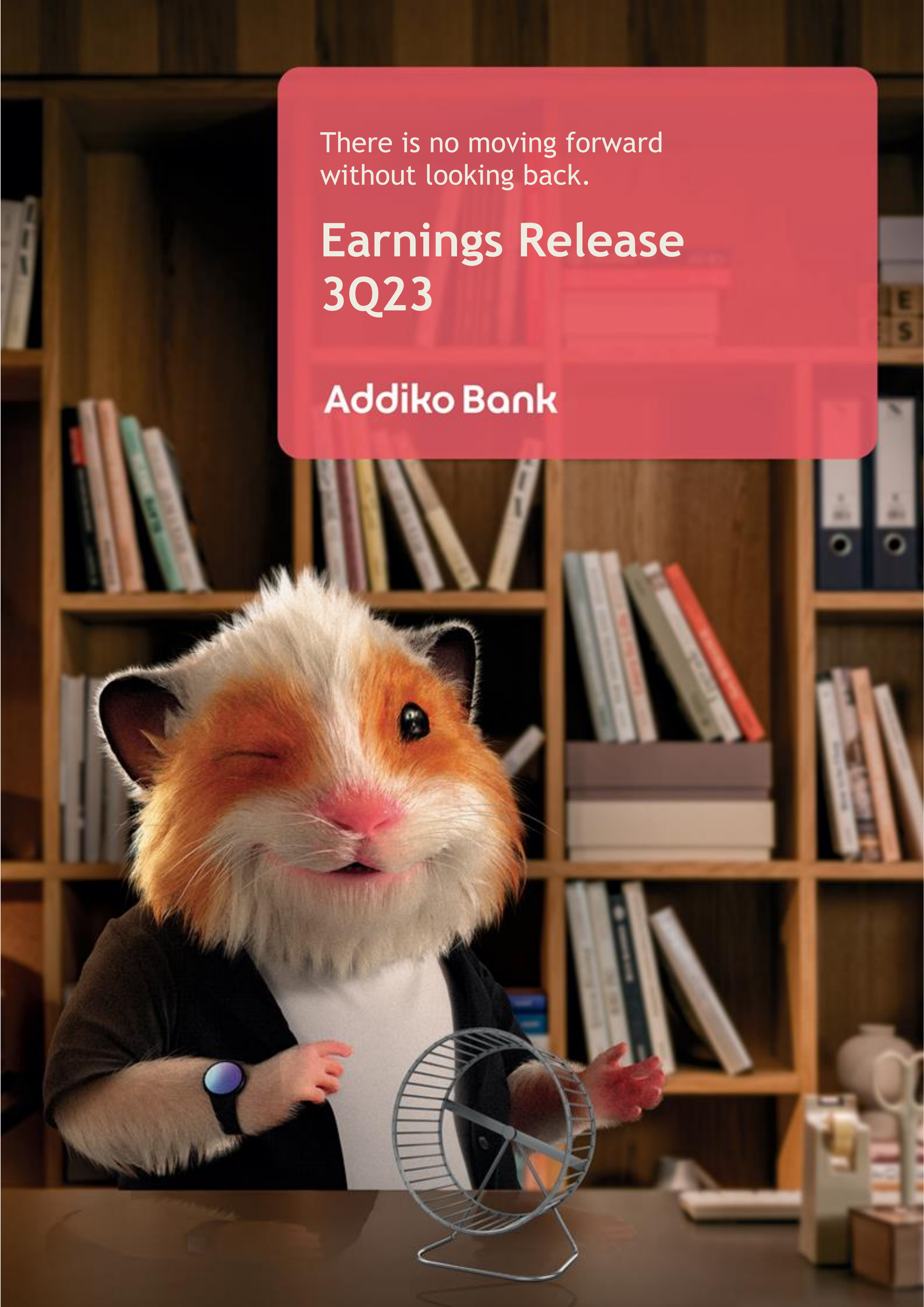
There is no moving forward
without looking back.

Earnings Release 3Q23

Addiko Bank



HIGHLIGHTS

1 Key financial data

Earnings	
Net Profit	€30.1m
Operating Result	€78.1m
EPS	€1.55
NIM	3.7%
Asset Quality	
Cost of Risk	-0.2%
NPE Ratio	2.2%
NPE Volume	€153.5m
Capital	
CET1 Ratio	19.5%

2 Business development

- New Loan Business Pricing remains at premium in focus areas across all markets - prudent underwriting as anchor
- Further Reduction of NPE Ratio to new all time low
- Economies in CSEE keep motoring on while EU is slowing down
- Outlook 2023 confirmed

3 Outlook 2023 confirmed

Gross Performing Loans	ca. €3.5b with >10% growth in focus
Net Banking Income	up by ca. 15%
Operating Expenses	below €179m
TCR	>18.6% (fully loaded)
Sum Other Result & Credit Loss Expenses	<1.5% on average net loans to customers

Key data

			EUR m
Selected items of the Profit or Loss statement	**3Q23**	**3Q22**	**(%)**
Net banking income	217.7	184.7	17.9%
Net interest income	167.5	129.3	29.5%
Net fee and commission income	50.3	55.4	-9.2%
Net result on financial instruments	0.4	1.6	-77.0%
Other operating result	-8.1	-5.9	36.3%
Operating expenses	-131.9	-124.7	5.8%
Operating result before impairments and provisions	**78.1**	**55.6**	**40.3%**
Other result	-32.6	-15.2	>100%
Credit loss expenses on financial assets	-9.5	-16.3	-41.8%
Taxes on income	-6.0	-4.6	30.3%
Result after tax	**30.1**	**19.6**	**53.3%**
Performance ratios	**3Q23**	**3Q22**	**(pts)**
Net interest income/total average assets	3.7%	3.0%	0.7
Return on average tangible equity	5.5%	3.4%	2.1
Cost/income ratio	60.6%	67.5%	-7.0
Cost of risk ratio	-0.2%	-0.4%	0.2
Cost of risk ratio (net loans)	-0.3%	-0.5%	0.2
Earnings per share (in EUR)	1.55	1.01	54.0
Selected items of the Statement of financial position	**Sep23**	**Dec22**	**(%)**
Loans and advances to customers	3,483.2	3,292.7	5.8%
Deposits and borrowings of customers	5,088.5	4,959.6	2.6%
Equity	768.7	746.3	3.0%
Total assets	6,192.9	5,996.4	3.3%
Risk-weighted assets [1)]	3,640.0	3,481.0	4.6%
Balance sheet ratios	**Sep23**	**Dec22**	**(pts)**
Loan to deposit ratio	68.5%	66.4%	2.1
NPE ratio	2.2%	2.4%	-0.2
NPE ratio (on balance loans)	3.1%	3.3%	-0.2
NPE coverage ratio	79.2%	75.4%	3.8
Liquidity coverage ratio	331.0%	307.4%	23.6
Common equity tier 1 ratio [1)]	19.5%	20.0%	-0.5
Total capital ratio [1)]	19.5%	20.0%	-0.5

