Addiko Bank

Annual Report 2020

Addiko Bank d.d. Croatia

This version of the Annual Report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

Key data

in HRK million			
Selected items of the Profit or Loss statement	**YE20**	**YE19**	**(%)**
Net banking income	602.7	671.6	-10.3%
Net interest income	441.7	481.2	-8.2%
Net fee and commission income	161.0	190.4	-15.4%
Net result on financial instruments	77.8	113.6	-31.5%
Other operating result	-15.2	-25.2	-39.7%
Operating expenses	-375.2	-420.2	-10.7%
Operating result	**290.1**	**339.8**	**-14.6%**
Other result	**-21.7**	**-154.6**	**-86.0%**
Expected credit losses on financial assets	-125.6	-25.4	394.5%
Tax on income	-55.7	-2.9	1820.7%
Result after tax	**87.1**	**156.8**	**-44.5%**

Performance ratios	**YE20**	**YE19**	**(pts)**
Net interest income/total average assets	2.5%	2.6%	-0.1
Return on average tangible equity	3.0%	5.3%	-2.3
Cost/income ratio	62,3%	62,6%	-0.3
Cost of risk ratio	0.7%	0.1%	0.6%

Selected items of the Statement of financial position	**Dec20**	**Dec19**	**(%)**
Loans and advances to customers	9,013.3	10,172.6	-11.4%
o/w gross performing loans	8,799.2	9,556.9	-7.9%
Deposits of customers	12,915.5	12,949.2	-0.3%
Equity	2,855.2	3,018.7	-5.4%
Total assets	17,659.6	17,969.3	-1.7%
Risk-weighted assets	9,784.4	11,438.1	-14.5%

Balance sheet ratios	**Dec20**	**Dec19**	**(pts)**
Loan to deposit ratio	69.8%	78.6%	-8.8
NPE ratio	4.7%	4.5%	0.2
NPE coverage ratio	76.8%	71.1%	5.7
Liquidity coverage ratio	248.9%	172.8%	76.1
Common equity tier 1 ratio	27.6%	23.5%	4.1
Total capital ratio	28.6%	26.2%	2.4

Letter from the CEO

Dear clients, partners and employees,

In 2020, we continued to execute our strategy operating as a specialist bank primarily focusing on consumer lending, financing small and medium enterprises as well as payment services. We have continued to find even better ways to provide our services in a challenging year 2020, by upholding our core values and culture, by listening carefully to our clients and stakeholders and by understanding how steadily evolving technologies create new needs but also opportunities. Even during the global Covid-19 pandemic and the resulting public health crisis in 2020, Addiko Bank has shown strong commitment to support clients in providing them with quick access to support programs and loan moratoria initiated by the Croatian government and helping them to make informed decisions. In addition to the Covid-19 pandemic, relieves for clients affected by the earthquakes in Zagreb and the Sisak-Moslavina County were swiftly provided. Overall, Addiko Bank has implemented adequate measures to provide customers with safe and unhindered access to all banking services, with a special emphasis on digital services and communication channels.

We have continued to constantly put major efforts into further evolving our digital capabilities while being recognized in the market as a digital frontrunner. With the first fully digital Virtual Branch in Croatia launched in 2019, our guiding thought was to simplify the banking process for our clients. In 2020 our Virtual Branch was further upgraded with the introduction of an even faster process and an improved customer experience.

Even in these this challenging environment and a resulting slowdown of the economy, largely driven by the global Covid-19 pandemic, we achieved a solid profit after tax of HRK 87.1 million for the year 2020 supported by strict cost management while ensuring business continuity.

The year 2020 has also provided us with an important milestone in terms of our regulatory environment. Since 7 October 2020, Addiko Bank AG and, at consolidated level, Addiko Group has been under the direct supervision of the European Central Bank (ECB). Together with Addiko's EU subsidiaries in Croatia and Slovenia, we are regarded as a significant supervised group by the ECB.

It makes us proud how fast and professionally the team responded to this global pandemic. I would therefore like to thank all our employees for the professionalism and their excellent contribution in ensuring the continuity of the bank's operations in these challenging times.

Although another challenging year lies ahead of us, we are entering the year 2021 with ambition, a clear set of targets and solid business results. Our ambition remains to continue driving our proven business model forward and to generate value to our customers, partners, and employees.

Sincerely,
Mario Žižek
President of the Management Board

Annual Report 2020

Any data is presented on the Addiko Bank d.d. Zagreb level (referred to as Addiko Bank or the Bank throughout the document) unless stated otherwise.

The tables in this report may contain rounding differences.

The Management Board

Mario Žižek

Chief Executive Officer & Chief Market Officer

Responsible for:
Legal Affairs and Board Office
Corporate Governance Office
Compliance and AML
Internal Audit
Group Human Resources
Retail & SME
Group Retail Markets Development
Group Corporate Communications and Marketing
Balance Sheet Management and Treasury

Ivan Jandrić

Chief Operations Officer

Responsible for:
Group Transaction Banking and Operations
Information Technology
Card Processing Centre
Digital Transformation

Dubravko-Ante Mlikotić

Chief Risk Officer

Responsible for:
Risk Control
Corporate Credit Risk Management
Corporate Distressed Asset Management, Real Estate Management and Group Procurement
Retail Risk Management
Group Risk Management Support
Data Office
Non-Financial Risk

Joško Mihić

Chief Financial Officer

Responsile for:
Accounting and Reporting
Management Information System
Group Business Controlling

Management Report

1. Overview of Addiko Bank

Addiko Bank d.d. (hereinafter referred to also as Addiko Bank or the Bank) is owned by Addiko Bank AG, an international banking group.

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2020 approximately 0.8 million customers in CSEE, using a well-dispersed network of 168 branches and modern digital banking channels.

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

Addiko Bank delivers a modern customer experience in line with its strategy of providing straightforward banking – “focus on essentials, deliver on efficiency and communicate simplicity”. Banking products and services have been standardised, especially in the Consumer and the SME segment, to improve efficiency, reduce risks and maintain asset quality.

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019.
Addiko Group’s Investor relations website https://www.addiko.com/investor-relations/ contains further information, including financial and other information for investors.

2. General economic environment

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after Covid-19 pandemic started to spread in the first quarter of 2020. Lockdown measures brought European economies to a halt, and as well as Croatia 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 will prove to be quite a challenge, 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 contraction is more severe in the service sector due to social distancing measures. This atypical cyclical pattern exposed vulnerabilities of tourism-dependent economies and heavily affected prospects of the Bank’s operation.

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 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%) compared to other countries where Addiko Bank operates.

On the other hand, coordinated fiscal response and ample liquidity provided by central banks across Europe stabilized labor market developments, helped to keep interest rates low and price dynamics dampened.

In general, Croatian economy suffered 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 a strong earthquake which struck the capital Zagreb and its surroundings at the beginning of the year, causing damage of about 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 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) had 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 relies 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.

3. Earnings performance in brief

Although business in 2020 has been marked by COVID-19, the Bank's results demonstrated the robustness and resilience of its sustainable business model.

Addiko Bank reported an operating result at HRK 290.1 million at the end of year 2020. This is by 14.6% less compared to the year 2019 (YE19: HRK 339.8 million). Effects of the Covid-19 crisis impacted negatively net interest income and net commission income, but also operating expenses which had a positive effect. The result after tax of HRK 87.1 million (YE19: HRK 156.9 million) was impacted by a significant increase in risk provisioning predominantly associated with deterioration of macroeconomic expectations due to Covid-19.

The Bank has incorporated several process changes in order to maintain its robust asset quality and has tightened underwriting criteria preferring sustainable portfolio quality over new business and volume growth. The loan book in the focus segments remained stable, whereby Consumer and SME amount to 71.4% of the gross performing loan book (YE19: 72.3%). The Bank has limited exposure to industry sectors considered as Covid-19 sensitive. The NPE ratio (CRB based) of 7.1% (YE19: 6.4%), the NPE ratio (on-balance loans) of 8.4% (YE19: 7.6%) and the NPE provision coverage at 72.5% (YE19: 67.8%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the strong receivables collection even in economy downturn period affected by Covid-19 crisis.

4. Response to the Covid-19 Pandemic

4.1. Supporting clients

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

Customers remain the priority for Addiko Bank through this crisis and a comprehensive range of measures have been implemented to support retail and business customers. In these times of uncertainty, the bank strives to maintain a customer-first approach. All Addiko Bank services are tailored to the needs of clients, with an additional focus on health and safety. The Bank offers clients an adequate incentive to do their banking transactions from home through digital services or use their contactless Addiko card.

Addiko Bank granted during the year 2020 3.237 moratoria on payment obligations to all eligible borrowers due to Covid-19 for a total volume of HRK 1.316 million. By the end of December 2020, 484 of such moratoria were still in place for a total amount of HRK 360,1 million of which HRK 157,2 million relating to the focus segment and HRK 202,8 million to the non-focus segment.

4.2. Operational stability & safety of employees

Addiko Bank has enabled safe working conditions for its personnel in their workplace and extensive remote working has been implemented already in March, when within few days close to 500 employees started working from home. Besides that, bank organized 2 back-up locations for organizational units that were not able in such short period of time to set-up the work from home (Contact Center, Retail Collection Call Center, Custody, Payments, Treasury). In the branch offices and SME network during lockdown from March to May, employees were divided into separate teams. The following measures were taken in the branches: Working hours were adjusted in accordance to local regulations, all branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients. Through these measures, Addiko Bank has ensured continuous availability of all critical services to its stakeholders during the Covid-19 crisis.

5. Corporate Governance

5.1. ECB Supervision

In June 2020, the Governing Council of the European Central Bank (ECB) has adopted a decision to establish close cooperation with the Croatian National Bank, starting as of 1 October 2020. Following the decision to classify Addiko as a significant institution, the ECB started the direct supervision of Addiko Bank AG in October 2020, as the supervised entity at the highest level of prudential consolidation, together with its banks in Croatia and Slovenia.

5.2. Supervisory Board

There were changes in the role of President of the Supervisory Board of Addiko Bank Croatia d.d. in November 2020 where Mr. Hans Herman Lotter stepped down from his role in this supervisory board on 27 November 2020. Mr. Csongor Nemeth has been elected as the new President of the Supervisory Board.

5.3. Management Board

Joško Mihić was appointed a member of the Management Board in January 2021 and he took over the role of the Chief Financial Officer.

6. Transformation towards out-of-branch sales and digital development

6.1. Great customer experience with efficient distribution transformation

Addiko Bank approaches its retail customers primarily through branches and for the coming years expects an increased contribution from alternative touchpoints (such as express facilities with more self-service multi-functional machines, virtual branch, teams of skilled sellers present at customers' workplace premises), digital channels and partnerships with third parties.

Addiko Bank is dedicated to delivering the straightforward banking promise and ensuring great customer experience. An important part of this goal is further development and seamless integration of the Bank's digital channels across all customer touchpoints.

Accordingly, Addiko Bank has started a process of transforming its distribution model to keep close to the market's continuously evolving needs.

A target mix of channels has been introduced to the market in line with the convenience and simplicity promises that Addiko Bank makes to its customers. The changes are visible on several levels: customers have more options in terms of cash handling by having access to more self-service machines, inside Addiko Bank's branches or in standalone locations. The Bank's digital capabilities are being continuously developed with the mission to improve and enrich the user experience on the mobile app and the internet banking platform as well as end-to-end digital solutions for obtaining a loan.

Addiko Bank is also capitalizing on one of its best capabilities: transforming the classic branch employee role into a more complex one, empowering employees to go outside the branch and serve customers at their workplace. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to thousands of customers every month. Customers are receiving advice regarding their financial needs, they can open current accounts, order debit cards, apply for loans or credit cards and obtaining credit approval on the spot.

6.2. Digital transformation

Addiko Bank's successes over the past years were to a great extent made possible due to the digital strategy being an essential part of the business strategy and both driving and supporting the change to reflect the transformation in banking business and customer expectations.

With respect to daily banking, Addiko Bank aims to differentiate itself from the competition through superior online and mobile banking services, innovative banking channels and innovative ways of helping customers manage their daily financial needs, for instance by giving them the ability to utilise various types of payment methods.

In order to provide even better user experience, during 2020 Addiko Bank launched a new release of its Virtual Branch in Croatia. The highlight of the new release is the own video identification of the customers performed by in-house Contact Center agents and tight integration with a local Trusted Service Provider.

Addiko Bank is the first Croatian company to undergo a comprehensive audit according to European standards and meet all the requirements for the issuance of Fina's (TSP) qualified digital certificates based on the video identification while remaining the only bank in Croatia that offers a full end2end loan process not only to its own customers, but to all the consumers.

In co-operation with the local Trust Service Provider Fina, in 2020 Addiko Croatia has offered qualified digital certificates in cloud to its corporate clients, enabling them to use the certificates to access their Internet banking and sign payment orders.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of Addiko Bank. Addiko continues to invest in digital solutions as an essential foundation to delivering on the business boosting, convenience and speed-based value proposition.

6.3. IT Strategy

Whilst continuing the support for the roll out of the mobile initiatives in Addiko Bank a strong focus for the Information Technology is on the stabilisation and optimisation of the infrastructure and service providers utilised for Addiko Bank. This will help to improve the customer experience and satisfaction on one hand but it will also impact the cost bottom line on the other.

Optimisation activities in the area of data and data quality will provide the foundation for further data driven innovations for Addiko Bank, allowing better targeted services and products for the core client segments.

Increased investments in Cybersecurity tools and processes for the IT landscape, starting from infrastructure hardening activities to improved thread detection and mitigation tools and processes will result in a higher level of safety for the banks and the clients.

All above activities are ensured by strict adherence and compliance with all regulatory frameworks governing the infrastructure of the financial system.

In 2021, Digital Development will keep the course of further developing the systems that enables offering banking products in digital world, with clear emphasis on cash loans. The changes and the new implementations are planned within all segments of automated loan processing systems, expanding to the front-end solutions featuring smooth and frictionless user experience while bearing in mind ultimate goal – offering the best-in-class banking solutions for existing and new clients.

The newly introduced IT development setup is going to permit a stronger focus on the development of digital products with much better synergies between the development teams. Along with the new approach to the development (hackathons, combination of agile methodologies etc.), the new setup will enable shorter time to market new products or channels as well as more efficient upgrades of the existing ones.

6.4. Branches

As of year-end 2020 Addiko Bank operates a total of 42 branches. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy having in mind also the context of the increasing customers' preference for digital channels.

7. Financial development of the Bank

7.1. Detailed analysis of the reported result

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019	Change (%)
Net banking income	602.7	671.6	-10.3%
Net interest income	441.7	481.2	-8.2%
Net fee and commission income	161.0	190.4	-15.4%
Net result on financial instruments	77.8	113.6	-31.5%
Other operating result	-15.2	-25.2	-39.7%
Operating income	**665.3**	**760.0**	**-12.5%**
Operating expenses	**-375.2**	**-420.2**	**-10.7%**
Operating result	**290.1**	**339.8**	**-14.6%**
Other result	-21.7	-154.6	-86.0%
Expected credit losses on financial assets	-125.6	-25.4	394.5%
Result before tax	**142.8**	**159.8**	**-10.6%**
Tax on income	-55.7	-2.9	1820.7%
Result after tax	**87.1**	**156.9**	**-44.5%**

Net interest income decreased from HRK 481.2 million in 2019, by HRK -39.5 million, or -8.2%, to HRK 441.7 million in 2020. The decrease in interest income, lower by HRK -52.0 million from HRK 569.9 million in 2019 to HRK 517.9 million in 2020, is due to the restrictive consumer lending regulations introduced during 2019, the Covid-19 impact on new loans disbursements in the focus segments and the planned run down of non-focus portfolio. Furthermore, the decline in interest income reflects lower yields in the bond portfolio, in connection with the current interest rate environment. The negative impact in interest income was partially compensated by the decrease in interest expenses from HRK -88.7 million in 2019, by HRK 12.5 million, to HRK -76.2 million in 2020, predominantly resulting from lower interest expenses for customer deposit of HRK -14.3 million, mainly caused by a shift from higher yield term deposits to lower yield current deposits. Consequently, the **net interest margin** marks a slight decrease from 260bp in 2019 to 248bp in 2020.

Net fee and commission income slightly decreased to an amount of HRK 161.0 million (2019: HRK 190.4 million). Thereof, fee and commission income decreased from HRK 229.7 million in 2019 to HRK 198.9 million in 2020, whereas fee and commission expenses decreased from HRK -39.3 million in 2019 to HRK -37.9 million in 2020. The decrease in fee and commission income related to the Covid-19 outbreak and is mainly visible on FX and DCC income and card operations as well as transactions, where fewer withdrawals and payments has been made by customers. This effect is partly compensated by the increase in accounts & packages.

Net result on financial instruments amounts to HRK 77.8 million in 2020, compared to HRK 113.6 million in 2019.

Other operating result as the sum of other operating income and other operating expense improved from HRK -25.2 million in 2019, by HRK 10.0 million, to HRK -15.2 million in 2020. This position includes the following significant items:

- Deposit guarantee expenses for 2020 decreasing from HRK -21.8 million to HRK -20.5 million;
- Restructuring costs increasing from HRK -13.2 million to HRK -17.9 million connected with cost optimization initiatives;
- Income from services provided to the Addiko Group members remained stable at HRK 24,0 million in both years;
- Gain from sale of non-financial asset increased from HRK 0,9 million in 2019 to HRK 9,2 million in 2020 mostly due to sales of investment properties.

Other result shows positive development from HRK -154.6 million in 2019 to HRK -21.7 million in 2020. High negative result in 2019 was predominantly due to legal provisions mainly driven by the development in relation to legal matters of CHF currency clauses in Croatia.

Operating expenses decreased from HRK -420.2 million in 2019 by HRK 45.0 million or -10.7% to HRK -375.2 million at the current reporting date:

- Personnel expenses declined compared to the previous period from HRK -212.9 million in 2019 to HRK -

185.2 million in 2020. The decrease reflects the efficiency and right sizing programs conducted during 2019 & 2020, which were leading to a decrease of employees at YE 2020 expressed in full-time equivalent ('FTE') by 18,2 compared to YE 2019, with much higher decrease in average FTE (900,8 in 2020 compared to 986,9 in 2019). Furthermore, in the light of the current environment and the hardships faced by many, the Management Board waived any potential annual bonuses for 2020 (2019: HRK -14 million).

- Other administrative expenses decreased from HRK -157.7 million in 2019 by HRK -21.0 million or 13.3% to HRK -136.7 million in 2020. This development was mainly driven by lower advertising costs with marketing campaigns partially cancelled as a result of Covid-19 (2020: HRK -12.5 million, 2019: HRK -20.9 million) as well as lower premises expenses (2020: HRK -35.4 million, 2019: HRK -43.5 million).
- Depreciation and amortization slightly increased from HRK -49.7 million in 2019, by HRK -3.7 million, to HRK -53.4 million in 2020.

Expected credit losses on financial assets amount to HRK -125.6 million (2019: HRK -25.4 million). The result for 2020 was significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

Taxes on income amounted to HRK -55.7 million (2019: HRK -2.9 million) as a result of changes in temporary differences and reversal of recognition of deferred taxes on tax losses carried forward resulting in an expense of HRK -46.6 million. This impact is connected with the fact that the tax loss carried forward expired in 2020.

7.2. Detailed analysis of the statement of financial position

in HRK million

	31.12.2020	31.12.2019	Change (%)
Cash reserves	4,228.4	2,879.1	46.9%
Financial assets held for trading	133.5	126.7	5.4%
Loans and receivables	9,417.8	10,236.4	-8.0%
Loans and advances to credit institutions	404.4	63.8	533.9%
Loans and advances to customers	9,013.3	10,172.6	-11.4%
Investment securities	3,457.1	4,234.6	-18.4%
Tangible assets	240.7	300.2	-19.8%
Intangible assets	79.3	51.7	53.4%
Tax assets	34.4	84.4	-59.2%
Current tax assets	0.0	0.0	0.0%
Deferred tax assets	34.4	84.4	-59.2%
Other assets	64.3	51.2	25.6%
Non-current assets and disposal groups classified as held for sale	4.1	5.1	-19.6%
Total assets	**17,659.6**	**17,969.3**	**-1.7%**

The statement of financial position of Addiko Bank shows the simple and solid interest-bearing asset structure: more than 50% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds. Regarding the statement of financial position, Bank's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is reflected by the increased share of these two segments of 58.0% of the gross performing loan book (YE19: 56.6%).

As of YE20 the total assets of Addiko Bank in the amount of HRK 17,659.6 million decreased by HRK -309.7 million or -1.7% compared with the YE19 level (HRK 17,969.3 million). The total risk, i.e. risk-weighted assets including credit, market and operational risk, (Basel III considering IFRS 9 transitional arrangements) decreased to HRK 9,784.4 million (YE19: HRK 11,438.1 million) reflecting the decreases of volumes and the relief measures introduced in CRR as response to Covid-19.

Cash reserve increased by HRK 1,349.3 million to HRK 4,228.4 million as of 31 December 2020 (YE19: HRK 2,879.1 million) which reflects strong liquidity position of the Bank.

Financial assets Held for trading remained almost unchanged on YE 2020 compared to YE 2019 (HRK 126.7 million at YE19 vs. HRK 133.5 million at YE20). Named portfolio is fully invested in plain vanilla government bonds in order to insure high level of liquidity and transparency.

Overall **loans and receivables** decreased to HRK 9,417.8 million from HRK 10,236.4 million at year end 2019:

- Loans and receivables to credit institutions (net) increased by HRK 340.6 million to HRK 404.4 million (YE19: HRK 63.8 million). Named increase is mainly induced by reduction of Investment securities in foreign currencies.
- Loans and receivables to customers (net) decreased by HRK -1,159.3 million to HRK 9,013.3 million (YE19: HRK 10,172.6 million). The change was mainly in the non-focus segments with Mortgage Business and Large Corporate and Public Finance decreasing from HRK 4,329.0 million at year-end 2019 to HRK 3,724.6 million, which could not be compensated by the new disbursements in the focus segments, Consumer and SME lending, decreasing to HRK 5,142.3 million (YE19: HRK 5,642.6 million).

The **investment securities** decreased from HRK 4,234.6 million at YE19 to HRK 3,457.1 million at YE20. Portfolio is largely invested in high rated government and financial institution bonds and has average duration of less than five years. To ensure high levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets decreased to HRK 34.4 million (2019: HRK 84.4 million) as a result of the changes in temporary differences and reversal of deferred tax assets on tax losses carried forward due to the fact that tax loss carried forward expired in 2020.

Other assets increased slightly to HRK 64.3 million (YE19: HRK 51.2 million). The main amounts in this position are related to Other remaining assets (YE20: HRK 32.5 million; YE19: HRK 19.0 million) mostly coming from receivables from card business.

in HRK million

	31.12.2020	31.12.2019	Change (%)
Financial liabilities held for trading	13.0	8.9	46.1%
Financial liabilities measured at amortised cost	14,509.8	14,623.5	-0.8%
Deposits of credit institutions	80.6	143.9	-44.0%
Deposits of customers	12,915.5	12,949.2	-0.3%
Borrowings	351.1	347.2	1.1%
Subordinated debt	1,044.9	1,031.9	1.3%
Other financial liabilities	117.6	151.3	-22.3%
Provisions	195.8	237.1	-17.4%
Other liabilities	85.8	81.0	5.9%
Total liabilities	**14,804.3**	**14,950.5**	**-1.0%**
Equity			
Share capital	2,558.9	2,558.9	0.0%
Legal and other reserves	133.1	138.2	-3.7%
Revaluation reserve	0.0	10.2	-100.0%
Fair value reserve	76.1	91.8	-17.1%
Accumulated profit	87.1	219.6	-60.3%
Total equity	**2,855.2**	**3,018.7**	**-5.4%**
Total liabilities and equity	**17,659.6**	**17,969.3**	**-1.7%**

On the liabilities' side, **financial liabilities measured at amortized cost** slightly decreased at HRK 14,509.8 million compared to HRK 14,623.5 million at year end 2019:

- Deposits of credit institutions decreased from HRK 143.9 million at YE19 to HRK 80.6 million as of YE20;
- Deposits of customers remained stable at HRK 13,266.6 million (YE19: HRK 13,296.4 million). The strong deposit base demonstrates client confidence in the Bank;
- Other financial liabilities decreased from HRK 151.3 million at YE19 to HRK 117.6 million at YE20.

Provisions decreased from HRK 237.1 million at YE19 to HRK 195.8 million at YE20. The development was primarily influenced by provisions for legal cases as well as the payout of the bonus 2019, whereas no bonus provision was built for 2020.

Other liabilities increased slightly from HRK 81.0 million at YE19 to HRK 85.8 million in YE20 and mainly include liabilities related to card business and accruals for services received but not yet invoiced.

The development of **equity** from HRK 3,018.7 million at YE19 to HRK 2,855.2 million at YE20 is mainly the result of profit after tax realized throughout 2020, a dividend payment in the amount of HRK 224.6 million and effects of sale or revaluation of financial assets measured at fair value through other comprehensive income.

7.3. Capital and liquidity Requirement

The Banks capital and liquidity ratios strengthened further in 2020 despite the challenging economic conditions.

The capital base of the Bank is made up of CET1 and T2 capital instruments and stands at 28.6% (YE19: 26.2%), well above the Overall Capital Requirements of 17.3% based on the SREP decision and applied capital buffers valid on 31st December 2020. The increase in the total capital adequacy derives mainly from the RWA reduction, driven by the lower volumes generated during 2020 as well to the RWAs measures introduced by the EU as response to Covid-19. Total capital decreased by HRK 199 million during the reporting period, reflecting mainly amortization of Tier 2 capital during 2020 and removal of deferred tax asset. Tier 2 amortization decreased total capital in amount of HRK 205.5 million while other changes are not significantly material.

The 2020 SREP assessment has been performed by the CNB 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 4.3%.

The liquidity position of the Bank remains strong, with LTD ratio (net) of 67.9% (YE19: 76.5%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Bank.

Additionally, in the last quarter of 2020, the Bank initiated the procedure of reducing the current Tier II Capital. Simultaneously with the (partial) early return of Tier II Capital, the Bank would increase its regulatory capital by issuing a qualifying Additional Tier I Capital instrument (corporate bond) in the amount of EUR 40 million to be subscribed by Addiko Bank AG. Also, in parallel with the increase in Additional Tier I Capital, and in order to meet the MREL requirements, the Bank plans to contract EUR 30 million of a new Tier II instrument. In this scenario, the Bank plans to return the remaining EUR 68 million of the existing Tier II Capital to Addiko Bank AG, which subject to prior agreement with the CNB.

These changes in the capital structure, planned increases together with the expected movement of risk-weighted assets of the Bank, indicate an increase in capital adequacy ratios to the levels above 30%. Also, these changes indicate that the Bank would meet the expected MREL requirements based on the current planned capital values (based on the current SREP rate, in accordance with the SRB calculation methodology).

8. Analysis of non-financial key performance indicators

8.1. Human Resources Management

The objective of the Human Resources Function is to elevate People Management, supporting the business to deliver the Straightforward Banking Strategy through our employees.

The Bank in 2020 continues its cultural and business transformation. Our culture is constantly evolving, reflecting our principles of trust, integrity and clear performance orientation, fostering through 3 behaviours - Accountability, Collaboration, Execution.

In 2020 we focused to empower our leaders to lead the change, reinforcing employee engagement and strengthening our values and behaviours. Besides people management, one of the most important goal of our leaders is the strong focus on sound corporate governance, ensuring compliance with the regulatory framework in all our processes and daily activities.

In 2020 HR's focus was on employees - implementing effective workplace measures such as social distancing and Covid-19 health and safety measures as well as supporting the transition to work from home for many employees. There was also a large focus on transitioning the education curriculum to online. Over 100 training sessions were redesigned and offered online to ensure employee skills and competencies remained in focus.

Addiko Bank is committed to building a diverse and inclusive work force regardless of gender, nationality, religion, national origin, age. In 2020, Addiko Bank implemented the Diversity Strategy for Management and Supervisory Board for next 3 years, confirming our commitment to building a diverse and inclusive workforce.

At year-end 2020, Addiko Bank had 897 FTE (number of active employees expressed as full-time equivalent), which is a decrease compared to the previous period (2019: 915 FTE). In 2020 Addiko Bank was awarded the Employer Partner Certificate and the 'Excellence in Challenging Times' award. Through these two certifications, the Bank was recognized for having high standards and focus on employee management processes. In Croatia in 2020, fewer than 50 companies were awarded these two certificates. Addiko Croatia, through the Group HR Central Steering Function, continue to support other Addiko Banks to elevate their standards in Human Resources management.

9. Internal Control System for accounting procedures -

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

The aim of Addiko Bank's internal control system 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 organisational 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 relevant rules and regulations.

The particular objectives with regard to Addiko Bank 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 is built on a process-oriented approach. Addiko Bank deploys control activities through process documentation which incorporates the tracking and documentation of 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 Addiko Bank's daily activities 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 organisation that emphasizes and demonstrates to all levels of personnel the importance of internal controls.

10. Consolidated non-financial report

In line with the EU regulation Addiko Bank fully complies with the Directive 2014/95/EU and the rules on disclosure of non-financial and diversity information. The Bank operates and manages social and environmental related topics by continuously developing its responsible approach to business. Accordingly, the Bank's non-financial report includes policies it implemented in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity. The non-financial report is prepared as a consolidated independent report and is published online on Addiko Group's website www.addiko.com.

11. Research & Development

Addiko Bank does not conduct any research and development activities.

12. Outlook 2021

The Covid-19 pandemic brought about high levels of uncertainty that does not merely make it extremely difficult to forecast future developments, but detrimentally affects business decisions of private agents and policy responses in attempt of adjusting to new unexpected outcomes. This has a potential to threaten the ability of debtors to service their loans and to have difficulties to anchor their expectations, likely leading to a rise in tensions on the financial markets. 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 utilization could hamper investment, contributing to fear of dampened economic activity even without lock-down measures renewed.

In general, a relatively firm and uniform bounce-back is expected by the second half of 2021, bringing annual rate of growth of up to 5,0% for Croatia. The medium-term outlook will bring marginal slowing of this pick-up 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.

Bank's performance is inextricably linked to the health of the economy in Croatia. Hence, concurrently with the modest growth expectations Addiko Bank expects that the activity on new loan generation will start to recover 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. On the other hand, the Bank's cost discipline will assure that the operating expenses for 2021 will continue on the downwards trend of the past years.

Additionally, 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.

From the liquidity perspective Addiko Bank continues to hold a very strong position and the impacts of the pandemic did not cause any material liquidity outflows.

