covid-19, Addiko Group demonstrated the robustness and resilience of its operating model and "Central Steering Functions" and "Group Shared Services" continued to be centrally rendered.

This operating model aims to raise the levels of productivity and improved efficiency across the organisation while assuring local execution of all critical services. The "Central Steering Functions" 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 enable full leveraging of investments at Group level. Furthermore, it offers interesting perspectives for highly skilled staff and experts.

Development of the Balance Sheet

EUR m

Assets	31.12.2020	31.12.2019
Cash in hand, balances with central banks	69.2	80.5
Loans and advances to credit institutions	207.4	241.9
Fixed income securities	139.9	158.1
Shares in associated and affiliated companies	650.3	707.7
Tangible, intangible and other assets	4.6	15.0
Total assets	**1,071.5**	**1,203.3**

Total assets as at 31 December 2020 in the amount of EUR 1,071.5 million decreased by EUR -131.9 million year-on-year (2019: EUR 1,203.3 million) reflecting the following changes:

Cash in hand, balances with central banks decreased by EUR -11.3 million to EUR 69.2 million as at 31 December 2020 (2019: EUR 80.5 million).

Loans and advances to credit institutions, which mainly comprise refinancing loans to subsidiary banks, amounted to EUR 207.4 million as at 31 December 2020 (2019: EUR 241.9 million). This includes subordinated loans and advances in the amount of EUR 159.1 million (2019: EUR -192.6 million). The reduction is primarily related to the lapse of a subordinated loan to a subsidiary of Addiko Bank AG.

Fixed-income securities, which include debt instruments from public issuers in the amount of EUR 88.9 million (2019: EUR 104.0 million) as well as debt securities and other fixed-income securities in the amount of EUR 51.0 million (2019: EUR 54.2 million), decreased overall by EUR -18.2 million to EUR 139.9 million as at 31 December 2020 (2019: EUR 158.1 million).

The shares in affiliated companies decreased from EUR 707.7 million as at 31 December 2019 to EUR 650.3 million as at 31 December 2020. This decrease is attributable to the write-off of the carrying value of the subsidiaries.

Shares in associated companies, tangible, intangible, deferred and other assets reduced from EUR 15.1 million as at 31 December 2019 by EUR -10.4 million to EUR 4.6 million as at 31 December 2020. The decline is the net result of the following matters:

- The sale of IT solutions for the customer business to operating subsidiaries and depreciation of investments result in an decrease in intangible assets by EUR -4.2 million to EUR 0.5 million as at 31 December 2020 (2019: EUR 4.7 million).
- The reduction in other assets from EUR 4.2 million as at 31 December 2019 by EUR -1.9 million to EUR 2.3 million as at 31 December 2020 is mainly caused by the decline in the intercompany receivables from subsidiaries.
- The decrease in deferred assets by EUR -4.3 million to EUR 1.1 million as at 31 December 2020 (2019: EUR 5.4 million) is mainly attributable to reduced accruals from intra-group charging.

EUR m

Equity and Liabilities	31.12.2020	31.12.2019
Liabilities to credit institutions	96.7	184.8
Liabilities to customers	428.9	412.9
Other liabilities and provisions	16.8	22.5
Equity	529.0	583.1
Total assets	**1,071.5**	**1,203.3**

Liabilities to credit institutions amounted to EUR 96.7 million as at 31 December 2020 (2019: EUR 184.8 million). The decrease is primarily related to lower deposits from Addiko Bank AGs Slovenian subsidiary. This line item did not include subordinated liabilities in the financial year 2020 or the financial year 2019.

Liabilities to customers amounted to EUR 428.9 million as at 31 December 2020 (2019: EUR 412.9 million). The balance reported for the financial year 2020 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 6,3 million (2019: EUR 6.8 million) and provisions in the amount of EUR 10.5 million (2019: EUR 15.8 million).

Equity decreased from EUR 583.1 million as at 31 December 2019 to EUR 529.0 million as at 31 December 2020. The change is primarily related to the valuation of the shares in affiliated companies.

EUR m

	1.1. - 31.12.2020	1.1. - 31.12.2019	Change
Net interest income	8.5	8.2	0.3
Income from affiliated companies	29.8	25.5	4.3
Net fee and commission income	-0.3	-0.3	0.0
Net income from trading activities	0.0	0.0	-0.0
Other operating income	5.1	3.0	2.1
Operating income	**43.0**	**36.4**	**6.6**
Operating expenses	**-39.7**	**-49.3**	**9.6**
Operating profit	**3.4**	**-12.9**	**16.2**
Valuation/ Sales result of the current assets	0.1	6.3	-6.2
Valuation/ Sales result of the financial fixed assets	-57.4	-130.9	73.5
Loss from ordinary activities	**-53.9**	**-137.5**	**83.6**
Taxes	-0.2	-0.3	0.1
Profit/loss for the year after tax	**-54.1**	**-137.8**	**83.7**
Changes in reserves	60.7	177.8	-117.1
Profit carried forward	**40.0**	**0.0**	**40.0**
Net profit/loss for the year after changes in reserves	46.6	40.0	6.6

Net interest income increased year-on-year by EUR 0.3 million to EUR 8.5 million (2019: EUR 8.2 million).

In the financial year 2020, dividends in the amount of EUR 29.8 million (2019: EUR 25.5 million) were distributed by one subsidiary from the net profit after changes in reserves of the financial year 2019.

Fee and commission income amounted to EUR -0.3 million as at 31 December 2020 (2019: EUR -0.3 million). The negative balance of the net fee and commission income in the financial year 2020 is mainly attributable to commissions payable from the online direct deposit business (2020: EUR -0.2 million; 2019: EUR -0.3 million).

Other operating income increased from EUR 3.0 million in 2019 to EUR 5.1 million in the financial year 2020. The increase is mainly attributable to the sale of IT solutions for the customer business to operating subsidiaries.

Operating income increased from EUR 36.4 million in 2019 to EUR 43.0 million in 2020.

In the financial year 2020, operating expenses decreased by EUR -9.6 million to EUR -39.7 million and break down as follows:

- Personnel expenses of Addiko Bank AG amounted to EUR -16.4 million as at 31 December 2020 (2019: EUR -20.3 million), the decrease is mainly attributable to the cancellation of accrual for variable remuneration in the financial year 2020. Furthermore, the average number of staff decreased from 136 (2019 annual average) to 121 (2020 annual average).
- Other administrative expenses amounted to EUR -19.2 million compared to the previous year's figure of EUR -24.8 million. The reduction mainly results from legal and consulting decreasing from EUR -6.4 million by EUR 4.1 million to EUR -2.3 million. In addition, this item includes expenses for outsourced functions in the amount of EUR -5.2 million (2019: EUR -5.5 million) as well as IT costs in the amount of EUR -8.9 million (2019: EUR -8.9 million).
- Impairment and depreciation expenses on tangible and intangible assets amounted to EUR -1.2 million in the financial year 2020 (2019: EUR -2.4 million). The year-on-year change essentially results from lower depreciation expenses on intangible assets, which decreased by 1.0 from EUR -1.8 million to EUR -0.7 million
- Other operating expenses in the amount of EUR -2.8 million (2019: EUR 1.8 million) mainly relate to restructuring expenses of EUR -2.0 million (2019: EUR -1.4 million).

In the financial year 2020, three mirror transactions, in which Addiko Bank AG acts as counterparty for the external market participant and subsequently passes through the derivative to subsidiaries, were terminated. Due to the mirroring of the derivative transactions, the expenses and income from the termination of the derivatives almost completely offset each other.

In total, the operating result of Addiko Bank AG, offsetting operating income and operating expenses, was EUR 3.4 million in the financial year 2020 (2019: EUR -12.9 million).

Net income/expenses from the disposal and valuation of loans and advances as well as securities held as current asset amounted to EUR 0.1 million in the financial year 2020 (2019: EUR 6.3 million). The result is mainly attributable to the positive 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 -57.4 million in 2020 (2019: EUR -130.9 million), solely driven by the valuation effects from shares in affiliated companies in the amount of EUR -57.4 million (2019: EUR -131.2 million).

Taking the above effects into account, Addiko Bank AG reported a loss from ordinary activities in the amount of EUR -53.9 million (2019: loss from ordinary activities EUR -137.5 million).

Taxes on income and other tax expenses for the financial year 2020 amounted to EUR -0.2 million (2019: EUR -0.3 million) and are mainly attributable to foreign withholding taxes.