[1)] As of 1 January 2023, there is no difference between the transitional and the fully loaded regulatory capital base due to the expiry of the IFRS 9 and Article 468 CRR (EU 2020/873) transitional capital rules. Comparative figures on a fully loaded basis.

3Q23 Highlights

Addiko Group is a specialist banking group focusing on providing banking products and services to Consumer and Small and Medium-sized Enterprises (SME) in Central and South-Eastern Europe (CSEE). The Group consists of the stock-market listed parent company Addiko Bank AG in Austria and six subsidiary banks in Croatia, Slovenia, Bosnia & Herzegovina (two banks), Serbia and Montenegro.

On 7 August 2023, Fitch Ratings has assigned Addiko Bank AG a first time Long-Term Issuer Default Rating (IDR) of "BB" and Viability Rating (VR) of "bb". The Outlook on the Long-Term IDR is stable. At the same time, Addiko Bank AG terminated its rating with Moody's Investors Service (ba2 Baseline Credit Assessment). For further information, please refer to the Group's website (https://www.addiko.com/de/ratings/).

The figures shown in the Earnings Release 3Q23 are prepared on a consolidated basis and comprise the period 1 January – 30 September 2023 (3Q23). This report does not represent condensed financial statements in the meaning of IAS 34.

1. Financial development of the Group

1.1. Overview of financial performance

- **Operating result before impairments and provisions up 40.3% to EUR 78.1 million vs. EUR 55.6 million last year**
- **Operating expenses remained below guidance**
- **Cost of Risk at -0.3% or EUR -9.5 million compared to EUR -16.3 million a year earlier**
- **NPE ratio reduced to 2.2% (YE22: 2.4%) with increased NPE coverage at 79.2% (YE22: 75.4%)**
- **Return on average tangible equity up to 5.5% (3Q22: 3.4%)**
- **EPS of EUR 1.55 in 3Q23 compared to EUR 1.01 a year earlier**

The **result after tax** of EUR 30.1 million (3Q22: EUR 19.6 million) reflected the strong business development, successful repricing, provisions for legal claims and relatively benign credit losses. **Credit loss expenses** stood at EUR -9.5 million or -0.3% Cost of Risk (3Q22: EUR -16.3 million). While the underlying asset quality continued to be strong, Addiko decided to keep the IFRS 9 post-model adjustment at a level of EUR 18.5 million (YE22: EUR 20.7 million) to reflect uncertainties and the high volatility in the macroeconomic environment.

The **share of the two focus segments Consumer and SME** of the gross performing loan book increased to 85.7% compared to 82.4% at year end 2022. The overall customer gross performing loan book continued on the growth trajectory to EUR 3.49 billion compared to EUR 3.30 billion at the end of 2022 while decreasing the non-focus as well as the medium SME loan book. The overall focus book growth was at 11% YoY while the focus portfolio excluding the medium SME loans grew significantly by 14%.

Net interest income rose significantly by 29.5% to EUR 167.5 million (3Q22: EUR 129.3 million) with improved NIM at 3.7% (3Q22: 3.0%). The **net fee and commission income** decreased by 9.2% YoY to EUR 50.3 million (3Q22: EUR 55.4 million) mainly driven by lost income from FX&DCC in Croatia following the introduction of the Euro on 1 January 2023. **Operating expenses** increased to EUR -131.9 million (3Q22: EUR -124.7 million) as result of significantly elevated inflation. The Cost/income ratio further improved to 60.6% (3Q23: 67.5%).

The **NPE ratio** was further reduced 2.2% (YE22: 2.4%) at an improved **NPE coverage** of 79.2% (YE22: 75.4%), the **NPE ratio related to on-balance loans** was at 3.1% (YE22: 3.3%) based on a **non-performing exposure (NPE)** of EUR 153.5 million (YE22: EUR 163.2 million).

The **CET1 ratio** stood at 19.5% (YE22: fully loaded 20.0%). As of 1 January 2023, there is no difference between the transitional and the fully loaded regulatory capital base due to the expiry of the IFRS 9 and Article 468 CRR (EU 2020/873) transitional capital rules.