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

Zagreb, 4 March 2021
Addiko Bank d.d. Zagreb

MANAGEMENT BOARD

Mario Žižek
President of the Management Board

Ivan Jandrić
Member of the Management Board

Dubravko-Ante Mlikotić
Member of the Management Board

Joško Mihić
Member of the Management Board

Financial Statements

I. Statement of comprehensive income

Statement of profit or loss

in HRK million

	Note	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	(28)	512.8	560.3
Other interest income	(28)	5.1	9.6
Interest expenses	(28)	-76.2	-88.7
Net interest income		**441.7**	**481.2**
Fee and commission income	(29)	198.9	229.7
Fee and commission expenses	(29)	-37.9	-39.3
Net fee and commission income		**161.0**	**190.4**
Net result on financial instruments	(30)	77.8	113.6
Other operating income	(31)	38.6	29.2
Other operating expenses	(31)	-53.8	-54.4
Operating income		**665.3**	**759.9**
Personnel expenses	(32)	-185.2	-212.9
Other administrative expenses	(33)	-136.7	-157.7
Depreciation and amortisation	(34)	-53.4	-49.7
Operating expenses		**-375.2**	**-420.2**
Operating result		**290.1**	**339.6**
Other result	(35)	-21.7	-154.6
Expected credit losses on financial assets	(36)	-125.6	-25.4
Result before tax		**142.8**	**159.6**
Tax on income	(37)	-55.7	-2.9
Result after tax		**87.1**	**156.7**
thereof attributable to equity holders of parent		87.1	156.7

	31.12.2020	31.12.2019
Result after tax attributable to ordinary shareholders (in HRK million)	87.1	156.7
Weighted-average number of ordinary shares at 31 December (in units of shares)	1,248,243.0	1,248,243.0
Earnings per share (in HRK)	69.8	125.6
Weighted-average diluted number of ordinary shares at 31 December (in units of shares)	1,248,243.0	1,248,243.0
Diluted earnings per share (in EUR)	69.8	125.6

Statement of other comprehensive income

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Result after tax	**87.1**	**156.7**
Other comprehensive income	**-26.0**	**65.5**
Items that will not be reclassified to profit or loss	**-7.6**	**6.4**
Tangible assets	-10.2	0.1
Net change	-12.5	0.2
Income Tax	2.2	0.0
Non-current assets and disposal groups classified as held for sale	0.0	-3.0
Net change	0.0	-3.6
Income Tax	0.0	0.7
Fair value reserve - equity instruments	2.7	9.3
Net change in fair value	3.3	11.3
Income Tax	-0.6	-2.0
Items that may be reclassified to profit or loss	**-18.4**	**59.0**
Fair value reserve - debt instruments	-18.4	59.0
Net change in fair value	17.9	113.8
Net amount transferred to profit or loss	-40.3	-41.8
Income Tax	4.0	-13.0
Total comprehensive income for the year	**61.1**	**222.2**
thereof attributable to equity holders of parent	61.1	222.2

II. Statement of financial position

in HRK million

	Note	31.12.2020	31.12.2019
Assets			
Cash reserves	(38)	4,228.4	2,879.1
Financial assets held for trading	(39)	133.5	126.7
Loans and receivables		9,417.8	10,236.4
Loans and advances to credit institutions	(40)	404.4	63.8
Loans and advances to customers	(40)	9,013.3	10,172.6
Investment securities	(41)	3,457.1	4,234.6
Tangible assets		240.6	300.2
Property, plant and equipment	(42)	232.9	283.5
Investment property	(42)	7.8	16.7
Intangible assets	(43)	79.3	51.7
Tax assets		34.4	84.4
Current tax assets		0.0	0.0
Deferred tax assets	(37)	34.4	84.4
Other assets	(45)	64.3	51.2
Non-current assets and disposal groups classified as held for sale	(46)	4.1	5.1
Total assets		**17,659.6**	**17,969.3**
Liabilities			
Financial liabilities held for trading	(47)	13.0	8.9
Financial liabilities measured at amortised cost		14,509.8	14,623.5
Deposits of credit institutions	(48)	80.6	143.9
Deposits of customers	(48)	12,915.5	12,949.2
Borrowings	(48)	351.1	347.2
Subordinated debt	(48)	1,044.9	1,031.9
Other financial liabilities	(48)	117.6	151.3
Provisions	(49)	195.8	237.1
Other liabilities	(50)	85.8	81.0
Total liabilities		**14,804.4**	**14,950.6**
Equity			
Share capital	(51)	2,558.9	2,558.9
Legal and other reserves	(51)	133.1	138.2
Revaluation reserve	(51)	0.0	10.2
Fair value reserve	(51)	76.1	91.8
Accumulated profit	(51)	87.1	219.6
Total equity		**2,855.2**	**3,018.7**
Total equity and liabilities		**17,659.6**	**17,969.3**

III. Statement of changes in equity

The statement of changes in equity is presented in 2020 as follows:

in HRK million

	Share capital	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated profit	Total
Equity as at 01.01.2020	**2,558.9**	**138.2**	**10.2**	**91.8**	**219.6**	**3,018.7**
Result after tax	0.0	0.0	0.0	0.0	87.1	87.1
Other comprehensive income	0.0	0.0	-10.2	-15.8	0.0	-26.0
Total comprehensive income	0.0	0.0	-10.2	-15.8	87.1	61.1
Dividends paid	0.0	-5.0	0.0	0.0	-219.6	-224.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 31.12.2020	**2,558.9**	**133.1**	**0.0**	**76.1**	**87.1**	**2,855.2**

The statement of changes in equity is presented in 2019 as follows:

in HRK million

	Share capital	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated profit	Total
Equity as at 01.01.2019	**2,558.9**	**138.2**	**13.1**	**23.5**	**165.0**	**2,898.7**
Result after tax	0.0	0.0	0.0	0.0	156.7	156.7
Other comprehensive income	0.0	0.0	-2.8	68.3	0.0	65.5
Total comprehensive income	0.0	0.0	-2.8	68.3	156.7	222.2
Dividends paid	0.0	0.0	0.0	0.0	-102.4	-102.4
Other changes	0.0	0.0	0.0	0.0	0.2	0.2
Equity as at 31.12.2019	**2,558.9**	**138.2**	**10.2**	**91.8**	**219.6**	**3,018.7**

IV. Statement of cash flows

in HRK million

	2020	2019
Cash reserves at the end of previous period (01.01.)	**2,879.1**	**3,124.2**
Result after tax	**87.1**	**156.7**
Depreciation and amortisation of intangible assets, tangible assets	59.5	81.7
Change in risk provisions on financial instruments	135.3	39.0
Change in provision	26.8	142.9
Gains (losses) from disposals of intangible assets, tangible assets and investment securities	-49.5	-42.6
Investment securities	-40.3	-41.8
Intangible and tangible assets	-9.2	-0.8
Other non-monetary items	-427.8	-486.6
Subtotal	**-168.5**	**-108.8**
Loans and advances to credit institutions and customers	759.3	-192.5
Investment securities	766.8	564.9
Financial assets held for trading	-6.5	-21.2
Other assets	43.8	5.2
Financial liabilities measured at amortised cost	-114.5	-750.6
Financial liabilities held for trading	4.2	4.7
Provisions	-68.2	-33.0
Other liabilities from operating activities	-27.6	-31.3
Payments for taxes on income	0.0	0.0
Interests received	507.7	562.3
Interests paid	-83.8	-104.7
Dividends received	0.2	0.1
Cash flows from operating activities	**1,781.5**	**4.0**
Proceeds from the sale of:	26.3	1.0
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	26.3	1.0
Payments for purchases of:	-59.7	-44.9
Financial investments and participations	0.0	0.0
Tangible assets, investment properties, lease assets and intangible assets	-59.7	-44.9
Other changes	0.0	0.0
Cash flows from investing activities	**-33.4**	**-44.0**
Dividends paid	-224.6	-102.4
Cash flows from financing activities	**-224.6**	**-102.4**
Effect of exchange rate changes	-5.6	6.1
Cash reserves at the end of period (31.12.)	**4,228.4**	**2,879.1**

V. Notes to the financial statements

Company

Addiko Bank d.d. Zagreb is a joint stock company registered in the commercial register of the Commercial Court in Zagreb. The registered office of the Bank is located in Slavonska avenija 6, 10000 Zagreb, Croatia.

The Bank was granted a full banking license by the Croatian National Bank ("CNB") in 1996 and started its banking activities in September 1997.

The Bank is a fully owned by Addiko Bank AG, a fully licensed Austrian parent bank registered in Vienna, Austria, supervised by the Austrian Financial Market Authority and by the European Central Bank. Consolidated reports of the parent company can be found at www.addiko.com.

During 2020 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centres Zagreb and Central Croatia, Dalmatia, Istria and Kvarner and Slavonia and Baranja.

Addiko Bank d.d. Zagreb is a consumer and small and medium-sized enterprises (SME) specialist bank that operates in Republic of Croatia.

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

Accounting policies

(1) Accounting principles and statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Republic of Croatia.

The statutory accounting requirements for banks in the Republic of Croatia are based on the International Financial Reporting Standards as adopted in the EU ("IFRS") and stipulated in the Accounting Act (OG 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020), further amended by:

1. the Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019 and 47/2020); and
2. the bylaws of the Croatian National Bank ("CNB"), which as of 31 December 2020 include but are not limited to:
    - the Decision on Classification of Exposure to Risk Groups and the Method of Determining Credit Losses (OG 114/2017 and 110/2018); and
    - the Decision on the obligation to make provisions for legal proceedings against a credit institution (OG 1/2009, 75/2009 and 2/2010).

The Bank has applied the statutory accounting requirements for banks in the Republic of Croatia to all periods presented in these financial statements.

The requirement to maintain minimum of 0.8% of the total impairment for performing exposures (Stage 1 and Stage 2), stipulated in the transitional provision of the CNB's Decision on Classification of Exposure to Risk Groups and the Method of Determining Credit Losses (OG 114/2017 and 110/2018), expired with 1 January 2020. See note (58) disclosing the financial effect of this change as the most significant change in comparison to prior period statutory accounting requirements.

In the Bank's assessment, the closing balances as at 31 December 2020, disclosed in the Statement of Financial Position prepared under the statutory accounting requirements for banks in the Republic of Croatia, are aligned to the recognition and measurement criteria of IFRS.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in IFRS, reference may be made to certain Standards in describing the accounting policies of the Bank, with appropriate disclosure of amounts.

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (64) Analysis of remaining maturities.

The financial statements are prepared on a going concern basis which assumes the Bank will continue its business operations in the foreseeable future. Regarding estimates and assumptions according to IAS 1, please refer to note (5) Use of estimates and assumptions/material uncertainties in relation to estimates.

The same estimates, judgments, accounting policies and methods of computation are followed in the financial statements as compared with the most recent annual financial statements (with exception of requirement to maintain minimum of 0.8% of the total impairment for performing exposures (Stage 1 and Stage 2) which expired with 1 January 2020).

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

The figures in the financial statements are generally stated in millions of kunas (HRK million); the kuna (HRK) is the reporting currency. The tables shown may contain rounding differences.

On 4 March 2021, the Management Board of Addiko Bank d.d. Zagreb approved the financial statements as at 31 December 2020 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2020.

(2) Changes in the presentation of the financial statements

In order to improve comparability of financial statements within Addiko Group and achieve common standards in presentation, starting with the year 2020, Addiko Bank d.d. Zagreb implemented new Annual Report layout.

Within the implementation process the Bank has reviewed all the Financial statements and identified that certain changes in presentation are necessary in the Statement of profit and loss and Statement of financial position in order to increase the transparency and to provide more relevant information, enabling at the same time greater comparability. This changes in presentation had no impact on the "Result after tax" as well as on the "Total comprehensive income for the year" of the Bank.

Main changes in presentations in Statement of profit or loss are explained below:

- Presentation of interest income was split in two positions: "Interest income calculated using the effective interest method" and "Other interest income". Position "Other interest income" mainly relates to interest income from "Financial assets held for trading". Until year-end 2019, total interest income was presented in one position "Interest income";
- "Net trading income", "Net investment income" and "Net foreign exchange differences" are shown into new position "Net result on financial instruments". Until year-end 2019, they were presented under the stated separate positions;
- "Other administrative expenses" and "expenses for legal cases not covered by provisions" are shown into new position "Other result". Until year-end 2019, they were presented under the line "Other operating expenses";
- "Impairment on non-financial assets" and "allocation of provisions on legal cases" are shown into new position "Other result". Until year-end 2019, they were presented under the line "Other impairment losses and provisions";
- "Restructuring provisions" and "provisions connected with obligations for closed accounts" are shown into position "Other operating expenses". Until year-end 2019, they were presented under the line "Other impairment losses and provisions";
- "Depreciation of investment properties" is shown in position "Other operating expenses". Until year-end 2019, it was presented under the line item "Depreciation";

Main changes in presentations in Statement of financial position are explained below:

- the positions "Current accounts and deposits from banks" and "Current accounts and deposits from customers" are renamed into "Deposits of credit institutions" and "Deposits of customers". Deposits of Housing savings banks are reclassified from "Deposits of customers" into "Deposits of credit institutions";
- "Lease liabilities under IFRS 16" and "Liabilities related to card business" are shown into new position "Other financial liabilities". Until year-end 2019, they were presented under the line "Other liabilities";
- "Provisions for unused vacation days" are shown into position "Other liabilities". Until year-end 2019, they were presented under the line "Provisions";

The result of the implementation led to reclassification of certain positions in the financial statements, as disclosed hereunder:

Statement of profit or loss

in HRK million

Position 2019 reclassified	2019 reclassified	Reclassification	2019 reported	Position 2019 reported
Interest income calculated using the effective interest method	560.3	-9.5	569.8	Interest income
Other interest income	9.6	9.6	0.0	-
Interest expenses	-88.7	0.0	-88.7	Interest expense
Net interest income	**481.2**	**0.1**	**481.1**	**Net interest income**
Fee and commission income	229.7	0.0	229.7	Fee and commission income
Fee and commission expenses	-39.3	0.0	-39.3	Fee and commission expense
Net fee and commission income	**190.4**	**0.0**	**190.4**	**Net fee and commission income**
Net result on financial instruments	113.6	113.6	0.0	-
-	0.0	-33.1	33.1	Net trading income
-	0.0	-75.4	75.4	Net investment income
-	0.0	-5.6	5.6	Net foreign exchange differences
Other operating income	29.2	-0.7	29.8	Other operating income
Other operating expenses	-54.4	151.5	-205.9	Other operating expenses
Operating income	**759.9**	**150.4**	**609.5**	**Operating income**
Personnel expenses	-212.9	10.9	-223.8	Personnel expenses
Other administrative expenses	-157.7	-157.7	0.0	-
Depreciation and amortisation	-49.7	-49.7	0.0	-
-	0.0	36.9	-36.9	Depreciation
-	0.0	13.0	-13.0	Amortization
Operating expenses	**-420.2**	**-146.5**	**-273.7**	**Operating expenses**
Operating result	**339.6**	**3.9**	**335.8**	**Operating result**
Other result	-154.6	-154.6	0.0	-
-	0.0	147.8	-147.8	Other impairment losses and provisions
Expected credit losses on financial assets	-25.4	3.0	-28.4	Net impairment loss on financial assets
Result before tax	**159.6**	**0.0**	**159.6**	**Result before tax**
Tax on income	-2.9	0.0	-2.9	Tax on income
Result after tax	**156.7**	**0.0**	**156.7**	**Result after tax**
thereof attributable to equity holders of parent	156.7	0.0	156.7	thereof attributable to equity holders of parent

Statement of financial position

in HRK million

Position 2019 reclassified	2019 reclassified	Reclassification	2019 reported	Position 2019 reported
Assets				**Assets**
Cash reserves	2,879.1	0.0	2,879.1	Cash and balances with Croatian National Bank
Financial assets held for trading	126.7	4.3	122.4	Trading assets
-	0.0	-4.3	4.3	Derivative financial assets
Loans and receivables	10,236.4	0.0	10,236.4	Loans and receivables
Loans and advances to credit institutions	63.8	0.0	63.8	Loans and receivables from banks
Loans and advances to customers	10,172.6	0.0	10,172.6	Loans and receivables from customers
Investment securities	4,234.6	0.0	4,234.6	Investment securities
Tangible assets	300.2	0.0	300.2	Tangible assets
Property, plant and equipment	283.5	0.0	283.5	Property and equipment
Investment property	16.7	0.0	16.7	Investment property
Intangible assets	51.7	0.0	51.7	Intangible assets
Tax assets	84.4	0.0	84.4	Tax assets
Current tax assets	0.0	0.0	0.0	Current tax assets
Deferred tax assets	84.4	0.0	84.4	Deferred tax assets
Other assets	51.2	0.0	51.2	Other assets
Non-current assets and disposal groups classified as held for sale	5.1	0.0	5.1	Non-current assets and disposal groups classified as held for sale
Total assets	**17,969.3**	**0.0**	**17,969.3**	**Total assets**
Liabilities				**Liabilities**
Financial liabilities held for trading	8.9	8.9	0.0	-
-	0.0	-8.9	8.9	Derivative financial liabilities
Financial liabilities measured at amortised cost	14,623.5	14,623.5	0.0	-
Deposits of credit institutions	143.9	27.4	116.5	Current accounts and deposits from banks
Deposits of customers	12.949,2	-27,4	12,976.6	Current accounts and deposits from customers
Borrowings	347,2	0,0	347.2	Borrowings
Subordinated debt	1,031.9	0.0	1,031.9	Subordinated debt
Other financial liabilities	151.3	151.3	0.0	-
Provisions	237.1	-3.6	240.7	Provisions
Other liabilities	81.0	-147.7	228.8	Other liabilities
Total liabilities	**14,950.6**	**0.0**	**14,950.6**	**Total liabilities**
Equity				**Equity**
Share capital	2,558.9	0.0	2,558.9	Share capital
-	0.0	-156.7	156.7	Profit for the year
Accumulated profit	219.6	156.7	62.9	Retained earnings/(accumulated losses)
-	0.0	-240.3	240.3	Reserves
Legal and other reserves	138.2	138.2	0.0	-
Revaluation reserve	10.2	10.2	0.0	-
Fair value reserve	91.8	91.8	0.0	-
Total equity	**3,018.7**	**0.0**	**3,018.7**	**Total equity**
Total liabilities and equity	**17,969.3**	**0.0**	**17,969.3**	**Total liabilities and equity**

(3) Application of new standards and amendments

Only new standards, interpretations and their amendments that are relevant for the business of the Bank are listed below. The impact of all other standards, interpretations and their amendments not yet adopted is not expected to be material.

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

Standard	Name	Description	Effective for financial year
Conceptual Framework	Amendments to Conceptual Framework	Amendments to references to Conceptual Framework in IFRS Standards	2020
IAS 1 and IAS 8	Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	New definition of materiality	2020
IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9 Financial instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures	Interest rate benchmark reform - Phase 1	2020
IFRS 3	Amendments to IFRS 3 Business Combinations	Amendments to definition of business	2020
IFRS 16	Amendments to IFRS 16 Leases	Covid 19-Related Rent Concessions	from June 2020

3.1. Conceptual Framework

Proposal:
The **Conceptual Framework 2018** version have been issued in March 2018 by the International Accounting Standards Board (IASB). Some Standards included references to the 1989 and 2010 versions of the Framework. Therefore, IASB has published a separate document *Amendments to references to Conceptual Framework in IFRS Standards* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments are effective for accounting periods beginning on or after 1 January 2020. This amendment does not have any significant impact on the Bank.

3.2. IAS 1 and IAS 8

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

3.3. IFRS 9, IAS 39 and IFRS 7

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

3.4. IFRS 3

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

3.5. IFRS 16

The amendments to **IFRS 16 Leases** (Covid-19-Related Rent Concessions) provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Bank chose not to apply the practical expedient.

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU were not yet effective and were not early adopted by the Bank:

Standard	Name	Description	Effective for financial year
IFRS 9, IAS 37, IFRS 7, IFRS 4 and IFRS 16	Amendments to IFRS 9 Financial Instruments; IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases	Interest rate benchmark reform - Phase 2	2021

The amendments to **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** deal with replacement issues affecting financial reporting when an existing interest rate benchmark depending on submissions based on expert judgement are actually replaced by risk free rates based on liquid underlying market transactions. Practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis) was introduced. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued because of the IBOR reform.

Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. The amendment introduces new disclosures about the transition.

The Bank has exposure to IBORs on its financial instruments that will be reformed. Although some of the IBORs were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. The Bank is in process of amending or preparing to amend contractual terms for the existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rate, for example the incorporation of fallback provisions and establishing pricing for new products in response to IBOR reform. The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves, revision of operational controls related to the reform and assessing of potential litigation risk. Financial risk is predominantly limited to interest rate risk. The Bank plans to finish the process of amending contractual terms by the end of the year 2021.

The amendment applies to annual reporting periods beginning on or after 1 January 2021 and are to be applied retrospectively. Earlier application is permitted and restatement of prior period is not required.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU:

Standard	Name	Description
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current
IAS 8	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Definition of accounting estimates
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual Improvements to IFRS Standards 2018-2020 Cycle	IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture - removing inconsistencies and clarifying wording
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts
IFRS 10, IAS 28	Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments

The amendments to **IAS 1** clarify the requirements for classifying liabilities as current or non-current. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments will not result in any significant changes for the Bank.

The amendments to **IAS 8** clarifies the distinction between the accounting estimates and accounting policies. The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Bank doesn't expect any significant changes due to these amendments.

The collection of **annual improvements to IFRSs 2018-2020** includes amendments to the following standards:
- The amendments to **IFRS 1** permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent´s date of transition to IFRSs.
- The amendments to **IFRS 9** clarify which fees an entity includes when it applies to "10 percent" test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other´s behalf.
- The amendment to **IFRS 16** only regards changes in illustrative example 13 (no effective date is stated).
- The amendments to **IAS 41** remove the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The amendments apply to annual reporting periods beginning on or after 1 June 2022. Earlier application is permitted. These amendments will not result in any significant changes for the Bank.

The amendments to **IFRS 3** update outdated references in IFRS 3 without significantly changing its requirements.
The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes for the Bank.

The amendments to **IFRS 16** relate to revenue incurred before an item of property, plant and equipment is ready for use. Costs for test runs to check whether an item of property, plant and equipment is functioning properly continue to be directly attributable costs. If goods are already produced as part of such test runs, both the income from their sale and their production costs must be recognized in profit or loss in accordance with the relevant standards. It is therefore no longer permissible to offset the net proceeds against the cost of the item of property, plant and equipment.
The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes for the Bank.

The amendments to **IAS 37** clarify which costs should be considered as costs of fulfilling the contract when assessing whether a contract is onerous. Costs of fulfilling a contract comprise the costs that relate directly to the contract. They can be incremental costs of fulfilling a contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments will not result in any significant changes for the Bank.

The amendments to **IFRS 10** and **IAS 28** clarify the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments. The amendment effective date deferred indefinitely until the research project on the equity method has been concluded.

(4) Standards used for comparative periods

For the reporting period ending 31 December 2020, there was no replacement of Standards which were effective in the reporting period ending 31 December 2019, except as stated in Note (1).

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

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

Credit risk provisions
Provisions are calculated fully in line with the international accounting standard for financial instruments (IFRS 9). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelvemonth expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.

For Stage 1, Stage 2 and Stage 3 (collective impairment) fully statistical models are applied to determine the parameters used wherever possible and plausible. These models rely on internal historical and / or external market available data. Methodologies are based on in-ternal already available credit risk models while being adapted to be fully IFRS 9 compliant.

Additionally, the Bank regularly assesses the recoverability of its problematic loans and recognises corresponding risk provisions in case of individually significant impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions. The model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis.

In estimating impairment losses on items individually assessed as impaired, the Bank also takes into consideration the ranges of specific impairment loss rates prescribed by the CNB.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (15) Financial instruments as well as to the Risk Report under note (58) Development of risk provisions.

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

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

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

For further details regarding the measurement of financial instruments, see note (15) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (69) 69.1 Fair value of financial instruments carried at fair value. The carrying amount of the financial instruments is included in note (40) Loans and receivables as well as note (41) Investment securities.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans. For further details regarding tax loss carried forward please refer to note (37) Taxes on income.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details on provisions are presented in note (49) Provisions.

Lease contracts
The application of IFRS 16 requires the Bank to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by the Bank comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option. If there is a significant event or significant changes in circumstances within the Bank's control, the lease terms are reassessed, especially with regards to extension or termination options. For lease contracts with indefinite term the Bank estimates the length of the contract by using planning models.

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

For further details regarding the treatment of leasing contracts please refer to note (9) Leases.

(6) Accounting topics affected by Covid-19

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

Both, public moratoria and voluntarily granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies on contractual modifications of financial assets apply accordingly. That means that for financial instruments not measured at FVTPL, that are subject to contractual modifications which do not result in derecognition, the gross carrying amount of the asset is adjusted by recognising a modification gain or loss in the profit or loss statement. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the statement of profit or loss, the modification gain or loss is presented in the line "Other result". Contractual modifications would only lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument if the modified terms are substantially different from the original terms.

Based on the set of criteria which assess if a modification is significant, described in the Note "15.3. Derecognition and contract modification", an analysis was conducted by the Bank which led to the result that the public moratoria and payment holidays applied in the year 2020 in the Bank did not lead to derecognition.

In particular this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase.

(7) Foreign currency transactions

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the balance sheet at the reporting dates were as follows:

31 December 2020	1 EUR = HRK 7.536898	1 USD = HRK 6.139039	1 CHF = HRK 6.948371
31 December 2019	1 EUR = HRK 7.442580	1 USD = HRK 6.649911	1 CHF = HRK 6.838721

(8) Revenue from contract with customers

Under the core principle of **IFRS 15** “Revenue from Contracts with Customers” model, the Bank recognises revenue when the contractual obligation has been fulfilled, i.e. the control over the goods and services has been transferred. In doing so, revenue is to be recognised at the amount an entity expects to be entitled to as a consideration. IFRS 15 does not apply to leases within the scope of IFRS 16, insurance contracts within the scope of IFRS 4, financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Consequently, interest income as well as dividend income are not within the scope of the revenue recognition standard. The Bank primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15.
Bank derives its revenue from contracts with customers for the transfer of services over time and at a point in time.

(9) Leases

9.1. Leases in which the Bank is a lessee

At inception of a contract entered into the Bank assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset throughout the period of use, and whether the Bank has the right to direct the use of the asset.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Addiko Bank also assess the right of use asset for impairment in accordance with IAS 36 Impairment of assets when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Banks´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the “right-of-use” approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value when new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the Bank elected to recognise such lease contracts off the statement of financial position and lease expenses are accounted on straight-line basis over the remaining lease term.

IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient.

Lease payments generally include fixed payments less lease incentives and variable payments that depend on an index or an interest rate. Prolongation options, termination options and purchase options are also considered (see note (5) “Use of estimates and assumptions/material uncertainties in relation to estimates”), and also the amounts expected to be payable under a residual value guarantee have to be included in the measurement of lease liability.

Recognising right of use assets on the assets side of the statement of financial position, and the corresponding lease liabilities on the equity and liabilities side, leads to an increase in total assets/equity and liabilities. Since only liabilities increase on the equity and liabilities side and all other items remain the same, the equity ratio decreases. Profit and loss is also impacted. The total amount of the expenses charged over the term of the lease remains the same, but temporal distribution and allocation to different parts of profit and loss change. Pursuant to IFRS 16 expenses are to be split between interest expenses and depreciation. As interest expenses are calculated based on the effective interest method and decrease over the term of the lease, but depreciation is generally carried out on a straight-line basis, this results in a degressive development of expenses with a shift of expenses into the earlier periods of the term. Interest expenses are to be reported under the Net interest income. Additionally, since the annual depreciation of right of use assets under IFRS 16 is lower than the lease rates and all other items remain the same, the operating expenses will decrease.

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

Lease incentives are recognised as part of the measurement of right of use assets and lease liabilities. In the statement of cash flows, interest payments and the redemption of lease liabilities are presented under cash flows from operating activities.

9.2. Leases in which the Bank is a lessor

Lessor accounting depends on which party bears the material opportunities and risks in the lease asset.

For the classification and recognition of leases as a lessor (as finance or operating lease), the economic effect of the lease contract prevails over the legal ownership of the leased asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Under operating leases, the lessor presents the leased assets at cost less scheduled depreciation over the useful life of the asset and less any impairment loss.

9.3. Presentation in the financial statements

The Bank as a lessee presents the right of use assets in the line item "Property, plant and equipment" in tangible assets in the statement of financial position. Lease liabilities are presented in the line item "Other financial liabilities" in the statement of financial position. Depreciation charge for the right of use assets are presented in the line item "Depreciation and amortisation" in the statement of profit or loss. The interest expense on lease liabilities is presented in the line item "Interest expenses" in the statement of profit or loss.

The Bank as a lessor in an operating lease, with the exception of real estate, presents the leased assets in the line "Property, plant and equipment" in tangible assets. Ongoing lease payments, gains and losses on disposal as well direct operating expenses are reported under the line item “Other operating income” or "Other operating expense", scheduled depreciation under “Depreciation and amortisation” and impairment under “Other result”. Real estate leased under an operating lease is reported in the statement of financial position under the line item “Investment properties” in tangible assets. Ongoing lease payments, gains and losses on disposal, direct operating expenses and scheduled depreciation are reported under the line item “Other operating income” or "Other operating expense” and impairment under “Other result”.

With regards to the presentation in the Cashflow Statement, lessees must present short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities. Cash paid for the interest portion of lease liability must be presented as either operating activities or financing activities. The Bank has chosen to include the interest paid as well as cash payments for the principal portion as part of operating activities.

(10) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the bank by weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares and increasing the weighted average number of ordinary shares outstanding by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

During 2020 and 2019 there were no share dilution effects.

(11) Net interest income

For all financial instruments measured at amortised cost as well as interest-bearing financial assets measured at fair value through other comprehensive income and non-trading financial assets measured at fair value through profit or loss, interest income and interest expenses are recorded based on the effective interest rate.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance. The gross carrying amount of financial asset is the amortised cost of financial asset before adjusting for any loss allowance. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability. The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (with the exception of purchased or originated credit-impaired financial assets where the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves).

Interest income from assets held for trading, as well as interest components of derivatives are presented in “net interest income”. Changes in clean fair value resulting from trading assets and liabilities are presented in “net result on financial instruments”.

Negative interest from financial assets and financial liabilities is presented in “net interest income”.

Dividend income is recognised at the time that a legal right to payment arises.

(12) Net fee and commission income

Fee and commission income and expense (other than those that are integral part of effective interest rate on a financial asset or financial liability are included in the effective interest rate) are accounted for in accordance with IFRS 15 Revenue from contracts with customer and are reported in “net fee and commission income”.

In accordance with IFRS 15, income is recognised when the Bank satisfies a performance obligation by transferring a promised service to a customer. It must be probable that the Bank will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms, but without taking into account taxes or other levies.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees that are not an integral part of the effective interest rate of a financial instrument, guarantee fees, commission income from custody and other management and advisory fees, as well as fees from insurance brokerage and certain foreign exchange transactions. Conversely, fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

Other fee and commission expenses relate mainly to transaction and service fees which are expensed as the services are received.

(13) Net result on financial instruments

Net result on financial instruments held for trading includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realized gains and losses from derecognition, the result from trading in securities and derivatives and foreign exchange gains and losses on monetary assets and liabilities. The Bank has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income, expense and dividends, which are presented in “net interest income”.

Net result on financial instruments at fair value through other comprehensive income and financial liabilities at amortised cost includes all gains and losses from derecognition.

(14) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities as restructuring expenses or income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the Single Resolution Fund).

(15) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. For this reason, the classes have been defined according to those items in the statement of financial position which contain financial instruments in accordance with **IFRS 9** Financial Instruments.

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

15.1. Classification and measurement

Business models

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition, if it belongs to the following category:

- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above.

In the infrequent case that the entity changes its business model for managing certain financial assets, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity, infrequent sales triggered by a non-recurring event and frequent insignificant sales are not considered as contradicting the held to collect business model.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets and features that modify consideration for the time value of money.

Significant areas of judgements are unilateral changes in margins and interest rates, prepayment clauses, other contingent payment features, project financing and benchmark test for loans with interest mismatch features.

The SPPI compliance is assessed as follows:

- The assessment of unilateral changes of margins and interest concluded that passing on costs related to the basic lending agreement, clauses designed to maintain a stable profit margin, and changes of the interest rate reflect the worsening of the credit rating, but are not SPPI harmful.
- The prepayment clauses are not critical if the prepaid amount reflects the outstanding principal, interest and fees associated with the early redemption. The prepayment fee has to be smaller than the loss of interest margin and loss of interest.
- Other contingent payment features are typically side business clauses. The penalty represents the increased costs for risk monitoring or the reimbursement of lost profit which is associated with the triggering event.
- Project financing was assessed whether there is a reference to the performance of the underlying business project. If there is no such reference and the borrower has adequate equity for the project to absorb losses before affecting ability to meet payments on the loan, it may pass the SPPI test.
- Loans with floating interest rates can contain interest mismatch features (fixation date is before the start of the period, reference rate's tenor is different to the rate reset frequency, etc.). To assess whether the time value of money element of interest has been significantly modified (whether the interest mismatch feature could result in contractual undiscounted cash flows that are significantly different from benchmark deal), a quantitative benchmark test has to be performed.

When performing the benchmark test, at the initial recognition, contractual undiscounted cash flows of financial instrument are compared with the benchmark cash flow, i.e. contractual undiscounted cash flows that would arise if the time value of money element was not modified. The effect of the modified time value of money element is considered in each reporting period and cumulatively over the lifetime of the financial instrument. The benchmark test is based on a range of reasonable scenarios. The appropriate comparable benchmark financial instrument is the one with the same credit quality and the same contractual terms except for the modification, either real existing or hypothetical asset. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different (10% threshold) from the (undiscounted) benchmark cash flows (either periodical or cumulative), the financial asset does not meet the condition in the IFRS 9 paragraphs 4.1.2(b) and 4.1.2A(b) and therefore cannot be measured at amortised cost or at FVTOCI.