After taking the tax effect into account, the loss after tax for the financial year 2020 amounts to EUR -54.1 million (2019: loss after tax EUR -137.8 million). In the financial year 2020 the capital reserve was reversed in the amount of EUR 60.7 million. The net profit or loss for the year as at 31 December 2020 amounts to EUR 46.6 million (2019: EUR 40.0 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 2020, the total eligible capital as defined by Part Two of Regulation (EU) 575/2013 (CRR) amounted to EUR 481.7 million (2019: EUR 538.2 million) and was significantly higher than the minimum legal requirement of EUR 85.2 million (2019: EUR 92.1 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 1,065.0 million (of which credit risk: EUR 891.8 million) as at 31 December 2020 (2019: EUR 1,151.1 million (of which credit risk 2019: EUR 1,004.5 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 2020, the Tier 1 capital ratio and the total capital ratio pursuant to Section 92 CCR with regard to the total exposure value was 45.2% (2019: 46.8%). The total capital ratio stood at 45.2% (2019: 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

Ensuring the health and safety of our employees is paramount. In the beginning of March travel and meeting restrictions were implemented as well as releasing home office regulations. These have remained in place throughout 2020. The bank transitioned effectively to “Work from Home” in March 2020, and only employees remained working in the offices, if the nature of their job required them to do so. Social distancing, behaviour guidelines and increased office hygiene measures were put into place in early March to ensure personal safety. These have become the standard across Addiko offices. The purpose of these measures has been to decrease the risk of infectious outbreaks and protecting staff. Employee feedback has been positive appreciating the measures taken to protect employee and enable workplace effectiveness. We will continue to monitor and abide to health and safety measures keeping employee health and safety as well as business continuity in mind.

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.

As of 31 December 2020 Addiko Bank AG had 134 employees (2019: 146 employees), thereof 81 male (2019: 89) and 53 female (2019: 57) employees.

2. Report on the expected development of Addiko Bank AG

2.1. Expected development of Addiko Bank AG

The third and fourth quarter of 2020 were a period in which the CSEE economies started to recover from the initial Covid-19 shock. Lockdowns were lifted after a decline in infection and mortality rates and economic activity started to pick up again. Despite the positive developments, volatility and uncertainty remain high which do not only make it difficult to forecast future developments but also detrimentally affect business decisions of private agents and policy responses in an attempt of adjusting to unexpected outcomes. Overall, negative risks predominate, the main ones being potential mutations of the virus, faster spreading and immunity to vaccines, extension of the lockdowns in the EU which will reduce external demand for products from the Balkan countries and inadequate fiscal support by the CSEE governments due to limited fiscal space. This has a potential to threaten the ability of debtors to service their loans and to have difficulties to anchor their expectations. While there is evidence that supply chain constraints across Europe have quickly vanished, demand will not string back as quickly, and there is a concern that poor capacity utiliza-tion could hamper investment, contributing to fear of dampened economic activity even without lockdown measures renewed.

In general, a relatively firm and uniform bounce-back is expected by the second half of 2021, bringing the annual rate of growth to an average of 4.5% (Croatia and Montenegro growing as fast as 5.0%, Slovenia and Serbia 4.7% and 4.5% respectively, and Bosnia and Herzegovina will most likely experience a slower pace of recovery of around 3.1%). The medium-term outlook will bring marginal slowing of this pickup in the rate of growth and convergence to a longer-run path, stabilizing labor market indicators and consequently private consumption. These developments will mirror, to some extent, the cyclical pattern of the eurozone economies, and while on average there still will be some positive difference between the regional growth and growth in the eurozone, that gap will be narrowed in the recovery phase. This also means no demand pressures are to be expected and with continuously accommodative monetary framework, inflationary dynamics will stay modest.

Given Addiko Group's clear focus on the CSEE region, its performance is inextricably linked to the health of the economy in this region. Concurrent with the improved growth expectations in the countries of operation, the Group expects that the activity on new loan generation will continue to pick up in the financial year 2021. However, the lower activity of loan disbursements in the financial year 2020 and the continuously challenging interest environment will put additional pressure on operational income. Consequently, Addiko announced a cost optimisation program in 3Q20 to further reduce costs.

The overall slowdown of the economy is expected to have a negative impact on the existing loan portfolio quality. While state aid packages and moratoria programs introduced on the markets support citizens and companies, to some extent mitigating the negative economic effects, they also complicate a timely reflection of a potential deterioration of the loan portfolios. The development in the cost of risk will ultimately depend on the severity of the Covid-19 related disruption on economic activities. At the same time, the bank's capital and liquidity situation is expected to remain very strong.

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

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.

In the short to medium term, the Covid 19 pandemic will continue to pose the highest level of uncertainty for the development of Addiko Bank AG's subsidiaries.

Taking a longer-term view, particularly the intensity of competition in the banking sector in the CSEE region will impact the performance of the subsidiaries of Addiko Bank AG. Higher competitiveness in the banking sector typically leads to increased competition in particular for lending products, creating downward pressure on the participation's net interest margin, and potentially its 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.

It is to be expected that the focus of Addiko Bank AG's 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 2020 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) The Management Board is not aware of any shareholder who holds directly or indirectly more than 9.9 per cent of the Company's share capital. 63% are free float.

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) Deviating from the provisions required by law, the removal of a member of the Supervisory Board only requires a simple majority. All other provisions are as stipulated by law regarding 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 authorized 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 was authorized in the General Assembly on November 27, 2020 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. The Management Board was also authorized, for a period of 30 months from the date of the resolution by the General Assembly, to acquire own shares for the purpose of offering them to employees, executive employees and members of the Management Board or Supervisory Board of the Company or an affiliated company for purchase pursuant to Section 65 (1) no. 4 of the Austrian Stock Corporation Act (AktG) up to 10% of the share capital.

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 56% 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. Single name credit risk is the second biggest risk type and contributes with 29% 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 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 resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk. 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 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 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 2020, the following organisational units were operative:

Corporate Credit Risk (including Credit Risk Management for Corporate / SME / PF and Credit Risk Management FI / Sovereigns) provides underwriting, individual risk assessment, monitoring, and review for all non-Consumer client segments i.e. SME, Corporate, Public Finance, Sovereigns and Sub sovereigns and Financial institutions. The function has both an operational and strategic role related to credit risk management. 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 activities.

Group Retail Risk Management monitors and manages credit risk in Retail portfolio for Addiko Group through portfolio reporting and analysis, tracking and evaluation of activities. The function has both an operational and strategic role related to credit risk management. Operationally it covers assessment and approval of lending products and test initiatives, while strategically defines policies, procedures, manuals, guidelines in relation to the governance of lending activities and collections. Besides this continuously monitors the portfolio development and ensures the development and maintenance of a reporting toolkit that serves this purpose.

Integrated Risk Management operates as the independent risk management function, identifying, monitoring, controlling and reporting of all material risks to Management and Supervisory Boards, proposing of mitigation measures, initiating escalation in case defined limits are breached and defining methodology for risk measurement and assessment. IRM is actively involved in all major decisions relating to risk management and the development and review of risk strategy, own funds and economic capital management, stress testing, credit risk budgeting, tracking of risk exposure and steering of the ICAAP and SREP process as well manages the same processes from methodological point of view and reports on them to the management.
Integrated Risk Management includes a Group Market & Liquidity Risk team, which defines methodologies, produces internal and external reporting and oversees management and control activities related to market and liquidity risk.

Group Model and Credit Portfolio Management manages model portfolio in terms of methodology, target model architecture and model landscape, regulatory and business fitness for purpose, supervises development of portfolio dependent and business related credit risk models as well as validation and regular monitoring of credit risk, IFRS 9 and market & liquidity model. The functions Group Credit Risk Portfolio Management and Business Modelling & Port-folio Analytics are embedded in Group Model and Credit Portfolio Management.

Group Data Office (GDO) is the main responsible function for the business aspects of enterprise data management in Addiko Group. GDO develops and maintains group-wide methods, standards and definitions to achieve a common and harmonized view on enterprise data. In operational matters the GDO team is supporting business functions in regular and ad-hoc reporting, common/central data transformations and calculations and data quality monitoring and reporting. GDO also acts as local Data Office for Addiko Bank AG and in that capacity is applying its methods to the local ABH data landscape and the relevant connections to group data. Although GDO is reporting to the Group CRO, its responsibilities and methods apply in principle to all functions of Addiko Group.

Group Non-Financial Risk Management is responsible for setting the strategic direction to efficiently manage all non-financial risk related activities and aims to ensure the adequate identification, measurement, management and mitigation of non-financial risks, a prudent conduct of business respecting all relevant laws, regulations, supervisory requirements and internal rules and decisions, thus supporting prudent, effective and efficient business operations.
Non-Financial Risk Management includes an Operational Risk Management team that 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 results 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. Once a year, the shares in the subsidiary banks are also assessed based on this planning.

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 127,9 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 for the year 2019 relate to accrued interest expenses.