1.2. Detailed analysis of the result

EUR m

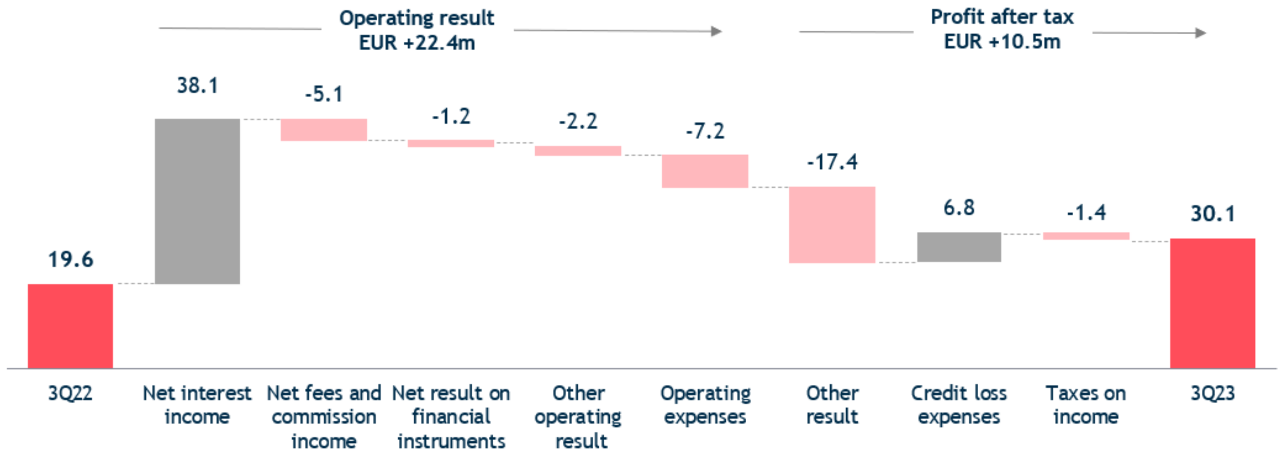
	01.01. - 30.09.2023	01.01. - 30.09.2022	(abs)	(%)
Net banking income	217.7	184.7	33.0	17.9%
Net interest income	167.5	129.3	38.1	29.5%
Net fee and commission income	50.3	55.4	-5.1	-9.2%
Net result on financial instruments	0.4	1.6	-1.2	-77.0%
Other operating result	-8.1	-5.9	-2.2	36.3%
Operating income	**210.0**	**180.4**	**29.6**	**16.4%**
Operating expenses	**-131.9**	**-124.7**	**-7.2**	**5.8%**
Operating result before impairments and provisions	**78.1**	**55.6**	**22.4**	**40.3%**
Other result	-32.6	-15.2	-17.4	>100%
Credit loss expenses on financial assets	-9.5	-16.3	6.8	-41.8%
Result before tax	**36.0**	**24.2**	**11.8**	**49.0%**
Taxes on income	-6.0	-4.6	-1.4	30.3%
Result after tax	**30.1**	**19.6**	**10.5**	**53.3%**

Net banking income improved by EUR 33.0 million to EUR 217.7 million in the first three quarters of 2023.

Net interest income increased significantly by EUR 38.1 million driven by the focus segments Consumer and SME and income related to liquidity management and treasury. The Consumer segment recorded higher regular interest income of EUR 9.1 million on the back of an increased loan book volume (up EUR 143.6 million) compared with 3Q22 by keeping and further extending the premium pricing versus incumbent banks. The increase in the SME segment of EUR 18.7 million was driven by both higher loan volumes (up EUR +148.8 million YoY) as well as significantly improved lending interest rates (up +160bps YoY based on simple average) supported by the change in market rates in most markets and both, new business at higher rates and repricing of the variable back book. In addition, the recorded interest income was positively complemented by EUR 20.8 million from cash balances at central banks and EUR 7.2 million from investment in debt securities, reflecting the changed interest rate environment. The regular interest income from the non-focus segment remained stable, with the increase in interest rates overcompensating the intentionally accelerated run-down of the non-focus portfolio (down EUR 142.8 million YoY). On the liability side, interest expenses naturally increased by EUR 20.7 million due to both higher customer deposit volumes (up EUR 363.0 million YoY), whereby the volume of term deposits increased by EUR 534.5 million, and the changed market environment (interest rate increased by 109bps YoY), while the a-vista volume reduced by EUR 148.9 million (interest rate increased by 8bps YoY).

Net fee and commission income decreased in 3Q23 to EUR 50.3 million (3Q22: EUR 55.4 million) mainly driven by lost income from FX&DCC as a consequence of introduction of the Euro in Croatia since 1 January 2023, despite growth in income related to card business and accounts & packages.

Result after tax of Addiko Group – *development YoY (in EUR million)*



The **net result on financial instruments** amounted to EUR 0.4 million at 3Q23 resulting from FX and related trading activities, compared to EUR 1.6 million at 3Q22.

Other operating result as the sum of the other operating income and the other operating expense increased by EUR -2.2 million from EUR -5.9 million at 3Q22 to EUR -8.1 million at 3Q23. This position included the following significant items:

- Lower frontloaded regulatory charges from the recovery and resolution fund in Croatia and Slovenia of EUR -0.2 million (3Q22: EUR -0.6 million)
- Deposit guarantee expenses of EUR -4.5 million (3Q22: EUR -4.6 million)
- Bank levies and other taxes increased to EUR -3.1 million at 3Q23 (3Q22: EUR -1.9 million)

Operating expenses increased from EUR -124.7 million at 3Q22 to EUR -131.9 million at 3Q23:

- Personnel expenses increased by EUR -6.7 million to EUR -72.8 million in the reporting period. The higher costs were mainly driven by wage increases due to inflation pressure
- Other administrative expenses increased only slightly by EUR -0.7 million to EUR -46.2 million
- Depreciation and amortisation decreased by EUR 0.2 million to EUR -12.9 million

Despite the increase of the Operating expenses, significantly higher net banking income led to an improvement in the Cost/income ratio from 67.5% to 60.6%.

The **other result** at EUR -32.6 million (3Q22: EUR -15.2 million) was impacted by credit linked and portfolio based provisions for expected legal matters on Swiss franc denominated loans in Croatia, Slovenia and Montenegro, provisions connected with proportional fee reimbursements in Slovenia in case of early loan repayments ("Lexitor case"), the impact from the decision of the Indirect Taxation Authority in Bosnia & Herzegovina to reverse their previous instructions and apply VAT on credit card services retroactively and going forward, and expenses in connection with customer-related operational risk cases. In addition, provisions of EUR 2.0 million were recorded for loan modification losses related to interest rate cap of 4.08% for housing loans in Serbia adopted in September which are valid for the period October 2023 – December 2024.

Credit loss expenses on financial assets were EUR -9.5 million in the first three quarters of 2023, a decrease of EUR -6.8 million compared to 3Q22 (EUR -16.3 million) due to continuing high asset quality and a low NPE ratio. The management overlay at 3Q23 was kept at the level of 1H23 (EUR 18.5 million), a decrease of EUR 2.2 million compared to the end of the year 2022. The comparative period 3Q22 included a management overlay increase of EUR 4.0 million.