During 2019 and 2020, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

Classification and measurement of financial assets and financial liabilities

Financial assets

Based on the entity's business model and the contractual cash flow characteristics the Bank classifies financial assets in the following categories:

- A financial asset is measured at amortised cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows to sell them and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- Financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

A financial asset is recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.

Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measurement, the asset must be held within a "held to collect" business model.

On initial recognition, a financial asset is classified into one of the categories set out below, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Subsequent measurement is determined by the classification category.

Financial assets at amortised costs
A financial asset is classified and subsequently measured at amortised costs, if the financial asset is held in a hold to collect business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount and adjusted for any impairment allowance. Interest income is presented in the line "Interest income calculated using the effective interest rate method". Impairment is presented in the line "Expected credit losses on financial assets". The major volume of financial assets of the Bank are measured at amortised cost.

Financial assets at fair value through other comprehensive income
A financial asset is classified and subsequently measured at fair value through other comprehensive income, if the financial asset is held in a hold to collect and sell business model and the contractual cash flows are SPPI compliant. Financial assets are measured at fair value with any movements being recognised in other comprehensive income and are assessed for impairment under the new expected credit loss (ECL) model.

Interest income is presented in the line "Interest income calculated using the effective interest rate method". Impairment is presented in the line "Expected credit losses on financial assets". The difference between fair value and amortised cost is presented in "Fair value reserve" in the statement of changes in equity. The changes in fair value during the reporting period for debt instruments are presented in the line "Fair value reserve - debt instruments" in the statement of other comprehensive income. Gains and losses from derecognition are presented in the line "Net result on financial instruments".

For equity instruments that are not held for trading, the Bank can make an irrevocable election at initial recognition to classify the instruments at FVTOCI. This election is available for each separate investment. All subsequent changes in fair value are presented in the line "Fair value reserve - equity instruments" in the statement of other comprehensive income without recycling in the statement of profit or loss.

The Bank has designated at FVTOCI investments a certain portfolio of equity instruments. This presentation alternative was chosen because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose these investments in the short or medium term.

Financial assets at fair value through profit or loss
A financial asset that is held for trading or that does not fall into the hold to collect nor hold to collect and sell business models shall be assigned into the other business model and is measured at fair value through profit or loss. In addition, the Bank may use option to designate some financial assets as measured at FVTPL. Interest income and dividend income are presented in the line "Other interest income". Gains and losses from revaluation and derecognition are presented in the line "Net result on financial instruments". In addition, any financial instrument for which the contractual cash flow characteristics are not SPPI compliant must be measured in this category, even if held in a hold to collect or hold to collect and sell business model. Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

- *Financial assets designated at fair value through profit or loss*
  At initial recognition, the Bank may irrevocably designate a financial asset that would otherwise be measured subsequently at amortised costs or FVTOCI, as measured at FVTPL, if such designation eliminates or significantly reduces a recognition and measurement inconsistency (i.e. "accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on a different basis. Currently there is not such case in the Bank.
- *Financial assets mandatorily at fair value through profit or loss*
  Financial assets are classified in this category if their cash flows are not SPPI compliant or they are held as part of residual business models that are other than held for trading.

Equity instruments that are held for trading as well as equity instruments that are not held for trading (and they were not designated at FVTOCI at initial recognition) are measured at FVTPL.

Held for trading - A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

When modification or exchange of financial liability measured at amortised cost that does not result in the derecognition is performed, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities designated at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. The Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2020 and 2019.

There were no changes to the Bank´s business model during 2020 and 2019.

The Bank has not designated any hedge accounting relationships in the current or in the previous year.

15.2. Impairment

While applying the forward-looking ECL model, the Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

The lifetime ECL is the expected present value of losses that arise if borrowers' default on their obligations at some time during the complete maturity of the financial assets with simultaneous consideration of probabilities of default as well as credit losses (loss given default).

Overview ECL calculation

The Bank determines an ECL amount on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X). The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual scenarios. The Bank calculates in total three outcomes: Base case, optimistic case and pessimistic case while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks (see chapter Forward-looking information).

The observed period and the applied parameters within the ECL calculation depend on the maturity of the transaction, the IFRS 9 stage of the transaction and the macro scenario applied. For stage 1 the up to one year expected credit loss has to be considered while for stage 2 and 3 the expected lifetime loss has to be recognised.

The PD (probability of default) parameters reflects the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank's internal model development unit. Generally, the models are based on Bank's internal data and segment specifics whenever possible and plausible. For certain parts of the portfolio, where no significant internal data is available, Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodology wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

EAD (exposure at default) is an estimate of the exposure including repayments of principal and interest and expected drawdowns on committed facilities. EAD is specified as the gross carrying amount at time of default while using the effective interest rate to discount cash flows to a present value at the reporting date. In cases where no contractual maturity is given, quantitative and/or qualitative criteria are applied for determining cashflow structure (e.g. frames).

LGD (loss given default) is an estimate of the economic loss under condition of a default. For the LGD parameter in retail an internally developed statistical model on segment level is applied (secured and unsecured portfolio). For Corporate a simplified approach is chosen: Addiko Bank uses expertly determined overall LGD values in that segment. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

In addition to the generalized ECL calculation based on internal estimated risk parameters/methodology a portfolio approach is applied for certain circumstances which cannot be appropriately differently considered within the general framework while being relevant for the reporting date. These aspects are related but not limited to data availability and quality, model/parameter weaknesses, limited timeseries and/or time lags in data. A formalized approach is defined to ensure a consistent and sound application within the overall calculation logic.

Significant increase in credit risk

The Bank measures ECL in three stages as the deterioration in credit quality takes place. Namely, for stage 1 up to 12-month ECL is reported and for stage 2 and 3 the full lifetime expected credit loss is recognised.

Stage 1 begins as soon as a financial instrument is originated and up to 12-month ECL are recognised as an expense and a loss allowance is established. For financial assets, interest revenue is calculated by applying the effective interest rate on the gross carrying amount. Unless its credit quality changes, the same treatment applies every time until its maturity.

When credit quality is deemed to deteriorate significantly asset is moved into stage 2, referring to Bank's staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted. Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated by applying the effective interest rate to the amortised cost (i.e. gross carrying amount adjusted for the loss allowance.) Regulatory default definition according to CRR (Capital Requirement Regulation) Article 178 of Regulation (EU) No. 575/2013 is followed:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

Addiko Bank uses the definition of default according to CRR Article 178, as this is the industry standard and it allows consistency between risk management processes. The determination that a financial asset is credit-impaired / defaulted is achieved through the tracking of default criteria defined in the Default detection and recovery policy.

For the ECL calculation the Bank classifies transactions in the different stages based on qualitative and quantitative criteria. Those are determined both by the standard itself as well as by internal analyses which are undertaken across countries and portfolios types. The staging indicators are classified as follows.

Qualitative staging criteria:

- 30 days past due: the Bank identifies a staging criterion trigger when contractual payments are more than 30 days past due.
- Forborne exposures: are those exposures where the Bank has extended forbearance measures because of the debtor facing financial difficulties. Forbearance events may result in an exposure being classified as performing or non-performing which implies a stage transfer into stage 2 or 3.

Further qualitative criteria in connection with the watchlist/early warning systems are reflected in the PD /rating of the client, via the automatic downgrade (as incorporated within the rating models and processes) or as a specific stage trigger depending on the portfolio type (all prescribed by internal acts).

Quantitative criteria are applied based on the probability of default, namely significant adverse changes in the 12-months probability of default at the reporting date compared to the initial recognition of the exposure with significance being assessed by different thresholds of PD changes for different portfolios. These thresholds are regularly evaluated from a qualitative and/or quantitative point of view to ensure reasonable stage criteria (see chapter "Validation"). In addition, for some parts of the portfolios leverage is applied as an additional stage criterion to reflect changes in exposure caused by macro-economic circumstances which were not foreseeable at initial recognition and/or are not directly reflected in the PD at the reporting date. Due to limited timeseries there are cases where the rating at origination is not available. For such cases, a simplified proxy approach based on historically simulated ratings is used (PD at certain point in time is used as a proxy for the initial recognition) while additional mechanisms are applied to account for potential adverse effects resulting from this assumption.

Both, the qualitative and quantitative factors used for the staging determination are undergoing a constant validation and monitoring process to ensure their appropriateness and applicability over time (see chapter “Validation”).

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk. These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production, inflation, import growth rate, export growth rate. All variables incorporated are reflecting local country and local portfolio specifics.

Forecast of these economic variables are regularly evaluated and updated. The input data for the forecasts is collected from external data sources. An extensive internal check and (if needed) adjustment is performed to make sure that forecasts reflect Bank's view on future outcomes. This includes also different future scenarios and their probabilities. These scenarios are the baseline economic scenario, the optimistic and pessimistic scenario forecast and probability weights for each of them. The forecasted parameters are consistently used for various bank internal processes.

The forward-looking statements contained in this report are based on current estimates, assumptions and projections of the Bank as well as currently available public information. They are not guaranteeing future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the current results or performance to be materially different from those that may be expressed or implied by such statements.

Validation

The methodology and the assumptions undertaken in the ECL calculation are embedded in the internal validation process. This means that models/methodologies are constantly undertaken a quality review and an improvement process. The validation standards applied are formalized upfront in a way to ensure a consistent evaluation over time. The validation is generally performed on an annual base.

The Bank distinguishes between an initial and an ongoing validation:
- An initial validation is performed in case of a new model development, major changes in the existing methodology and/or significant shifts in the values.
- Ongoing validations represent the regular review of the existing methodology (when no initial validation was performed).

In addition to the yearly process a close monthly monitoring is undertaken to ensure that portfolio and model developments are timely identified while already raised findings are timely tackled.

The validation is performed by the local independent unit which delivers reports to local MB and Group responsible departments.

Write-offs

When the Bank has no reasonable expectations of recovery, a write-off event occurs. A write-off constitutes a derecognition event (either in full or in part) typically triggered by concessions given to borrowers in significant financial difficulties and/or by the Bank's judgment that it is no longer reasonable to expect any recovery of that amount.

Write-off can be done only against already recognised ECL. The amount written off can be either a full write-off or a partial write-off.

Write-off can be triggered by different criteria which can include unsecured and secured financial asset and needs to consider all proceedings that Bank can take (legal or internal). Therefore, in cases where financial asset for which the

Bank's right to claim repayment from the debtor in judicial or other proceedings has been terminated by approval of compulsory settlement or any other triggers defined for financial assets that are treated as non-recoverable will lead to executing write-off procedures.

15.3. Derecognition and contract modification

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired, or
- The Bank transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement,
- Bank has either: (i) transferred substantially all risks and rewards connected with ownership of the asset, or (ii) has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows.

Significant modifications leading to derecognition of financial assets
If the contractual cash flows of a financial asset are modified or renegotiated substantially, it results in derecognition (due to expiry of contractual rights to the cash flows) of that financial asset. A new financial asset with modified terms is recognised and the difference between the amortised cost of derecognised financial asset and the fair value of the new financial asset is reported in the profit or loss statement. If the borrower is not in default or the significant modification does not lead to default, then the new asset will be classified in stage 1. If the borrower is in default or the modification leads to the derecognition of the original financial asset and to the origination of a new financial asset at a deep discount that reflects the incurred credit losses, then the new asset will be treated as purchased or originated credit impaired (POCI) at initial recognition. For POCI financial assets no loss allowances are recognised and lifetime ECLs are reflected in the credit adjusted effective interest rate at initial recognition. Subsequently, the amount of change in lifetime ECLs since the initial recognition of POCI financial asset should be recognised as an impairment gain or loss in profit or loss. Even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition, favorable changes in lifetime ECLs have to be recognised as an impairment gain.

The following main criteria result in significant modifications:

- Quantitative - significant change of the contractual cash flows when the present value of the cash flows under the new terms is discounted using the original effective interest rate and differs from the discounted present value of the original financial instrument for at least 10%.
- Qualitative:
    - change of debtor,
    - currency change,
    - change of the purpose of financing,
    - SPPI critical features are removed or introduced in the loan contract.

Insignificant modifications not leading to derecognition of financial assets
If the contractual cash flows of financial asset are modified or renegotiated in such a way that does not result in the derecognition of that financial asset, entities should recalculate the gross carrying amount of the financial asset on the basis of the renegotiated or modified contractual cash flows using initial effective interest rate for discounting. A modification gain or loss would be recognised in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(16) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognise the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognises a receivable.

(17) Fiduciary transactions

Fiduciary transactions concluded by the Bank in its own name but on account of a third party are not reported in the statement of financial position according to IFRS. Commission fees are included in the net fee and commission income in profit or loss.

(18) Commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

Financial guarantees are contracts that oblige the Bank to make compensation payments to the guarantee holder for losses incurred. Such losses arise if a certain debtor does not meet the payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value including transaction costs directly related to the guarantee issued. Initial measurement is the premium received and this amount is subsequently amortised to fee income. Liabilities are subsequently measured at the higher of the amount of ECL provision and the amortised balance of initially recognised premium.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the IFRS 9 ECL model requirements.

(19) Cash reserves

Cash and cash equivalents comprise cash, cash balances at central banks that are daily due, deposits that are daily due, as well as the minimum reserve. These amounts are stated at amortised costs. Debt instruments issued by public authorities eligible for refinancing at central banks are not shown in this item but, depending on their measurement category, are shown as financial assets.

(20) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (9) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. The following depreciation rates and expected useful lives are used:

Depreciation rate	in percent	in years
for immovable assets (buildings)	2 - 5 %	25 - 50 yrs
for movable assets (plant and equipment)	10 - 25 %	4 - 10 yrs

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that they can be let or sold separately, material parts of mixed-use properties that are used by third parties are also treated as investment property.

Investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

Scheduled depreciation on property, plant and equipment used by the Bank is reported separately under depreciation and amortisation in the income statement. Scheduled depreciation on investment property is reported separately under "other operating expenses" in the income statement. Gains and losses on disposal of property, plant and equipment and investment properties are reported under "other operating income" or "other operating expenses".

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. Impairment or reversal of impairment, if any, is reported under the item “Other result”. If the reasons for the impairment cease to exist, the previously recognised impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

(21) Intangible assets

Software as well as prepayments made on intangible assets are reported under intangible assets. These assets are measured at cost less amortisation.

Scheduled amortisation is recorded on a straight-line basis over the expected useful life and reported under depreciation and amortisation. The following amortisation rates and expected useful lives are used:

Amortisation rate or useful life	in percent	in years
for software	14 - 50%	2 - 7 yrs

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “Other result”.

(22) Tax assets and tax liabilities

Current and deferred income tax assets and liabilities are jointly reported in the statement of financial position under “tax assets” and “tax liabilities”. Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realized. Deferred tax is charged or credited in the statement of profit or loss and statement of the comprehensive income respectively.

The Bank’s tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amount reported in the annual financial statements could be changed at a later date upon final determination by the tax authorities.

(23) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.

Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

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

Pursuant to IFRS 5, an asset (or a disposal group) held for sale is classified as such if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Essential conditions that, cumulatively fulfilled, result in such a classification pursuant to IFRS 5.7 and 5.8 are:

- Immediate availability, i.e. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets,
- Commitment to a plan to sell the asset, active search to locate a buyer,
- High probability of sale,
- Sale within a period of twelve months.

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement. For detailed information, please refer to note (46) Non-current assets and disposal groups classified as held for sale.

(25) Provisions

25.1. Provisions for employee benefits

According to the Addiko Group's Remuneration Policy and local Bank's Remuneration Policy, the provisions for employee benefits are defined/confirmed on the Addiko Group level based on Bank's impact to Addiko Group's result. The distribution of the provisions is regulated by local Bank's Remuneration Policy.

25.2. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item "Expected credit losses on financial assets".

25.3. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected. For disclosure of restructuring expenses, see note (31) Other operating income and other operating expenses.

25.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

(26) Other liabilities

This item includes deferred income and non-financial liabilities that due to their nature could not be classified in specific balance sheet item.

(27) Equity

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Share (registered) capital represents the amounts paid in by shareholders in accordance with the articles of association.

The legal reserve has been created in accordance with the Croatian Companies Act, which requires 5% of the net profit for the year to be transferred to this reserve, until it reaches 5% of issued share capital. Legal reserve can be used for covering prior period losses if the losses are not covered by current year profits or if other reserves are not available. The legal reserve is not distributable to the shareholders.

Other reserves are created in accordance with the General assembly decision and can be used for purposes defined by the law or the General assembly decision. In addition, direct capital contributions are presented in this position.

Fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

The cumulative result includes the accumulated profits generated by the Bank with the exception of the share of profit to which external parties are entitled.

Notes to the profit or loss statement

(28) Net interest income

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	**512.8**	**560.3**
Financial assets at amortised cost	458.7	497.3
Financial assets at fair value through other comprehensive income	53.4	62.5
Negative interest from financial liabilities	0.6	0.5
Other interest income	**5.1**	**9.6**
Financial assets held for trading	4.9	9.5
Dividend income	0.2	0.1
Other assets	0.0	0.0
Total interest income	**517.9**	**569.9**
Financial liabilities measured at amortised cost	-65.5	-80.3
o/w lease liabilities	*-1.4*	*-1.5*
Financial liabilities held for trading	-6.6	-6.3
Negative interest from financial assets	-3.8	-1.7
Other liabilities	-0.3	-0.4
Total interest expense	**-76.2**	**-88.7**
Net interest income	**441.7**	**481.2**

Interest expense of financial liabilities measured at amortised cost in the amount of HRK -65.5 million (YE19: HRK -80.3 million) includes expenses of HRK -12.7 million (YE19: HRK -24.6 million) related to customer deposits.

Interest income break down by instrument and sector as follows:

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**2.9**	**7.5**
Debt securities	**55.5**	**64.5**
Governments	45.5	53.2
Non-financial corporations	6.2	6.0
Credit institutions	3.1	4.7
Other financial corporations	0.6	0.6
Loans and advances	**458.8**	**497.3**
Households	341.2	359.7
Non-financial corporations	100.7	117.2
Governments	16.4	18.0
Credit institutions	0.4	1.3
Other financial corporations	0.2	1.1
Other assets	**0.2**	**0.1**
Negative interest from financial liabilities	**0.6**	**0.5**
Non-financial corporations	0.4	0.0
Credit institutions	0.2	0.5
Total	**517.9**	**569.9**

Interest expenses break down by instrument and sector as follows:

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives - Trading	**-6.6**	**-6.3**
Deposits	**-14.0**	**-28.3**
Households	-12.7	-24.6
Non-financial corporations	-0.8	-3.0
Governments	-0.2	-0.4
Other financial corporations	-0.2	-0.2
Credit institutions	0.0	-0.1
Subordinated debt	**-44.9**	**-44.3**
Credit institutions	-44.9	-44.3
Other liabilities	**-1.7**	**-2.0**
Negative interest from financial assets	**-3.8**	**-1.7**
Central banks	-2.0	-0.9
Credit institutions	-1.8	-0.8
Loans and advances	**-5.3**	**-6.2**
Governments	-5.0	-6.0
Credit institutions	-0.2	-0.2
Central banks	-0.1	0.0
Total	**-76.2**	**-88.7**

(29) Net fee and commission income

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Transactions	65.8	80.4
Accounts and Packages	63.9	56.0
Cards	24.2	32.6
FX & DCC	5.3	11.3
Securities	19.4	20.1
Bankassurance	7.7	11.7
Loans	3.9	4.9
Trade finance	7.0	8.1
Other	1.6	4.6
Fee and commission income	**198.9**	**229.7**
Cards	-16.0	-14.6
Transactions	-11.4	-13.0
Client incentives	-0.6	-1.1
Securities	-3.2	-2.8
Accounts and Packages	-1.0	-1.2
Loans	-1.7	-1.7
Bancassurance	-2.0	-2.3
Other	-1.9	-2.6
Fee and commission expenses	**-37.9**	**-39.3**
Net fee and commission income	**161.0**	**190.4**

(30) Net result on financial instruments

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Held for trading financial instruments	37.8	38.7
o/w exchange difference	*-13.9*	*5.6*
o/w gain or losses on financial instruments	*51.8*	*33.1*
Non trading financial assets	-0.4	33.6
Financial assets at fair value through other comprehensive income	40.3	41.8
Financial assets at amortised cost	0.0	-0.5
Total	**77.8**	**113.6**

Result from Non trading financial assets relate to financial assets mandatorily measured at fair value through profit or loss. Result from Financial assets at fair value through other comprehensive income relate to Debt securities.

30.1. Gains or losses on financial instruments held for trading, net - by instrument

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Derivatives	-5.8	-6.0
Debt securities	-1.1	2.2
Short positions	58.6	36.8
Total	**51.8**	**33.1**

30.2. Gains or losses on financial assets and liabilities held for trading, net - by risk

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest rate instruments and related derivatives	-3.0	-6.0
Foreign exchange trading and derivatives related to foreign exchange and gold	55.8	36.9
Credit risk instruments and related derivatives	0.0	0.0
Other	-1.1	2.2
Total	**51.8**	**33.1**

(31) Other operating income and other operating expenses

Other operating income and other operating expenses - net

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Deposit guarantee	-20.5	-21.8
Recovery and resolution fund	-5.8	-5.3
Banking levies and other taxes	-7.3	-7.4
Restructuring expenses	-17.9	-13.2
Net result from sale of non-financial assets	9.2	0.8
Net result from sale of assets classified as held for sale and disposal groups	0.0	0.6
Result from operate lease assets	2.6	1.3
Result from other income and other expenses	24.5	19.8
Total	**-15.2**	**-25.3**

Other operating income and other operating expenses - gross

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Other operating income	**38.6**	**29.2**
Release of provisions for legal cases	0.0	0.0
Gain from sale of non-financial assets	9.2	0.9
Income from operating lease assets	2.6	1.3
Income from assets classified as held for sale and disposal groups	0.0	0.8
Income from services provided to the Addiko Group members	24.0	24.0
Other income	2.8	2.2
Other operating expenses	**-53.8**	**-54.4**
Restructuring expenses	-17.9	-13.2
Losses from sale of non-financial assets	0.0	0.0
Expense from assets classified as held for sale and disposal groups	0.0	-0.2
Recovery and resolution fund	-5.8	-5.3
Deposit guarantee	-20.5	-21.8
Banking levies and other taxes	-7.3	-7.4
Other expenses	-2.3	-6.4
Total	**-15.2**	**-25.3**

The line item “Restructuring expenses” in the amount of HRK -17.9 million (2019: HRK -13.2 million) includes cost optimization initiatives in the Bank.

(32) Personnel expenses

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Wages and salaries	-128.0	-136.1
Social security	-25.2	-27.2
Expenses for pensions	-30.4	-32.4
Variable payments	-1.2	-18.8
Voluntary social expenses	-2.2	-2.2
Expenses for employee benefits	0.0	0.0
Other personnel expenses	-0.2	0.1
Income from release of other employee provisions	2.2	3.7
Total	**-185.2**	**-212.9**

The Bank applied extreme moderation with regard to variable remuneration in line with ECB expectations. The Bank will not payout any annual bonus for 2020. For employees, who have direct contact with customers (in particular employees working in branches and customer service) an incentive was paid as appreciation for the work done under difficult circumstances following the earthquake in Zagreb in the midst of the Covid-19 pandemic.

As at 31 December 2020 and 2019, the Bank had 963 and 1,059 employees, respectively.

(33) Other administrative expenses

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
IT expense	-59.6	-59.0
Premises expenses (rent and other building expenses)	-35.4	-43.5
Advertising costs	-12.5	-20.9
Legal and advisory costs	-7.5	-8.4
Other administrative expenses	-21.7	-26.0
Total	**-136.7**	**-157.7**

The external auditor has during the year provided audit and other non-audit services to the Bank. The fee for the audit and non-audit service provided during 2020 amounted to EUR 182,500 and refer to the following: audit of the Bank's financial statements, audit of the group reporting package, audit and other service provided for the purpose of mandatory reporting to Croatian National Bank and Croatian Financial Services Supervisory Agency and services over the Report on relations with related parties. Services provided during the year represent allowable non-audit services in accordance with the EU Regulation.

(34) Depreciation and amortisation

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Property, plant and equipment	-37.0	-36.7
o/w right of use assets	*-19.4*	*-19.2*
Intangible assets	-16.4	-13.0
Total	**-53.4**	**-49.7**

(35) Other result

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Net result from legal provision and legal income/expense	**-10.6**	**-123.0**
Release of provisions for legal cases and income from legal cases	17.3	16.6
Allocation of provisions for passive legal cases and legal costs	-27.9	-139.7
Result from assets classified as held for sale and disposal groups	**-0.9**	**-1.6**
Reversal of impairment	0.0	0.0
Impairment	-0.9	-1.6
Impairment / reversal of impairment on non-financial assets	**-7.2**	**-30.0**
Reversal of impairment	0.9	0.0
Impairment	-8.1	-30.0
Modification gains/losses	**-3.0**	**0.0**
Total	**-21.7**	**-154.6**

The net amount of HRK -10.6 million provisions for legal cases mainly relate to disputes with business partners and customers. During 2020 the additional provisions for legal cases were significantly lower compared with the previous reporting period which included provisions for legal risks in connection with development in relation to legal matters on CHF currency clauses in Croatia. No further disclosures according to IAS 37.92 are made in order to protect the Bank's position in these legal disputes.

For further details concerning legal risk, please refer to note (62.2) Legal risk.

The line item "Impairment on non-financial assets" included in 2019 impairment of intangible assets, which was driven by the outcome of a group wide project to assess future economic benefit of certain IT applications. In 2020, a significantly lower impairment loss was recognized in this context.

The Covid-19 debt payment moratorium imposed by Croatian government determined the recognition of HRK -3.0 million modification loss.

(36) Expected credit losses on financial assets

Expected credit losses on financial assets on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Change in CL on financial instruments at FVTOCI	**-3.1**	**5.8**
Change in CL on financial instruments at amortised cost	**-123.3**	**-34.2**
Net allocation to risk provision	-130.5	-41.7
Proceeds from loans and receivables previously impaired	9.7	13.6
Directly recognised impairment losses	-2.5	-6.1
Other changes	0.0	0.0
Net allocation of provisions for commitments and guarantees given	**0.8**	**3.0**
Total	**-125.6**	**-25.4**

Expected credit losses in 2020 were significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies. The requirement to maintain minimum of 0.8% of the total impairment for performing exposures (Stage 1 and Stage 2), stipulated in the transitional provision of the CNB's Decision on Classification of Exposure to Risk Groups and the Method of Determining Credit Losses (OG 114/2017 and 110/2018), expired with 1 January 2020. See note (58) disclosing the financial effect of this change as the most significant change in comparison to prior period statutory accounting requirements.

For 2019, for performing part of portfolio, the Bank recognized an ECL release for Stage 1 and Stage 2 in accordance with the CNB requirements of HRK 5.5 million (applied CNB minimum of 0.8% for items qualifying for these two stages). On the other hand, for Stage 3 the Bank recognized HRK 31 million of additional risk costs booked during 2019. Largest amount of allocations observed in Stage 3 is coming from one corporate medium client. The positive development of the risk provisions (releases) is mainly effected by successful debt sale of retail secured portfolio and "forward flow" sale transactions for retail unsecured portfolio, together with constant restructuring measures, refinancing by other banks, as well as to settlement agreements within the Retail Segment.

(37) Taxes on income

in HRK million

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax	0.0	0.0
Deferred tax	-55.7	-2.9
Total	**-55.7**	**-2.9**

The reconciliation from expected income tax to the effective tax is as follows:

in HRK million

	31.12.2020	31.12.2019
Result before tax	**142.8**	**159.6**
Theoretical income tax expense based on Republic of Croatia corporate tax rate of 18%	-25.7	-28.7
Tax effects		
Tax effect of non-taxable income	0,5	0.4
Tax effect of non-deductible costs	-3.2	-3.2
Utilization of loss carried forward	19.4	56.4
Deferred tax on losses from prior years carried forward	-46.6	-27.7
Actual income tax	**-55.7**	**-2.9**
Effective tax rate	39.0%	2.0%

37.1. Deferred tax assets/liabilities

In the financial year, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS values with regard to the following items:

in HRK million

	2020			2019		
	Deferred Tax (netted)	Income statement	Other comprehensive income	Deferred Tax (netted)	Income statement	Other comprehensive income
Unrealized losses on derivative financial instruments	2.3	0.4	0.0	1.9	1.5	0.0
Impairment of property and equipment	21.4	-0.1	0.0	21.5	4.8	0.0
Deferred loan origination fees	4.7	-1.5	0.0	6.1	0.4	0.0
Investments in subsidiary impairment	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	2.3	-1.3	0.0	3.6	0.2	0.0
Pending court actions provisions	18.9	-3.7	0.0	22.6	17.9	0.0
Employees provisions	1.6	-2.9	0.0	4.5	0.1	0.0
Tax loss carried forward	0.0	-46.6	0.0	46.6	-27.8	0.0
Fair value of debt instruments at fair value through other comprehensive income	-16.7	0.0	3.5	-20.2	0.0	-15.0
Land and buildings revaluation	0.0	0.0	2.2	-2.2	0.0	0.6
Total deferred tax	**34.4**	**-55.7**	**5.7**	**84.4**	**-2.9**	**-14.4**

The total change in deferred taxes in the financial statements is HRK -50.0 million. Of this, HRK -55.7 million is reflected in the current income statement as deferred tax expense, and an amount of HRK 5.7 million is shown in other comprehensive income in equity.

The development of deferred taxes in net terms is as follows:

in HRK million

	2020	2019
Balance at start of period (01.01.)	**84.4**	**101.7**
Tax income/expense recognised in profit or loss	-55.7	-2.9
Tax income/expense recognised in OCI	5.7	-14.4
Balance at end of period (31.12.)	**34.4**	**84.4**

in HRK million

	2020	2019
Deferred tax assets	34.4	84.4
Deferred tax liabilities	0.0	0.0
Total	**34.4**	**84.4**

The utilisation of the unused tax losses from previous years and their possibility to be carried forward can be seen in the table below:

in HRK million

	31.12.2020.	31.12.2019.
Total tax losses carried forward	**0.0**	**2,122.0**
thereof fully/unlimited utilisable	0.0	0.0
thereof restricted utilisable	0.0	2,122.0
1st following year	0.0	2,122.0

In 2020, deferred tax assets on existing tax loss carry forwards in the amount of HRK 0.0 million (2019: 46.6 million) were recognised and a utilisation of tax loss carried forward of HRK 107.5 million (2019: HRK 313.3 million) was recognised.

Notes to the statement of financial position

(38) Cash reserves

in HRK million

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	380.3	0.0	380.3
Cash balances at central banks	3,663.1	-0.1	3,663.0
Other demand deposits	187.0	-1.9	185.1
Total	**4,230.4**	**-2.0**	**4,228.4**

in HRK million

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves	328.0	0.0	328.0
Cash balances at central banks	2,367.4	-3.0	2,364.4
Other demand deposits	187.2	-0.5	186.7
Total	**2,882.7**	**-3.6**	**2,879.1**

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves.

38.1. Cash reserves at central banks and other demand deposits - development of gross carrying amount

in HRK million

	Stage 1	Stage 2	Total
Gross carrying amount at 01.01.2020	**2,554.6**	**0.0**	**2,554.6**
Changes in the gross carrying amount	1,293.9	1.6	1,295.5
Transfer between stages	-17.9	17.9	0.0
Write-offs	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0
Gross carrying amount at 31.12.2020	**3,830.6**	**19.5**	**3,850.1**

in HRK million

	Stage 1
Gross carrying amount at 01.01.2019	**2,776.8**
Changes in the gross carrying amount	-222.1
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	0.0
Gross carrying amount at 31.12.2019	**2,554.6**

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

in HRK million

	Stage 1	Stage 2	Total
ECL allowance as at 01.01.2020	**-3.6**	**0.0**	**-3.6**
Changes in the loss allowance	2.2	-0.6	1.6
Transfer between stages	0.4	-0.4	0.0
Write-offs	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0
Foreign exchange and other movements	0.1	-0.1	0.0
ECL allowance as at 31.12.2020	**-0.9**	**-1.1**	**-2.0**

in HRK million

	Stage 1
ECL allowance as at 01.01.2019	**-1.2**
Changes in the loss allowance	-1.9
Transfer between stages	0.0
Write-offs	0.0
Changes due to modifications that did not result in derecognition	0.0
Changes in models/risk parameters	0.0
Foreign exchange and other movements	-0.5
ECL allowance as at 31.12.2019	**-3.6**

Total amount of cash reserves at central banks and other demand deposits is considered as low risk business and classified within stage 1 and stage 2 (certain transfers to stage 2 during 2020 are result of worsening of macro forecasts and their implication on PiT PD).