The following table presents an overview of the credit risk exposure in Addiko Bank AG as at 31 December 2020:

EUR m

31.12.2020	Performing			Non Performing			Total	
Financial Instruments	Exposure	Risk Provision	Net Exposure	Exposure	Risk Provision	Net Exposure	Exposure	Net Exposure
Cash in hand, balances at central banks	69.2	0.0	69.2	0.0	0.0	0.0	69.2	69.2
Securities	139.9	0.0	139.9	0.0	0.0	0.0	139.9	139.9
Loans and advances	209.4	-2.0	207.4	0.0	0.0	0.0	209.4	207.4
of which to credit institutions	209.4	-2.0	207.4	0.0	0.0	0.0	209.4	207.4
On balance Total	**418.5**	**-2.0**	**416.5**	**0.0**	**0.0**	**0.0**	**418.5**	**416.5**
Loan exposures - guarantees - other commitments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**418.5**	**-2.0**	**416.5**	**0.0**	**0.0**	**0.0**	**418.5**	**416.5**
Derivatives with positive fair value	2.3	0.0	2.3	0.0	0.0	0.0	2.3	2.3
Credit risk exposure	**420.7**	**-2.0**	**418.8**	**0.0**	**0.0**	**0.0**	**420.7**	**418.8**

The following table contains the credit risk exposure as at 31 December 2019:

EUR m

31.12.2019	Performing			Non Performing			Total	
Financial instruments	Exposure	Risk Provision	Net Exposure	Exposure	Risk Provision	Net Exposure	Exposure	Risk Provision
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
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**

Exposure by rating class at Addiko Bank AG

Roughly 51.1% (2019: 51.9%) of the exposure is categorized as rating classes 1A to 1E. This exposure relates to receivables from financial institutions and public institutions.

EUR m

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Loans to credit institutions	78.0	200.6	0.0	0.0	0.0	0.0	278.6
Securities	137.2	1.7	1.0	0.0	0.0	0.0	139.9
Derivatives	0.0	2.3	0.0	0.0	0.0	0.0	2.3
Total	**215.2**	**204.6**	**1.0**	**0.0**	**0.0**	**0.0**	**420.7**

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**

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 2020:

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Financial services	126.3	202.8	0.0	0.0	329.1
Public sector	0.0	2.7	88.9	0.0	91.6
Industry	0.0	0.0	0.0	0.0	0.0
Total	**126.3**	**205.5**	**88.9**	**0.0**	**420.7**

The following table reflects 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**

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 92.6% (2019: 89.6%). Croatia and Austria account for the largest share. The following tables show the country share in top 10 total exposure in 2020 and in 2019.

31.12.2020	Exposure	% of Total Exposure
Croatia	141.2	33.6%
Austria	69.2	16.5%
Romania	61.4	14.6%
Serbia	35.4	8.4%
Germany	20.7	4.9%
Slovenia	15.8	3.8%
Italy	12.4	3.0%
Netherlands	12.2	2.9%
Bulgaria	11.3	2.7%
Montenegro	10.0	2.4%
Other	31.0	7.4%
Total	**420.7**	**100.0%**

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%**

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 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 135.8% in January 2020 and its peak of 208.4% in September 2020.

At the end of 2020, 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

Counterbalancing Capacity	Addiko Group countable
Coins and bank notes	0.0
Withdrawable central bank reserves	65.3
Level 1 tradable assets	87.8
Level 2A tradable assets	0.0
Level 2B tradable assets	12.1
Total Counterbalancing Capacity	165.2

At the end of 2019, the counterbalancing capacity at Addiko Bank AG was structured as follows:

EUR m

Counterbalancing Capacity[1]	Addiko Group countable
Coins and bank notes	0.0
Withdrawable central bank reserves	76.9
Level 1 tradable assets	103.1
Level 2A tradable assets	0.0
Level 2B tradable assets	17.1
Total Counterbalancing Capacity	197.1

4.5.1. Overview – liquidity situation

Overall, the liquidity situation at Addiko Bank AG in 2020 was characterised by a liquidity surplus. During 2020, the volume of collected deposits remained stable. The collection of deposits on German market, compared to the Austrian market, kept the same share. Based on the anticipated inflows and outflows, a stable liquidity position is expected for the year 2021.

The concentration risk, as a part of the liquidity risk, is measured with 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 represented.

[1] The calculation methodology for counterbalancing capacity was adapted compared with the previous year.

EUR m

31 December 2020	1 Year	1 - 5 Years	> 5 Years	Total
Assets				
to credit institutions	186.9	0.0	20.5	207.4
to customers	0.0	0.0	0.0	0.0
Subtotal	**186.9**	**0.0**	**20.5**	**207.4**
Financial liabilities				
from credit institutions	96.7	0.0	0.0	96.7
from customers	427.3	1.6	0.0	428.9
Subtotal	**524.0**	**1.6**	**0.0**	**525.6**
Total	**-336.1**	**-1.6**	**20.5**	**-318.2**

The table shows that an amount of EUR 207.4 million consists of loans and advances to credit institutions. The presented liabilities mainly relate to customers. A large part of these liabilities - EUR 427.3 million - is due in 1 year.

Total loans and advances as well as liabilities amounted to EUR -355.8 million as at 31 December 2019.

EUR m

31 December 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**

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 and a time period of 250 days for each risk factor.
- Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. Measurement of IRRBB in Addiko Bank AG is based on outcomes of both economic value and earnings-based measures, arising from an appropriate range of interest rate shock and stress scenarios.

4.6.1. Interest rate risk

The IRRBB Value at Risk (1 day / 99% confidence interval) of Addiko Bank AG for 2020 amounts to EUR 0.2 million (comparable VaR figure as at 31 December 2019: EUR 0.4 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.

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 not even close to 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 GBP. The total volume of open currency positions as at 31 December 2020 is roughly EUR 0.1 million (volume per 31 December 2019 of approx. EUR 0.1 million), with the majority attributed to the currency CHF. The value at risk for foreign currency risk is approximately EUR 705.9 per day as at 31 December 2020 (value at risk as at 31 December 2019: EUR 259.4), at a confidence interval of 99.0%. The limit of EUR 60 thousand was adhered to as at 31 December 2020. 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 0.3 million at year-end 2020 with a one-day value at risk and a confidence level of 99.0% (value at risk as at 31 December 2019: EUR 0.2 million). The limit of EUR 0.8 million was adhered to as at 31 December 2020. 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 23, 2021
Addiko Bank AG
MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
(Member of the Management Board)

Ganesh Krishnamoorthi
(Member of the Management Board)

Annual financial statements according to UGB/BWG

Balance Sheet as at 31 December 2020

		EUR	EUR thousand
Assets		31.12.2020	31.12.2019
1. Cash in hand, balances with central banks		69,201,575.99	80,514
2. Treasury bills eligible for refinancing with central banks		88,895,542.53	103,970
3. Loans and advances to credit institutions			
a) Repayable on demand	8,318,589.09		31,815
b) Other loans and advances	199,098,282.81		210,099
		207,416,871.90	241,914
4. Loans and advances to customers		0.00	0
5. Bonds and other fixed income securities			
a) Issued by the public sector	2,704,669.18		0
b) Issued by others	48,300,244.45		54,151
		51,004,913.63	54,151
6. Shares in associated companies		3,529.61	4
7. Shares in affiliated companies		650,319,563.72	707,725
thereof: credit institutions	650,319,563.72		707,725
8. Intangible fixed assets		526,566.50	4,710
9. Tangible fixed assets		664,657.36	793
thereof:			
Land and buildings used by the company for its own activities	449,292.00		527
10. Other assets		2,306,820.07	4,158
11. Deferred assets		1,110,057.18	5,388
Total assets		**1,071,450,098.49**	**1,203,326**
Below-the-line memo items			
1. Foreign assets		1,000,026,806.52	1,116,086

Equity and Liabilities		EUR 31.12.2020	EUR thousand 31.12.2019
1. Liabilities to credit institutions			
a) Repayable on demand	16,715,175.24		44,450
b) With agreed maturities or periods of notice	80,000,000.00		140,340
		96,715,175.24	184,790
2. Liabilities to customers			
a) Other liabilities, thereof:			
aa) Repayable on demand	205,095,703.95		180,870
bb) With agreed maturities or periods of notice	223,834,889.80		232,032
		428,930,593.75	412,902
3. Other liabilities		6,327,773.56	6,775
4. Provisions			
a) Provisions for severance payments	761,727.00		655
b) Tax provisions	1,000,000.00		1,000
c) Other	8,742,350.78		14,099
		10,504,077.78	15,753
5. Issued capital		195,000,000.00	195,000
6. Reserves		237,924,319.64	298,663
a) Non fixed reserves	237,924,319.64		
7. Retained earnings			
a) Legal reserves	19,500,000.00		19,500
b) Other reserves	7,202,139.91		7,202
		26,702,139.91	26,702
8. Liability reserve under section 57 (5) BWG		22,741,018.61	22,741
9. Net profit for the year		46,605,000.00	40,000
Total equity and liabilities		**1,071,450,098.49**	**1,203,326**