Taxes on income increased to EUR -6.0 million at 3Q23 compared to EUR -4.6 million at 3Q22. The development reflects the higher Result before tax in 3Q23 compared to 3Q22 and the positive impact from the remeasurement of deferred tax assets on existing taxable losses in the previous reporting period. By excluding the impact of deferred tax measurement on existing taxable losses in both reporting periods, the effective tax rate decreased from 18.9% at 3Q22 to 17.6% at 3Q23, mainly due to tax reliefs applicable in Serbia.

Overall, the **result after tax** increased significantly by 53.3% to EUR 30.1 million for the first nine months of the year 2023 (3Q22: EUR 19.6 million).

1.3. Statement of financial position

EUR m

	30.09.2023	31.12.2022	(abs)	(%)
Cash reserves	1,278.9	1,382.9	-104.0	-7.5%
Financial assets held for trading	31.8	22.8	9.0	39.5%
Loans and advances to credit institutions	69.1	89.2	-20.1	-22.5%
Loans and advances to customers	3,483.2	3,292.7	190.5	5.8%
Investment securities	1,190.1	1,061.6	128.6	12.1%
Tangible assets	58.6	61.6	-3.0	-4.9%
Intangible assets	21.5	24.5	-3.0	-12.1%
Tax assets	39.0	42.4	-3.5	-8.1%
Current tax assets	1.6	5.4	-3.8	-69.9%
Deferred tax assets	37.4	37.0	0.3	0.9%
Cash balances at central banks, other demand deposits and other receivables	19.0	17.1	1.8	10.5%
Non-current assets held for sale	1.8	1.6	0.1	8.4%
Total assets	**6,192.9**	**5,996.4**	**196.5**	**3.3%**

EUR m

	30.09.2023	31.12.2022	(abs)	(%)
Financial liabilities held for trading	5.0	3.1	1.9	61.1%
Deposits and borrowings of credit institutions	120.8	128.5	-7.7	-6.0%
Deposits and borrowings of customers	5,088.5	4,959.6	129.0	2.6%
Other financial liabilities	73.2	48.8	24.4	50.0%
Provisions	103.6	83.4	20.3	24.3%
Tax liabilities	2.9	0.6	2.3	>100%
Current tax liabilities	2.9	0.6	2.3	>100%
Other liabilities	30.1	26.2	3.9	14.9%
Equity	768.7	746.3	22.4	3.0%
Total equity and liabilities	**6,192.9**	**5,996.4**	**196.5**	**3.3%**

2. Segment information

The segment reporting presents the results of the operating business segments of Addiko Group, prepared on the basis of the internal reports used by the Management to assess the performance of the business segments and is used as a source for decision making. The business segmentation is subdivided into the higher value adding Consumer and SME segments, which represent the focus segments of Addiko Group, and into the non-focus segments, which comprise Large Corporates, Mortgages and Public Finance. According to the Group's strategy, the accelerated contraction of lower margin Large Corporate, Mortgage and Public Finance lending is managed accordingly.

EUR m

30.09.2023	Focus segments		Non-focus segments			Corporate Center	Total
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance		
Net banking income	120.0	75.8	18.4	6.3	4.5	-7.2	217.7
Net interest income	90.9	56.9	18.4	4.2	3.9	-6.8	167.5
o/w regular interest income	84.3	47.7	13.8	3.6	1.4	41.2	192.2
Net fee and commission income	29.1	18.9	0.0	2.0	0.6	-0.3	50.3
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Other operating result	0.0	0.0	0.0	0.0	0.0	-8.1	-8.1
Operating income	**120.0**	**75.8**	**18.4**	**6.3**	**4.5**	**-14.9**	**210.0**
Operating expenses	**-62.1**	**-25.5**	**-1.0**	**-2.5**	**-1.3**	**-39.4**	**-131.9**
Operating result before impairments and provisions	**57.9**	**50.2**	**17.4**	**3.7**	**3.2**	**-54.3**	**78.1**
Other result	0.0	0.0	0.0	0.0	0.0	-32.6	-32.6
Credit loss expenses on financial assets	-8.0	-5.7	3.7	0.2	0.6	-0.3	-9.5
Result before tax	**49.9**	**44.5**	**21.1**	**3.9**	**3.7**	**-87.2**	**36.0**
Business volume							
Net loans and receivables	1,652.1	1,326.4	378.8	87.8	34.9	72.1	3,552.1
o/w gross performing loans customers	1,668.4	1,325.9	377.5	87.4	34.0		3,493.3
Gross disbursements	523.0	629.4	0.0	12.1	0.2		1,164.6
Financial liabilities at AC [1]	2,813.1	1,123.7		232.9	230.9	881.9	5,282.5
RWA [2]	1,259.0	948.4	227.0	115.7	16.6	544.0	3,110.6
Key ratios							
NIM [3]	5.3%	3.4%	-0.3%	2.2%	0.8%		3.7%
Cost/income Ratio	51.7%	33.7%	5.5%	40.4%	29.3%		60.6%
Cost of risk ratio	-0.4%	-0.3%	0.9%	0.1%	1.2%		-0.2%
Loan to deposit ratio	58.7%	118.0%	-	37.7%	15.1%		68.5%
NPE ratio (on-balance loans)	3.5%	3.9%	5.3%	10.2%	6.4%		3.1%
NPE coverage ratio	80.2%	76.3%	80.2%	91.2%	65.8%		79.2%
NPE collateral coverage	1.0%	39.2%	79.1%	90.5%	100.0%		34.1%
Change CL/GPL (simple average)	-0.5%	-0.5%	0.9%	0.2%	1.4%		-0.3%
Yield GPL (simple average)	7.0%	5.1%	4.6%	5.1%	4.8%		5.9%

[1] Financial liabilities at AC include the Direct deposits (Austria/Germany) amounting to EUR 600 million, EUR 143 million Deposits of credit institutions and EUR 149 million other liabilities. [2] Includes only credit risk. [3] Net interest margin on segment level is the sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances.