(39) Financial assets held for trading

in HRK million

	31.12.2020	31.12.2019
Derivatives	**7.8**	**4.3**
Debt securities	**125.8**	**122.4**
Governments	125.8	122.4
Total	**133.5**	**126.7**

(40) Loans and receivables

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

40.1. Loans and advances to credit institutions

in HRK million

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	404.6	-0.2	404.4
Credit institutions	404.6	-0.2	404.4
Total	**404.6**	**-0.2**	**404.4**

in HRK million

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	63.9	-0.1	63.8
Credit institutions	63.9	-0.1	63.8
Total	**63.9**	**-0.1**	**63.8**

in HRK million

	Stage 1	Stage 2	Total
Gross carrying amount at 01.01.2020	**63.9**	**0.0**	**63.9**
Changes in the gross carrying amount	340.3	0.4	340.7
Transfer between stages	0.3	-0.3	0.0
Write-offs	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0
Gross carrying amount at 31.12.2020	**404.5**	**0.1**	**404.6**

in HRK million

	Stage 1
Gross carrying amount at 01.01.2019	**2.6**
Changes in the gross carrying amount	61.3
Transfer between stages	0.0
Write-offs	0.0
Foreign exchange and other movements	0.0
Gross carrying amount at 31.12.2019	**63.9**

in HRK million

	Stage 1	Stage 2	Total
ECL allowance as at 01.01.2020	**-0.1**	**0.0**	**-0.1**
Changes in the loss allowance	0.0	0.0	-0.1
Transfer between stages	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0
Changes due to modifications that did not result in de-recognition	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0
ECL allowance as at 31.12.2020	**-0.2**	**0.0**	**-0.2**

in HRK million

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

40.2. Loans and advances to customers

in HRK million

31.12.2020	Gross carrying amount	ECL allowance			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	5,879.3	-25.4	-71.4	-337.9	-18.5	5,426.2
Non-financial corporations	3,562.2	-15.7	-34.6	-319.1	0.0	3,192.8
Other financial corporations	62.9	-0.1	0.0	0.0	0.0	62.8
Governments	333.2	-1.5	-0.2	0.0	0.0	331.6
Total	**9,837.6**	**-42.6**	**-106.1**	**-657.0**	**-18.5**	**9,013.3**

in HRK million

31.12.2019	Gross carrying amount	ECL allowance			POCI	Carrying amount (net)
		Stage 1	Stage 2	Stage 3		
Households	6,269.6	-29.1	-43.8	-281.7	-12.5	5,902.5
Non-financial corporations	4,223.0	-20.8	-9.8	-307.0	0.0	3,885.3
Other financial corporations	47.4	-0.1	0.0	0.0	0.0	47.2
Governments	338.8	-1.1	-0.1	0.0	0.0	337.5
Total	**10,878.7**	**-51.2**	**-53.7**	**-588.7**	**-12.5**	**10,172.6**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**9,661.8**	**368.0**	**799.6**	**49.3**	**10,878.7**
Changes in the gross carrying amount	-882.0	-128.8	-71.0	1.0	-1,080.9
Transfer between stages	-1,109.0	969.6	145.1	-5.7	0.0
Write-offs	-0.2	-0.1	-30.4	-2.7	-33.3
Foreign exchange and other movements	68.4	0.2	1.2	3.4	73.2
Gross carrying amount at 31.12.2020	**7,739.0**	**1,209.0**	**844.4**	**45.3**	**9,837.6**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**9,142.7**	**696.2**	**1,270.5**	**110.4**	**11,219.9**
Changes in the gross carrying amount	559.2	-281.6	-146.1	11.7	143.2
Transfer between stages	-60.4	-46.3	106.7	0.0	0.0
Write-offs	-2.9	-1.3	-436.1	-73.1	-513.3
Foreign exchange and other movements	23.2	1.0	4.5	0.3	29.0
Gross carrying amount at 31.12.2019	**9,661.8**	**368.0**	**799.6**	**49.3**	**10,878.7**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-51.2**	**-53.7**	**-588.7**	**-12.5**	**-706.1**
Changes in the loss allowance	-0.5	-76.1	-47.6	-8.0	-132.2
Transfer between stages	9.3	23.7	-33.0	0.0	0.0
Write-offs	0.1	0.1	28.0	2.7	30.8
Changes due to modifications that did not result in derecognition	0.1	0.0	0.1	0.0	0.2
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	-0.4	-0.1	-15.9	-0.6	-17.1
ECL allowance as at 31.12.2020	**-42.6**	**-106.1**	**-657.0**	**-18.5**	**-824.3**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-41.3**	**-62.3**	**-929.1**	**-111.6**	**-1,144.3**
Changes in the loss allowance	-6.7	-8.5	-11.4	-13.2	-39.8
Transfer between stages	-3.4	16.2	-53.7	40.9	0.0
Write-offs	0.1	0.8	436.1	73.1	510.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.1	0.2	-30.6	-1.7	-32.0
ECL allowance as at 31.12.2019	**-51.2**	**-53.7**	**-588.7**	**-12.5**	**-706.1**

40.3. Loans and advances subject to contractual modifications that did not result in derecognition

The table below shows debt financial instruments measured at amortised costs, assigned to stage 2 or stage 3, that were subject to contractual modification that did not result in derecognition during the reporting period.

in HRK million

	2020		2019	
	Amortised costs before the modification	Net modification gains or losses	Amortised costs before the modification	Net modification gains or losses
Non-financial corporations	39.0	0.0	0.0	0.0
Households	37.4	-0.4	0.0	0.0
Total	**76.4**	**-0.4**	**0.0**	**0.0**

The total gross carrying amount of debt financial assets measured at amortised costs, which were impacted by contractual modifications that did not result in derecognition at a time when they were assigned to stage 2 or stage 3 and reassigned to stage 1 during the year 2020 amounted to HRK 17.8 million as at 31 December 2020 (2019: HRK 0.0 million).

(41) Investment securities

in HRK million

	31.12.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	3,457.1	4,112.7
Mandatorily at fair value through profit or loss (FVTPL)	0.0	121.9
Total	**3,457.1**	**4,234.6**

Investment securities - development of gross carrying amount (Debt Securities)

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**4,075.7**	**0.0**	**0.0**	**0.0**	**4,075.7**
Changes in the gross carrying amount	-655.8	0.0	0.0	0.0	-655.8
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
Gross carrying amount at 31.12.2020	**3,419.9**	**0.0**	**0.0**	**0.0**	**3,419.9**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**4,466.1**	**0.0**	**0.0**	**0.0**	**4,466.1**
Changes in the gross carrying amount	-390.3	0.0	0.0	0.0	-390.3
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
Gross carrying amount at 31.12.2019	**4,075.7**	**0.0**	**0.0**	**0.0**	**4,075.7**

Investment securities - development of ECL allowance

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-1.6**	**0.0**	**0.0**	**0.0**	**-1.6**
Changes in the loss allowance	-3.1	0.0	0.0	0.0	-3.1
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2020	**-4.6**	**0.0**	**0.0**	**0.0**	**-4.6**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-7.4**	**0.0**	**0.0**	**0.0**	**-7.4**
Changes in the loss allowance	5.8	0.0	0.0	0.0	5.8
Transfer between stages	0.0	0.0	0.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-1.6**	**0.0**	**0.0**	**0.0**	**-1.6**

41.1. Fair value through other comprehensive income (FVTOCI)

in HRK million

	31.12.2020	31.12.2019
Debt securities	**3,415.3**	**4,074.1**
Governments	2,502.3	2,911.1
Credit institutions	469.5	764.0
Non-financial corporations	325.4	298.6
Other financial corporations	118.1	100.4
Equity instruments	**41.9**	**38.6**
Non-financial corporations	1.6	1.6
Other financial corporations	40.3	37.0
Total	**3,457.1**	**4,112.7**

The following table shows equity investment securities designated to be measured at FVTOCI and their fair values:

in HRK million

	31.12.2020	31.12.2019
VISA Inc	38.9	35.7
Other equity instruments	2.9	2.9
Total	**41.9**	**38.6**

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

in HRK million

	31.12.2020	31.12.2019
Participation in open investment funds	**0.0**	**121.9**
Other financial corporations	0.0	121.9
Debt securities	**0.0**	**0.0**
Non-financial corporations	0.0	0.0
Total	**0.0**	**121.9**

(42) Tangible assets

in HRK million

	31.12.2020	31.12.2019
Owned property, plant and equipment	**166.8**	**195.4**
Land and buildings	131.4	164.0
Plant and equipment	35.4	31.4
Right of use assets	**66.1**	**88.1**
Land and buildings	53.8	69.7
Plant and equipment	12.3	18.4
Investment property	**7.8**	**16.7**
Total	**240.6**	**300.2**

(43) Intangible assets

in HRK million

	31.12.2020	31.12.2019
Purchased software	79.3	51.7
Other intangible assets	0.0	0.0
Total	**79.3**	**51.7**

(44) Development of tangible and intangible assets

44.1. Development of cost and carrying amounts

in HRK million

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 01.01.2020	**383.1**	**254.4**	**83.1**	**24.1**	**22.0**	**312.3**	**1,078.9**
Additions	3.3	12.4	10.6	0.1	0.1	44.0	70.4
Disposals	-18.0	-7.3	-4.6	-0.8	-13.9	-0.5	-45.1
Other changes	-27.0	0.5	-12.4	0.0	11.0	0.0	-28.0
Acquisition cost 31.12.2020	**341.4**	**259.9**	**76.8**	**23.3**	**19.1**	**355.8**	**1,076.2**
Cumulative depreciation and amortisation 31.12.2020	-210.0	-224.6	-23.0	-11.0	-11.3	-276.5	-756.3
Carrying amount 31.12.2020	**131.4**	**35.4**	**53.8**	**12.3**	**7.8**	**79.3**	**319.9**

Item “Other changes” mainly reflects the change in the model for subsequent measurement of Land and buildings in the amount of HRK -12.0 million and of Investment properties in the amount of HRK -0,5 million, as well as reclassifications from Land and buildings into Investment property asset category. Additionally, the amount of HRK -12.4 million reflects the modification of lease contract resulting in adjustment of Right of use assets.

in HRK million

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 01.01.2019	**377.4**	**295.6**	**0.0**	**0.0**	**10.8**	**316.5**	**1,000.3**
Initial IFRS 16	0.0	0.0	60.2	24.2	0.0	0.0	84.4
Additions	9.5	8.3	2.5	0.0	0.0	27.3	47.7
Disposals	-4.1	-49.7	0.0	0.0	-0.6	-31.6	-85.9
Other changes	0.2	0.2	20.5	-0.1	11.7	0.0	32.5
Acquisition cost 31.12.2019	**383.1**	**254.4**	**83.1**	**24.1**	**22.0**	**312.3**	**1,078.9**
Cumulative depreciation and amortisation 31.12.2019	-219.1	-223.0	-13.4	-5.7	-5.2	-260.6	-727.0
Carrying amount 31.12.2019	**164.0**	**31.4**	**69.7**	**18.4**	**16.7**	**51.7**	**351.9**

44.2. Development of depreciation and amortisation

in HRK million

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Cumulative depreciation and amortisation 01.01.2020	**-219.1**	**-223.0**	**-13.4**	**-5.7**	**-5.2**	**-260.6**	**-727.0**
Disposals	12.7	7.3	4.2	0.3	2.1	0.5	27.2
Scheduled depreciation and amortisation	-9.3	-8.4	-13.8	-5.6	-0.5	-16.4	-53.9
Impairment	-5.3	-0.1	0.0	0.0	-1.1	0.0	-6.5
Write-ups	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Other changes	10.1	-0.5	0.0	0.0	-6.6	0.0	3.0
Cumulative depreciation and amortisation 31.12.2020	**-210.0**	**-224.6**	**-23.0**	**-11.0**	**-11.3**	**-276.5**	**-756.3**

in HRK million

	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Cumulative depreciation and amortisation 01.01.2019	**-210.6**	**-259.1**	**0.0**	**0.0**	**-4.7**	**-256.7**	**-731.1**
Disposals	4.1	49.6	0.0	0.0	0.4	31.6	85.7
Scheduled depreciation and amortisation	-8.8	-8.7	-13.4	-5.7	-0.2	-13.0	-49.9
Impairment	-3.9	-4.7	0.0	0.0	-0.7	-22.5	-31.8
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Cumulative depreciation and amortisation 31.12.2019	**-219.1**	**-223.0**	**-13.4**	**-5.7**	**-5.2**	**-260.6**	**-727.0**

(45) Other assets

in HRK million

	31.12.2020	31.12.2019
Prepayments and accrued income	22.8	20.2
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	9.0	12.0
Other remaining assets	32.5	19.0
Total	**64.3**	**51.2**

Item “Other remaining assets” relates mainly to receivables from card business, items in the course of settlement, security deposits and prepayments to suppliers.

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

In the current reporting period, this position includes real estate assets which are part of a project to dispose non-core assets and are already actively marketed. The sale is expected by the end of the year 2021.

in HRK million

	31.12.2020	31.12.2019
Property plant and equipment	4.1	5.1
Total	**4.1**	**5.1**

(47) Financial liabilities held for trading

in HRK million

	31.12.2020	31.12.2019
Derivatives	13.0	8.9
Total	**13.0**	**8.9**

(48) Financial liabilities measured at amortised cost

in HRK million

	31.12.2020	31.12.2019
Deposits	**12,996.2**	**13,093.1**
Deposits of credit institutions	80.6	143.9
Deposits of customers	12,915.5	12,949.2
Borrowings	**351.1**	**347.2**
Subordinated debt	**1,044.9**	**1,031.9**
Other financial liabilities	**117.6**	**151.3**
o/w lease liabilities	59.8	78.6
Total	**14,509.8**	**14,623.5**

48.1. Deposits of credit institutions

in HRK million

	31.12.2020	31.12.2019
Current accounts / overnight deposits	77.6	140.6
Deposits with agreed terms	3.1	3.3
Repurchase agreements	0.0	0.0
Total	**80.6**	**143.9**

48.2. Deposits of customers

in HRK million

	31.12.2020	31.12.2019
Current accounts / overnight deposits	**10,460.9**	**9,790.6**
Governments	390.9	394.4
Other financial corporations	679.8	610.4
Non-financial corporations	2,354.8	2,311.6
Households	7,035.4	6,474.1
Deposits with agreed terms	**2,454.7**	**3,158.6**
Governments	10.5	11.1
Other financial corporations	456.7	277.4
Non-financial corporations	126.3	168.8
Households	1,861.2	2,701.3
Total	**12,915.5**	**12,949.2**

48.3. Borrowings

in HRK million

	31.12.2020	31.12.2019
Governments	351.1	347.2
Total	**351.1**	**347.2**

48.4. Subordinated debt

in HRK million

	31.12.2020	31.12.2019
Credit institutions	1,044.9	1,031.9
Total	**1,044.9**	**1,031.9**

Subordinated debt is to Addiko Bank AG, Vienna with initial maturity up to 6 years. Repayment of these instruments before the redemption date is possible only under conditions stated in Regulation EU 575/2013 of the European Parliament and of the Council. Repayment of these funds in case of liquidation is subordinated to all other deposits and liabilities.

Subordinated debt is used as supplementary capital for the purpose of calculation of regulatory capital and capital adequacy according to articles 62 to 65 of Regulation (EU) No 575/2013 of the European Parliament and of the Council and CNB regulatory requirements.

(49) Provisions

in HRK million

	31.12.2020	31.12.2019
Pending legal disputes and tax litigation	158.9	177.1
Commitments and guarantees granted	15.6	16.4
Provisions for variable payments	8.7	24.8
Pensions and other post-employment defined benefit obligations	0.0	0.0
Restructuring measures	5.9	12.1
Other long term employee benefits	0.0	0.0
Other provisions	6.7	6.8
Total	**195.8**	**237.1**

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims. During 2020 the additional provisions for legal cases were significantly lower compared with the previous reporting period which included provisions for legal risks in connection with development in relation to legal matters on CHF currency clauses in Croatia. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Addiko Bank’s position in these legal disputes.
For further details concerning legal risk, please refer to note (62.2) Legal risk.

The line item "provision for variable payments" include long-term bonus provision for key management as well as employees. In addition, the Bank has decided to follow the ECB expectation regarding variable remuneration and has not recognized any bonus provision for 20. The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties.

Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason final timing could significantly deviate from original estimate.

49.1. Provisions - development of loan commitments, financial guarantee and other commitments given

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2020	**2,254.4**	**37.4**	**21.4**	**0.0**	**2,313.2**
Changes in the nominal value	-179.7	-22.6	-15.3	0.0	-217.7
Transfer between stages	-87.6	82.5	5.0	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	10.7	-0.1	0.0	0.0	10.6
Nominal value at 31.12.2020	**1,997.8**	**97.2**	**11.2**	**0.0**	**2,106.1**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2019	**2,365.1**	**46.4**	**21.8**	**0.0**	**2,433.3**
Changes in the nominal value	-90.9	-23.7	-8.1	0.0	-122.8
Transfer between stages	-22.6	14.7	7.9	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	2.8	0.0	-0.1	0.0	2.7
Nominal value at 31.12.2019	**2,254.4**	**37.4**	**21.4**	**0.0**	**2,313.2**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-8.3**	**-2.0**	**-6.1**	**0.0**	**-16.4**
Changes in the loss allowance	1.5	-1.6	0.8	0.0	0.8
Transfer between stages	0.5	-0.1	-0.4	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2020	**-6.3**	**-3.6**	**-5.7**	**0.0**	**-15.6**

in HRK million

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-8.4**	**-6.9**	**-4.1**	**0.0**	**-19.3**
Changes in the loss allowance	0.2	4.4	-1.6	0.0	3.0
Transfer between stages	-0.1	0.5	-0.4	0.0	0.0
Write-offs	0.0	0.0	0.0	0.0	0.0
Changes due to modifications that did not result in derecognition	0.0	0.0	0.0	0.0	0.0
Changes in models/risk parameters	0.0	0.0	0.0	0.0	0.0
Foreign exchange and other movements	0.0	0.0	0.0	0.0	0.0
ECL allowance as at 31.12.2019	**-8.3**	**-2.0**	**-6.1**	**0.0**	**-16.4**

49.2. Provisions - development of other provisions

in HRK million

	Carrying amount 01.01.2020	Foreign exchange differences	Alloca-tions	Use	Releases	Other changes	Carrying amount 31.12.2020
Pending legal disputes and tax litigation	177.1	0.0	27.8	-29.3	-16.6	0.0	158.9
Provisions for variable payments	24.8	0.0	0.6	-14.5	-2.2	0.0	8.7
Pensions and other post-employment defined benefit obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring measures	12.1	0.0	17.4	-23.6	0.0	0.0	5.9
Other long term employee benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	6.8	0.0	17.6	0.0	-17.6	0.0	6.7
Total	**220.7**	**0.0**	**63.4**	**-67.4**	**-36.5**	**0.0**	**180.2**

in HRK million

	Carrying amount 01.01.2019	Foreign exchange differences	Alloca-tions	Use	Releases	Other changes	Carrying amount 31.12.2019
Pending legal disputes and tax litigation	68.7	0.0	132.3	-7.8	-16.1	0.0	177.1
Provisions for variable payments	24.0	0.0	18.5	-14.0	-3.7	0.0	24.8
Pensions and other post-employment defined benefit obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring measures	8.8	0.0	11.5	-8.2	0.0	0.0	12.1
Other long term employee benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	6.3	0.0	0.6	0.0	-0.1	0.0	6.8
Total	**107.8**	**0.0**	**162.8**	**-30.0**	**-19.9**	**0.0**	**220.7**

(50) Other liabilities

in HRK million

	31.12.2020	31.12.2019
Deferred income	0.2	0.2
Accruals	23.6	28.0
Other liabilities	62.0	52.8
Total	**85.8**	**81.0**

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

(51) Equity

in HRK million

	31.12.2020	31.12.2019
Share capital	2,558.9	2,558.9
Legal and other reserves	133.1	138.2
Revaluation reserve	0.0	10.2
Fair value reserve	76.1	91.8
Accumulated profit	87.1	219.6
Total	**2,855.2**	**3,018.7**

The direct owner of the Bank is Addiko Bank AG, Vienna, Austria.

At the end of 2020 Addiko Bank d.d. had 1,248,243 (2019: 1,248,243) issued ordinary shares of nominal value HRK 2,050 (2019: HRK 2,050).

The legal reserve has been created in accordance with the Croatian Company Act, which requires 5% of the net profit for the year to be transferred to this reserve, until it reaches 5% of issued share capital. Legal reserve can be used for covering prior period losses if the losses are not covered by current year profits or if other reserves are not available. The legal reserve is not distributable to the shareholders.

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realized, is transferred directly to retained earnings. In 2020 the Bank changed the subsequent measurement model for land and buildings from revaluation model to cost model and consequently the revaluation reserve was offset with the reduction of corresponding asset carrying amount.

Other reserves are created in accordance to the General assembly decision and can be used for purposes defined by the law or the General assembly decision. In addition, direct capital contributions are presented in this position.

The fair value reserve includes the measurement results – after taking deferred taxes into account – for the financial assets measured at fair value through other comprehensive income.

The cumulative result includes the accumulated profits generated by the Bank with the exception of the share of profit to which external parties are entitled.

(52) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to cash flows from operating, investment and financing activities.

The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers. Changes in assets and liabilities held for trading are also included, as are the cash flow from dividends received and taxes.

The cash flow from investing activities includes cash inflows and outflows arising from intangible assets and property, plant and equipment.

Equity payments and repayments are disclosed in the cash flow from financing activities. This includes in particular capital increases and dividend payments.

Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

Risk Report

This note provides details of the Bank risk exposure which is defined as the amount on-balance items as well as off-balance items, which are not decreased for amount of allocated risk provisions. More precisely, the credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Risk Management note describes the methods used by management to identify, measure and manage risk in order to preserve Bank's capital. The main goal of the Bank is to adequately and efficiently manage all major risks, which essentially requires systematic and deliberate planning and management, as well as maintaining an acceptable level of risk and profitability.

(53) Risk control and monitoring

The Bank has established a strategic risk management function, conducted by the Risk Control and Non-financial Risks division. In this way, risk identification, assessment and measurement and management processes are established for major risks and unexpected events, all in order to achieve a stable and profitable business performance with the Bank's improved performance indicators and the quality of the portfolio in terms of risk and profitability. Also, Bank 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.

The following central principles apply to the Bank's overall 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 pre-vent conflicts of interest in accordance with the regulatory requests.
- The Bank implements appropriate, mutually compatible procedures for identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

(54) Risk strategy & Risk Appetite Framework (RAF)

The Bank Risk strategy is derived from the business strategy and describes the planned business structure, strategic development and growth, taking into consideration processes, methodologies and the organisational structure relevant for the management of risk factors. As such, the risk strategy represents the bridge between the Bank'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.

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

Bank has also established a Risk Appetite Framework (RAF) which sets the bank's risk appetite and forms part of the process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. 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 2019, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

Additionally, one of the basic processes that the Bank is implementing as part of a strategic risk management is Internal capital adequacy assessment process ("ICAAP"). The main purpose of internal capital adequacy assessment process is to determine a positive level of capital which is high enough to cover the risks the Bank is exposed to and which are assessed as material. The ICAAP serves as an assessment of internal capital adequacy in relation to the Bank's risk profile and as an implementation of the Bank's strategy appropriate for maintaining an adequate internal capital level.

Also, by monitoring process of utilization of defined risk profile on a daily, monthly and quarterly basis, the Bank conducts limits utilization and steering process. The implementation and monitoring of various levels of limits from the product and client level to the level of different sub-portfolios such as market segments, regions, rating classes, levels of approved volumes, exposure levels etc., enables informative and proactive approach to risk management and strategic decision making which is based on a group of factors and also on interaction with other influential factors.

Achieving Bank's strategic targets and ways of managing risk are prescribed within mentioned Risk Strategy and a number of related policies, regulations and directives in which the basic guidelines according to law regulations and Addiko Group requests are defined.

(55) Risk organisation

Risk management organization is constituted in a way that the Bank manages the risks from the very moment of risk exposures appearance, from business conductance with clients, through client monitoring process and through administrative business. Risk exposures measurement and risks assessment process are conducted through the following organizational parts of the Bank.

Ensuring adequate risk management structures and processes is in the responsibility of the Chief Risk Officer (CRO), who is a member of the Bank Management Board. The CRO acts independently of market and trading units, in line with all regulatory requirements 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-Retail 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 within defined approval authority levels, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned activities.

Retail Risk Management monitors and manages credit risk in bank Retail portfolio 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.

Risk control 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.

Risk Control 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, ILAAP, SREP and MREL processes as well manages the same processes from methodological point of view and reports on them to the management.

Data Office is the responsible function for the business aspects of enterprise data management in the Bank. Data Office department develops and maintains methods, standards and definitions to achieve a common and harmonized view on enterprise data. In operational matters Data Office team is supporting business functions in regular and ad-hoc reporting, common/central data transformations and calculations and data quality monitoring and reporting.

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.

Group Risk Management Support is organized as a separate organizational unit that is under the direct supervision of a member of the Management Board – Chief Risk Officer (CRO). Group Risk Management Support is responsible for:

- ensuring support in part of distressed asst management;
- operational risk management and support in integrated risk management;
- support in market and liquidity risk management;
- support in legal risk.

(56) Internal risk management guidelines

The Bank defines wide standard risk management guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methodologies and procedures. The existing guidelines are reviewed yearly to determine whether an update is required. This ensures that the actual and documented processes match.

The Bank has clearly defined responsibilities for all risk guidelines, including preparation, review and update. Each of these guidelines must be implemented in accordance with Group guidelines and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

(57) Credit risk and Credit related risks

Main risks that the Bank is exposed to emerge from the Bank's business activity and economic movements, and the Bank faces them in the form of credit risk, market and liquidity risk, operational risk and other risks such as legal risk, strategic risk, reputational risk, etc.

Hereafter, basic risks monitored and continuously managed in the Bank are presented. Also, in all upcoming risk analysis, analytical data based on internal assumptions of risk management have been used, and because of that it can differ from the data presented in the Financial Statements.

57.1. Credit risk

According to the Business and Risk Strategy, Credit Risk represents the most relevant driver of Risk in the Bank. Credit risk is defined as a possible loss that could occur due to non-fulfilment of a client's contractual obligations towards credit institution.

The Bank applies appropriate policies and procedures in credit risk management.

Credit risk management also includes monitoring and reporting of Concentration risk, Currency induced credit risk and Interest rate induced credit risk which represent forms of credit risk and due to their great importance for the Bank portfolio, they are monitored separately.

The process of identification, assessment, measurement and management of credit risk is being conducted on continuous basis and it encompasses the entire Bank portfolio.

Exposure to credit risk is being managed through regular analysis of existing and potential borrower's capability to pay obligations, and by changing loan limits when needed according to internal procedures and regulations prescribed by the CNB. Furthermore, credit risk is additionally being managed by obtaining collaterals which reduce Bank's exposure to credit risk. The process of credit risk reporting is conducted on a daily, monthly, quarterly and yearly basis, through reports which present current status and movement trends in the Bank portfolio. By reporting limits utilization and portfolio quality indicators overview, these reports enable effective risk management and efficient and timely decision making.

Hence, the automated production of strategically important reports is enabled within Risk Control department (on a daily, monthly, quarterly, half-yearly and yearly level), such as KRI report, Credit Risk Report, ICAAP report, Concentration Risk report, Rating Report etc. Regular monthly reporting process is set in a way that all reports are delivered according to predefined time schedule, in order to enable more efficient and more detailed analysis of portfolio structure changes and timely defining of measures for mitigation of risk level.

Also, the Bank uses its own rating procedures to analyse and assess each individual borrower's credit rating. The allocation of debtors to rating classes is carried out based on default probabilities on a 25-level master rating scale.

The internal capital adequacy assessment process is defined by the following regulations:

- Law on credit institutions,
- the Regulation (EU) no. 575/2013,
- Decision on the internal capital adequacy assessment process for credit institutions,
- Decision on governance arrangements.

The Bank uses IRB approach (with application of permanent partial use) to calculate Credit Risk internal capital requirements. Details to the calculation can be found in the document "Procedure for calculation of internal capital requirements for Credit Risk". In this way credit risk is directly involved in the ICAAP process.

57.2. Concentration risk

Concentration risk is the risk arising from each individual, direct or indirect, exposure towards one client, group of related parties that is the central counterparty or set of exposures connected by common risk factors such as the same economic sector or the same geographical area, equivalent jobs or goods, or application of similar credit risk mitigation techniques, including in particular the risks associated with large indirect credit exposures to a particular collateral provider that can lead to losses that could jeopardize the continuation of a credit institution or materially significant change in its risk profile.

Concentration within the risk refers to risk concentrations that may occur due to the interaction of various risk exposures within a single risk category. Concentration between the risks refers to the risk concentrations that may occur due to the interaction of various risk exposures at the level of the various risk categories. Interactions between different risk exposures may result from common relational risk driver or from the interaction of risk drivers.

Concentration risk arises from unequal allocation of exposure, which can arise in all risk types. One type of concentration risk is also credit risk arising from foreign currency exposures.

The Bank measures and manages concentration risk from following points of view:

- Name/ Group of Borrowers concentration,
- Sector concentration,
- Collateral type and collateral provider concentration,
- Foreign currency concentration.

Concentration risk is measured within the risk management process and through ICAAP process. The main goals of concentration risk measurement are determination of certain changes in the structure of capital allocation for credit risk, improvement of strategy of loan approval connected to credit risk and setting/analysing limits for credit risk.

57.3. Currency induced credit risk (CICR)

Currency induced credit risk is the risk of loss for the Bank when approves loans in foreign currency or with FX clause and which arises from debtor's exposure to FX risk. We define Currency induced credit risk as a negative influence of currency value change to Bank's credit portfolio.

Currency induced credit risk is measured through risk management process as well as within ICAAP process. As there is no minimum regulatory capital request for Currency induced credit risk, the Bank has implemented internal method of quantification of Currency induced credit risk which has been specified in detail in the 'Currency Induced Credit Risk Methodology and ICAAP Policy'.

57.4. Interest rate induced credit risk

Interest rate-induced credit risk means the risk of loss to which a credit institution assuming credit risk arising from exposures linked to variable interest rates is additionally exposed.

Interest rate induced credit risk is measured through risk management process as well as within ICAAP process. As there is no minimum regulatory capital request for Interest rate induced credit risk, the Bank has implemented internal method of quantification of Interest rate induced credit risk.

57.5. Country risk

Country risk means:
- the risk that the central government, the central bank and/or entities treated as central governments will not settle their liabilities to domestic creditors and/or creditors in other countries; and
- the risk that a counterparty having its head office or domicile outside the Republic of Croatia will not settle its liabilities due to economic and political factors specific for the country in which the counterparty has its head office or domicile.

Bank manages country risk by conducting an ongoing analysis of the structure and quality of the overall portfolio which is a subject to country risk and to ensure that timely and appropriate measures will be taken to reduce the country risk.

57.6. Object risk

Object risk, including risk real estate investment, is defined as a risk of loss due to change in market value of assets from Bank’s portfolio. Object risk can occur in the following cases:
- Banking: If a debtor defaults and the Bank is taking over the defaulted company and treats former collaterals (especially real estate and large producer durable goods) as own assets,
- Finance Lease: If a leasing taker defaults, the leased goods will become assets of the leasing company (repossessing),
- Objects in Bank’s ownership.

Object risk is measured and assessed based on quantitative indicators of tangible assets volume in the Bank's portfolio. Materiality of object risk is assessed based on its impact on total Bank's assets and the impact of realized and planned losses from the revaluation of tangible assets.

The process of risk level calculation is determined by the influence of change in tangible assets value within certain time period, i.e. the period in which the assets are retained in Bank's portfolio. Book value of assets is the basis for the calculation of the internal capital requirement out of object risk and represents basic parameter when assessing the object risk.

Object risk is measured within credit risk, i.e. internal capital requirement for object risk is embedded within internal capital requirement for credit risk. According to standardized approach, objects are categorized as "Other items" so the basis values are multiplied with a risk weight of 100% and afterwards with a solvency factor of 8%.

The Bank manages object risk by conducting continuous analysis of the structure and quality of total tangible assets portfolio in order to ensure timely undertaking of appropriate risk mitigation measures.