Below-the-line memo items	EUR 31.12.2020	EUR thousand 31.12.2019
1. Contingent liabilities	0.00	575
thereof:		
Guarantees and other collateral securities	0.00	575
2. Commitments	0.00	0
thereof: Commitments arising from repurchase transactions	0.00	0
3. Total capital funds acc. to Part 2 of the regulation (EU) No. 575/2013		
	481,699,010.67	538,238
4. Total risk exposure amount acc. to Art 92	1,065,034,400.01	1,151,129
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		
	45.23%	46.76%
acc. to Art. 92 (1) lit. b of the regulation (EU) No. 575/2013	45.23%	46.76%
acc. to Art. 92 (1) lit. c of the regulation (EU) No. 575/2013	45.23%	46.76%
5. Foreign liabilities	151,586,407.22	219,566

Income statement for the period from January 1 to December 31, 2020

			EUR 01.01.2020 - 31.12.2020	EUR thousand 01.01.2019 - 31.12.2019
1. Interest and similar income			13,536,553.17	16,027
thereof: fixed-interest securities			1,472,308.54	1,555
2. Interest and similar expenses			(5,068,177.43)	(7,832)
I. NET INTEREST INCOME			**8,468,375.74**	**8,195**
3. Income from equity interests and investments			29,809,147.08	25,535
a) Income from affiliated companies		29,809,147.08		25,535
4. Fee and commission income			460.22	41
5. Fee and commission expenses			(312,595.77)	(373)
6. Net income from trading activities			(33,564.90)	5
7. Other operating income			5,112,398.81	2,998
II. OPERATING INCOME			**43,044,221.18**	**36,401**
8. General administrative expenses				
a) Personnel expenses: thereof				
aa) Wages and salaries	(12,918,465.61)			(16,202)
bb) Costs of statutory social security contributions and other pay-related contributions	(2,902,348.22)			(3,184)
cc) Other social welfare contributions	(247,533.73)			(245)
dd) Expenses for pensions and other retirement benefits	(56,795.17)			(64)
ee) Expenses for severance payments and contributions to severance funds	(314,689.57)			(557)
		(16,439,832.30)		(20,252)
b) Other administrative expenses		(19,193,691.38)		(24,785)
			(35,633,523.68)	(45,037)
9. Depreciation and amortisation of fixed assets (balance sheet items 8 and 9)			(1,191,771.85)	(2,404)
10. Other operating expenses			(2,847,719.44)	(1,818)
III. OPERATING EXPENSES			**(39,673,014.97)**	**(49,259)**
IV. OPERATING PROFIT			**3,371,206.21**	**(12,859)**
11./12. Net gain/loss from the valuation and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets			122,954.55	6,296
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			(57,405,558.90)	(130,938)
V. RESULT FROM ORDINARY ACTIVITIES			**(53,911,398.14)**	**(137,501)**
15. Income taxes			(221,863.92)	(336)
16. Other taxes not recognised under the item 15			(70.75)	(1)
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX			**(54,133,332.81)**	**(137,837)**
17. Changes in reserves			60,738,332.81	177,837
VII. NET PROFIT OR LOSS FOR THE YEAR AFTER CHANGE IN RESERVES			**6,605,000.00**	**40,000**
Profit carried forward			40,000,000.00	0
VIII. NET ACCUMULATED PROFIT OR LOSS FOR THE YEAR			**46,605,000.00**	**40,000**

Notes to the financial statements for the financial year 2020

I. BASIS OF ACCOUNTING

The financial statements of Addiko Bank AG as at 31 December 2020 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 2020 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 2020 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 dividend-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 (set at 0%). 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	Long-term Growth Discount	COE Terminal Value
Addiko Bank d.d., Ljubljana	-0,14%	8,39%	1,24%	1,26	0,40%	**12,36%**	-1,00%	**11,36%**
Addiko Bank d.d., Zagreb	-0,14%	8,39%	2,59%	1,26	0,30%	**13,95%**	-1,50%	**12,45%**
Addiko Bank d.d., Sarajevo	-0,14%	8,39%	6,74%	1,26	0,50%	**19,36%**	-2,50%	**16,86%**
Addiko Bank A.D., Banja Luka	-0,14%	8,39%	6,74%	1,26	0,50%	**19,36%**	-2,50%	**16,86%**
Addiko Bank A.D, Beograd	-0,14%	8,39%	3,73%	1,26	1,00%	**16,08%**	-1,50%	**14,58%**
Addiko Bank A.D., Podgorica	-0,14%	8,39%	4,66%	1,26	0,50%	**16,75%**	-2,00%	**14,75%**

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 discount on the capitalization rate for the terminal value in the range between 1.00% and 2.50% 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 33.3% for moveable assets and between 14,3% and 50.0% for software. Low-value assets with an acquisition cost below EUR 800 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 0.72% (2019: 0.9%) and a salary trend of 3.82% p.a. (2019: 3.2%) under consideration of a staff turnover deduction depending on the period of service between 0.0% and 4.9% (2019: 0.0% and 4.5% dependent on 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 0.72% (2019: 0.9%) and a salary trend of 3.82% p.a. (2019: 3.2%), whereby no staff turnover deduction has been considered (2019: 0.0% and 4.5% dependent on 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
	31.12.2020	31.12.2019
A3: Loans and advances to credit institutions	**207,416,872**	**241,914**
of which to affiliated companies	198,692,815	228,673
of which to associated companies	0	0
of which to non-group companies	8,724,057	13,241
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	**96,715,175**	**184,790**
of which to affiliated companies	96,589,801	174,130
of which to associated companies	0	0
of which to non-group companies	125,374	10,660
P2: Liabilities to customers	**428,930,594**	**412,902**
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	428,930,594	412,902

Loans and advances to credit institutions decreased in the financial year 2020 from EUR 241,913,603 to EUR 207,416,872 , by EUR 34,496,731. Loans and advances to credit institutions include subordinated loans in the amount of EUR 159,144,480 (2019: EUR 192,613 thousand).

Neither in the financial year 2020 nor in the financial year 2019 did the balance sheet items " Treasury bills and other bills eligible for refinancing with central banks" and "Debt securities including fixed-income securities" include transactions with affiliated companies or companies in which a participating interest is held.

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
	31.12.2020	31.12.2019
A3: Loans and advances to credit institutions	**207,416,872**	**241,914**
- payable on demand	8,318,589	31,815
- up to three months	6,500,000	19,496
- three months to one year	172,098,283	32,187
- one year to five years	0	141,825
- over five years	20,500,000	16,590
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	**96,715,175**	**184,790**
- payable on demand	16,715,175	44,450
- up to three months	40,000,000	70,340
- three months to one year	40,000,000	70,000
- one year to five years	0	0
- over five years	0	0
P2: Liabilities to customers	**428,930,594**	**412,902**
- payable on demand	205,095,704	180,869
- up to three months	80,888,213	118,547
- three months to one year	141,297,587	109,632
- one year to five years	1,649,090	3,853
- over five years	0	0

The remaining maturity of other assets in the amount of EUR 2,077,821 (2019: EUR 3,910 thousand) is less than one year whereby one receivable in the amount of EUR 228,999 (2019: EUR 248 thousand) has a maturity of more than one year. Of the total other liabilities reported in the balance sheet in the amount of EUR 6,327,774, EUR 6,246,077 have a remaining maturity of less than one year as well. In 2019, all other liabilities had a remaining maturity of less than one year.

(3) Securities and shares in associated/affiliated companies

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

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Treasury bills and other bills eligible for refinancing with central banks	**88,895,543**	**103,970**
of which listed	88,895,543	103,970
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	87,975,635	103,274
of which accrued interest	919,908	697
Bonds and other fixed income securities	**51,004,914**	**54,151**
of which listed	51,004,914	54,151
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	50,698,685	53,861
of which accrued interest	306,229	290
Shares in associated companies	**3,530**	**4**
of which listed	0	0
of which not listed	3,530	4
Shares in affiliated companies	**650,319,564**	**707,725**
of which listed	0	0
of which not listed	650,319,564	707,725

The difference between the securities valued at the higher market value (Section 56 (5) BWG) and the acquisition costs amounts to EUR 3,075,877 (2019: EUR 4,293 thousand).

In 2021, fixed-income securities from the bank's own holdings in the amount of EUR 4,525,114 will mature (2020: EUR 103 thousand).

Fixed-income securities of non-public issuers eligible for refinancing with the Austrian National Bank at the balance sheet date amounted to EUR 18,373,425 (2019: EUR 28,685 thousand).

Securities include no transferred but not entirely derecognized fixed-income securities ("genuine" repurchase agreements) (2019: EUR 11,499 thousand). The securities transferred would remain the economic property of Addiko Bank AG and would be blocked for sale for the term of the repurchase agreement. These securities would continue to be recognized in Addiko Bank AG's balance sheet and are measured at fair value through profit or loss.