EUR m

30.09.2022	Focus segments: Consumer	Focus segments: SME Business	Non-focus segments: Mortgage	Non-focus segments: Large Corporates	Non-focus segments: Public Finance	Corporate Center	Total
Net banking income	109.8	50.6	10.9	6.8	3.3	3.1	184.7
Net interest income	78.8	29.6	10.9	4.1	2.4	3.5	129.3
o/w regular interest income	75.2	29.0	12.3	4.1	1.2	10.3	132.3
Net fee and commission income	31.0	21.0	0.0	2.7	1.0	-0.4	55.4
Net result on financial instruments	0.0	0.0	0.0	0.0	0.0	1.6	1.6
Other operating result	0.0	0.0	0.0	0.0	0.0	-5.9	-5.9
Operating income	**109.8**	**50.6**	**10.9**	**6.8**	**3.3**	**-1.2**	**180.4**
Operating expenses	**-60.1**	**-22.6**	**-1.1**	**-2.6**	**-1.3**	**-37.0**	**-124.7**
Operating result before impairments and provisions	**49.8**	**28.0**	**9.8**	**4.2**	**2.0**	**-38.2**	**55.6**
Other result	0.0	0.0	0.0	0.0	0.0	-15.1	-15.2
Credit loss expenses on financial assets	-15.6	-3.4	6.5	-3.2	-0.6	0.0	-16.3
Result before tax	**34.2**	**24.6**	**16.4**	**1.0**	**1.4**	**-53.4**	**24.2**
Business volume							
Net loans and receivables	1,500.5	1,181.4	465.2	126.3	53.9	8.8	3,336.0
o/w gross performing loans customers	1,524.9	1,177.1	461.4	126.4	53.9		3,343.7
Gross disbursements	475.5	532.8	1.0	40.5	2.6		1,052.4
Financial liabilities at AC [1]	2,491.7	1,082.7		274.0	359.6	682.9	4,890.9
RWA [2]	1,133.8	864.8	278.3	163.0	27.1	510.2	2,977.2
Key ratios							
NIM [3]	5.5%	2.9%	1.1%	1.8%	0.9%		3.0%
Cost/income Ratio	54.7%	44.6%	10.2%	38.5%	39.4%		67.5%
Cost of risk ratio	-0.9%	-0.2%	1.3%	-1.2%	-0.9%		-0.4%
Loan to deposit ratio	60.2%	109.1%	-	46.1%	15.0%		70.7%
NPE ratio (on-balance loans)	4.4%	4.4%	8.3%	8.3%	3.5%		3.9%
NPE coverage ratio	79.3%	76.3%	79.4%	85.8%	90.0%		78.9%
NPE collateral coverage	2.4%	57.1%	72.7%	87.1%	99.8%		42.2%
Change CL/GPL (simple average)	-1.1%	-0.3%	1.3%	-1.8%	-1.0%		-0.5%
Yield GPL (simple average)	6.9%	3.5%	3.3%	3.0%	2.7%		4.9%

[1] Financial liabilities at AC include the Direct deposits (Austria/Germany) amounting to EUR 408 million, EUR 134 million Deposits of credit institutions and EUR 142 million other liabilities. [2] Includes only credit risk (without application of IFRS 9 transitional rules). [3] Net interest margin on segment level is the sum of interest income (without interest income on NPE) and expenses including funds transfer pricing divided by the respective average business volume using daily balances.

3. Outlook & Risk factors

3.1. Outlook

Based on the current macroeconomic outlook for the CSEE region, Addiko expects continued growth in its markets. The Outlook for the full year 2023 – as upgraded in August 2023 was confirmed:

- Gross performing loans at ca. EUR 3.5 billion with more than 10% growth in focus,
- Net banking income up by ca. 15%, impacted positively by the rising interest curve, despite increasing funding costs and run-down of non-focus,
- Operating expenses below EUR 179 million, mainly driven by inflation,
- TCR >18.6% on a fully loaded basis,
- Sum of other result and credit loss expenses on financial assets below 1.5% on average net loans and advances to customers.

To achieve these objectives, Addiko intends to further accelerate its competitive specialist strategy execution in the CSEE markets in 2023, focusing on sustainable business growth in the segments Consumer and SME, with a particular focus on micro and small enterprises and the overall ambition to become the leading CSEE specialist bank for these segments. Addiko’s prudent risk approach will remain a key anchor of the loan growth generation strategy.

The clear focus on Consumer and SME business will accelerate the transformation of the balance sheet of Addiko towards these higher value generating segments. In this context, the Group will continue considering the possibility of capital generation via faster non-focus reduction. Addiko believes that the reduction in the non-focus portfolio will generate value in the long-term by sharpening the focus in the core segments and releasing capital and funding from higher risk weight non-focus loans.

As one of its short-term ambitions, Addiko intends to further increase its efficiency by reducing costs and complexity and further streamlining its operating model. Addiko will continue to implement efficiency measures to generate sustainable and visible saving effects.

Sustainability

In 2023, Addiko further promoted ESG awareness and sustainable performance. Within the ESG strategy, Addiko defined 15 group wide initiatives to foster sustainable development within its’ business operations. In 2023, Addiko has strongly promoted these actions among its group companies to ensure meeting the ambitious performance targets for 2023 and onwards.

In addition, the Group will continue to implement new ESG reporting standards and additional disclosure requirements, in line with the Corporate Sustainability Reporting Directive (“CSRD”). After a review of the double materiality assessment was performed between August - October, the project team prepares the implementation of the recently published European Sustainability Reporting Standards ("ESRS") and related disclosure requirements. Although ESRS will only have to be applied for reports of the financial year 2024, which will be published in 2025, Addiko already intends to amend the structure of its’ consolidated non-financial report for 2023, to reflect major parts the disclosure requirements as set out in the ESRS.

Dividend policy

Addiko disclosed the guidance of an annual dividend payout of 60% of net profit attributable to shareholders.

Addiko's ability and intention to pay dividends depends on its financial position, results of operations, regulatory capital requirements including capital buffer requirements, MREL targets, investment alternatives and other factors that the Management Board and the Supervisory Board may deem relevant. Any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to approval at the Annual General Meeting of shareholders. A payment of dividends is also subject to maintaining the relevant thresholds in terms of capital ratios which requires, among other things, that the payment of such dividends is consistent with its long-term and sustainable business and compliant with then applicable regulatory requirements, and that neither a recommendation of the ECB would, in the bank's view, conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable.