Object risk management is mostly reflected through regular evaluation of tangible assets by updated and reliable market values. If a new evaluation represents change in a book value of a real estate, adjustments in Bank's business books are performed. Real estate has the greatest share in total tangible assets, so this type of assets is affected the most by changes in market value.

Object risk management methods are prescribed by Bank's internal acts.

57.7. Dilution risk

Dilution risk is a risk of loss due to a reduction in the amount of purchased receivables as a result of cash or non-cash credits to the debtor, which arise from a legal relationship with the former creditor that is the basis for receivables which are the subject of the purchase.

The Bank measures dilution risk within credit risk on quarterly basis, i.e. internal capital requirements for dilution risk represent part of internal capital requirements for credit risk and are not reported separately.

The Bank manages dilution risk by conducting continuous analysis of the structure and quality of total dilution risk relevant portfolio in order to ensure timely undertaking of appropriate risk mitigation measures.

57.8. Macroeconomic risk

Macroeconomic risk is defined as a risk of indirect loss which occurs due to negative/unfavourable change of the macroeconomic variables such as inflation, unemployment rate and downfall of GDP etc.

Macroeconomic risk is measured within the risk management process and through the internal capital adequacy assessment process (ICAAP).

57.9. Risk of excessive leverage

Risk of excessive leverage is a risk resulting from the vulnerability of the institution due to financial leverage or potential financial leverage and could lead to unwanted modifications of its business plan, including the forced sale of assets which could result in losses or valuation adjustment of its remaining assets.

Financial leverage means, if compared to Bank’s capital, the relative size of assets, off-balance sheet liabilities and contingent liabilities for payment or delivery, or providing collateral, including liabilities based on received funding sources, retrieved liabilities, derivatives or repurchase agreements, but excluding liabilities which can be executed only during the liquidation of the institution. The risk of excessive leverage Bank measures by calculating the leverage ratio in a way to divide Bank's common equity capital, by a measure of the Bank’s exposure.

57.10. Shadow banking risk

Shadow Banking Risk is the risk that arises from exposures to individual shadow banking entities (undertakings that carry out one or more credit intermediation activities and that are not excluded undertakings). Exposures to individual shadow banking entities pursuant to Part Four of Regulation (EU) No 575/2013 with an exposure value, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 and exemptions in accordance with Articles 400 and 493(3) of that Regulation, equal to or in excess of 0.25% of the institution’s eligible capital as defined in Article 4(1)(71) of Regulation (EU) No 575/2013.

In accordance with Bank's strategy, as well as expected assets growth in retail portfolio, there are no expected exposure increases towards shadow banking subjects, nor increases of individual exposures which amount to more than 0-25% of eligible capital, nor increases towards legal entities above internally set limits. As Shadow Banking entities need to be examined at the group of related clients level, Bank already measure Single Name Concentration Risk and therefore, within ICAAP the Bank does not allocate additional capital requirement for Shadow Banking risk.

57.11. Credit Valuation Adjustment risk or "CVA"

In accordance with the Regulation (EU) no. 575/2013, 'Credit Valuation Adjustment' or 'CVA' means an adjustment to the mid-market valuation of the portfolio of transactions with counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

The CVA is calculated in accordance with regulatory criteria prescribed by the Regulation (EU) no. 575/2013, article 384, under the standardized method.

57.12. Counterparty risk

Counterparty risk is monitored within credit risk. Exposure to counterparty credit risk or CCR means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The methodology used for internal capital allocation to cover counterparty credit risk is defined by the EU's Regulation 575/2013 Title II Chapter 6.

Approval and tracking of internal limit utilization is defined by the Bank's internal procedures. In daily business functioning, dealers are informed about limit availability to conduct transactions via various internal systems and in this way, aside from other determinants, decisions are made to conduct or not conduct transaction. For repo and reverse repo business, counterparty risk is calculated via standardized approach along with the implementation of the Financial Collateral Comprehensive Method. For derivatives, counterparty credit risk is calculated via Mark-to-market Method.

57.13. Participation risk

Participation risk resembles credit risk, because the danger of potential losses for a credit institution due to entered participations (provided equity, profit and loss transfer agreements or binding letters of comfort as well as financial commitments) exists. This can be the result of shortfall of dividends, partial depreciations, and amortization of losses or reduction of hidden reserves. Participation risk ranges from strategic participations (closely related to banking industry) to operative participations (in the non-banking areas).

57.14. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Breakdown of net exposure within the Bank in accordance with IFRS 7.36 as at 31 December 2020:

in HRK million

31.12.2020	Performing			Non-Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves[1]	3,850.1	-2.0	3,848.1	0.0	0.0	0.0	3,850.1	3,848.1
Loans and advances to customers	9,366.2	-149.0	9,217.2	876.0	-675.5	200.5	10,242.2	9,417.7
of which credit institutions	404.6	-0.2	404.4	0.0	0.0	0.0	404.6	404.4
of which customer loans	8,961.6	-148.8	8,812.8	876.0	-675.5	200.5	9,837.6	9,013.3
Financial assets at FVTOCI[2]	3,419.9	-4.6	3,415.3	0.0	0.0	0.0	3,419.9	3,415.3
On balance total	**16,636.2**	**-155.6**	**16,480.5**	**876.0**	**-675.5**	**200.5**	**17,512.2**	**16,681.1**
Off-balance	2,094.9	-9.9	2,085.0	11.2	-5.7	5.5	2,106.1	2,090.5
Total	**18,731.1**	**-165.5**	**18,565.5**	**887.2**	**-681.2**	**206.0**	**19,618.3**	**18,771.5**

1) The position does not include cash on hand in amount of HRK 380,3 million. 2) Investment securities, without equity instruments.

Breakdown of net exposure within the Bank in accordance with IFRS 7.36 as at 31 December 2019:

in HRK million

31.12.2019	Performing			Non-Performing			Total	
Financial instruments	Exposure	ECL	Net	Exposure	ECL	Net	Exposure	Net
Cash reserves[1]	2,554.7	-3.6	2,551.1	0.0	0.0	0.0	2,554.7	2,551.1
Loans and advances to customers	10,110.3	-105.1	10,005.2	832.3	-601.1	231.2	10,942.6	10,236.4
of which credit institutions	63.9	-0.1	63.8	0.0	0.0	0.0	63.9	63.8
of which customer loans	10,046.4	-105.0	9,941.5	832.3	-601.1	231.2	10,878.7	10,172.7
Financial assets at FVTOCI[2]	4,075.7	-1.6	4,074.1	0.0	0.0	0.0	4,075.7	4,074.1
On balance total	**16,740.7**	**-110.2**	**16,630.5**	**832.3**	**-601.1**	**231.2**	**17,573.0**	**16,861.6**
Off-balance	2,291.7	-10.3	2,281.5	21.4	-6.1	15.3	2,313.2	2,296.8
Total	**19,032.4**	**-120.5**	**18,911.9**	**853.7**	**-607.2**	**246.5**	**19,886.1**	**19,158.4**

[1] The position does not include cash on hand in amount of HRK 328 million. [2] Investment securities, without equity instruments.

57.15. Credit risk exposure by rating class

At 31 December 2020 roughly 18% of the loans and advances exposure to customers and banks at amortised cost is categorised as rating classes 1A to 1E and roughly 65% is categorised as rating class 2A to 2E.

The overall NPE stock development in 2020 is mainly influenced by higher inflow in Consumer and Mortgage market segment enhanced by pandemic outbreak and reductions resulting from restructuring efforts and collection effects. Taking all these effects into consideration the overall non-performing exposure increased during 2020 by HRK 33.5 million.

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

in HRK million

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	754.3	2,291.2	247.3	154.2	191.9	1.6	3,640.7
SME	463.8	2,276.1	550.2	281.8	315.3	2.9	3,890.1
Non-Focus	3,476.2	7,694.6	291.4	243.1	380.0	2.2	12,087.5
o/w Large Corporate	572.3	478.9	150.0	149.5	90.0	0.2	1,440.9
o/w Mortgage	1,002.9	1,192.3	45.6	35.6	287.3	1.0	2,564.7
o/w Public Finance	0.2	247.2	79.4	58.0	2.6	1.1	388.5
Treasury	1,900.8	5,776.1	16.5	0.0	0.0	0.0	7,693.5
Total	**4,694.3**	**12,261.9**	**1,089.0**	**679,2**	**887.2**	**6.7**	**19,618.3**

The following table shows the exposure by rating classes and market segment as at 31 December 2019:

in HRK million

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	777.3	2,380.0	254.7	144.2	150.7	24.7	3,731.7
SME	361.6	2,680.0	906.6	179.9	333.4	1.6	4,463.2
Non-Focus	3,310.1	7,342.7	524.9	141.7	369.5	2.2	11,691.1
o/w Large Corporate	134.7	988.8	358.2	18.4	101.9	1.0	1,602.9
o/w Mortgage	1,083.0	1,403.1	50.6	60.3	264.7	1.2	2,862.8
o/w Public Finance	1.1	311.2	94.0	63.0	2.9	0.0	472.2
Treasury	2,091.3	4,639.6	22.2	0.0	0.0	0.0	6,753.1
Total	**4,449.0**	**12,402.7**	**1,686.3**	**465.8**	**853.7**	**28.4**	**19,886.0**

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

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

Addiko applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customer's performing transactions are classified as non-performing as well.

The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers and banks at amortised cost as at 31 December 2020:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	2,432.6	105.5	0.0	5.1	2,543.2
2A-2E	8,824.8	322.0	0.0	7.2	9,154.1
3A-3E	597.3	277.9	0.0	0.9	876.1
Watch	114.2	521.7	0.0	0.5	636.3
NPL	0.0	0.0	844.4	31.6	876.0
No rating	5.2	1.4	0.0	0.0	6.6
Total gross carrying amount	**11,974.1**	**1,228.6**	**844.4**	**45.3**	**14,092.3**
Loss allowance	-43.7	-107.2	-657.0	-18.5	-826.5
Carrying amount	**11,930.4**	**1,121.4**	**187.3**	**26.8**	**13,265.9**

Loans and advances to customers and banks at amortised cost as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	2,044.2	11.6	0.0	6.6	2,062.3
2A-2E	8,694.2	44.8	0.0	8.7	8,747.7
3A-3E	1,390.6	11.1	0.0	1.3	1,403.0
Watch	124.4	299.2	0.0	0.1	423.7
NPL	0.0	0.0	799.6	32.7	832.3
No rating	27.1	1.3	0.0	0.0	28.4
Total gross carrying amount	**12,280.5**	**368.0**	**799.6**	**49.3**	**13,497.3**
Loss allowance	-54.8	-53.7	-588.7	-12.5	-709.7
Carrying amount	**12,225.7**	**314.3**	**210.9**	**36.8**	**12,787.6**

Debt instruments measured at FVTOCI as at 31 December 2020:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	1,337.6	0.0	0.0	0.0	1,337.6
2A-2E	2,082.3	0.0	0.0	0.0	2,082.3
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPL	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**3,419.9**	**0.0**	**0.0**	**0.0**	**3,419.9**
Loss allowance	-4.6	0.0	0.0	0.0	-4.6
Carrying amount	**3,415.3**	**0.0**	**0.0**	**0.0**	**3,415.3**

Debt instruments measured at FVTOCI as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	1,857.8	0.0	0.0	0.0	1,857.8
2A-2E	2,217.9	0.0	0.0	0.0	2,217.9
3A-3E	0.0	0.0	0.0	0.0	0.0
Watch	0.0	0.0	0.0	0.0	0.0
NPL	0.0	0.0	0.0	0.0	0.0
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**4,075.7**	**0.0**	**0.0**	**0.0**	**4,075.7**
Loss allowance	-1.6	0.0	0.0	0.0	-1.6
Carrying amount	**4,074.1**	**0.0**	**0.0**	**0.0**	**4,074.1**

Commitments and financial guarantees given as at 31 December 2020:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	791.9	21.6	0.0	0.0	813.6
2A-2E	1,008.1	17.4	0.0	0.0	1,025.5
3A-3E	191.0	21.9	0.0	0.0	212.9
Watch	6.7	36.2	0.0	0.0	42.8
NPL	0.0	0.0	11.2	0.0	11.2
No rating	0.1	0.1	0.0	0.0	0 1
Total gross carrying amount	**1,997.8**	**97.2**	**11.2**	**0.0**	**2,106.1**
Loss allowance	-6.3	-3.6	-5.7	**0.0**	-15.6
Carrying amount	**1,991.4**	**93.6**	**5.5**	**0.0**	**2,090.5**

Commitments and financial guarantees given as at 31 December 2019:

in HRK million

Rating class	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
1A-1E	533.3	0.1	0.0	0.0	533.4
2A-2E	1,434.9	0.2	0.0	0.0	1,435.1
3A-3E	281.1	0.3	0.0	0.0	281.4
Watch	5.1	36.8	0.0	0.0	41.9
NPL	0.0	0.0	21.4	0.0	21.4
No rating	0.0	0.0	0.0	0.0	0.0
Total gross carrying amount	**2,254.4**	**37.4**	**21.4**	**0.0**	**2,313.2**
Loss allowance	-8.3	-2.0	-6.1	**0.0**	-16.4
Carrying amount	**2,246.0**	**35.4**	**15.3**	**0.0**	**2,296.8**

57.16. Exposure by business sector

The following tables present the exposure by industry based on the classification code “NACE Code 2.0”. The lower-risk business sector groups (Financial and insurance activities) account for a share of 21,2% at YE20 (YE19: 14%). The well-diversified private customers sector accounts for a share of 31.2% (YE19: 32.5%).

The following table shows the exposure by business sector and ECL as at 31 December 2020:

in HRK million

Business sector	Exposure PE	ECL Stage 1&2	Exposure NPE	ECL Stage 3	Total exposure	Total ECL
Private	5,699.9	92.3	421.5	322.7	6,121.5	415.0
Financial and insurance activities	4,107.3	2.2	54.8	31.8	4,162.1	33.9
Activities of extraterritorial organisations and bodies	1,637,1	3.9	0.0	0.0	1,637.1	3.9
Public administration and defence; compulsory social security	1,889.6	0.9	0.0	0.0	1,889.6	0.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,352.1	12.7	106.8	74.2	1,458.8	86.9
Manufacturing	1,302.2	22.2	154.6	141.1	1,456.8	163.3
Construction	795.0	4.4	49.1	37.1	844.2	41.5
Accommodation and food service activities	384.1	6.3	15.4	10.8	399.5	17.1
Agriculture, forestry and fishing	212.3	3.5	34.0	24.4	246.3	27.9
Professional, scientific and technical activities	222.0	4.4	19.0	17.4	240.9	21.8
Education	202.6	0.9	0.5	0.4	203.1	1.3
Transporting and storage	207.8	2.7	9.2	7.4	217.0	10.1
Electricity, gas, steam and air conditioning supply	227.4	0.7	0.0	0.0	227.4	0.7
Information and communication	146.1	1.0	0.6	0.5	146.7	1.5
Water supply; sewerage; waste management and remediation activities	128.2	1.5	3.9	1.1	132.1	2.6
Administrative and support service activities	40.1	0.9	6.4	6.3	46.5	7.1
Real estate activities	87.9	2.9	7.3	2.0	95.1	4.9
Human health and social work activities	37.2	1.2	3.1	3.1	40.3	4.3
Arts, entertainment and recreation	28.6	0.2	0.1	0.0	28.7	0.2
Other services activities	21.7	1.0	0.9	0.8	22.6	1.8
Mining and quarrying	1.9	0.0	0.1	0.1	2.0	0.1
Total	**18,731.1**	**165.6**	**887.2**	**681.1**	**19,618.3**	**846.7**

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

in HRK million

Business sector	Exposure PE	ECL Stage 1&2	Exposure NPE	ECL Stage 3	Total exposure	Total ECL
Private	6,110.3	71.9	359.9	261.7	6,470.2	333.6
Financial and insurance activities	2,731.5	3.7	53.2	29.4	2,784.7	33.1
Activities of extraterritorial organisations and bodies	1,876.6	1.4	0.0	0.0	1,876.6	1.4
Public administration and defence; compulsory social security	2,077.0	0.4	0.0	0.0	2,077.1	0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,625.7	11.2	98.0	61.8	1,723.7	73.0
Manufacturing	1,548.5	9.2	142.8	128.1	1,691.3	137.4
Construction	811.1	5.6	58.9	35.8	870.0	41.4
Accommodation and food service activities	443.1	3.2	26.4	11.9	469.4	15.1
Agriculture, forestry and fishing	279.7	2.5	36.8	22.8	316.5	25.2
Professional, scientific and technical activities	293.5	2.4	19.6	17.5	313.1	19.9
Education	247.2	0.9	0.5	0.4	247.7	1.3
Transporting and storage	234.6	1.8	29.2	21.3	263.8	23.1
Electricity, gas, steam and air conditioning supply	241.2	1.4	0.0	0.0	241.2	1.4
Information and communication	170.8	0.6	0.5	0.3	171.2	0.9
Water supply; sewerage; waste management and remediation activities	94.4	2.1	4.9	1.2	99.4	3.3
Administrative and support service activities	61.4	0.3	8.2	7.8	69.6	8.0
Real estate activities	99.5	1.4	7.5	1.8	107.0	3.2
Human health and social work activities	44.4	0.2	5.4	3.8	49.8	4.1
Arts, entertainment and recreation	20.2	0.1	0.0	0.0	20.3	0.1
Other services activities	20.4	0.1	0.8	0.8	21.2	0.9
Mining and quarrying	1.2	0.0	1.1	0.8	2.3	0.8
Total	**19,032.4**	**120.5**	**853.7**	**607.2**	**19,886.1**	**727.7**

57.17. Presentation of exposure by overdue days

Analysis of credit portfolio quality is performed through regular reporting (daily/monthly) on the structure of the total exposure according to the different exposure categories (products, segments). In the following tables portfolio structure with classification of placements into risk categories is presented in a manner to show:

- amount of undue exposure in total exposure,
- amount of due exposure in total exposure divided in buckets of days in delay (less than 30 days, 31 to 60 days, 61 to 90 days, more than 91 days).

Bank's local processes and internal acts related to the calculation of days past due and implementation of default definition are in line with EBA regulatory requirements and CNB requirements.

Also, in order to enable effective credit portfolio management and to provide adequate information required for efficient decision making, the Bank has implemented certain procedures and activities focused on:

- collection of due receivables in accordance with the Bank's internal acts and
- timely and adequate monitoring of due exposure in order to make appropriate value adjustment.

Main movements for 2020 in credit risk exposure and credit risk quality of the Bank's portfolio are influenced by regular and irregular repayments in Corporate segment (working capital loans, investment loans, loans from CBRD funds) and Retail segment (housing loans), and an increase of new volumes for Small and Medium Corporate loans and non – purpose loans in Retail segment in the same period.

Increase of impaired asset (NPE portfolio) in Retail segments is mainly influenced by pandemic outbreak and related uncertainty and inspite strong collection and rehabilitation activities in all segments, has drove overall increase of non-performing exposure.

Movements per segment and days of delay, divided to time buckets are showed in following tables.

Credit quality at 31 December 2020 was as follows:

in HRK million

31.12.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	3,389.6	69.9	19.7	12.8	148.8	3,640.7
SME	3,492.2	117.7	13.3	1.2	265.7	3,890.1
Non Focus	3,984.1	55.3	7.7	108.9	238.1	4,394.1
o/w Large Corporate	1,266.9	37.7	0.0	105.6	30.7	1,440.9
o/w Mortgage	2,330.9	17.6	7.7	3.3	205.2	2,564.7
o/w Public Finance	386.2	0.0	0.0	0.0	2.2	388.5
Treasury	7,693.5	0.0	0.0	0.0	0.0	7,693.5
Total	**18,559.4**	**242.8**	**40.7**	**122.8**	**652.6**	**19,618.3**

Credit quality at 31 December 2019 was as follows:

in HRK million

31.12.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	3,543.3	54.1	10.0	3.9	120.4	3,731.7
SME	4,003.3	185.8	15.6	0.0	258.5	4,463.2
Non Focus	4,372.2	247.3	9.3	5.6	303.6	4,938.0
o/w Large Corporate	1,328.0	187.9	0.0	0.0	87.0	1,602.9
o/w Mortgage	2,574.4	59.4	9.3	5.6	214.1	2,862.8
o/w Public Finance	469.7	0.0	0.0	0.0	2.5	472.2
Treasury	6,753.2	0.0	0.0	0.0	0.0	6,753.2
Total	**18,672.0**	**487.2**	**34.9**	**9.5**	**682.6**	**19,886.1**

57.18. Presentation of exposure by size classes

As 31 December 2020 around 33.1% (YE19: 34.4%) of the exposure is found in the size range < HRK 1.5 million. The bank pursues a strict strategy of reducing concentration risk in the corporate banking area. The amount of HRK 7,711.3 million (YE19: HRK 6,889.2 million) of exposure in the range > HRK 100 million is entirely attributable to national bank, foreign financial institutions or public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments. The presentation is based on the group of borrowers (GoBs).

in HRK million

Size classes	31.12.2020 Exposure in HRK million	GoBs	31.12.2019 Exposure in HRK million	GoBs
< 50,000	1,231.1	102,967	1,285.3	104,103
50,000-250,000	2,532.0	22,399	2,482.1	21,785
250,000-700,000	1,973.5	4,917	2,210.6	5,521
700,000-1,500,000	750.5	737	864.9	851
1,500,000-5,000,000	1,126.1	433	1,174.1	453
5,000,000-10,000,000	698.4	99	791.8	114
10,000,000-50,000,000	2,412.1	110	2,833.5	133
50,000,000-100,000,000	1,183.2	16	1,354.5	19
> 100,000,000	7,711.3	14	6,889.2	18
Total	**19,618,30**	**131,692**	**19,886**	**132,997**

57.19. Breakdown of financial assets by degree of impairment

Financial assets which are neither overdue nor impaired:

in HRK million

	31.12.2020		31.12.2019	
Rating class	Exposure	Collateral	Exposure	Collateral
1A-1E	4,608.5	991.6	4,453.5	1,016.2
2A-2E	12,162.6	1,720.7	12,238.1	2,033.3
3A-3E	1,051.7	269.3	1,459.4	382.6
Watch	522.9	182.0	380.4	128.1
No rating	5.8	1.2	3.8	0.2
Total	**18,351.8**	**3,164.7**	**18,535.2**	**3,560.5**

Overdue but not impaired financial assets:

in HRK million

	31.12.2020		31.12.2019	
	Exposure	Collateral	Exposure	Collateral
- overdue to 30 days	233.0	31.7	476.6	187.4
- overdue 31 to 60 days	33.6	3.2	15.3	5.6
- overdue 61 to 90 days	113.1	30.2	5.3	1.3
- overdue 91 to 180 days	0.0	0.0	0.0	0.0
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue over 1 year	0.0	0.0	0.0	0.0
Total	**379.7**	**65.1**	**497.2**	**194.3**

Impaired financial assets:

in HRK million

NPE	31.12.2020	31.12.2019
Exposure	887.2	853.7
Provisions	681.1	607.2
Collateral	368.5	403.3

All financial assets to which one or several of those events apply (positive impairment trigger) are to be tested for potential need of applied provisioning methodology. Consequently, an impairment calculation is performed. Receivables with rating category 4A or worse (watch list) are regularly tested for potential impairment triggers within the monitoring and pre-workout process.

The over-collateralisation (collaterals plus provisions) of the impaired financial assets shown in the table above is mostly driven by the Stage 3 collective impaired calculation, in which no collateral values are recognised.

57.20. Forbearance

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

During the 2020, payment moratoria were granted on a significant number of exposures to a significant number of clients, due to special circumstances related to Covid-19. All the payment moratoria granted in ABC fulfil the conditions as defined in the CNB Circular letter – Supervisory expectations for COVID-19 (180-020/19-03-20/BV) which is in force till 31st of March 2021. The regulatory environment in Croatia was compatible with EBA guidelines[1] on payment moratoria,

[1] See EBA/GL/2020/02, "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" and CNB Circular letter – Supervisory expectations COVID-19 (180-020/19-03-20/BV).

therefore enabling ABC to continuously apply the EBA-compliant principles of exposure classification. As a consequence, moratoria granted to clients impacted by Covid-19 was not considered an automatic forbearance (or default) trigger, and as such have not impacted on the forbearance amounts but are being disclosed in a separate table below.
The following chart provides an overview of the forbearance status at the Bank in the course of the financial year 2020.

The off-balance positions only include loan commitments:

in HRK million

	01.01.2020	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2020
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	188.5	79.1	-41.8	0.0	0.0	-8.5	217.4
Households	120.6	64.4	-17.6	0.0	0.0	-24.4	143.0
Loans and advances	309.2	143.5	-59.4	0.0	0.0	-32.9	360.4
Loan commitments given	1.1	0.2	-1.1	0.0	0.0	0.0	0.2

The following chart provides an overview of the forbearance status at the Bank in the course of the financial year 2019. The off-balance positions only include loan commitments:

in HRK million

	01.01.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (+/-)	FX (+/-)	Repayments and other changes (+/-)	31.12.2019
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments and government related entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	264.4	205.1	-126.1	-0.7	0.0	-154.2	188.5
Households	128.7	63.3	-20.9	0.0	0.0	-50.5	120.6
Loans and advances	393.2	268.4	-147.0	-0.7	0.0	-204.7	309.2
Loan commitments given	1.9	0.0	-1.2	0.0	0.0	0.4	1.1

The forbearance exposure was as follows in 2020:

in HRK million

	Closing Balance 31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0
Non-financial corporations	217.4	68.5	0.0	148.9
Households	143.0	64.8	2.1	76.1
Loans and advances	**360.4**	**133.3**	**2.1**	**225.0**

The forbearance exposure was as follows in 2019:

in HRK million

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired
General governments and government related entities	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0
Non-financial corporations	188.5	18.5	0.0	170.0
Households	120.6	54.1	8.3	58.3
Loans and advances	**309.2**	**72.6**	**8.3**	**228.3**

The following table shows the collateral allocation for the forbearance exposure at the YE20:

in HRK million

Internal Collateral Value (ICV) in respect of forborne assets	ICV	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.0	2.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	23.1	18.3	0.0	0.0	0.0	4.8
Medium and Small Corporate	84.9	62.6	16.5	0,1	4.7	1.1
Retail	67.5	8.0	56.3	0.0	0.0	3.3
Total	**177.6**	**90.8**	**72.8**	**0.1**	**4.7**	**9.2**

The following table shows the collateral allocation for the forbearance exposure at the YE19:

in HRK million

Internal Collateral Value (ICV) in respect of forborne assets	ICV	thereof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	2.0	2.0	0.0	0.0	0.0	0.0
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Large Corporate	29.9	19.4	0.0	5.8	0.0	4.8
Medium and Small Corporate	88.6	51.0	15.8	0.6	6.5	14.7
Retail	51.6	6.2	45.2	0.1	0.0	0.1
Total	**172.1**	**78.5**	**61.0**	**6.4**	**6.5**	**19.6**

57.21. Moratoria due to COVID-19

Based on intervention acts relating to the debt payment moratorium imposed by CNB and EBA, the Bank granted during 2020 3,237 such moratoria, of which 484 were still active at 31.12.2020. As moratoriums were granted for the period between 3 to 12 months, a significant number of granted moratoria has already expired by end of 2020. Most of these moratoriums were granted in 1H2020.

The moratorium applies to a large group of obligors predefined on the basis of broad criteria (business segment, product range, industry, etc) and envisages only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time. Moratoriums are granted for the period between 3 to 12 months, subject to applicable regulatory measure.
As previously disclosed, the Bank has concluded so far that all moratoria introduced in the markets of operation fulfil the conditions as defined in the CNB and EBA guidelines (including updates). Relief offered to credit owners during 2020 thus, did not result in an automatic triggering of forbearance or default classification. However, the Bank continues to perform individual assessments whether there are other or additional circumstances that would lead to forbearance or default classification.

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

in HRK million

31.12.2020	Performing		Non-Performing		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL
Consumer	26.7	0.7	1.9	1.6	28.6	2.3
SME	128.6	5.0	0.0	0.0	128.6	5.0
Non-Focus	201.2	5.9	1.7	0.4	202.8	6.3
o/w Large Corporate	141.6	5.4	0.0	0.0	141.6	5.4
o/w Mortgage	59.5	0.6	1.7	0.4	61.1	1.0
o/w Public Finance	0.1	0.0	0.0	0.0	0.1	0.0
Treasury	0.0	0.0	0.0	0.0	0.0	0.0
Total	**356.5**	**11.6**	**3.5**	**2.0**	**360.1**	**13.6**

(58) Development of risk provisions

Provisions are calculated fully in line with the international accounting standard for financial instruments (IFRS 9). Different approaches are applied, depending on the stage a transaction is allocated to. Stage 1 requires the recognition of twelvemonth expected credit losses. If there is a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime loss (Stage 2). In case of an objective indication of an impairment (NPE, Stage 3) the lifetime expected credit loss is recognised.
IFRS 9 requires a bank to determine an expected credit loss (ECL) amount on a probability weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. Although IFRS 9 establishes this objective, it generally does not prescribe detailed methods or techniques for achieving it.

In determining the cash flows that the bank expects to receive, following the recommendation of the GPPC (Global Public Policy Committee), the Bank is using a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses occurring in each time period from the reporting date. The marginal losses are derived from individual parameters that estimate exposures and losses in the case of default and the conditional probability of default for each period (the probability of a default in time period X conditional upon an exposure having survived to time period X).

In general, fully statistical models are applied to determine the parameters used wherever possible and plausible. These models rely on internal historical and / or external market available data. Methodologies are based on internal already available credit risk models while being adapted to be fully IFRS 9 compliant.

The (lifetime) ECL is calculated for different scenarios separately, considering current and future forward looking information. The aggregation to the final ECL is performed at the end by probability weighting of the different individual macro scenarios. The Bank calculates in total three outcomes: base case, optimistic case and pessimistic case, while occasionally also some more adverse scenarios are simulated to understand dynamics and potential portfolio risks.
As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cash flow estimation for larger exposures. Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or utilisation), expected repayments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure. In terms of the calculation of recovery cash flows from real estate, the Bank bases its assumptions on the collateral's market value. Haircuts are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

For the part of the non-performing portfolio where the exposure at default (EAD) on group of borrower's levels is below a EUR 130 thousand, the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). The provision amount is calculated as product of EAD and loss given default (LGD), where LGD is based on relevant characteristics such as time in default, risk segment and product.

Daily portfolio monitoring supported by clear performance goals regarding early collections, together with an incentive program leads to considerable improvements in the overall collections result and a significant reduction of the NPE portfolio. The NPE ratio (gross exposure based) increased from 4.5% (YE19) to 4.7% (YE 20).
The overall negative trend in NPE is mostly result of higher inflow in Retail segments due to pandemic outbreak, with positive results and reductions in Corporate segments. Additionally, constant focus on both, early collection and existing NPL collection / recovery, are continuously ensuring stable and controlled NPE portfolio development...

Risk costs for 2020 ended up in amount of HRK 126.4 million (local GAAP), and with inclusion of off-balance sheet items, total YTD risk costs amounts HRK 125.6 million. Increase of NPE volume due to pandemic outbreak, together with performing portfolio ECL model updates to capture increased credit risk and uncertainty due to recent development relating to pandemic resulted in increased risk cost recorded in 2020 in comparison to 2019 YE.

Additionally, due to regulatory changes related to expected credit losses classified in Stage 1 and Stage 2, banks in the Republic of Croatia as of 1 January 2020 are no longer obliged to maintain a minimum level of expected credit losses at 0.8% of total gross exposure. This is further to Article 21 of the Decision on the classification of exposures into risk categories and the method of determining credit losses, as well as the CNB's answer to the question 2019-712, published on 23 December 2019. Accordingly, as of 31 January 2020, the Bank recognised HRK 19.9 million of impairment gain for exposures classified in Stage 1 and Stage 2 due to the lower amount of expected credit losses estimated by the internal model.

A further increase in NPEs is expected for 2021 as economic recovery potential is highly uncertain and spil over effects from 2020 could result in increase of NPE inflow due to restructuring.

Based on the ongoing model improvement framework at Addiko, updates are performed regularly to make sure that the latest available information and internal data is considered. In 2020 time series prolongation for all models was performed, incorporating most up-to-date data into statistical calculations. The changes were reflected in improvement model quality particularly reflected in migration stability as well as in improved performance. In addition, macro models were adapted in line with validation findings and new macroeconomic forecasts were used to reflect the latest available economic outlooks throughout all segments (last update done in November 2020).