Neither in the financial year 2020 nor in the previous year, subordinated securities in accordance with section 45 (2) BWG were held. Furthermore, in the financial year 2020, Addiko Bank AG allocated FX swaps and credit default swaps to the trading book in the amount of EUR 8,149,295 (2019: EUR 12,301 thousand). However, a securities trading book was not held.

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

	in EUR	EUR thousand
	31.12.2020	31.12.2019
a) Issued by the public sector	**2,704,669**	**0**
b) Issued by others	**48,300,244**	**54,151**
Own issues	0	0
Domestic bonds (credit institutions)	0	0
Foreign bonds (credit institutions)	48,300,244	33,273
Mortgage bonds and municipal bonds	0	0
Convertible bonds	0	0
Other bonds	0	20,878
Total	**51,004,914**	**54,151**

In 2020, depreciation in 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 2020, write-downs on shares in affiliated companies totalling EUR 57,405,559 (2019: write-down EUR 131.238 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
	31.12.2020	31.12.2019
Receivables to affiliated companies	1,695,117	2,714
Receivables arising from the foreign exchange valuation of banking book derivatives	51,659	812
Interest income	289,765	317
- of which to be paid after the closing date	289,765	317
Trade receivables	252,018	264
Offset claim	18,261	47
Receivables from trading book derivatives	0	4
Total	**2,306,820**	**4,158**

The decrease in other assets by EUR -1,850,740 to EUR 2,306,820 (2019: EUR 4,158 thousand) mainly results from lower receivables to subsidiaries and 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 2020 amount to EUR 1,110,057 (2019: EUR 5,388 thousand). The prepayments comprise purchased IT services in the amount of EUR 80,126 (2019: EUR 4,166 thousand), which are provided directly to the subsidiaries and subsequently charged to them. Furthermore, prepayments comprise deferrals connected to the payroll in the amount of EUR 473,369 (2019: EUR 542 thousand).

(8) Other liabilities

The breakdown of other liabilities is as follows:

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Liability from cost allocation from services charged from associated companies	2,206,768	2,151
Trade payables	1,502,080	1,713
Fees and levies	1,198,886	1,399
Liability from restructuring	303,631	1,027
Interest expenses	362,710	311
- of which to be paid after the closing date	362,710	311
Liabilities from trading book derivatives	72,802	158
Clearing account balances	251,228	4
Liabilities from foreign currency measurement of banking book derivatives	429,668	13
Total	**6,327,774**	**6,775**

Other liabilities decreased year-on-year by EUR -446,732 to EUR 6,327,774 .

Decreased liabilities from foreign currency valuation of banking book derivatives (currency swaps) in the amount of EUR 416,702 are attributable to changes in the exchange rate.

Trade payables decreased year-on-year by EUR -210,835 to EUR 1,502,080.

(9) Provisions

Of the total provisions of EUR 10,504,078 (2019: EUR 15,753 thousand), other provisions comprise the following:

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Bonus	3,812,413	6,148
Contingent losses from derivatives	793,927	3,228
Miscellaneous provisions	2,335,539	2,304
Legal and advisory costs	800,890	1,239
Holiday not taken and overtime	722,369	921
Long-service bonuses	277,212	260
Total	**8,742,351**	**14,099**

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 2020:

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Loans and advances to credit institutions	**1,951,890**	**1,009.2**
Specific risk provisions	0	0.0
Portfolio-based provisions	1,951,890	1,009.2
Loans and advances to customers	**0**	**0.0**
Specific risk provisions	0	0.0
Portfolio-based provisions	0	0.0
Off-balance-sheet risks from the lending business	**0**	**0.3**
Individual provisions	0	0.0
Portfolio-based provisions	0	0.3
Total	**1,951,890**	**1,009.5**

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 1,951,890 (2019: EUR 1,010 thousand). The increase in provisions is mainly attributable to changes in the macroeconomic calculation parameters.

(11) Issued capital

The share capital of Addiko Bank AG amounts to EUR 195,000,000 as at the balance sheet date (2019: EUR 195,000 thousand) and is divided into 19,500,000 (2019: 19,500,000) no-par bearer shares.

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 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 within five years after entering the corresponding amendment to the Company's statutes into the Austrian Commercial Register.

(12) Reserves

in EUR

	At start of year 1.1.2020	Additions	Reversals	Reclassification	At the end of year 31.12.2020
Capital reserve	**298,662,652**	**0**	**-60,738,333**	**0**	**237,924,319**
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**

The uncommitted capital reserves were released in the financial year 2020 in the amount of EUR 60,738,333 (2019: release of EUR 177,837 thousand).

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 46,605,000.00 in the financial year 2020.

IV. OFF-BALANCE SHEET TRANSACTIONS

(13) Derivative financial instruments

As at the balance sheet date 31 December 2020, 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	219,427,798	273,082	313,454	2,219,061	2,963,747
	Interest rate swaps	218,519,123	273,082	313,454	2,219,053	2,963,739
	Interest swaptions Purchase	454,338	0	0	8	0
	Interest swaptions Sales	454,338	0	0	0	8
b)	**Currency-related business**					
	OTC-products	315,315,000	16,683	46,992	42,660	446,791
	FX swaps	315,315,000	16,683	46,992	42,660	446,791
c)	**Shares and index related business**					
	OTC-products	0	0	0	0	0
d)	**Other**					
	OTC-products	8,149,295	0	2,264	0	75,066
	Credit Default Swaps	8,149,295	0	2,264	0	75,066

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 2020, the fair value from currency-related transactions amounts to EUR -404,131 (2019: EUR -1.938 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 2019 are as follows:

EUR thousand

		Nominal	Positive accrued interest	Negative accrued interest	Fair value positive	Fair value negative
a)	**Interest-related business**					
	OTC-products	270,439	250	285	2,009	2,248
	Interest rate swaps	269,281	250	285	2,009	2,248
	Interest swaptions Purchase	524	0	0	0	0
	Interest swaptions Sales	633	0	0	0	0
	Exchange-traded products	0	0	0	0	0
b)	**Currency-related business**					
	OTC-products	329,687	18	0	836	2,775
	Currency swaps	65,587	18	0	0	2,595
	FX swaps	260,700	0	0	832	176
	Forward exchange contracts	3,400	0	0	4	4
c)	**Shares and index related business**					
	OTC-products	**0**	**0**	**0**	**0**	**0**
d)	**Other**					
	OTC-products	8,902	0	3	0	157
	Credit Default Swaps	8,902	0	3	0	157

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.

  In the financial year 2020 no derivatives have been designated to a fair value hedge.

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

  This portfolio includes all currency swaps (FX Swaps) used to hedge the currency risk of foreign currency refinancing lines with subsidiaries. At 31 December 2020 there are no Currency Swaps in the portfolio (2019: EUR -2.595 thousand). The fair value of FX swaps as at 31 December 2020 amounts to EUR -404,131 (2019: +656 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 -778,812 as at 31 December 2020 (2019: EUR -285 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 31 December 2020, a loss provision in the amount of EUR -793,927 (2019: EUR 3,226 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 loss provision has to be recognized. In the financial year 2020, the fair value of this portfolio amounted to EUR 34,126 (2019: EUR 45 thousand), with the major part of this portfolio including a fair value of EUR 19,717 (2019: EUR 25 thousand) has a remaining maturity of more than

5 years. The positive fair value of the derivatives in a valuation unit amounted to EUR 1.915.841 (2019: EUR 1.575 thousand), whereby the negative fair value of the corresponding derivatives amounted to EUR 1.882.383 (2019: EUR 1.529 thousand). As at 31 December 2020, there is no loss provision required (2019: EUR 2 thousand). The hedging period generally extends from the inception of the hedging relationship to the final maturity of the derivatives. In the financial year 2020, three derivative mirror transactions were terminated, with expenses from termination amounting to EUR 87,500 offset by income from termination amounting to EUR 89,640.

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
	31.12.2020	31.12.2019
Contingent liabilities	**0**	**575**
Letters of credit	0	575
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 Einlagensicherung AUSTRIA Ges.m.b.H 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 469,019 (2019: EUR 516 thousand) for the financial year 2020 and amount to EUR 2,345,096 for the financial years 2021 through 2025 (prior-year figure for 2020-2024: EUR 2,579 thousand).