3.2. Risk factors

Given Addiko's focus on Consumer and SME, the business is particularly tied to the economic cycle and economic developments in its core countries Slovenia, Croatia, Bosnia & Herzegovina, Serbia and Montenegro. Some of those countries are characterised by pronounced political instability of one sort or another, with nationalist-conservative rhetoric dominating the local political stage. A severe local political crisis is hard to predict as it could emerge out of a minor event, little attention is paid to at the beginning. End of September in North-Kosovo an armed conflict broke out between ethnic groups and only with great effort an escalation with the threat of an intervention of Serbia was avoided, although the environment remains fragile.

Besides the ongoing war of Russia against the Ukraine, the terrorist attack of the Palestinian Hamas against Israel increased the risk of a global political crisis which could lead to severe economic and fiscal tensions.

Besides geopolitical crisis, economic risks could materialise. Four major factors play a decisive role for the local economies: employment, inflation, the pace and extent of monetary policy tightening to fight inflation and economic growth – all that will have a major impact on domestic demand for loans or the ability of customers to repay outstanding amounts. In case of a galloping inflation fired by a wage-price-spiral, central banks would be forced to further increase the reference rate which might not only lead to financial market volatility but could also end up in a severe recession.

In August Slovenia was hit by a major flood which caused severe damage. Although the Group did not identify any direct material impacts from this worst flood in nearly two centuries, the Group could be indirectly impacted. In order to finance the negative financial impact of the destructions, the government proposed a special banking tax in the amount of 0.2% of the balance sheet total for a total period of five years (2023 – 2027), which would be limited by 30% of the profit before tax. The special tax on banks is currently discussed and the banking sector in Slovenia expects the law to come into force even this year, which would negatively impact Addiko Group's result.

The bank faces regulatory risk from the implementation of various regulatory and consumer protection initiatives, e.g. MREL, PSD2, GPDR, etc. Potential regulatory constraints could also negatively impact the group's ability to improve efficiency.

Addiko Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. The Group is involved in a number of passive legal disputes. The majority of pending proceedings relate to FX transactions, margin increases, and interest rate clauses at Addiko Bank AG's subsidiaries, here especially the Croatian subsidiary. There is a future risk of further increasing numbers of proceedings and amounts in dispute due to changed court practice, binding sample proceeding decisions and new laws (e.g. conversion laws, amendments to consumer credit acts, consumer protection acts).

In September 2017, the Group filed a Requests for Arbitration with the ICSID in Washington, DC against the Republic of Croatia regarding the Conversion Laws claiming EUR 153 million. The Group claims that the Bilateral Investment Treaties (BIT) regarding the fair and equivalent treatment under the respective BIT was violated. The main hearing was conducted in March 2021 and parties are waiting for the final award. If the action is unsuccessful, then court fees and legal costs could amount up to ca. EUR 11 million. Based on legal advice, management believes that the action will prove successful or that Addiko will reach a settlement agreement with the Republic of Croatia.

Addiko also regularly assesses and reports on ESG risks that may impact the bank. Therefore, Addiko conducts an annual self-assessment on the exposure to ESG risks, which currently encompasses climate-related and environmental risks. The results thereof are used to define the key areas of action for Addiko.

4. Credit risk report

4.1. Allocation of credit risk exposure within the Group

As of 30 September 2023, the overall gross exposure within the Group increased by EUR 150.8 million (or +2.2%) compared to YE22. In line with the business strategy, the increase was driven by the new business generated in the focus segments Consumer and SME, while the non-focus portfolio further decreased as planned.

The gross exposure increased in all group entities, except in Addiko Bank Croatia, where the exposure towards the local National Bank was subject of a significant reduction as a result of the implementation of the Euro in Croatia and the reduction of the cash collateral which had to be provided to the Croatian Central Bank during the preparation phase of the Euro introduction during 2022.

Within the Group, the credit risk exposure breaks down as presented in the following table.

EUR m

	30.09.2023	31.12.2022
Addiko Croatia	2,420.2	2,448.6
Addiko Slovenia	1,607.2	1,553.8
Addiko Serbia	1,094.7	1,071.1
Addiko Bosnia & Herzegovina	1,158.5	1,142.7
Addiko Montenegro	241.0	231.4
Addiko Holding	430.4	353.7
Total	**6,952.1**	**6,801.3**

4.2. Credit risk exposure by rating class

As of 30 September 2023 roughly 39.0% (YE22: 38.6%) of the exposure can be assigned to the rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, private individuals, corporate and sovereigns.

During the first three quarters of 2023 the NPE Stock further reduced by EUR 9.7 million (or -5.9%), primarily in the non-focus portfolio as well as within the Consumer segment as a result of write offs, portfolio sales as well as due to collection effects and are especially driven by reductions in Addiko Bank Croatia, Addiko Bank Sarajevo and Addiko Bank Montenegro.

The following tables show the exposure by rating classes and market segment:

EUR m

30.09.2023	1A-1E	2A-2E	3A-3E	4A-4E	NPE	No rating	Total
Consumer	324.4	984.8	345.8	149.8	60.6	20.5	1,886.0
SME	237.4	1,121.9	458.3	87.0	58.5	4.7	1,967.8
Non-Focus	250.4	268.1	80.1	20.2	34.4	1.5	654.7
o/w Large Corporate	35.4	102.2	51.3	8.2	10.6	0.9	208.5
o/w Mortgage	191.6	152.0	21.8	11.6	21.3	0.6	398.9
o/w Public Finance	23.4	13.9	7.0	0.4	2.5	0.0	47.3
Corporate Center [1)]	1,895.8	337.5	210.2	0.0	0.0	0.0	2,443.6
Total	**2,708.0**	**2,712.3**	**1,094.4**	**257.1**	**153.5**	**26.8**	**6,952.1**