31.12.2020	Baseline case		Optimistic case	Pessimistic case
	2021[1)]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
Real GDP (constant prices)	5.0	3.3	5.4	2.3
Unemployment Rate (ILO, average %)	8.0	7.2	6.4	8.7
Real-Estate (% of change)	0.0	4.0	5.8	-0.4
CPI Inflation (average % YoY)	1.0	1.6	1.6	1.1

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

in HRK million

31.12.2020	Probability weighted	Optimistic Case	Base Case	Pessimistic Case
Retail	86.6	85.7	82,1	89.8
Non-Retail	72.0	70.5	64.7	77.4
Treasury	6.9	6,0	3.7	10.0
Total	**165.5**	**162.2**	**150.4**	**177.2**

The following table shows the NPE and coverage ratio (coverage ratio 1 considers Stage 3 risk provision stocks, while coverage ratio 2 additionally considers collaterals) according to the internal segmentation as of 31 December 2020 and 31 December 2019:

in HRK million

31.12.2020.	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	3,640.7	191.9	161.8	38.9	5.3%	84.3%	104.5%
SME	3,890.1	315.3	244.3	100.0	8.1%	77.5%	109.2%
Non Focus	4,394.1	380.0	275.1	229.6	8.6%	72.4%	132.8%
o/w Large Corporate	1,440.9	90.0	60.9	32.2	6.2%	67.7%	103.4%
o/w Mortgage	2,564.7	287.3	212.6	195.1	11.2%	74.0%	141.9%
o/w Public Finance	388.5	2.6	1.6	2.3	0.7%	60.0%	148.5%
Treasury	7,693.5	0.0	0.0	0.0	0.0%	0.0%	0.0%
Total	**19,618.3**	**887.2**	**681.1**	**368.5**	**4.5%**	**76.8%**	**118.3%**

in HRK million

31.12.2019	Exposure	NPE	Provisions	Collateral (NPE)	NPE Ratio	Coverage Ratio 1	Coverage Ratio 2
Consumer	3,731.7	150.7	121.6	47.5	4.0%	80.7%	112.2%
SME	4,463.2	333.4	235.6	138.2	7.5%	70.7%	112.1%
Non Focus	4,938.0	369.5	249.9	217.6	7.5%	67.6%	126.5%
o/w Large Corporate	1,602.9	101.9	64.6	42.1	6.4%	63.5%	104.7%
o/w Mortgage	2,862.8	264.7	183.8	173.3	9.2%	69.4%	134.9%
o/w Public Finance	472.2	2.9	1.4	2.3	0.6%	48.4%	127.1%
Treasury	6,753.2	1.7	1.7	1.7	0.0%	0.0%	0.0%
Total	**19,886.1**	**855.4**	**608.9**	**405.0**	**4.3%**	**71.2%**	**118.5%**

The increase in coverage ratio is mostly result of increased credit risk and expectations regarding future developments which are embedded in ECL estimations through all market segments. Stable coverage ratio 2 inspite ECL increase is result of ICV reduction for movables as described under chapter 58.1.

58.1. Collateral distribution

Bank’s exposure to credit risk comes out of loan activity, investments and cases where the Banks acts as an arbiter on behalf of clients or third persons. The risk that counterparty will not fulfil his/her obligations from financial instruments is continuously monitored on monthly basis.

The Bank exposure to credit risk arises from loans and advances to customers and banks, the amount of credit exposure in this regard, is the book value of these assets entered in the statement of financial position. Furthermore, the Bank is exposed to credit risk for off-balance sheet items, through commitments from unused credit frames and issued guarantees. More precisely, the credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses, provisions for guarantees, any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans.

Collateral types and collateral amounts depend on the client credit risk assessment, and their acceptability and evaluation are regulated by internal act Collateral Management Policy.

The Bank is monitoring market values of accepted collaterals on an ongoing basis and requests additional collaterals if necessary and stipulated by the contract. In the case when the counterparty is not able to pay the outstanding amounts due, the Bank can sell received collaterals (and does not use them for conducting its regular business) in order to close its receivables.

Analysis of type of collaterals and credit risk exposures secured with those collaterals are presented in the following tables. Amounts of collaterals are presented at the internally accepted value, more conservative than the estimated value. Haircuts which are applied are measured individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as market liquidity, location, utilisation period and legal situation in relation to the real estate.

The Bank prescribed in internal documents the methods of treatment taking into account all security instruments that are relevant in terms of credit risk in the Bank in accordance with the regulatory requirements regarding security, which are relevant to the Bank.

Guarantees are represented by government guarantees, provinces, local authority’s and banking guarantees.

Types of collaterals and internal collateral values (ICV) at 31 December 2020 and 31 December 2019 considered in the analysis above were as follows:

in HRK million

Collateral Distribution	31.12.2020	31.12.2019
Exposure	19,618.3	19,886.1
Internal Collateral Value (ICV)	3,601.0	4,158.1
thereof CRE	1,391.9	1,467.4
thereof RRE	1,997.8	2,241.8
thereof financial collateral	95.2	98.4
thereof guarantees	91.3	85.4
thereof other	24.8	265.0
ICV coverage rate	**18.4%**	**20.9%**

The table below provides an analysis of the current fair value of collateral held and credit enhancements for stage 3 assets in accordance with IFRS 7R35K(c).

in HRK million

31.12.2020		Fair value of collateral held under the base case scenario								
	Gross carrying amount	Securities	Guarantees	Property	Other	Offsetting	Surplus collateral	Total collateral	Net exposure	ECL
Loans and advances	876.0	0.0	0.0	212.0	5.7	0.0	0.0	217.7	658.3	675.5
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0,0
Non-financial corporations	413.3	0.0	0.0	97.6	5.7	0.0	0.0	103.3	310.0	319.1
Households	462.7	0.0	0.0	114.4	0.0	0.0	0.0	114.4	348.3	356.3
Commitments and financial guarantees	11.2	0.0	0.0	5.3	0.0	0.0	0.0	5.3	5.9	5.7
Loan commitments given	3.8	0.0	0.0	1.8	0.0	0.0	0.0	1.8	2.0	2.0
Financial guarantees given	1.8	0.0	0.0	1.5	0.0	0.0	0.0	1.5	0.3	0.3
Other commitments given	5.6	0.0	0.0	1.9	0.0	0.0	0.0	1.9	3.7	3.5

in HRK million

31.12.2019	Gross carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securities	Guarantees	Property	Other	Offsetting	Surplus collateral	Total collateral		
Loans and advances	832.3	0.0	0.0	216.0	9.8	0.0	0.0	225.8	606.5	601.1
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	426.8	0.0	0.0	105.8	9.8	0.0	0.0	115.6	311.2	307.0
Households	405.5	0.0	0.0	110.2	0.0	0.0	0.0	110.2	295.3	294.0
Commitments and financial guarantees	21.4	0.0	0.0	7.0	6.2	0.0	0.0	13.2	8.3	6.1
Loan commitments given	4.6	0.0	0.0	2.4	0.0	0.0	0.0	2.4	2.2	1.3
Financial guarantees given	1.9	0.0	0.0	1.8	0.0	0.0	0.0	1.8	0.1	0.1
Other commitments given	14.9	0.0	0.0	2.8	6.2	0.0	0.0	8.9	6.0	4.7

Management of all collaterals is determined in the “Collateral Management Policy”. Pursuant to the Collateral Management Policy and also Real Estate Valuation Standard, all the real estate has to be regularly monitored and its value regularly re-assessed. Revaluation is being done annually for all commercial real estate, and at least once in three years for residential real estate. The valuation of all commercial real estate is performed on an individual level if the market value is above EUR 1.0 million, pursuant to the Addiko Group Real Estate Valuation Standard.
The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals within other financial instruments).

With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estate’s given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail (prime focus on consumer loans). Additionally, in 2020 Croatian Financial Agency (FINA) has change current practice for movables pledge registry allowing pledge on same movable under different categories which disables safe search and pledge determination. Movables that are within Bank’s internal system shall be internally valued (ICV) as 0. Notwithstanding all the above, movables recorded in the FINA Register shall be further contracted as a collateral (regardless of ICV 0) as they have a market value representing a certain buffer (potential secondary source of collection) in case of enforcement. Above mentioned changes reduced overall collateral coverage.

(59) Market risk

Market risk arises from open positions in market instruments that are linked to interest rates, different underlying currencies, and equities, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions, and through establishing and maintaining appropriate limits.

All trading instruments are subject to market risk, the risk that future changes in the market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in the market conditions directly affect net trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed by buying or selling instruments and hedging positions in accordance with risk limits approved by the Management Board.

59.1. Value at Risk (VaR) analysis

The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss should not exceed the reported VaR.

VaR methodology employed to calculate daily risk numbers is a Monte Carlo simulation used in order to determine potential future exposure to risk. The Bank uses VaR to capture: exposure to Bank Book (99% confidence; 1 day holding horizon), exposure to Trading Book (99% confidence; 1 day horizon) and portfolios and exposure to daily open FX position of the Bank. Methodology used is a structured Monte Carlo simulation with 10,000 runs and a 99% confidence interval based on exponentially weighted volatilities and correlations of the Bank´s own time series (250 days).

Under the internal model, the variance-covariance method is used for the calculation of VaR for interest rate risk measurement in the Bank Book. The approach is based on the assumption that daily changes of interest rates fall within normal distribution. The risk vector is given by the position volatility and a normal distribution factor. The value of estimated loss or VaR for the overall portfolio is given by the multiplication of correlation matrix and inverse risk vector. As Euro is the base currency for all calculations, the Monte Carlo-based VaR calculation is modelled and reported via Addiko Group internal application Portfolio Management System ("PMS") that covers Addiko Group's exposure and monitors risk from the Addiko Group perspective.

The following table presents VaR trends of specific risk factors during the year 2020:

Value at Risk	HRK Million	HRK Million	HRK Million	HRK Million
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk - trading book	0.1	0.4	0.3	0.2
Interest rate risk - banking book	1.9	15.8	4.4	2.6
Credit spread risk	2.0	7.7	3.8	2.2
Currency risk	0.0	0.6	0.2	0.1
Total*	**4.0**	**24.5**	**8.7**	**5.1**

* Correlation effects are not considered in the above analysis.

The following table presents VaR trends of specific risk factors during the year 2019:

Value at Risk	HRK Million	HRK Million	HRK Million	HRK Million
Risk category	Minimum	Maximum	Average	End of year
Interest rate risk - trading book	0.1	0.3	0.2	0.2
Interest rate risk - banking book	2.8	5.2	3.9	3.9
Credit spread risk	1.3	4.5	2.6	4.5
Currency risk	0.0	0.3	0.2	0.1
Total*	**4.2**	**10.4**	**6.9**	**8.7**

* Correlation effects are not considered in the above analysis.

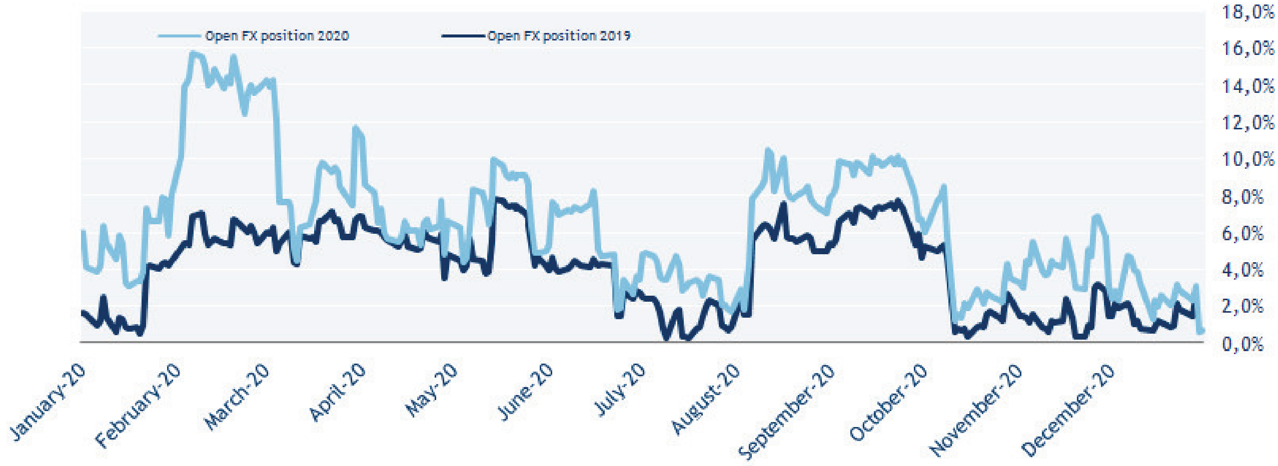
Comparing end of year figures, decrease of total risk amount in 2020 is mainly result of smaller credit spread risk due to lower volatility of CDS/probability of default of Croatia government bonds and similar emerging markets' issuers. Decrease in total market risk exposure was also driven by fall in interest rate risk in bank book due to change of structure of interest rate gaps and lower interest rate volatility. Furthermore, total market risk exposure was on average lower in 2020 against the year before primarily due to lower interest rate risk in bank book, and lower exposure to credit spread risk for securities portfolio likewise played a role in the same way.

59.2. Foreign currency risk

The Bank is exposed to changes of foreign exchange rates which influence its financial position and cash flows. Foreign currency risk exposures emerge out of credit, deposit and investment activities as well as out of trading activities. Foreign currency risk is controlled daily under the given limits for specific currencies and total off-balance sheet positions denominated in foreign currencies or linked to foreign currencies.

The Bank's Management Board establishes exposure limits at the overall level as well as per particular currency. The given internal limits represent the Bank's appetite for foreign currency risk exposure. In 2020, the Bank has continued with conservative strategy towards foreign currency risk exposure limited at EUR 0.24 million (equivalent to HRK 1.81 million) via internal Monte Carlo-based VaR calculation, whereas average total open FX position volume was 39% lower compared to 2019.

The following graph shows comparison in movements of open foreign currency position related to regulatory capital for the year 2020 and 2019:



The Bank is mainly exposed to the Euro (EUR). The following table details the Bank's sensitivity to a 10% depreciation of the domestic currency (HRK) against the relevant foreign currencies.

The following table presents the open FX position from internal management with the anticipated net profit or loss effect as of 31 December 2020:

in HRK million

	USD	EUR	CHF	GBP	Other
Open FX position	12.2	-8.1	2.2	-2.1	3.2
Net profit or loss effect	1.2	-0.8	0.2	-0.2	0.3

The following table presents the open FX position from internal management with the anticipated net profit or loss effect as at 31 December 2019:

in HRK million

	EUR	CAD	NOK	AUD	Other
Open FX position	-73.9	1.4	1.0	0.9	1.7
Net profit or loss effect	-7.4	0.1	0.1	0.1	0.2

All limits for open FX position were respected thorough whole 2020. Monthly average total open FX position volume was in range from around EUR 5.9 million to EUR 32.5 million, with EUR position consuming almost full size of total open FX position. With the EUR as the biggest part of total open FX position, FX risk measured by VaR remained at low levels, shaping limit utilization in sub-20% area.

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency HRK.

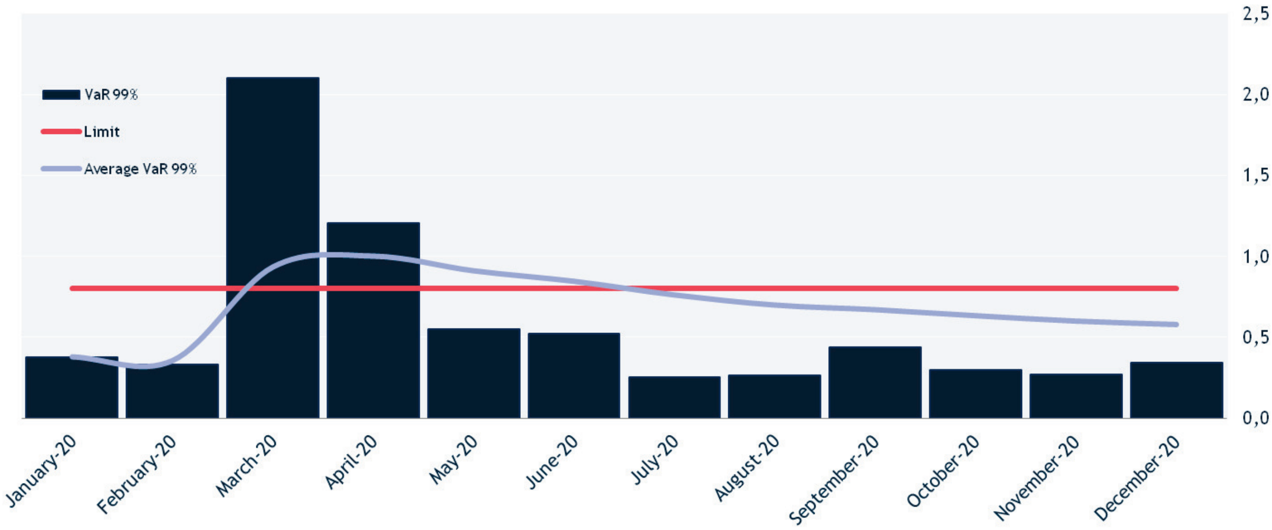
A positive number indicates an increase in profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

59.3. Interest rate risk

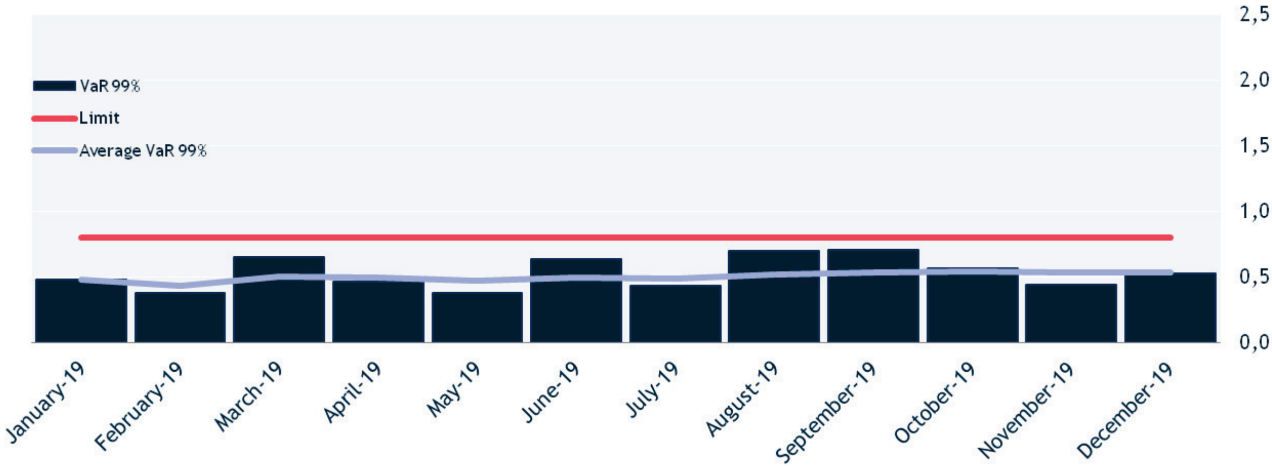
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Management of the interest rate risk is performed through the Interest rate risk in bank book report with the inclusion of utilization of internally accepted limits, and based on this report interest rate position steering within limits is performed through local and group Asset Liability Committees. Due receivables are taken into account under the following conditions: receivables that are due and not impaired are mapped as interest non-sensitive item. Furthermore, receivables which are impaired due to credit risk criteria are reduced for the portion of impairment through the whole payment period as to display only the interest sensitive part of each receivable.
The Bank's interest rate risk in the Bank Book changed between EUR 0.25 million and EUR 2.10 million during 2020. As also in 2019, new loan placements with fixed interest rate are a key feature in the change of balance sheet structure compared to years before, and this in line with the Bank's business strategy. In this connection, the Bank's funding structure still prevents a material increase in interest rate risk and this amid reduction in share of term deposits along-side an increase in share of received funding with until further notice interest rate type. The Bank's interest rate risk management was also influenced by full compliance with the EBA guidelines for interest rate risk in the Bank Book management.

Internal VaR limit for interest rate risk in the Bank Book was maintained at EUR 0.8 million (or HRK 6.0 million) at the end of 2020.

VaR limit monitoring and average usage of given limits for interest rate risk for 2020 is shown in the graph below, in EUR million:



VaR limit monitoring and average usage of given limits for interest rate risk for 2019 is shown in the graph below, in EUR million:



Increase in interest rate volatility, especially during the Covid crisis in March and April 2020, was the key reason for a higher interest rate risk measured by VaR model compared to 2019.

Interest GAP Balance for on-balance sheet positions as at 31 December 2020 is as follows:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	3,922.2	1,357.1	1,419.7	4,320.6	1,657.2	1,253.6	3,226.0	503.2	17,659.6
Liabilities	-5,991.5	-844.5	-862.6	-2,682.6	-932.3	-644.6	-3,177.6	-2,523.9	-17,659.6
Interest GAP	**-2,069.3**	**512.6**	**557.1**	**1,638.0**	**724.9**	**609.0**	**48.4**	**-2,020.7**	0.0
Interest GAP (%)	**-11.7%**	**2.9%**	**3.2%**	**9.3%**	**4.1%**	**3.5%**	**0.3%**	**-11.4%**	**0.0**

** "No Effect" position represents Share capital on Liability side and Tangible and Intangible assets on Asset side.*

Interest GAP Balance for on-balance sheet positions as at 31 December 2019 is as follows:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	185.9	519.4	992.0	5,700.7	1,946.2	1,736.5	4,363.0	2.525,6	17,969.3
Liabilities	-5,076.9	-577.0	-689.6	-3,089.6	-984.9	-693.6	-2,849.2	-4.008,5	-17,969.3
Interest GAP	**-4,891.0**	**-57.6**	**302.4**	**2,611.0**	**961.3**	**1,042.8**	**1,513.9**	**-1.482,9**	0.0
Interest GAP (%)	**-27.2%**	**-0.3%**	**1.7%**	**14.5%**	**5.4%**	**5.8%**	**8.4%**	**-8.3%**	**0.0**

** "No Effect" position represents Share capital on Liability side and Tangible and Intangible assets on Asset side.*

As shown on the chart for 2020, interest rate risk in the Bank Book spiked in March and April due to a Covid crisis, while in rest of the year was largely stable. The EUR and HRK components were major risk contributors throughout 2020.

Monitoring of Equity ratio, which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2019 are shown on the graph as follows:

Monitoring of Equity ratio which represents interest rate risk calculated as 200 BP interest rate shock in relation with regulatory capital, as well as monitoring of internally given limit of 15% of regulatory capital for 2019 is shown on the graph as follows:

The sensitivity analysis below is based on the exposure to interest rates for both derivatives and non-derivative instruments at the financial reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability presented at the financial reporting date was constant for the entire year.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management and when it represents the Management Board's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the impact on Bank's statement of profit or loss would be as presented in the following tables.

Interest GAP sensitivity as at 31 December 2020:

in HRK million

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**-2,069.3**	**512.6**	**557.1**	**1,638.0**	**724.9**	**609.0**	**48.4**	**-2,020.7**	**0.0**
50 BP parallel shift	0.0%	0.0%	0.1%	0.3%	0.7%	1.1%	3.6%	0.0%	0.0%
P/L effect	**0.0**	**0.1**	**0.4**	**5.1**	**5.0**	**6.9**	**1.7**	**0.0**	**19.2**

Interest GAP sensitivity as at 31 December 2019:

in HRK million

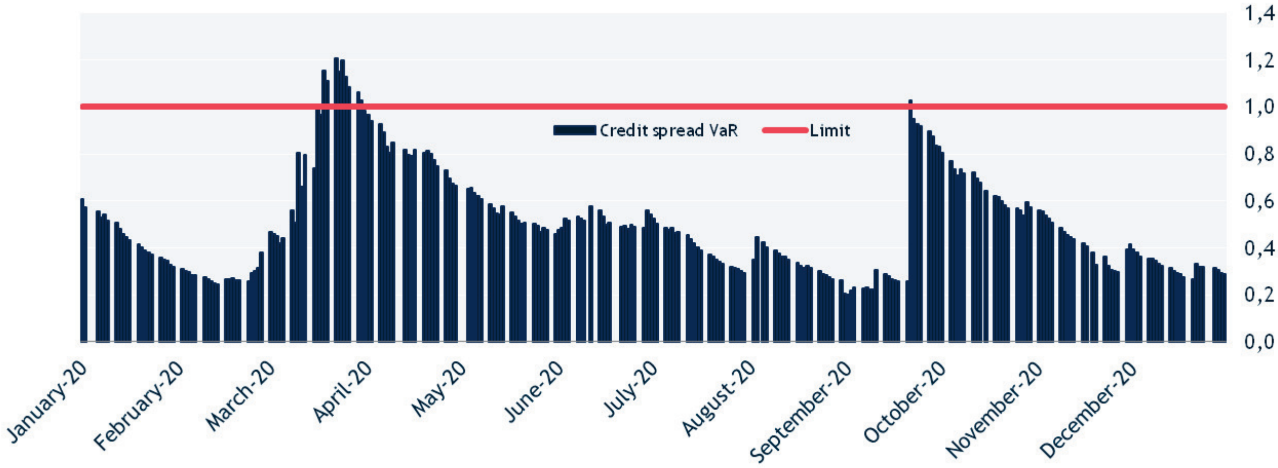
	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect	Total
Interest GAP	**-4,891.0**	**-57.6**	**302.4**	**2,611.0**	**961.3**	**1,042.8**	**1,513.9**	**-1,482.9**	**0.0**
50 BP parallel shift	0.0%	0.0%	0.1%	0.3%	0.7%	1.1%	3.6%	0.0%	0.0%
P/L effect	**0.0**	**-0.0**	**0.2**	**8.1**	**6.6**	**11.8**	**54.2**	**0.0**	**80.9**

Sensitivity analysis is based on the principle described in Basel Committee on Banking Supervision ***"Principles for the Management and Supervision of Interest Rate Risk"***, July 2004, Annex 3 - The standardized interest rate shock.

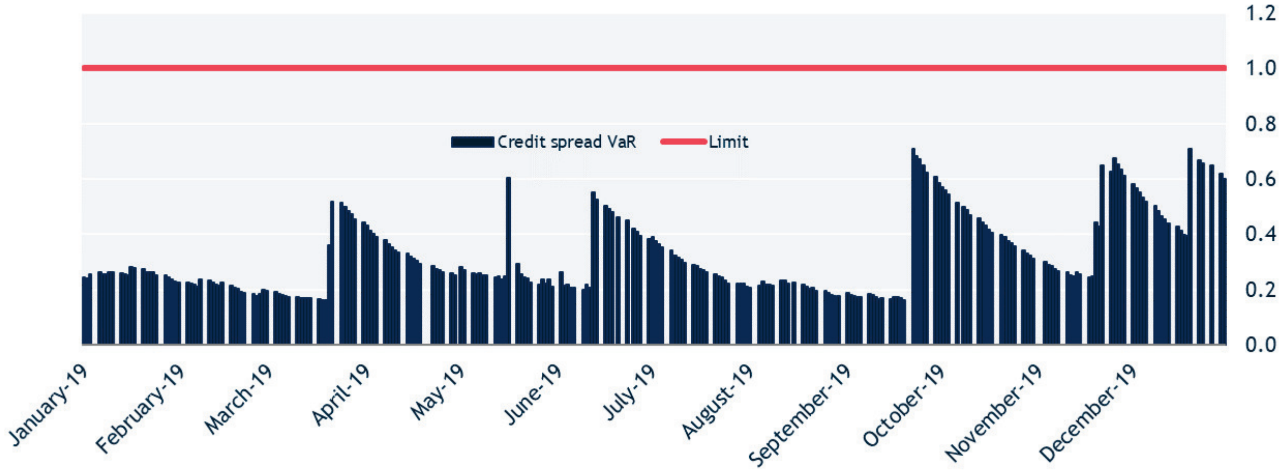
59.4. Credit spread risk

Credit spread risk represents the risk of debt instrument price change that comes out from a shift in expected client creditworthiness, which is usually reported through CDS curve. Along with the interest rate risk, credit spread risk represents a major risk factor within the market risks. Credit spread margin is a constitutional part of each market price of debt security and it is determined on a daily basis. VaR is used as a measure of credit spread risk, having estimated the maximum potential loss of the portfolio over a given period (usually 1 day), due to simulated changes in the prices of its constituent parts, i.e., debt financial instruments.

Historical trend of the Bank's exposure toward credit spread risk in EUR million, together with the given VaR limit for credit spread risk for 2020 is shown on the graph below:



Historical trend of Bank exposure toward credit spread risk in EUR million, together with given VaR limit for credit spread risk for 2019 is shown on the graph below:



Credit spread risk management is carried out through daily VaR reports, within which the monitoring of internally accepted limits is conducted. On the basis of that report, Management and the relevant sectors have information on the amount of risk taken and whether the bank is or it is not positioned within the defined/acceptable limits.

(60) Liquidity risk

Liquidity risk is a measure of the extent up to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. Bank is obliged to continuously insure sufficient amount of liquid assets in order to cover all demands that arise from maturity of their obligations.

The Bank has a clearly defined tolerance towards the liquidity risk exposure, which is determined in accordance with adopted strategy and business plans. In order to meet all regulatory requirements and to achieve and respect security principles as well as to maintain stability and achievement of planned profitability, systematic measurement, limitation and reporting of liquidity risk is applied within the Bank. The Bank maintains its liquidity in compliance with the regulations set by the CNB.

The Bank has maintained a strong liquidity position during 2020 given mostly the influence of robust liquidity reserve and stable funding base. As another one of key regulatory requirements, the Bank manages liquidity position via liquidity coverage ratio, which the regulator defines as the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period.

In 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 166.0 % in March 2020 and its peak of 279.1 % in December 2020.

The following table represents levels of liquidity coverage ratio obtained by the Bank in 2020 and 2019 and calculated out of daily values:

	2020 %	2019 %
Year End	248.9	172.8
Maximum	279.1	194.9
Minimum	166.0	151.1
Average	205.0	172.4

In December 2020, the counterbalancing capacity at the Addiko Bank was structured as follows:

in HRK million

Counterbalancing Capacity	
Coins and bank notes	380.3
Withdrawable central bank reserves	2,467.9
Level 1 tradable assets	2,554.0
Level 2A tradable assets	34.5
Level 2B tradable assets	138.9
Total Counterbalancing Capacity	**5,575.6**

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

in HRK million

Counterbalancing Capacity	
Coins and bank notes	328.0
Withdrawable central bank reserves	796.9
Level 1 tradable assets	3,013.6
Level 2A tradable assets	34.7
Level 2B tradable assets	121.8
Total Counterbalancing Capacity	**4,294,9**

During 2020, the Bank has maintained obligatory amount of foreign currency claims in relation to foreign currency obligations (the so-called A/L ratio) above the prescribed regulatory minimum at 17% as defined by the CNB's Decision on A/L ratio.

The following table shows the level of A/L ratio in 2020 and 2019:

	2020 %	2019 %
Year End	25.1	25.0
Maximum	32.9	30.0
Minimum	22.5	22.6
Average	26.9	25.1

The A/L ratio was maintained at around 27% during 2020 on average, which was 2pp higher level than in 2019. Such development is largely the result of foreign currency liquidity position increase amid foreign currency obligations decrease.

Furthermore, the Bank has set internal limits which represent constitutional part of Liquidity Risk Policy. Ratios which the Bank uses in liquidity risk management and which represents tolerance toward liquidity risk are:

- Current liquidity ratio,
- Local Loan Stable Funding Ratio (LLSFR),
- Short term assets to short term Liabilities ratio (up to 1 Year).

With robust liquidity reserve position, these liquidity risk indicators have also remained at strong levels.