(15) Fiduciary transactions

As at the balance sheet date 31 December 2020 as well as at 31 December 2019, 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. - 31.12.2020	1.1. - 31.12.2019
Loans and advances to credit institutions (including central banks) and customers	**10,346,343**	**11,977**
of which Austria	-253,661	-259
of which International	10,600,004	12,236
Fixed-income securities	**1,472,309**	**1,555**
of which Austria	0	0
of which International	1,472,309	1,555
Other assets	**1,717,902**	**2,496**
of which Austria	366,538	999
of which International	1,351,364	1,497
Total interest and similar income	**13,536,554**	**16,028**

The decline in interest and similar income is caused by lower interest income from refinancing lines from subsidiaries of Addiko Bank AG as well as lower income from the interest component of derivatives. 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 -253,661 (2019: EUR -259 thousand).

	in EUR	EUR thousand
Interest and similar expenses	1.1. - 31.12.2020	1.1. - 31.12.2019
Liabilities to credit institutions and customers	**3,213,143**	**5,227**
of which Austria	1,913,040	2,221
of which International	1,300,103	3,006
Other liabilities	**1,855,035**	**2,605**
of which Austria	1,424,886	1,520
of which International	430,149	1,085
Total interest and similar expenses	**5,068,178**	**7,832**

The change in interest and similar expenses in the financial year 2020 compared to the financial year 2019 is mainly attributable to lower refinancing costs as well as lower expenses from the interest component of derivatives.

The net income from trading activities results mainly from foreign currency positions with Addiko Bank AGs subsidiaries and the corresponding hedging transactions and thus relates to foreign countries.

(17) Net fee and commission income

	in EUR	EUR thousand
	1.1. - 31.12.2020	1.1. - 31.12.2019
From the lending business	**-217,425**	**-241**
Fee and commission income	447	28
Fee and commission expenses	-217,872	-269
From the securities business	**-73,608**	**-74**
Fee and commission income	0	0
Fee and commission expenses	-73,608	-74
From other transactions	**-21,102**	**-17**
Fee and commission income	13	13
Fee and commission expenses	-21,115	-30
Total	**-312,135**	**-332**

The net fee and commission income mainly comprises fee and commission expenses from the direct deposit business as well as custody fees.

(18) Other operating income

	in EUR	EUR thousand
	1.1. - 31.12.2020	1.1. - 31.12.2019
Income from sale of assets	2,822,715	11
Income from release of provisions	0	505
Charging of intra-group services	1,197,820	1,467
Other operating income	1,091,863	1,014
Total	**5,112,399**	**2,998**

Income from the sale of assets results from the sale of Group-wide IT solutions for customer business to the operating subsidiaries.

The item charging of intra-group services includes external services passed on in the amount of EUR 299,460 (2019: EUR 317 thousand), and cost allocation of investments and services provided by Addiko Bank AG to its subsidiaries in the amount of EUR 898,360 (2019: EUR 1,150 thousand).

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

(19) Other administrative expenses (operating expenses)

	in EUR	in TEUR
	1.1. - 31.12.2020	1.1. - 31.12.2019
IT costs	8,885,812	8,883
Expenses for outsourced functions	5,223,887	5,517
Legal and advisory costs	2,332,193	6,389
Rental and leasing expenses	665,737	763
Costs in connection with company legal structure	504,304	346
Insurance	444,919	946
Training expenses	118,041	318
Telephone/postage costs	113,164	149
Travel expenses	101,586	475
Fleet costs	60,454	112
Advertising expenses	17,274	34
Miscellaneous operating expenses	726,320	855
Total	**19,193,691**	**24,785**

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 299,460 (2019: EUR 317 thousand) pertaining to the expenses stated above were passed on to subsidiaries in the financial year 2020. The associated income is shown under other operating income.

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 4,973,615 (2019: EUR 4.829 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 2020, this item in the amount of EUR 122,955 (2019: EUR 6,296 thousand) primarily includes the result from release of and allocation to risk provisions in the amount of EUR -947,400 (2019: EUR 242 thousand) and expenses resulting from interest derivatives in the amount of EUR -154,937 (2019: EUR -656 thousand). Additionally, changes in the market value of securities led to valuation results in the amount of EUR 1,383,766 (2019: EUR 6,834 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 -57,405,559 in the financial year 2020 (2019: EUR 131,238 thousand).

VI. OTHER DISCLOSURES

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

Assets in the amount of EUR 8,470,000 (2019: EUR 9,690 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.

As of 31 December no collaterals were pledged as a result of repurchase agreements (2019: EUR 11,499 thousand).

Furthermore, as of 31 December 2020, no securities (2019: 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 2020.

In September 2017, Addiko Bank AG (together with its Croatian subsidiary) filed two requests for arbitration with the ICSID in Washington D.C. against Montenegro and the Republic of Croatia regarding the conversion laws, claiming an amount of 10 million and 165 million euros, respectively. Addiko Bank AG argues that the Bilateral Investment Treaties (BIT) with the respective country regarding fair and equal treatment under the respective BIT have been violated. The defendant parties deny any damages and liability in connection with 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 2020, 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 2020, Addiko Bank AG received CSF and GSS services in a total gross amount of EUR 4,973,615 (2019: EUR 4,829 thousand). In the same period, Addiko Bank AG rendered a GSS and received EUR 189,054 (2019: EUR 151 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 2020 and 31 December 2019 amount to:

	31.12.2020			31.12.2019		
	CET1	T1	TCR	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
Total SREP Capital Requirement (TSCR)	**8.60%**	**10.10%**	**12.10%**	**8.60%**	**10.10%**	**12.10%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer	0.00%	0.00%	0.00%	0.002%	0.002%	0.002%
Combined Buffer Requirements (CBR)	**2.50%**	**2.50%**	**2.50%**	**2.502%**	**2.502%**	**2.502%**
Overall Capital Requirement (OCR)	**11.10%**	**12.60%**	**14.60%**	**11.102%**	**12.602%**	**14.602%**
Pillar II guidance (P2G)[1)]	4.00%	4.00%	4.00%	na	na	na
OCR + P2G	**15.10%**	**16.60%**	**18.60%**	**11.102%**	**12.602%**	**14.602%**
Temporary requirements after capital relief by ECB (without CCB + P2G)[1)]	**8.60%**	**10.10%**	**12.10%**	**na**	**na**	**na**

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

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

- Pillar II requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the Supervisory Review and Evaluation Process (SREP) (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR). As a result of the 2019 SREP process, the FMA informed Addiko Bank AG by way of an official notification to hold at holding level as well as at the level of the Addiko Group additional 4.1% CET 1 capital to cover risks which are not, or not adequately, considered under Pillar I. The 2020 SREP assessment has been performed by the FMA using a pragmatic approach in the light of the Covid-19 pandemic. This approach focused on the ability of the supervised entities to respond to the challenges of the Covid-19 crisis and its impact on their current and prospective risk profile and carried forward the requirements resulting out of the 2019 SREP cycle. This means that the Pillar II requirement from the 2020 SREP process remains unchanged at 4.1%.
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in the payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR). According to Section 23 (1) BWG, the Addiko Group has to establish a capital conservation buffer in the amount of 2.5%. As prescribed by CRD IV and the Banking Act (BWG), CCB was linearly increasing and has reached the fully loaded level of 2.5% in 2019. As announced by the European Central Bank (ECB) in its press release on 12 March 2020, European banks are not obliged to fully comply with the capital conservation buffer of 2.5% during the current Covid-19 crisis. In the "Frequently Asked Questions - FAQs" published on 20 March 2020, however, the ECB states that the incomplete fulfilment of the combined buffer requirement leads to restrictions on distributions and banks are only allowed to make distributions within the limits of the maximum distributable amount (MDA).
- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital. At the beginning of January 2020, Addiko Bank AG received as part of the 2019 SREP decision a Pillar 2 guidance (P2G) in the amount of 4%. As described for the Pillar II requirements, the FMA performed the 2020 SREP assessment using a pragmatic approach in the light of the Covid-19 pandemic, which carried forward the 2019 SREP decision.

Taking into account ECB's communication on the temporary capital relief measures with regard to the P2R, the full usage of the capital conservation buffer as well as the P2G, Addiko Group's CET1 requirement amounts to 8.6%, its T1 requirement amounts to 10.1% and its total own funds requirement amounts to 12.1%.

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 to meet MREL (minimum requirement for own funds and eligible liabilities) 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 (Single Resolution Board) in the case of Addiko Group.

On 28 January 2021, Addiko Bank received the draft decision from the SRB relating to the future MREL requirement, which amounts to 26.13% of TREA (total risk exposure amount) and 5.91% of LRE (leverage ratio exposure) based on the point-of-entry strategy at the subsidiary level of Addiko Bank d.d. (Croatia). Under the previous decision, the MREL target of Addiko Group would have required additional own funds and eligible liabilities in the amount of up to EUR 412.4 million (based on Addiko Group's capital structure and balance sheet composition as of 31 December 2019 and subject to a transitional period of up to 4 years). Based on the new decision no additional own funds and eligible liabilities need to be generated at the level of Addiko Group, as the required MREL target defined at the level of Addiko Bank d.d. (Croatia) is already covered by the local own funds and eligible lia-bilities taking into consideration also planned local capital measures which are expected to be implemented during 2021 following the required regulatory approvals.