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

EUR m

31.12.2022	1A-1E	2A-2E	3A-3E	4A-4E	NPE	No rating	Total
Consumer	298.0	888.6	326.4	154.8	64.9	15.2	1,747.9
SME	208.6	1,029.6	451.8	107.4	58.4	2.7	1,858.5
Non-Focus	263.4	314.5	87.2	48.9	39.8	1.8	755.5
o/w Large Corporate	32.3	118.4	52.9	18.8	10.6	0.8	233.8
o/w Mortgage	220.3	169.6	23.9	19.8	26.6	1.0	461.1
o/w Public Finance	10.8	26.5	10.4	10.3	2.7	0.0	60.7
Corporate Center [1)]	1,854.6	327.2	249.6	0.0	0.0	8.1	2,439.4
Total	**2,624.7**	**2,559.8**	**1,114.9**	**311.0**	**163.2**	**27.7**	**6,801.3**

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

5. Own funds, liquidity and capital requirements

5.1. Liquidity requirements

The **liquidity position** of the Group remained strong, with the Loan to deposit ratio (LDR) (net) of 68.5% (YE22: 66.4%) and the Liquidity coverage ratio (LCR) moving between its lowest level of 307.6% in January 2023 and its peak of 361.0% in March 2023 (during 2022 the LCR was moving between 244.6% in May and 307.4% in December) and was significantly above the minimum regulatory requirement of 100%.

LCR	30.09.2023	31.12.2022
End of period	331.1%	307.4%
Average for the period	331.2%	263.7%
Maximum for the period	361.0%	307.4%
Minimum for the period	307.6%	244.6%

5.2. Capital requirements

Addiko Group regulatory minimum capital ratios, including the regulatory buffers and the capital requirements determined in the Supervisory Review and Evaluation Process (SREP) are presented in the following table:

		30.09.2023			31.12.2022	
	CET1		TCR	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement	1.83%	2.44%	3.25%	1.83%	2.44%	3.25%
Total SREP Capital Requirement (TSCR)	**6.33%**	**8.44%**	**11.25%**	**6.33%**	**8.44%**	**11.25%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer (CCyB)	0.17%	0.17%	0.17%	0.00%	0.00%	0.00%
Systemic Risk Buffer (SyRB)	0.25%	0.25%	0.25%	n.a.	n.a.	n.a.
Combined Buffer Requirements (CBR)	**2.92%**	**2.92%**	**2.92%**	**2.50%**	**2.50%**	**2.50%**
Overall Capital Requirement (OCR)	**9.24%**	**11.35%**	**14.17%**	**8.83%**	**10.94%**	**13.75%**
Pillar 2 guidance (P2G)	3.25%	3.25%	3.25%	2.00%	2.00%	2.00%
OCR + P2G	**12.49%**	**14.60%**	**17.42%**	**10.83%**	**12.94%**	**15.75%**

As a result of the 2022 SREP process performed by the European Central Bank (ECB), Addiko Bank AG received on 14 December 2022 the decision which continues to stipulate a **P2R** of 3.25% from 1 January 2023 (at least 56.25% must be held in CET1 and at least 75% in Tier 1).

In relation to the **combined buffer requirement** (CBR) it should be noted that as of 30 September 2023, the **countercyclical capital buffer** (CCyB) amounted to 0.17%. The CCyB rate of Croatia was 0.5%, which increased the CCyB requirement of Addiko Group by 0.16%. On 31 December 2023 the CCyB rate of Croatia will be set to 1.0%. At the same time the CCyB rate of Slovenia will raise from 0.0 to 0.5%. Both will raise the CCyB requirement of Addiko Group by approximately 0.29% to 0.46%. In June 2024, the CCyB rate of Croatia will be set to 1.5%, increasing the CCyB requirement of Addiko Group by another 0.16% to 0.62%. In addition, the FMA published on 21 December 2022 that Addiko is subject to a **systemic risk buffer** (SyRB) of 0.5% at the consolidated level on the grounds of systemic concentration risk. The SyRB will be raised gradually by 0.25 percentage points starting from the 1 January until the 31 December 2023 and reaching the full level starting from the 1 January 2024. In Addiko's view the rationale applied to identify systemic concentration risk as well as the procedural steps taken are incorrect. Therefore, Addiko submitted an appeal against the FMA ordinance regarding the SyRB to the Federal Administrative Court. The Federal Administrative Court has set the 20 January 2024 as deadline for a final decision.

Following the SREP 2022, Addiko Group is expected to meet a **Pillar 2 guidance** (P2G) of 3.25% with CET1 valid as of 1 January 2023 onwards, up from 2.0% from the SREP 2021 decision.

Consolidated own funds

The regulatory reporting on a consolidated basis is performed at the level of Addiko Bank AG as the EU parent financial holding company of the group of credit institutions.

As of 1 January 2023, the **transitional arrangements** in accordance with Article 468 CRR of the regulation EU 2020/873 as well as in relation to the static component of the IFRS 9 transitional capital rules published by the EU on 21 December 2017 and amended on the 24 June 2020 expired. For this reason, as of 30 September 2023, there is no difference between the transitional and the fully loaded regulatory capital base, which remained strong at 19.5%, stable compared to YE22 (21.1% on a transitional basis and 20.0% on a fully loaded basis) and significantly above the applicable requirements and the Pillar 2 Guidance (P2G). In calculating regulatory capital the Group deducted the dividend of EUR 23.6 million - equivalent to EUR 1.21 per share - that was distributed on 4 May 2023, following the resolution of the Annual General Meeting of 21 April 2023. The interim profit for the reporting period is not reflected in the capital base.

The following table shows the breakdown of the own funds of the Group as per 30 September 2023 and 31 December 2022 pursuant to CRR using IFRS figures. All comparative figures are prepared on a fully loaded basis.