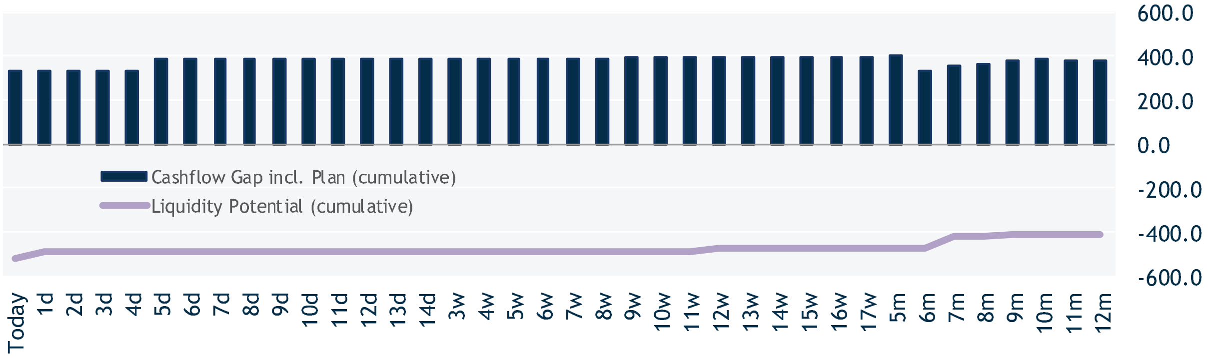
The following table shows the level of Liquidity ratios in 2020 and 2019:

	2020 %	2019 %
Current liquidity ratio:		
Year End	39.7	33.1
Maximum	39.7	35.3
Minimum	31.9	32.8
Average	36.3	33.9
LLSFR ratio:		
Year End	67.4	75.5
Maximum	77.5	75.8
Minimum	67.4	72.6
Average	73.2	74.6
Short term assets to short term Liabilities ratio:		
Year End	111.3	88.3
Maximum	111.3	93.3
Minimum	86.5	79.6
Average	97.9	86.8

Aside from the mentioned regulatory requirements, the Bank has also developed a system of liquidity risk management which ensures continuous maintenance of sufficient liquidity assets (reserve) in the form of additional, high quality, unpledged liquid instruments as insurance in case of unexpected events. A system-based measurement of liquidity risk and monthly monitoring is being performed by the following measure used: the ratio of sufficient liquidity reserves versus projected net cash flows, also known as "Time to Wall" ratio. This ratio is defined for a variety of scenarios. By monitoring this ratio, liquidity risk measurement is being performed for several different predefined liquidity crises, starting from moderate to severe.

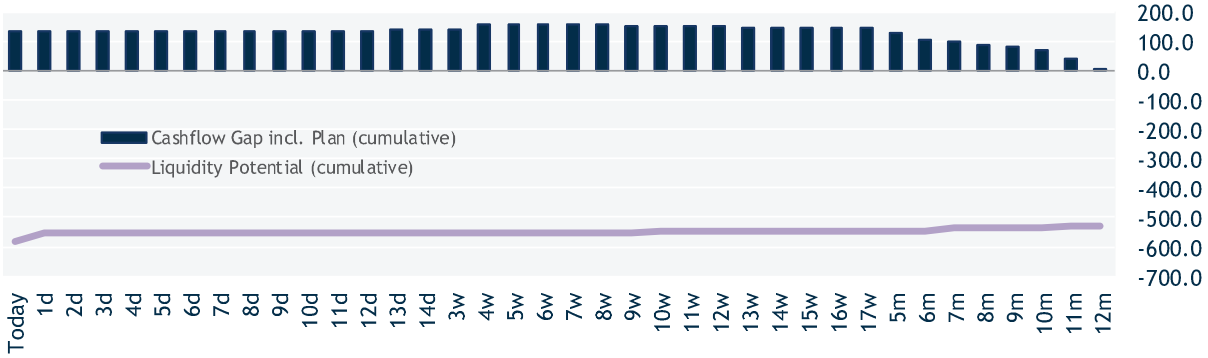
Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2020:

Normal Scenario		31.12.2020
Time to Wall		>12,0 m
Liquidity Position (EUR Mio) after	1 week	869.7
	1 month	872.4
	3 months	864.4
	6 months	806.0
	1 year	786.5



Graph below shows sufficiency of liquidity reserves in relation to net projected outflows ("Time to Wall" ratio) on 31 December 2019:

Normal Scenario		31.12.2019
Time to Wall		>12,0 m
Liquidity Position (EUR Mio) after	1 week	686.5
	1 month	710.9
	3 months	694.8
	6 months	650.9
	1 year	538.6



Aside from the above, the Bank has established a liquidity contingency plan which comprises a variety of measures and regulates procedures in case of a particular crisis. Liquidity crisis declaration criteria consist of several quantitative and qualitative ratios which are monitored and reported daily. In case that crisis declaration criteria is fulfilled, Risk Control department is obliged to inform Management Board, ALCO and LICO, which is then in charge of further actions.

Furthermore, the Bank places special focus on term structure of assets and liabilities in scope of its liquidity risk management.

The following table gives a breakdown of remaining contractual maturities of undiscounted cash flows for the financial assets, liabilities and off-balance of the Addiko Bank as at 31 December 2020:

in HRK million

31.12.2020	Carrying amount	Contractual cash flows	Overnight and 1 day	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Assets							
Cash	380.3	380.3	380.3	0.0	0.0	0.0	0.0
Balances with Croatian National Bank	2,898.6	2,898.6	2,898.6	0.0	0.0	0.0	0.0
Financial assets at fair value through P/L and FVOCI	3,586.6	3,586.6	45.5	161.8	623.9	2,131.4	624.0
Placements with and loans to other banks	589.5	589.5	190.1	399.5	0.0	0.0	0.0
Loans and receivables	9,774.1	11,277.0	216.6	1,379.4	1,808.3	5,008.5	2,864.3
Other assets	430.5	430.5	430.5	0.00	0.0	0.0	0.0
Total assets	**17,659.6**	**19,162.6**	**4,161.7**	**1,940.6**	**2,432.2**	**7,139.9**	**3,488.3**
Liabilities							
Deposits of credit institutions	1,129.5	1,150.5	81.5	3.1	1,066.0	0.0	0.0
Deposits of customers	13,380.3	13,399.5	10,691.9	838.7	1,195.4	545.0	128.5
Loss provisions	195.6	195.6	195.6	0.0	0.0	0.0	0.0
Other liabilities	98.9	98.9	98.9	0.0	0.0	0.0	0.0
Equity	2,855.3	2,855.3	0.00	1.7	8.2	52.0	2,793.3
Total liabilities and equity	**17,659.61**	**17,699.7**	**11,067.9**	**843.5**	**2,269.6**	**597.0**	**2,921.8**
Off Balance							
Derivatives nominal - long	1,040.6	1,040.6	0.0	769.0	7.5	264.1	0.0
Derivatives nominal - short	1,038.5	1,038.5	7.5	759.4	7.5	264.1	0.0
Guarantees	507.8	507.8	26.1	97.1	194.6	186.3	3.7
Uncovered letters of credit	2.5	2.5	0.0	0.3	2.3	0.0	0.0
Revolving loans	361.4	361.4	4.9	87.2	201.5	67.8	0.0
Loan commitments	565.1	565.1	2.9	37.1	487.2	18.9	19.0
Other off-balance commitments	669.2	669.3	9.6	17.4	65.3	509.1	67.8

The table is based on undiscounted cash flows of financial instruments and reflects the numbers in the statement of financial position. Time bucketing is defined by residual maturity of each position with the inclusion of the respective interest.

Below is a breakdown of remaining contractual maturities of undiscounted cash flows for the financial assets, liabilities and off-balance of the Addiko Bank as at 31 December 2019:

in HRK million

31.12.2019	Carrying amount	Contractual cash flows	Overnight and 1 day	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Assets							
Cash	328.0	328.0	328.0	0.0	0.0	0.0	0.0
Balances with Croatian National Bank	1,313.7	1,313.7	1,313.7	0.0	0.0	0.0	0.0
Financial assets at fair value through P/L and FVOCI	4,361.5	4,361.5	164.9	87.5	215.1	3,157.7	736.2
Placements with and loans to other banks	250.4	250.4	191.0	59.5	0.0	0.0	0.0
Loans and receivables	11,218.9	13,043.5	378.4	1,786.7	2,026.1	5,400.2	3,452.2
Other assets	496.8	496.8	496.8	0.0	0.0	0.0	0.0
Total assets	**17,969.3**	**19,793.9**	**2,872.8**	**1,933.6**	**2,241.2**	**8,557.9**	**4,188.4**
Liabilities							
Deposits of credit institutions	1,153.2	1,219.2	118.0	3.3	44.2	1,053.7	0.0
Deposits of customers	13,470.3	13,499.3	10,074.5	941.7	1,677.3	675.7	130.2
Loss provisions	220.9	220.9	220.9	0.0	0.0	0.0	0.0
Other liabilities	106.2	106.2	106.2	0.0	0.0	0.0	0.0
Equity	3,018.7	3,018.7	0.0	1.2	3.3	72.5	2,941.7
Total liabilities and equity	**17,969.3**	**18,064.3**	**10,519.5**	**946.2**	**1,724.8**	**1,801.9**	**3,071.9**
Off Balance							
Derivatives nominal - long	1,357.1	1,357.1	0.0	493.7	312.8	397.4	153.1
Derivatives nominal - short	1,357.4	1,357.4	0.0	494.1	312.8	397.4	153.1
Guarantees	516.4	516.4	25.5	95.2	243.3	151.8	0.7
Uncovered letters of credit	25.1	25.1	0.0	1.4	23.7	0.0	0.0
Revolving loans	327.4	327.4	4.0	67.3	177.2	78.9	0.0
Loan commitments	595.6	595.6	9.6	248.9	250.6	35.1	51.4
Other off-balance commitments	848.7	848.7	28.2	30.5	203.3	534.5	52.3

(61) Operational risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, systems, people or from external events. This definition includes legal risk.

Regulatory requirements with respect to the operational risk management process are related to continuous determination of risk to which the Bank is exposed or could be exposed in their operations and analysis of the risk exposure causes. Standards for an operational risk management process are aligned with the legislation of CNB. To calculate the capital requirement for the operational risk, Bank uses the standardized approach.

Operational risk management process includes comprehensiveness of the organizational structure, policies, processes, procedures, systems and resources for identifying, measuring and assessing, controlling, monitoring and reporting of operational risk exposures and risk management in general, and includes the establishment of appropriate corporate governance and risk culture.

The organizational structure of the operational risk management reflects the fact that operational risk is inherent in the overall operations of the Bank including a Non-financial Risks function as a central component that coordinates, analyses and monitors operational risk, and a decentralized component in all organizational units of the Bank responsible for everyday practical use and implementation of operational risk management process.

Within the operational risk management, roles and responsibilities are strictly defined and documented in internal documents which allow communication and collaboration at all levels, and an adequate flow and circulation of information relevant for operational risk management. Non blaming culture prevents any conflict of interest in the data collection process.

Raising awareness on operational risk management is carried out by continuously organizing internal trainings in the Bank and by establishing the Operational Risk Committee as a body for approval and discussion of strategic issues related to monitoring and managing operational risk at the level of the Bank. Additionally, the Bank ensures continuous internal trainings and internal publications in order to increase risk awareness regarding operational risk management.

Operational risk management process is based on a proactive approach to the early detection and prevention of operational risk events that could cause a loss. In the document "Operational Risk Management Policy" the Bank has summarized rules for the identification, assessment, management and control of the operational risk. Series of internal acts were created that strategically and operationally define operational risk management process and clearly define the roles and responsibilities of all the Bank's employees involved in it.

Methods of measuring the operational risk include both quantitative and qualitative methods, which represent the tool for observation of changes in the Bank's risk profile.

Quantitative method of measuring the operational risk includes the data collection about the events that resulted in losses or could result in losses due to the operational risk. Qualitative method of measurement of the operational risk includes an analysis of scenarios for events of low frequency and significant consequences on an annual basis, a risk assessment during the implementation of new products, entering into the new markets, outsourced activities, risk assessment within the significant projects and risk and control assessment in business processes according to internal control system methodology.

Internal Control System as part of the operational risk is the sum of all measures designed and implemented to determine, manage and minimize risks in business processes. It is built on a process-oriented approach and it is a core component of all processes in the Bank that are part of or that influence the financial reporting of the Bank. The main goal of an Internal Control System process is to reduce the risks within the business area by establishing adequate control management and by continuous improvement of the process of the established control system in order to assure the correctness of financial and regulatory reporting.

Capital requirement for operational risk as at 31 December 2020 amounts to HRK 86.6 million. Total realized booked operational risk losses amounts to HRK 13.3 million and these losses are recorded within 270 operational risk events which are mostly influenced by provisions allocated to CHF passive legal cases. The recovery is recorded in the amount of HRK 1.1 million, which represents net loss in the amount of HRK 12.2 million.

(62) Other risks

62.1. Strategic risk / Business risk

Strategic risk means the risk of loss caused by adverse business decisions, lack of responsiveness to changes in the economic environment. It arises from the faulty management decisions on corporate positioning, treatment of business sectors, the choice of business partners or the development and use of internal potentials.

Ability to manage strategic risk is crucial for its survival and long-term development. Strategic risk management primarily involves the Bank’s relation to the environment in which it operates, decisions in response to the changes that occur in its business environment and making decisions related to capital and other resources in a manner that creates a priority of the Bank as a whole in front of her competition.

Business risk is defined as potential loss in earnings due to adverse, unexpected changes in business volume, margins or both. Such losses can result above all from a serious deterioration of the market environment, customer shift, changes in the competitive situation or internal restructuring.

It can lead to serious losses in earnings, thereby diminishing the market value of a company.

Business risk is in principle driven by three key factors:

- Revenue Volatility
- Pre-tax Operating Profit Margin
- Cost Base Flexibility

Increased revenue volatility will increase the probability of revenue falling below costs, hence incurring a business risk loss.

62.2. Legal risk

Legal Risk results due to a possibility that unfulfilled contractual obligations, court proceedings against credit institutions, as well as unenforceable business decisions negatively affect the business or financial position of the credit institution. The Bank conducts quantitative and qualitative measurement of exposure of legal risks. Quantitative assessment includes gathering data on losses incurred due to legal risks. In addition to the overall legal risk assessment, quality measured and analysed are the individual segments of legal risk that the Bank has specifically highlighted are legislation and regulation, legal and regulatory compliance, liability for damages and contract performance.

The association “Franak” initiated a consumer protection proceedings against 8 banks for the protection of the collective interests and rights in April 2012, claiming nullity of the unilateral interest change provisions and the CHF currency clause provisions in CHF loan agreements.

The most relevant decisions that preceded the considerable increase of the number of individual CHF court's proceedings against the Bank during 2019 are the following (i) May 2015 – the Supreme Court of the Republic of Croatia has fully confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the unilateral interest change provision in CHF loan agreements, and (ii) September 2019 - the Supreme Court of the Republic of Croatia has confirmed the decision of the High Commercial Court of the Republic of Croatia on the nullity of the currency clause provision in CHF loan agreements.

Borrowers whether participating in the class action or not cannot exert any direct claims from the verdict but have to file individual complaints regarding any potential overpayment claims due to the FX clause. Since this verdict is not directly binding to all lower courts each borrower has to claim individually and prove the preconditions. Currently the Bank assumes that cases concerning converted loans are not open to annulment. On 12 December 2019 the Supreme Court announced that it accepted the request from a first instance court to rule in a sample case procedure whether converted loans can still be annulled. Supreme Court has, in its decision on the sample case dated 4 March 2020, determined that the agreements on conversion, which were concluded in line with the Amendments to the Consumer Credit Act (Official Gazette 102/2015), are valid and produce legal effects.

62.3. Outsourcing risk

Outsourcing risk represents the term for all the risks that can arise when the Bank is contractually delegating of activities to the service providers for services which would normally be performed by the Bank itself and as such risk cannot be quantified separately, but its influence is being observed through other risks such as operational risk, strategic, reputational, legal, etc., which could have a negative effect on the financial result, business continuity or Bank reputation.

62.4. Reputational risk

The Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of clients, counterparties, shareholders, investors or regulators.

The bank's reputation reflects the information that third parties have on how trustworthy the behaviour has been in the past.

The Bank distinguishes between two major factors for reputational risk:
- Reputational risk caused by internal and external complaints
- Reputational risk as a matter of the damage to the bank´s image

62.5. Systemic risk

Systemic risk is understood as the risk of disruption in the financial system as a whole or parts of the financial system.

(63) Derivative financial instruments

Credit exposure or replacement cost of financial derivative instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. This is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent, calculated pursuant to generally applicable methodology using the current exposure method and it involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract.

The credit equivalent is established depending on the type of contract and its maturity. The Bank periodically assesses credit risks of all financial instruments.

Derivative financial instruments used by the Bank include interest, cross-currency and currency swaps and forwards, whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges or individually negotiated contracts. Swap arrangements are used for hedging of exposure resulting from adverse movements in interest and exchange rates, as well as for transformation of currency liquidity.

Supplementary information required by IFRS

(64) Analysis of remaining maturities

in HRK million

31.12.2020	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	3,464.0	764.4	0.0	0.0	0.0	4,228.4	0.0	4,228.4
Financial assets held for trading	0.0	5.1	1.8	126.6	0.0	6.9	126.6	133.5
Financial assets mandatorily at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income	41.9	170.5	621.8	2,000.0	623.0	834.2	2,623.0	3,457.1
Financial assets at amortised cost	55.0	1,379.5	1,541.9	4,133.1	2,308.3	2,976.4	6,441.4	9,417.8
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	240.6	240.6
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	79.3	79.3
Tax assets	0.0	0.0	0.0	0.0	0.0	0.0	34.4	34.4
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	34.4	34.4
Other assets	0.0	0.0	0.0	0.0	0.0	64.3	0.0	64.3
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	4.1	0.0	4.1
Total	**3,560.9**	**2,319.5**	**2,165.6**	**6,259.6**	**2,931.3**	**8,114.3**	**9,545.3**	**17,659.6**
Financial liabilities held for trading	0.0	4.5	0.1	8.4	0.0	4.6	8.4	13.0
Financial liabilities measured at amortised cost	10,284.8	1,269.7	2,247.5	571.4	136.5	13,802.0	707.9	14,509.8
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	195.8	195.8
Other liabilities	0.0	0.0	0.0	0.0	0.0	85.8	0.0	85.8
Total	**10,284.8**	**1,274.2**	**2,247.5**	**579.8**	**136.5**	**13,892.3**	**912.1**	**14,804.4**

in HRK million

31.12.2019	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	2,879.1	0.0	0.0	0.0	0.0	2,879.1	0.0	2,879.1
Financial assets held for trading	0.0	0.9	2.4	121.3	2.0	3.3	123.4	126.7
Financial assets mandatorily at fair value through profit or loss	0.0	121.9	0.0	0.0	0.0	121.9	0.0	121.9
Financial assets at fair value through other comprehensive income	0.0	90.4	213.3	3,034.5	774.5	303.7	3,809.0	4,112.7
Financial assets at amortised cost	20.8	1,235.6	1,757.9	4,446.7	2,775.5	3,014.3	7,222.1	10,236.4
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	300.2	300.2
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	51.7	51.7
Tax assets	0.0	0.0	0.0	0.0	0.0	0.0	84.4	84.4
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	84.4	84.4
Other assets	0.0	0.0	0.0	0.0	0.0	51.2	0.0	51.2
Non-current assets and disposal groups classified as held for sale, financial instruments	0.0	0.0	0.0	0.0	0.0	5.1	0.0	5.1
Total	**2,899.9**	**1,448.8**	**1,973.5**	**7,602.5**	**3,552.0**	**6,378.5**	**11,590.8**	**17,969.3**
Financial liabilities held for trading	0.0	0.9	0.1	6.0	1.9	1.0	7.9	8.9
Financial liabilities measured at amortised cost	9,506.9	1,548.1	1,684.8	1,737.7	146.0	12,739.8	1,883.7	14,623.5
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	237.1	237.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	81.0	0.0	81.0
Total	**9,506.9**	**1,549.0**	**1,684.9**	**1,743.7**	**147.9**	**12,821.9**	**2,128.7**	**14,950.6**

Remaining maturity refers to the period between the reporting date and the expected payment date for the receivable or liability. Where receivables or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. An analysis regarding recovery or settlement up to 1 year after the reporting date and over 1 year after the reporting date, as requested in IAS 1, is presented. The breakdown by remaining maturities is based on the carrying amounts included in the statement of financial position.

(65) Leases from the view of the Bank as lessor

65.1. Finance leases

The receivables under finance lease are included in loans and receivables, breaking down as follows:

in HRK million

	31.12.2020	31.12.2019
Minimum lease payments (agreed instalments + guaranteed residual value)	59.0	70.5
Unguaranteed Residual Value (+)	0.0	0.0
Gross investment value (=)	59.0	70.5
up to 1 year	22.1	17.4
from 1 year to 2 years	23.3	20.5
from 2 year to 3 years	13.6	20.6
from 3 year to 4 years	0.0	12.0
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0
Unrealized financial income (interest) (-)	-2.5	-4.7
Net investment value (=)	56.5	65.8
Present value of non-guaranteed residual values	0.0	0.0
Present value of the minimum lease payments	56.5	65.8
up to 1 year	20.6	15.2
from 1 year to 2 years	22.4	19.0
from 2 year to 3 years	13.5	19.7
from 3 year to 4 years	0.0	11.9
from 4 year to 5 years	0.0	0.0
over 5 years	0.0	0.0

Assets leased under finance leases (leased assets) break down as follows:

in HRK million

	31.12.2020	31.12.2019
Movable assets	59.0	70.5
Total	**59.0**	**70.5**

65.2. Operating leases

The undiscounted minimum lease payments to be received after the reporting date from operating leases for each of the years of the lease contract are shown as follows:

in HRK million

	31.12.2020	31.12.2019
Not later than 1 year	1.1	3.3
Later than 1 year but not later than 2 years	0.3	2.5
Later than 2 years but not later than 3 years	0.3	2.4
Later than 3 years but not later than 4 years	0.2	2.4
Later than 4 years but not later than 5 years	0.2	2.3
Later than 5 years	0.0	0.2
Total	**2.0**	**13.2**

The breakdown of minimum lease payments from non-cancellable operating leases, by leased assets, is as follows:

in HRK million

	31.12.2020	31.12.2019
Investment properties	0.6	9.9
Land and buildings	1.3	3.3
Total	**2.0**	**13.2**

Rental income recognised by the Bank during the year 2020 is HRK 2.6 million (2019: HRK 1.3 million).

(66) Leases from the view of the Bank as lessee

The Bank leases the majority of its offices and branches under various rental agreements. The Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods up to 10 years. Extension and termination options are included in a number of property leases. Several lease contracts have indefinite lease term. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate.

The lease agreements do not include any clauses that impose any restrictions on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The Bank had total cash outflows for leases of HRK -23.5 million in 2020 (2019: HRK -24.9 million).

The undiscounted maturity analysis of lease liabilities under IFRS 16 is as follows:

in HRK million

	31.12.2020	31.12.2019
Not later than 1 year	12.8	15.6
Later than 1 year but not later than 5 years	38.2	47.9
Later than 5 years	11.0	20.2
Total	**62.1**	**83.7**

The expenses relating to payments not included in the measurement of the lease liability are as follows:

in HRK million

	31.12.2020	31.12.2019
Short-term leases	0.0	1.3
Leases of low value assets	3.5	4.4
Variable lease payments	3.0	3.0
Total	**6.6**	**8.8**

(67) Assets/liabilities denominated in foreign currencies

The following amounts in the statement of financial position are denominated in foreign currencies:

in HRK million

	31.12.2020	31.12.2019
Assets	8,354.0	9,226.5
Liabilities	8,452.2	9,016.1

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

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

in HRK million

	31.12.2020	31.12.2019
Loan commitments given	1,595.8	1,771.8
Financial guarantees given	136.9	186.8
Other commitments, given	373.4	354.6
Total	**2,106.1**	**2,313.2**

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

(69) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorised under the three levels of the fair value hierarchy:

Quoted prices in active markets (level I)
The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.

Value determined using non-observable parameters (level III)
This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

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

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

Equity instruments
Equity instruments are reported under level I if prices are quoted in an active market. If no quoted prices are available, they are reported under level III. Valuation models can include the adjusted net asset value method, the simplified income approach, the dividend discount model or the comparable company multiple method.

Derivatives
The fair value of derivatives that are not options is determined by discounting the relevant cash flows with the corresponding yield curves. These are reported under level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, these derivatives are reported under level III. The fair value of structured financial products is calculated according to the type of embedded derivative using a measurement model; they are reported under level II or level III depending on the input factors used.

Debt financial assets and liabilities
The method used to measure debt financial assets and liabilities depends on the liquidity in the relevant market. Liquid instruments measured on the basis of the relevant market value are reported under level I. The fair value is determined using valuation techniques whereby expected cash flows are discounted by the risk premium adjusted curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported under level II or level III. They are reported under level III in the event that a significant, non-observable risk premium is used. Market prices provided either at a low frequency or only from one source are reported under level III.

69.1. Fair value of financial instruments carried at fair value

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

in HRK million

31.12.2020	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Financial assets held for trading	125.8	7.8	0.0	133.5
Derivatives	0.0	7.8	0.0	7.8
Debt securities	125.8	0.0	0.0	125.8
Investment securities mandatorily at FVTPL	0.0	0.0	0.0	0.0
Equity instruments	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0
Investment securities at FVTOCI	3,369.9	84.3	2.9	3,457.1
Equity instruments	20.0	18.9	2.9	41.9
Debt securities	3,349.9	65.4	0.0	3,415.3
Total	**3,495.6**	**92.0**	**2.9**	**3,590.6**
Liabilities				
Financial liabilities held for trading	0.0	13.0	0.0	13.0
Derivatives	0.0	13.0	0.0	13.0
Total	**0.0**	**13.0**	**0.0**	**13.0**

Transfers between level I and level II
Main reason for decrease of Level II debt securities at FVTOCI is coming from transfer of two Ministry of Finance bonds to Level I portfolio (total book value amounts HRK 499.2 million). Decrease of Level II financial assets held for trading is influenced also by transfer of one Ministry of finance bond to Level I portfolio (total book value amounts HRK 79.4 million).

in HRK million

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Financial assets held for trading	41.8	84.9	0.0	126.7
Derivatives	0.0	4.3	0.0	4.3
Debt securities	41.8	80.6	0.0	122.4
Investment securities mandatorily at FVTPL	121.9	0.0	0.0	121.9
Equity instruments	121.9	0.0	0.0	121.9
Debt securities	0.0	0.0	0.0	0.0
Investment securities at FVTOCI	3,432.9	676.9	2.9	4,112.7
Equity instruments	0.0	35.7	2.9	38.6
Debt securities	3,432.9	641.2	0.0	4,074.1
Total	**3,596.6**	**761.7**	**2.9**	**4,361.3**
Liabilities				
Financial liabilities held for trading	0.0	8.9	0.0	8.9
Derivatives	0.0	8.9	0.0	8.9
Total	**0.0**	**8.9**	**0.0**	**8.9**

The reconciliation of the assets reported under level III as at 31 December 2020 was as follows:

in HRK million

2020	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Dispos-als (-)	Transfer into/out of other Levels	Other (+/-)	31.12.
Assets								
Investment securities at FVTOCI	2.9	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Equity instruments	2.9	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Total	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.9**

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

in HRK million

2019	01.01.	Valuation gains/losses - PnL	Valuation gains/losses - OCI	Additions (+)	Dispos-als (-)	Transfer into/out of other Levels	Other (+/-)	31.12.
Assets								
Investment securities at FVTOCI	2.9	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Equity instruments	2.9	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Total	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.9**

Equity instruments at FVTOCI with a book value of HRK 2.9 (2019: HRK 2.9 million) million remained in level III.

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

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

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

Present value of the future cash flows (discounted cash flow method)
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.

Option measurement models
The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

Non-observable input factors for level III items
Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer’s country and sector. This applies to the risk premium of the Addiko Group. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.

Loss given default
The loss given default is a parameter that is never directly observable before an entity default.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

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

The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

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

OIS discounting

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

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

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

in HRK million

31.12.2020	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions
Assets						
Cash reserves[1)]	4,228.4	4,228.4	0.0	0.0	0.0	0.0
Financial assets at amortised cost	9,417.8	10,518.6	1,100.9	0.0	0.0	10,518.6
Loans and receivables	9,417.8	10,518.6	1,100.9	0.0	0.0	10,518.6
Total	**13,646.2**	**14,747.1**	**1,100.9**	**0.0**	**0.0**	**10,518.6**
Liabilities						
Financial liabilities measured at amortised cost	14,509.8	14,554.9	-45.0	0.0	0.0	14,554.9
Deposits	12,996.2	13,017.0	-20.8	0.0	0.0	13,017.0
Borrowings	351.1	352.2	-1.1	0.0	0.0	352.2
Subordinated debt	1,044.9	1,068.0	-23.1	0.0	0.0	1,068.0
Other financial liabilities	117.6	117.6	0.0	0.0	0.0	117.6
Total	**14,509.8**	**14,554.9**	**-45.0**	**0.0**	**0.0**	**14,554.9**

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

in HRK million

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions
Assets						
Cash reserves1)	2,879.1	2,879.1	0.0	0.0	0.0	0.0
Financial assets at amortised cost	10,236.4	11,368.4	1,132.0	0.0	0.0	11,368.4
Loans and receivables	10,236.4	11,368.4	1,132.0	0.0	0.0	11,368.4
Total	**13,115.5**	**14,247.5**	**1,132.0**	**0.0**	**0.0**	**11,368.4**
Liabilities						
Financial liabilities measured at amortised cost	14,623.5	14,617.3	6.1	0.0	0.0	14,617.3
Deposits	13,093.1	13,124.2	-31.1	0.0	0.0	13,124,2
Borrowings	347.2	345.2	2.0	0.0	0.0	345.2
Subordinated debt	1,031.9	996.7	35.2	0.0	0.0	996.7
Other financial liabilities	151.3	151.3	0.0	0.0	0.0	151.3
Total	**14,623.5**	**14,617.3**	**6.1**	**0.0**	**0.0**	**14,617.3**

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

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

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

69.3. Fair value of Investment properties

The fair value of investment properties is determined using market-based estimates which are generally calculated by full-time experts. At the end of 2020 the carrying amount of investment properties amounts to HRK 7.8 million (2019: HRK 16.7 million), whereas the fair value amounts to HRK 12.4 million (2019: HRK 18.9 million). All investment properties were classified in level III (2019: level III).

(70) Offsetting financial assets and financial liabilities

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognised financial assets and financial liabilities. Furthermore, the amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the statement of financial position.

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position where the Bank has currently an enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The impact of offsetting is presented in the line "Amounts that are set off for financial instruments I". The impact of potential offsetting if all set-off rights would be exercised is presented in the line "Net amounts of financial instruments I and II (c-d)".

in HRK million

31.12.2020	Derivatives	Reverse repo	Total
Assets			
a) Gross amounts of recognised financial instruments (I and II1))	**0.5**	**15.0**	**15.5**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.5**	**15.0**	**15.5**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0	0.0
Amounts related to financial collateral (including cash collateral);	0.5	0.0	0.5
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	15.0	15.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1])Financial instruments I: Financial assets that are already offset in the statement of financial position
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position

in HRK million

31.12.2019	Derivatives	Reverse repo	Total
Assets			
a) Gross amounts of recognised financial instruments (I and II1))	**0.8**	**57.0**	**57.8**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**0.8**	**57.0**	**57.8**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.8	0.0	0.8
Amounts related to financial collateral (including cash collateral);	0.0	0.0	0.0
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	57.0	57.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1])Financial instruments I: Financial assets that are already offset in the statement of financial position
Financial instruments II: Financial assets that are subject to a netting agreement but are not offset in the statement of financial position

in HRK million

31.12.2020	Derivatives	Direct repo	Total
Liabilities			
a) Gross amounts of recognised financial instruments (I and II1))	**10.4**	**0.0**	**10.4**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**10.4**	**0.0**	**10.4**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.0	0.0	0.0
Amounts related to financial collateral (including cash collateral);	10.4	0.0	10.4
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1)]Financial instruments I: financial liabilities that are already offset in the statement of financial position
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position

in HRK million

31.12.2019	Derivatives	Direct repo	Total
Liabilities			
a) Gross amounts of recognised financial instruments (I and II1))	**8.6**	**0.0**	**8.6**
b) Amounts that are set off for financial instruments I	0.0	0.0	0.0
c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)	**8.6**	**0.0**	**8.6**
d) Master netting arrangements (that are not included in b)	0.0	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	0.8	0.0	0.8
Amounts related to financial collateral (including cash collateral);	7.8	0.0	7.8
Amounts related to non-cash financial collateral received (excluding cash collateral);	0.0	0.0	0.0
e) Net amounts of financial instruments I and II (c-d)	**0.0**	**0.0**	**0.0**

[1)]Financial instruments I: financial liabilities that are already offset in the statement of financial position
Financial instruments II: financial liabilities that are subject to a netting agreement but are not offset in the statement of financial position

Framework agreements are concluded with business partners for offsetting derivative transactions, so that positive and negative market values of the derivative contracts covered by the framework agreements can be offset against each other.