25.2. Own funds and capital requirements of Addiko Bank AG

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Common Equity Tier 1 (CET1) capital	**481,699,011**	**538,238**
Paid-in capital	195,000,000	195,000
Reserves	287,367,478	348,106
Intangible assets	-526,567	-4,710
Net accumulated losses	0	0
Regulatory adjustments to the CET1 capital	-141,901	-157
Total capital (TC = T1 + T2)	**481,699,011**	**538,238**
Total capital requirement	**85,202,752**	**92,090**
Surplus/shortfall (TC)	**396,496,259**	**446,148**
Surplus/shortfall (Tier 1)	**417,796,947**	**469,170**
Coverage	565.4%	584.5%

	in EUR	EUR thousand
Risk weighted assets by risk type	31.12.2020	31.12.2019
Credit risk pursuant standard approach	891,810,824	1,004,491
Market risk	96,487,412	97,138
Operational risk	72,572,131	46,569
Riskpositions for adjustments of the credit rating (CVA)	4,164,033	2,930
Total risk exposure amount	**1,065,034,400**	**1,151,129**

		in %
Capital ratio according to Art. 92 CRR	31.12.2020	31.12.2019
Tier 1-Ratio	45.2%	46.8%
TC ratio	45.2%	46.8%

	in EUR	EUR thousand
Large exposure limit	31.12.2020	31.12.2019
Eligible capital according to Art. 4 (71) CRR	**481,699,011**	**538,238**
thereof 10% acc. to Art. 392 (1) CRR	48,169,901	53,824
thereof 25% (upper limit) acc. to Art. 392 (1) CRR	120,424,753	134,560

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 2020 and 31 December 2019.

		in EUR	in TEUR
		31.12.2020	31.12.2019
	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	650,456,575	615,302
3	Accumulated other comprehensive income	4,949,408	15,882
	5 Minority interests (amount allowed in consolidated CET1)	1,627	2
	5a Independently reviewed intermediate profits net of any foreseeable charge or dividend	-45,254,839	-4,923
6	**CET1 capital before regulatory adjustments**	**805,152,771**	**821,263**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-970,358	-1,141
8	Intangible assets (net of related tax liability)	-19,209,038	-27,905
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)	-11,591,934	-16,400
[#]	IFRS 9 transitional rules	50,126,667	34,022
	28 Total regulatory adjustments to CET1	**18,355,338**	**-11,424**
29	**Common Equity Tier 1 (CET1) capital**	**823,508,109**	**809,839**
59	**Total capital (TC = T1 + T2)**	**823,508,109**	**809,839**
60	Total risk weighted assets	4,053,132,807	4,571,531
	Capital ratios and buffers %		
61	CET1 ratio	20.3%	17.7%
63	TC ratio	20.3%	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 2020 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. Addiko Bank AG is not controlled by a parent company and is therefore not included in a consolidated financial statements as a subsidiary.

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 (-> Investor Relations -> 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 30,650,480 (2019: EUR 40,701 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 -5,1 % for 2020 (2019: -11.5%).

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

	in EUR	EUR thousand
	31.12.2020	31.12.2019
Assets	1,832,032	2,583
Equity and Liabilities	752,053	19,009

The reduction of liabilities denominated in foreign currency is mainly attributable to the lapse of liabilities towards a subsidiary.

Most of the difference in the amount of EUR 1,079,979 (2019: EUR -16.426 thousand) is hedged by foreign exchange swaps, forward exchange transactions as well as currency swaps.

As at 31 December 2020, 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:

	31.12.2020	31.12.2019
Salaried employees	121	136
Hourly-paid employees	0	0
Total	**121**	**136**

(30) Expenses for severance payments and pensions

		in EUR		EUR thousand
		1.1. - 31.12.2020		1.1. - 31.12.2019
	Severance pay	Pensions	Severance pay	Pensions
Members of Management Board	36,648	0	31	0
Key management personnel	45,369	6,458	38	8
Other employees	232,673	50,338	488	56
Total	**314,690**	**56,795**	**557**	**64**

Expenses for severance payments and contributions to severance funds break down into expenses for severance payments in the amount of EUR 107,149 (2019: EUR 336 thousand) and contributions to severance funds in the amount of EUR 207,541 (2019: EUR 221 thousand).

In the financial year 2020, expenses in the amount of EUR 56,795 (2019: EUR 64 thousand) were incurred for pensions of the severance funds.

(31) Information on board members

The board members active in the financial year 2020 are shown in Attachment 2 to the notes.

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

As at 31 December 2020, 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. - 31.12.2020	1.1. - 31.12.2019
Management Board	2,054,831	2,953
Supervisory Board	335,820	261
Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants	1,263,750	1,491
Total	**3,654,401**	**4,705**

The table 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 2020. 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 46,605.000 (in words: forty million six hundred and five thousand euros) in the financial year 2020.

Considering the ECB recommendation on dividend distribution (ECB/2020/62) a proposal will be made in the next General Assembly to appropriate this profit as follows:

- An amount of EUR 7,020,000 (in words: seven million and thousand euros) will be distributed by the Company as a dividend with the payment date May 4th, 2021
- An amount of EUR 39,585,000 (in words: thirty-nine million five hundred and eighty-five thousand euros) will be distributed by the Company under the condition that neither a recommendation of the European Central Bank would in the company's view conflict with a full or partial distribution of dividends nor a legally mandatory distribution ban is effective or applicable on the entire or partial dividend payment

Vienna
February 23, 2021
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
(Member of the Management Board)

Ganesh Krishnamoorthi
(Member of the Management Board)

Fixed assets schedule

Attachment 1 to the notes

Asset		Acquisition costs 01.01.2020	Addition 2020	Disposals 2020	Reclassifications 2020	Acquisition costs 31.12.2020
2.	Treasury bills	0.00	0.00	0.00	0.00	0.00
3.	Loans and advances to credit institutions	0.00	0.00	0.00	0.00	0.00
4.	Loans and advances to customers	0.00	0.00	0.00	0.00	0.00
5.	Bonds and other fixed income securities	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	1,344,990,713.79	0.00	0.00	0.00	1,344,990,713.79
9.	Intangible fixed assets	13,101,499.59	196,208.14	-7,237,530.91	0.00	6,060,176.82
10.	Tangible fixed assets	1,510,000.71	58,929.11	-51,561.05	0.00	1,517,368.77
	Total	**1,359,605,743.70**	**255,137.25**	**-7,289,091.96**	**0.00**	**1,352,571,788.99**

Accumulated addition and disposals 01.01.2020	Addition 2020	Impairment 2020	Write-ups 2020	Disposals 2020	Accumulated addition and disposals 31.12.2020	Carrying amount 31.12.2020	Carrying amount 31.12.2019
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	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	3,529.61	3,529.61
-637,265,591.16	0.00	-96,256,657.68	38,851,098.78	0.00	-694,671,150.07	650,319,563.72	707,725,122.62
-8,391,014.09	-741,966.22	-224,547.47	0.00	3,823,917.46	-5,533,610.32	526,566.50	4,710,485.50
-717,079.35	-184,335.11	0.00	0.00	48,703.05	-852,711.41	664,657.36	792,921.36
-646,373,684.60	**-926,301.33**	**-123,344,343.58**	**65,714,237.20**	**3,872,620.51**	**-701,057,471.80**	**651,514,317.19**	**713,232,059.09**

Boards and officers of the Company

Attachment 2 to the notes

1 January to 31 December 2020

Members of the Supervisory Board

Chairman of the Supervisory Board:
Kurt Pribil (since 02.12.2020, before Member of the Supervisory Board since 10.07.2020)
Hans-Hermann Lotter (from 20.05.2020 to 27.11.2020, before Deputy Chairman of the Supervisory Board)
Hermann-Josef Lamberti (until 15.05.2020)

Deputy Chairman of the Supervisory Board:
Henning Giesecke (until 27.11.2020)
Herbert Juranek (since 02.12.2020, before Member of the Supervisory Board since 27.11.2020)

Members of the Supervisory Board:
Dragica Pilipović-Chaffey
Sebastian Prinz Schoenaich-Carolath
Monika Wildner (since 10.07.2020)
Frank Schwab (since 27.11.2020)

Delegated by the Works Council:
Thomas Wieser
Christian Lobner

Governmental supervision

State Commissioner:
Vanessa Koch

Deputy State Commissioner:
Lisa-Maria Pölzer

Management Board

Csongor Bulcsu Németh, Chairman of the Management Board (since 01.07.2020, before Member of the Management Board)
Markus Krause, Member of the Management Board
Ganesh Krishnamoorthi, Member of the Management Board (since 01.08.2020)
Razvan Munteanu, Chairman of the Management Board (until 30.06.2020)
Johannes Proksch, Member of the Management Board (until 29.05.2020)