EUR m

Ref[1]		30.09.2023	31.12.2022[2]
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	195.0	195.0
2	Retained earnings	286.2	284.4
3	Accumulated other comprehensive income (and other reserves)	258.8	241.1
5a	Independently reviewed (interim) and eligible profits net of any foreseeable charge or dividend	0.0	2.1
5aa	o/w Interim eligible profit of the current year	0.0	25.7
5ab	o/w Foreseeable charge or dividend	0.0	-23.6
6	**CET1 capital before regulatory adjustments**	**740.0**	**722.6**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-0.8	-0.9
8	Intangible assets (net of related tax liability)	-13.4	-15.4
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)	-10.7	-10.3
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-3.1	-0.4
25a	Losses of the current financial year (negative amount)	0.0	0.0
27a	Other regulatory adjustments (including IFRS 9 transitional rules)	-0.5	-0.1
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-28.5**	**-27.2**
29	**Common Equity Tier 1 (CET1) capital**	**711.5**	**695.4**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**0.0**	**0.0**
59	**Total capital (TC = T1 + T2)**	**711.5**	**695.4**
60	Total risk weighted assets	3.640.0	3,481.0
	Capital ratios and buffers %		
61	**CET1 ratio**	19.5%	**20.0%**
63	**TC ratio**	19.5%	**20.0%**

[1] The references identify the lines prescribed in the EU template, which are applicable and where there is a value. The structure is based on the technical standards included in (EU) 2021/637 of 15 March 2021. [2] Comparative figures are prepared on a fully loaded basis.

Total capital increased by EUR 16.1 million during the reporting period, reflecting the following components:

- The positive **OCI development** of EUR 16.7 million resulted from the following parts: EUR 15.9 million from debt instruments measured at FVTOCI, EUR 0.6 million from equity instruments measured at FVTOCI and EUR 0.2 million from the change of foreign currency reserves.

- The EUR 1.7 million decrease of **other regulatory deduction items** resulting from: a lower amount of intangible assets (total capital increased by EUR 2.0 million), the decrease in the prudential valuation adjustments connected with assets/liabilities measured at fair value (total capital increased by EUR 0.1 million) and the increase of deferred tax assets on existing taxable losses (total capital decreased by EUR 0.4 million). The deduction item out of non-performing exposures in context with the SREP process remained stable during the reporting period.
- The negative effect of EUR 2.2 million connected with the **share buy-back program** deriving from the combined effect of equity-settled share-based payments (total capital increased by EUR 0.8 million) and the ECB approval for the buy-back of additional EUR 3.2 million of Addiko own CET1 instruments translating into an increase of the deduction item by EUR 3.0 million.
- With reference to Article 26 CRR, the **interim profit** for the reporting period (EUR 30.1 million) was not included into the calculation of the regulatory capital.

Risk structure

Addiko Group uses the standardised approach in the calculation of the credit and operational risk, which partly explains the relatively high risk density (measured by comparing RWA to assets) of 60.7% (YE22: 58.2%). The bank's focus on unsecured consumer lending and SME business is another important source of the reported risk density.

The risk-weighted assets (RWA) increased by EUR 159.0 million during the reporting period:

- The **RWA for credit risk** increased by EUR 181.4 million, mainly driven by new disbursements in the focus segments Consumer and SME (EUR 193.3 million). This development was partially compensated by the exposure reduction in the non-focus segments Mortgages (EUR 30.3 million), Public Finance (EUR 8.9 million) and Large Corporates (EUR 23 million). In the other segments the exposure increase led to higher RWA: financial institutions (EUR 32.3 million), other assets (EUR 4.0 million). Furthermore, the application of the article 500a of the regulation (EU) 2020/873 led to higher risk weights for certain sovereigns and financial institutions (EUR 14 million).
- The **RWA for counterparty credit risk (CVA)** decreased during the reporting period by EUR 0.5 million.
- The **RWAs for market risk** decreased by EUR 22.0 million, principally driven by the introduction of Euro in Croatia which eliminated the residual HRK open position, reducing RWA by EUR 25.6 million.
- The **RWA for operational risk** remained stable in line with the previous year-end. The RWA for operational risk is based on the three-year average of relevant income, which represents the basis for the calculation.

EUR m

		30.09.2023	31.12.2022[1]
1	Credit risk pursuant to Standardised Approach	3,110.6	2,929.2
6	Counterparty credit risk	3.6	4.0
20	Market risk	122.8	144.8
23	Operational risk	403.0	403.0
29	**Total risk exposure amount**	**3,640.0**	**3,481.0**

[1] Comparative figures are prepared on a fully loaded basis.

Leverage ratio

The leverage ratio for the Addiko Group, calculated in accordance with Article 429 CRR, remained strong at 11.0% at 30 September 2023 (YE22: 11.1%). The higher leverage ratio exposure due to new disbursements in the focus segments Consumer and SME was compensated by a higher Tier 1 capital on a fully loaded basis.

EUR m

		30.09.2023	31.12.2022[1]
2	Tier 1 capital	711.5	695.4
13	Total leverage ratio exposure	6,491.6	6,293.0
14	**Leverage ratio %**	**11.0%**	**11.1%**

[1] Comparative figures are prepared on a fully loaded basis.

5.3. MREL

The Bank Recovery and Resolution Directive (BRRD) provides that institutions established in the European Union (EU) should meet a minimum requirement for own funds and eligible liabilities (MREL) to ensure an effective and credible application of the bail-in tool. 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.

Based on the resolution plan received on 25 May 2023 from the SRB, Addiko Group consists of two resolution entities - Addiko Bank d.d. (Croatia) and Addiko Bank d.d. (Slovenia) – as both entities were assessed by the resolution authority to provide critical functions to the local market. Addiko Bank AG is the liquidation entity. The SRB concluded that a multiple point of entry (MPE) is the most suitable strategy for Addiko Group and determined the following minimum requirements for own funds and eligible liabilities:

- Addiko Bank d.d. (Croatia) 25.44% of TREA and 5.91% of LRE on an individual basis by 1 January 2022.
- Addiko Bank d.d. (Slovenia) 11.25% of TREA and 3% of LRE on an individual basis by 1 January 2022. The bank has to assure a linear build-up of own funds and eligible liabilities towards the MREL requirement applicable as at 2 June 2025 of 20.73% of TREA and 5.24% of LRE on an individual basis.
- Addiko Bank AG 11.25% of TREA and 3% of LRE by 1 January 2022.

On the 30 September 2023 the MREL ratio of all entities was above the respective requirements.

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Disclaimer

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

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