List of investments

Attachment 3 to the notes

Direct investments of Addiko Bank AG pursuant to Section 238 UGB

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	192,238	11,420	31.12.2020	CI
Addiko Bank d.d. Sarajevo	Sarajevo	99.9985	106,630	-4,365	31.12.2020	CI
Addiko Bank d.d.	Zagreb	100.0000	382,512	16,171	31.12.2020	CI
Addiko Bank a.d. Beograd	Belgrade	100.0000	193,565	4,610	31.12.2020	CI
Addiko Bank a.d. Banja Luka	Banja Luka	99.8742	79,424	-3,465	31.12.2020	CI
Addiko Bank AD	Podgorica	100.0000	27,730	3,090	31.12.2020	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 23, 2021
Addiko Bank AG

MANAGEMENT BOARD

Csongor Bulcsu Németh
(Chairman)

Markus Krause
(Member of the Management Board)

Ganesh Krishnamoorthi
(Member of the Management Board)

Statement of all legal representatives

We confirm to the best of our knowledge that the 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 23, 2021
Addiko Bank AG
MANAGEMENT BOARD

Csongor Bulcsu Németh
Chief Executive Officer

Markus Krause
Member of the Management Board

Ganesh Krishnamoorthi
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, (the Company) which comprise the statement of financial position as at December 31, 2020, and the income statement, 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, 2020, and its financial performance in accordance with Austrian Generally Accepted Accounting 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 of the individual key audit matter

As at December 31, 2020, Addiko Bank AG reports shares in affiliated companies totaling EUR 650.3 million. After a depreciation of EUR 57.4 million in 2020 accumulated write-downs amount to EUR 694.7 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 underlying the valuation, in particular with regards to the future financial surpluses and discount rates require a high degree of discretion and estimation uncertainty. Minor changes to these assumptions lead to significantly deviating results. Due to the sensitivity of the valuation model and the high degree of discretion with respect to 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 rates applied was assessed by valuation experts involved based on professional standards and using current capital market data.

We compared the assumptions and estimates regarding future financial surpluses with past performance and past planning accuracy. The numbers and planning assumptions applied were discussed with management and responsible employees, as well as plausibility checks were performed using internal and external forecasts. In addition, we reconciled the future financial surpluses used in the calculation with the 2021 annual budgets and with the medium-term budget for the next five years approved by the respective local management board.

Furthermore, the mathematical accuracy of the calculation was checked

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 annual general meeting on June 6, 2019 and commissioned by the supervisory board on June 19, 2019 to audit the financial statements for the financial year ending December 31, 2020. 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, February 26, 2021

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 para. 2 UGB applies.

Report of the Supervisory Board

Dear Shareholders,

2020 was the first full year after Addiko Bank AG went public and was admitted to the Vienna Stock Exchange in July 2019. In the midst of its continuous and consistent execution of the focused business strategy, Addiko Bank AG was like all banks impacted by the Covid-19 pandemic and its effects on the economy.

Despite these challenging economic, social and global circumstances due to this Covid-19 pandemic, Addiko Group kept its focus on its activities serving customers with Consumer and SME financing in Central and South-Eastern Europe as well as with payment services. Addiko Group offers convenient and fast banking services to its customers and puts a particular emphasis on innovative digital solutions. In essence, the global pandemic accelerated clients willingness to switch their banking services to digital while Addiko Group was ready to provide such services as requested by its customers. Online & mobile banking services for the aforementioned focus segments were further improved in the course of the ongoing digitization and optimization of business processes. The loan book of the non-focus segments mortgage financing, loans to large corporates and to public institutions was further reduced as planned during the financial year 2020.

Due to the pandemic and the measures taken by different governments, the existing prudent risk management framework and risk strategy have been further tightened and contributed to a prudent balance between risk and return. While this has been at the expense of loan volume growth during 2020, such prudent approach aims to ensure to minimize risks for the bank. To compensate for lower revenues due to reduced new business activities, Addiko Group kept its course of further driving sustainable cost efficiency while maintaining a balanced risk profile.

As of 13 October 2020, the former shareholder AI Lake (Luxembourg) S.à r.l. sold all its remaining shares.

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 nineteen meetings in total in the financial year 2020, adopted seventeen circular decisions and assisted the Management Board in an advisory capacity and by continually monitoring the governance of the company. At the meetings of the Supervisory Board and its Committees, the Management Board reported in depth on Addiko Group's financial situation, risks and their mitigation and business performance. The Management Board discussed in detail strategies and related measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, and the Supervisory Board was given sufficient 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 effective, lawful, compliant and appropriate.

The Supervisory Board had formed the following five standing Committees:

- the Audit and Compliance Committee/Audit, Compliance & AML Committee (which held seven meetings and adopted two circular decisions in 2020),
- the Credit Committee (which held three meetings and adopted fourteen circular decisions in 2020),
- the Risk Committee (which held five meetings in 2020),
- the Nomination & Remuneration Committee (which held nine meetings and adopted two circular decisions in 2020) and
- the Committee for Management Board Matters (which held five meetings and adopted one circular decision in 2020).

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 in person and via virtual meetings, 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 changed during the reported business year, i.e. two management board members Mr. Johannes Proksch and Mr. Razvan Munteanu stepped down from their mandates and Mr. Ganesh Krishnamoorthi was appointed as a management board member. Hence, the management board consists of three members since 1 August 2020.

In 2020, the Supervisory Board of Addiko Bank AG changed in such a way that Mr. Herman Josef Lamberti (resigned as of 15 May 2020), Mr. Hans-Hermann Lotter (Chair as of 20 May 2020 following Mr. Lamberti) and Mr. Henning Giesecke resigned as of 27 November 2020 from their Supervisory Board mandate and Mrs. Monika Wildner, Mr. Kurt Pribil (both as per 10 July 2020) and Mr. Herbert Juranek and Mr. Frank Schwab (both as per 27 November 2020) were appointed to the Supervisory Board by the General Meetings on 10 July 2020 respectively 27 November 2020. Accordingly, the Supervisory Board consists of eight 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 9 March 2021, the Supervisory Board examined the Consolidated Corporate Governance Report based on the report of the Audit, Compliance and AML Committee from 8 March 2021 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 2020. 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 2020

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 2020, 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 2020 – 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 8 March 2021.

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, Compliance and AML Committee reported on the Committee's recommendations at the meeting of the Supervisory Board on 9 March 2021. 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 Annual 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.

As adopted in the annual general meeting ("AGM") on 27 November 2020, the distribution of the 2019 dividend of EUR 2.05 per share is dependent on two conditions, namely that until 10 March 2021 (which is the anticipated date of publication of the Annual Report 2020) neither a recommendation of the European Central Bank ("ECB") would in the company's view conflict with a distribution of dividends nor a legally mandatory distribution ban is effective or applicable, and that the Common Equity Tier 1 (CET1) capital ratio of Addiko Bank AG (and Addiko Group) after such distribution is not lower than 18.6%.

The ECB has on 15 December 2020 published a recommendation that banks exercise extreme prudence on dividends and has to this end asked all banks to consider not distributing any cash dividends or to limit such distributions until 30 September 2021. As a consequence of such recommendation, despite a CET 1 ratio of 20.3% on a transitional basis or 19.3% fully-loaded as of year end 2020 with the currently envisaged dividend amounts already deducted, the existing profit allocation resolution dated 27 November 2020 does not permit a dividend distribution. The 2019 balance sheet profit of EUR 40 million is therefore carried forward to the financial year 2020, as resolved by the AGM.

Pursuant to Austrian GAAP in connection with the Austrian Banking Act, Addiko Bank AG generated net accumulated profits in the amount of EUR 46.6 million in the financial year 2020, which includes the communicated 2019 balance sheet profit of EUR 40 million (carried forward to the financial year 2020). Following a constructive dialogue and considering the ECB recommendation on dividend distribution, the Management Board of Addiko Bank AG intends to propose to the upcoming AGM 2021 on 26 April 2021 to allocate such balance sheet profit in the following manner: In total, the Bank aims to generate shareholder return of ca. EUR 46.6 million (EUR 2.39 per share) to be proposed for distribution in two tranches, one unconditional and one conditional tranche.

The first, unconditional tranche of ca. EUR 7 million (EUR 0.36 per share) shall, subject to shareholder approval, be distributed on the dividend payment date of 4 May 2021 and represents the maximum dividend allowed under the currently valid recommendation of the ECB (i.e. below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower).

In addition, the conditional distribution of the second tranche of up to ca. EUR 39.6 million (up to EUR 2.03 per share) is, subject to shareholder approval, envisaged to be paid after 30 September 2021 under the condition and to the extent that on the twelfth working day of each calendar month after 30 September 2021 until 31 January 2022 neither a recommendation of the ECB would, in the company's view, conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable.

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 9 March 2021 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, the leadership team and to the entire staff for their outstanding commitment and achievements in 2020.

On behalf of the Supervisory Board

Kurt Pribil m.p.
Chairman of the Supervisory Board

Vienna, 9 March 2021

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