Repurchase agreements qualify as potential offsetting agreements.
Since such offsetting cannot be performed in the ordinary course of business but only in case following an event of default, insolvency or bankruptcy or following other predetermined events, the positions are not offset in the statement of financial position.

(71) Derivative financial instruments

71.1. Derivatives held for trading

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

in HRK million

	31.12.2020			31.12.2019		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest rate	**480.2**	**3.0**	**10.4**	**550.5**	**3.0**	**7.9**
OTC-products	**480.2**	**3.0**	**10.4**	**550.5**	**3.0**	**7.9**
OTC other	480.2	3.0	10.4	550.5	3.0	7.9
b) Foreign exchange and gold	**559.8**	**4.7**	**2.5**	**807.1**	**1.2**	**1.0**
OTC-products	**559.8**	**4.7**	**2.5**	**807.1**	**1.2**	**1.0**
OTC other	559.8	4.7	2.5	807.1	1.2	1.0
c) Credit derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Credit default swap	0.0	0.0	0.0	0.0	0.0	0.0

(72) Related party disclosures

Addiko Bank d.d., Zagreb is directly owned by Addiko Bank AG, Vienna, to whom and to whose affiliates, the Bank provides banking services.

Related parties as defined by the Bank are parent company, entities of the parent company group as well as key management. The Bank considers that the key management include Management and Supervisory Board members, procurator, as well as managers with key or controlling functions including their close family members.

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

in HRK million

31.12.2020	Parent company	Entities of the parent company group	Key management	Other related parties
Financial assets	16.3	6.1	3.5	0.0
Cash reserves	14.7	2.6	0.0	0.0
Financial assets held for trading	0.0	0.0	0.0	0.0
Loans and receivables	1.5	3.5	3.5	0.0
Other assets	0.0	0.5	0.0	0.0
Financial liabilities	1,065.6	21.5	8.2	0.0
Financial liabilities held for trading	10.4	0.0	0.0	0.0
Deposits	9.1	19.0	8.2	0.0
Subordinated debt	1,044.9	0.0	0.0	0.0
Other financial liabilities	1.1	2.5	0.0	0.0
Other liabilities	0.0	0.0	0.1	0.0

in HRK million

31.12.2019	Parent company	Entities of the parent company group	Key management	Other related parties
Financial assets	12.1	3.4	4.4	0.0
Cash reserves	10.1	0.7	0.0	0.0
Financial assets held for trading	0.4	0.0	0.0	0.0
Loans and receivables	1.6	2.7	4.4	0.0
Other assets	0.0	0.6	0.0	0.0
Financial liabilities	1,077.6	46.0	3.3	0.0
Financial liabilities held for trading	7.9	0.0	0.0	0.0
Deposits	34.3	46.0	3.3	0.0
Subordinated debt	1,031.9	0.0	0.0	0.0
Other financial liabilities	3.5	0.0	0.0	0.0
Other liabilities	0.5	3.0	0.1	0.0

in HRK million

31.12.2020	Parent company	Entities of the parent company group	Key management	Other related parties
Interest and similar income	2.6	0.1	0.1	0.0
Interest expense	-52.0	0.0	0.0	0.0
Fee and commission income	0.2	0.5	0.0	0.0
Fee and commission expenses	0.0	-0.2	0.0	0.0
Net result on financial instruments	-3.6	0.0	0.0	0.0
Other administrative expenses	-2.7	-3.0	-0.4	0.0
Other operating income	16.5	7.5	0.0	0.0
Other operating expenses	0.0	-0.1	0.0	0.0
Total	**-39.1**	**4.8**	**-0.3**	**0.0**

in HRK million

31.12.2019	Parent company	Entities of the parent company group	Key management	Other related parties
Interest and similar income	7.5	0.1	0.1	0.0
Interest expense	-51.0	0.0	0.0	0.0
Fee and commission income	0.0	0.5	0.0	0.0
Fee and commission expenses	-0.2	0.0	0.0	0.0
Net result on financial instruments	-4.8	0.0	0.0	0.0
Other administrative expenses	-4.4	-3.0	-0.4	0.0
Other operating income	16.0	8.8	0.0	0.0
Other operating expenses	0.0	0.0	0.0	0.0
Total	**-36.9**	**6.4**	**-0.3**	**0.0**

Remuneration received by key members of management is presented as follows:

in HRK million

	31.12.2020	31.12.2019
Wages and salaries	20.1	18.2
Social security	3.9	3.4
Expenses for pensions	3.3	2.2
Other personnel expenses	0.0	0.0
Total	**27.3**	**23.8**

Compensation to the Supervisory Board members for the year 2020 amounted to HRK 0.4 million (2019: HRK 0.4 million).

(73) Capital management

73.1. Own funds and capital management

The capital management of the Bank is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding local regulations (Basel III Pillar I) and the economic capital management approach (Basel III Pillar II) related to the Internal Capital Adequacy Assessment Process (ICAAP). The requirements were implemented within the EU by the Capital Requirements Regulation No. 575/2013 (CRR) and the Capital Requirements Directive (CRD IV). The CRD IV was enacted in national law in the CNB regulation[2].

In terms of the calculation of risk weighted assets (RWA) at standalone level (for regulatory reporting), the following approaches are applied:

- Standardised Approach for credit risk (SA-CR) and
- Standardised Approach (STA) for operational risk

The Bank employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the overall business, to analyze changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilizations for each segment. The capital management function is fully integrated into the Banks business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

As part of the SREP, minimum regulatory capital requirements are set for the Bank (Pillar II capital guidance is not required). In addition to the minimum capital ratios required by the regulators, the Bank defines early warning and recovery levels in the Addiko Group's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of SRB and CNB (Decision on recovery plans of credit institutions).

Additionally, the Risk Control and Accounting departments tracks all new regulatory changes, e.g. MREL and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

73.2. ICAAP - Internal Capital Adequacy Assessment Process

Securing the Banks ability to bear economic risks forms a central part of steering activities within the Bank; to which end the Bank processes an institutionalised internal process (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.

[2] CNB Decision on the internal capital adequacy assessment process for credit institutions

The starting point for performing the risk-bearing capacity calculation is the identification of all material risks through an annual risk materiality assessment process. The value at risk (VaR) method is applied for calculating risk capital requirements for credit, market and liquidity risk, the main risk categories. The Bank is steered in accordance with the gone and going concern approaches at confidence levels of 99.9% and 95.0%.

Risk capital requirements are counterbalanced by risk coverage capital. This is used as the basis for the annual limit planning and for the regular comparison with risk capital requirements as part of the risk-bearing capacity analysis. In addition, stress tests are performed, in which risk parameters (probabilities of default, collateral values, exchange rates, etc.) are stressed in specific scenarios and the effects of these stress scenarios on liquidity and own capital funds are presented.

The risk-bearing capacity report and the results of the stress tests are prepared by Risk Control and presented to the Risk Committee (RICO) and Managemnt Board, where they are discussed and, if required, measures are decided. In this regard, the RICO and regular Management Board sessions serves as an operational basis for controlling economic risks. This committee also discusses and approves the risk standards (methods, processes, systems, organisation and stress test assumptions) for the Bank. Additionally, the ICAAP report is submitted to the Management Board on a quarterly basis and summary is also presented to the committees of the Supervisory Board.

73.3. 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 I requirement	4.5%	6.0%	8.0%	4.5%	6.0%	8.0%
Pillar II requirement	4.3%	4.3%	4.3%	3.7%	3.7%	3.7%
Total SREP Capital Requirement (TSCR)	**8.8%**	**10.3%**	**12.3%**	**8.2%**	**9.7%**	**11.7%**
Capital Conservation Buffer (CCB)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer	1.5%	1.5%	1.5%	3.0%	3.0%	3.0%
O-SII risk buffer[2)]	1.0%	1.0%	1.0%	-	-	-
Counter-Cyclical Capital Buffer	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Combined Buffer Requirements (CBR)1)	**5.0%**	**5.0%**	**5.0%**	**5.5%**	**5.5%**	**5.5%**
Overall Capital Requirement (OCR)	**13.8%**	**15.3%**	**17.3%**	**13.7%**	**15.2%**	**17.2%**
Pillar II guidance (P2G)[1)]	0.0%	0.0%	0.0%	-	-	-
OCR + P2G	**13.8%**	**15.3%**	**17.3%**	**13.7%**	**15.2%**	**17.2%**
Temporary requirements after capital relief by ECB (without CCB + P2G)[1)]	**11.3%**	**12.8%**	**14.8%**	**-**	**-**	**-**

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

[2)] Systemic Risk Buffer for 2019 also includes O-SII risk buffer and it is calculated as higher of these two buffers.

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 CNB informed Bank by way of an official notification to hold at bank level 4.3% 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 CNB 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 4.3%.

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

Taking into account ECB’s communication on the temporary capital relief measures with regard to the P2R, the full usage of the capital conservation buffer, Banks CET1 requirement amounts to 11.3%, its T1 requirement amounts to 12.8% and its total own funds requirement amounts to 14.8%.

The following table shows the breakdown of own funds requirements within the Bank by applying transitional rules as per 31 December 2020 and 31 December 2019 pursuant to CRR applying IFRS figures.

in HRK million

Ref[1]		31.12.2020	31.12.2019
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	2,558.9	2,558.9
2	Retained earnings	0.0	0.0
3	Accumulated other comprehensive income (and other reserves)	209.2	235.2
6	**CET1 capital before regulatory adjustments**	**2,768.1**	**2,794.1**
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	-3.6	-5.7
8	Intangible assets (net of related tax liability)	-67.9	-51.7
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)	0.0	-46.6
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-71.5**	**-104.0**
29	**Common Equity Tier 1 (CET1) capital**	**2,696.6**	**2,690.2**
	Tier 2 (T2) capital: instruments and provisions		
58	**Tier 2 (T2) capital**	**103.6**	**309.1**
59	**Total capital (TC = T1 + T2)**	**2,800.2**	**2,999.3**
60	Total risk weighted assets	9,784.4	11,438.1
	Capital ratios and buffers %		
61	CET1 ratio	27.6%	23.5%
63	TC ratio	28.6%	26.2%

1)The references identify the lines prescribed in the EBA template, which are applicable and where there is a value. The structure is based on the final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

Total capital decreased by HRK 199 million during the reporting period, reflecting mainly amortization of Tier 2 capital during 2020 and removal of deferred tax asset. Tier 2 amortization decreased total capital in amount of HRK 205.5 million while other changes are not significantly material.

The capital requirements in force during the year, including a sufficient buffer, were met at all times on a standalone basis.

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

In the scope of regulatory risks, which include credit risk, operational risk and market risk, Bank uses the standardised approach in the calculation of all three types of risk. RWAs decreased by HRK 1,653.7 million during the reporting period:

- The RWA for credit risk decreased by HRK 1,467.5 million. One of the main reasons for the reduction is that the Bank has applied certain adjustments to the CRR and CRR II which became effective on 27 June 2020 in order to mitigate the Covid-19 pandemic impact (EU Regulation No. 2020/873). The temporary treatment of public debt issued in the currency of another EU member state, with a risk weight of 0% until 31 December 2022, has led to a deduction of HRK 317.3 million in credit risk. In addition, the decreases on the loan book for Corporate and Retail portfolios as well as for non-performing exposures amounted HRK 835.2 million.
- The decrease of RWAs for market risk by HRK 79.4 million is mainly caused by the lower specific and general risk in trading book in amount of HRK 22.4 million and less open positions in domestic currency in amount of HRK 57 million.
- The RWA for operational risk also shows decrease in amount of HRK 101.5 million. The RWA for operational risks is based on the three-year average of relevant income, which represents the basis for the calculation.

in HRK million

Ref[1)]		31.12.2020	31.12.2019
1	Credit risk pursuant to Standardised Approach	8,640.3	10,105.4
6	Counterparty credit risk	11.7	19.4
19	Market risk	50.1	129.5
23	Operational risk	1,082.3	1,183.7
Total risk exposure amount		**9,784.4**	**11,438.1**

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

Leverage ratio on a transitional basis

The leverage ratio for the Bank, calculated in accordance with the CRD IV, was14.9% at 31 December 2020, up from 14.4% at 31 December 2019. The development was driven by reduction in the total leverage exposure.

in HRK million

Ref[1)]		31.12.2020	31.12.2019
20	Tier 1 capital	2,696.6	2,690.2
21	Total leverage ratio exposure	18,122.5	18,618.0
22	**Leverage ratio %**	**14.9%**	**14.4%**

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

MREL

In order for banks to have in place a sufficient amount of equity and debt which is eligible to absorb losses in resolution and may be used for a bail-in so that banks can be resolved without recourse to public financial support, the banks are required by 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 Bank d.d. (Croatia).

On 28 January 2021, the 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 level of Addiko Bank d.d. (Croatia). According to the draft decision the MREL requirement shall be reached by 1 January 2022 and shall be met at all times from that date onwards.

This draft SRB decision shall became final in case Addiko entities will not provide any comments in relation thereto and shall supersede the previous SRB decision on MREL requirement dated 17 December 2019 as of the date of communication to it by the national resolution authority.

(74) Boards and Officers of the Company

1 January to 31 December 2020

Supervisory Board

Chairman of the Supervisory Board:
Hans-Hermann Anton Lotter (until 27 September 2020)
Csongor Bulcsu Németh (from 07 December 2020)

Deputy Chairman of the Supervisory Board:
Csongor Bulcsu Németh (until 07 December 2020)
Tomislav Perović (from 07 December 2020)

Members of the Supervisory Board:
Tomislav Perović
Ferenc Joó
Nicholas John Tesseyman

Management Board

Mario Žižek, Chairman of the Management Board
Dubravko-Ante Mlikotić, Member of the Management Board
Ivan Jandrić, Member of the Management Board
Pierre Marie Genevieve Serge Boscq, Member of the Management Board (from 08 April 2020 until 30 September 2020)

(75) Events after the reporting date

On 28 January, Addiko Bank received the draft decision of the SRB relating to the future MREL requirement. Please refer to note (73) Capital Management for further details on this topic.

Zagreb, 4 March 2021
Addiko Bank d.d. Zagreb

MANAGEMENT BOARD

Mario Žižek

President of the Management Board

Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
Member of the Management Board	Member of the Management Board	Member of the Management Board

Responsibility of the Management and Supervisory Boards for the preparation and approval of annual financial statements

The Management Board of the Bank is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank at the reporting date and of the results of its operations and cash flows, in accordance with statutory accounting requirements for banks in Croatia, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements, they are deemed confirmed by the Management Board and Supervisory Board.

The Management Board is responsible for the preparation and content of Management report on the Position of the Bank and the rest of other information, in accordance with the provisions of the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20, 47/20).

Financial statements, as well as the Appendix to the Financial statements, prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/18, 122/2020), were authorised by the Management Board on 4 March 2021 and submitted to the Supervisory Board for acceptance. To confirm this, the financial statements have been signed by authorized persons, as follows.

For and on behalf of Addiko bank d.d.:

Zagreb, 4 March 2021
Addiko Bank d.d. Zagreb

MANAGEMENT BOARD

Mario Žižek

President of the Management Board

Ivan Jandrić	Dubravko-Ante Mlikotić	Joško Mihić
Member of the Management Board	Member of the Management Board	Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Addiko bank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Addiko bank d.d. ("the Bank") which comprise statement of financial position as at 31 December 2020, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory information ("the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial position as at 31 December 2020, and its financial performances and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. 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.

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment allowances for expected credit losses on loans and advances to customers	How the matter was addressed in our audit
For accounting policies, see Note 5 - Use of estimates and assumptions/material uncertainties in relation to estimates, Note 6 - Accounting topics affected by Covid-19 and Note 15 - Financial instruments. For additional information regarding the identified key audit matter see notes 36, 40.2, 57 and 58 to the financial statements.	
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, determining appropriate methods and models for measuring and managing loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowances for expected credit losses on loans and advances to customers, the Management exercises significant judgement in relation to the following areas: • Use of historical data in the process of determining risk parameters; • Estimation of the credit risk related to the exposure; • Assessment of stage allocation; • Assessment of the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether a significant increase in credit risk has occurred, leading to changes in stage allocation, and the required measurement of lifetime expected credit losses; • Assessment of forward-looking information, including the impact of the COVID-19 pandemic; • Expected future cash flows from operations; • Valuation of collateral and assessment of realization period.	In order to address the risks associated with loss allowances for expected credit losses on loans and advances to customers, identified as the key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to the area of loans and advances to customers: • Reviewing the Bank`s methodology for recognizing loss allowances for expected credit losses and comparing the reviewed methodology against the requirements of the International Financial Reporting Standards 9: *Financial instruments,* within the statutory reporting framework; • Obtaining an understanding of the control environment and internal controls implemented by the Management within the process of measuring loss allowance for expected credit losses, including utilized applications and information technology tools; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring loss allowance for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Assessing quality of historical data used in determination of risk parameters

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Since determining appropriate loss allowances for expected credit losses on loans and advances requires the use of complex models (generally dependent on IT elements) and a significant judgement from the Management, the process of measuring expected credit losses may be exposed to management bias. This has led to the determination of loss allowances for expected credit losses on loans and advances to customers, recognized in accordance with the statutory reporting framework for banks in the Republic of Croatia, being identified as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.	• Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of loans and advances allocated to Stage 1, Stage 2 and those in Stage 3 that are collectively assessed, focusing on: i. Models applied in stage allocation and transitions between stages; ii. Assumptions used by the Management in the expected credit loss measurement models; iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19; iv. Assumptions applied to calculate probability of default; v. Methods applied to calculate loss given default; vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19; vii. Recalculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of individually assessed non-performing loans and advances allocated to Stage 3, which included: i. Assessment of the borrower's financial position and performance following the latest credit reports and available information; ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19; iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period; • Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance; • Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Litigation provisions	**How the matter was addressed in our audit**
For the accounting policies, see Note 5 - Use of estimates and assumptions/material uncertainties in relation to estimates, Note 25.4 – Other provisions. For additional information regarding the identified key audit matter, see notes 35, 49 and 62.2 to the financial statements.	
Banks are often exposed to various litigations or court cases, results of which may have adverse effects on their financial performance. In order to adequately reflect potential adverse effects, the Bank assesses the requirement for provisions in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets (IAS 37)*. The provision is recognized if, and only if a present, legal or constructive, obligation exists as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate of the obligation is determined. Due to the complexity involved in these litigation matters, Management's judgement regarding recognition and measurement of provisions for these legal proceedings is inherently uncertain and might change over time when the outcomes of the legal cases are determined and concluded. Therefore, the judgement on the existence of a present obligation, the probability of a payment being required to settle the court cases' obligation, and a reliable estimate of such an amount requires the Management to consider risks and uncertainties that inevitably surround legal proceedings in order to ensure appropriate recording and disclosures in the financial statements. Considering the recent legal developments in Croatia and specific and recent rulings of Croatian courts in 2020, provisions for litigations have been identified as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.	In order to address the risks associated with provisions for court cases, identified as another key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. Our audit procedures included, among others, the following: • Discussion with the Management to obtain an understanding of the assumptions considered when determining the requirement for recognition and measurement of provisions for litigations; • Obtaining and reviewing opinions and representations of external legal advisors in order to assess whether they sufficiently support the Management's judgement of the assumptions considered and the amounts of provisions recognized; • Reconciling opinions and representations of external legal advisors on initiated legal cases to the accounting records; • Obtaining and reviewing the calculation of the provisions for litigations and assessing whether the assumptions underpinning the valuation of these provisions are based on appropriate and available internal and external information, thus representing the Management's best estimate of the provision amount; • We checked plausibility of the assumptions used in the model on the basis of comparable historical data. We traced back determination of the population of potentially affected parties and determination of the loss potential and applied conclusions to status of the potentially affected parties at the reporting date; • Evaluating the appropriateness of related disclosures in accordance with IAS 37.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information.

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. With respect to the Management Report which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements of the Bank.
2) Management Report for the year 2020 has been prepared, in all material respects, in accordance with the Articles 21 of the Accounting Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for Banks in Croatia 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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 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 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 the purpose of expressing an opinion on the effectiveness of the Bank'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 Management's 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 Bank'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 auditor's report. However, future events or conditions may cause the Bank 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 achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Bank by the shareholders on General Shareholders' Meeting held on 9 March 2020 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 7 years and covers period 1 January 2014 to 31 December 2020.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 4 March 2021 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Bank, and which have not been disclosed in the Annual Report.

Pursuant to the Decision of the Croatian National Bank ("CNB") on the structure and Content of Annual Financial Statements of Banks (Official Gazette No. 42/18, 122/20; "the Decision"), Management has prepared the Supplementary schedules for CNB, as presented in the Appendix to these financial statements, which comprise Bank statement of financial position as at 31 December 2020, Bank statement of profit or loss, Bank statement of other comprehensive income, Bank statement of changes in equity and Bank statement of cash flows for the year then ended, as well as the reconciliation to the accompanying financial statements. These forms and the reconciliation to the accompanying financial statements are the responsibility of the Management and do not represent components of the accompanying financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the accompanying financial statements.

Marina Tonžetić
Director and Certified auditor

15 March 2021

For signatures, please refer to the original Croatian auditor`s report, which prevails.

Deloitte d.o.o.
Radnička cesta 80,
10 000 Zagreb,
Croatia

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

Appendix to the Financial Statements - unaudited

Pursuant to the Croatian Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018, 42/2020, 47/2020) the Croatian National Bank issued the Decision on structure and contents of annual financial statements of credit institutions (Official Gazette 42/2018, 122/2020). The following tables present financial statements in accordance with the above-mentioned decision:

Statement of Financial Position

in HRK million

Position	Position Name	31.12.2020	31.12.2019
	Assets		
1.	Cash, cash balances at central banks and other demand deposits (from 2. to 4.)	3,464.0	1,828.4
2.	*Cash on hand*	*380.3*	*328.0*
3.	*Cash balances at central banks*	*2,898.6*	*1,313.7*
4.	*Other demand deposits*	*185.1*	*186.7*
5.	Financial assets held for trading (from 6. to 9.)	133.5	126.7
6.	*Derivatives*	*7.8*	*4.3*
7.	*Equity instruments*	*0.0*	*0.0*
8.	*Debt securities*	*125.8*	*122.4*
9.	*Loans and advances*	*0.0*	*0.0*
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11. to 13.)	0.0	121.9
11.	*Equity instruments*	*0.0*	*121.9*
12.	*Debt securities*	*0.0*	*0.0*
13.	*Loans and advances*	*0.0*	*0.0*
14.	Financial assets designated at fair value through profit or loss (15. + 16.)	0.0	0.0
15.	*Debt securities*	*0.0*	*0.0*
16.	*Loans and advances*	*0.0*	*0.0*
17.	Financial assets at fair value through other comprehensive income (from 18. to 20.)	3,457.1	4,112.7
18.	*Equity instruments*	*41.9*	*38.6*
19.	*Debt securities*	*3,415.3*	*4,074.1*
20.	*Loans and advances*	*0.0*	*0.0*
21.	Financial assets at amortised cost (22. + 23.)	10,182.2	11,287.1
22.	*Debt securities*	*3.7*	*4.4*
23.	*Loans and advances*	*10,178.5*	*11,282.7*
24.	Derivatives - hedge accounting	0.0	0.0
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0
26.	Investments in subsidiaries, joint ventures and associates	0.0	0.0
27.	Tangible assets	223.5	280.8
28.	Intangible assets	96.5	71.1
29.	Tax assets	34.4	84.4
30.	Other assets	64.3	51.2
31.	Non-current assets and disposal groups classified as held for sale	4.1	5.1
32.	**Total assets (1. + 5. +10. +14. + 17. + 21. + from 24. to 31.)**	**17,659.6**	**17,969.3**

in HRK million

Position	Position Name	31.12.2020	31.12.2019
	Liabilities		
33.	Financial liabilities held for trading (from 34. to 38.)	13.0	8.9
34.	*Derivatives*	*13.0*	*8.9*
35.	*Short positions*	*0.0*	*0.0*
36.	*Deposits*	*0.0*	*0.0*
37.	*Debt securities issued*	*0.0*	*0.0*
38.	Other financial liabilities	0.0	0.0
39.	Financial liabilities designated at fair value through profit or loss (from 40. to 42.)	0.0	0.0
40.	*Deposits*	*0.0*	*0.0*
41.	*Debt securities issued*	*0.0*	*0.0*
42.	*Other financial liabilities*	*0.0*	*0.0*
43.	Financial liabilities measured at amortised cost (from 44. to 46.)	14,509.8	14,623.5
44.	*Deposits*	*14,392.2*	*14,472.2*
45.	*Debt securities issued*	*0.0*	*0.0*
46.	*Other financial liabilities*	*117.6*	*151.3*
47.	Derivatives - hedge accounting	0.0	0.0
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0
49.	Provisions	195.6	220.9
50.	Tax liabilities	0.0	0.0
51.	Share capital repayable on demand	0.0	0.0
52.	Other liabilities	85.9	97.3
53.	Liabilities included in disposal groups classified as held for sale	0.0	0.0
54.	**Total liabilities (33. + 39. + 43. + from 47. to 53.)**	**14,804.4**	**14,950.6**
	Capital		
55.	Share capital	2,558.9	2,558.9
56.	Share premium	0.0	0.0
57.	Equity instruments issued other than capital	0.0	0.0
58.	Other equity	0.0	0.0
59.	Accumulated other comprehensive income	76.1	102.1
60.	Retained earnings	0.0	62.9
61.	Revaluation reserves	0.0	0.0
62.	Other reserves	133.1	138.2
63.	(-) Treasury shares	0.0	0.0
64.	Profit or loss attributable to owners of the parent	87.1	156.7
65.	(-) Interim dividends	0.0	0.0
66.	Minority interests [non-controlling interests]	0.0	0.0
67.	**Total equity (from 55. to 66.)**	**2,855.2**	**3,018.7**
68.	**Total equity and total liabilities (54. + 67.)**	**17,659.6**	**17,969.3**

Statement of Profit or Loss

in HRK million

Position	Position Name	31.12.2020	31.12.2019
1.	Interest income	517.9	569.8
2.	(Interest expenses)	75.9	88.5
3.	(Expenses on share capital repayable on demand)	0.0	0.0
4.	Dividend income	0.2	0.1
5.	Fee and commission income	198.9	229.7
6.	(Fee and commission expenses)	35.9	37.1
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	40.3	41.3
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	51.8	33.1
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-0.4	33.6
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	0.0	0.0
11.	Gains or (-) losses from hedge accounting, net	0.0	0.0
12.	Exchange differences [gain or (-) loss], net	-13.9	5.6
13.	Gains or (-) losses on derecognition of non-financial assets, net	11.0	0.8
14.	Other operating income	28.2	29.3
15.	(Other operating expenses)	1.4	6.2
16.	**Total operating income, net (1. - 2. - 3. + 4. + 5. - 6. + from 7. to 14. - 15.)**	**720.7**	**811.5**
17.	(Administrative expenses)	334.0	390.7
18.	(Cash contributions to resolution funds and deposit guarantee schemes)	26.3	27.1
19.	(Depreciation)	53.9	49.9
20.	Modification gains or (-) losses, net	-3.0	0.0
21.	(Provisions or (-) reversal of provisions)	27.7	125.1
22.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	124.9	26.3
23.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	0.0	0.0
24.	(Impairment or (-) reversal of impairment on non-financial assets)	7.2	31.8
25.	Negative goodwill recognised in profit or loss	0.0	0.0
26.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates	0.0	0.0
27.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-0.9	-0.9
28.	**Profit or (-) loss before tax from continuing operations (16. - from 17. to 19. + 20. - from 21. to 24. + from 25. to 27.)**	**142.8**	**159.6**
29.	(Tax Expenses or (-) income related to profit or loss from continuing operations)	55.7	2.9
30.	**Profit or (-) loss after tax from continuing operations (28. - 29.)**	**87.1**	**156.7**
31.	**Profit or (-) loss after tax from discontinued operations (32. - 33.)**	**0.0**	**0.0**
32.	Profit or (-) loss before tax from discontinued operations	0.0	0.0
33.	(Tax expense or (-) income related to discontinued operations)	0.0	0.0
34.	**Profit or (-) loss for the year (30. + 31.; 35. + 36.)**	**87.1**	**156.7**
35.	Attributable to minority interest [non-controlling interests]	0.0	0.0
36.	Attributable to owners of the parent	0.0	0.0

Statement of Other Comprehensive Income

in HRK million

Position	Position Name	31.12.2020	31.12.2019
1.	**Profit or (-) loss for the year**	**87.1**	**156.7**
2.	**Other comprehensive income (3. + 15.)**	**-26.0**	**65.5**
3.	**Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)**	**-7.6**	**6.4**
4.	Tangible assets	-12.5	0.2
5.	Intangible assets	0.0	0.0
6.	Actuarial gains or (-) losses on defined benefit pension plans	0.0	0.0
7.	Non-current assets and disposal groups held for sale	0.0	-3.6
8.	Share of other recognized income and expense of entities accounted for using the equity method	0.0	0.0
9.	Fair value changes of equity instruments measured at fair value through other comprehensive income	3.3	11.3
10.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	0.0	0.0
11.	*Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]*	*0.0*	*0.0*
12.	*Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]*	*0.0*	*0.0*
13.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	0.0	0.0
14.	Income tax relating to items that will not be reclassified	1.7	-1.4
15.	**Items that may be reclassified to profit or loss (from 16. to 23.)**	**-18.4**	**59.0**
16.	Hedge of net investments in foreign operations [effective portion]	0.0	0.0
17.	Foreign currency translation	0.0	0.0
18.	Cash flow hedges [effective portion]	0.0	0.0
19.	Hedging instruments [not designated elements]	0.0	0.0
20.	Debt instruments at fair value through other comprehensive income	-22.5	72.0
21.	Non-current assets and disposal groups held for sale	0.0	0.0
22.	Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	0.0	0.0
23.	Income tax relating to items that may be reclassified to profit or (-) loss	4.0	-13.0
24.	**Total comprehensive income for the year (1. + 2.; 25. + 26.)**	**61.1**	**222.2**
25.	Attributable to minority interest [non-controlling interests]	0.0	0.0
26.	Attributable to owners of the parent	0.0	0.0

Zagreb, 4 March 2021
Addiko Bank d.d. Zagreb

MANAGEMENT BOARD

Mario Žižek
President of the Management Board

Ivan Jandrić
Member of the Management Board

Dubravko-Ante Mlikotić
Member of the Management Board

Joško Mihić
Member of the Management Board

Statement of Cash Flows

in HRK million

Position	Position Name	31.12.2020	31.12.2019
	Operating activities by indirect method		
9.	Profit/(loss) before tax	142.8	159.6
	Adjustments:		
10.	Impairment and provisions	162.1	182.0
11.	Depreciation	59.5	81.7
12.	Net unrealized loss/(gain) from financial assets and liabilities at fair value through profit or loss	-40.3	-41.8
13.	(Gain)/loss on disposal of fixed assets	-9.2	-0.8
14.	Other non-monetary items	-483.4	-489.5
	Change in assets and liabilities from operating activities		
15.	Balances with Croatian National Bank	0.0	0.0
16.	Deposits and loans with credit institutions	-350.4	-56.5
17.	Loans and advances to other customers	1,109.8	-136.0
18.	Securities and other financial instruments at fair value through other comprehensive income	644.4	565.5
19.	Securities and other financial instruments held for trading	-6.5	-21.2
20.	Non-trading securities and other financial assets mandatorily at fair value through profit or loss	122.4	-0.5
21.	Securities and other financial instruments mandatory at fair value through profit or loss	0.0	0.0
22.	Securities and other financial instruments mandatory at amortised cost	0.0	0.0
23.	Other assets from operating activities	43.8	5.2
24.	Deposits from financial institutions	-39.4	-57.7
25.	Transaction accounts of other customers	722.2	341.4
26.	Demand deposits of other costumers	-95.7	468.3
27.	Term deposits of other customers	-703.7	-1,490.6
28.	Derivative financial liabilities and other trading liabilities	4.2	4.7
29.	Other liabilities from operating activities	-95.8	-64.3
30.	Interest received from operating activities	507.7	562.3
31.	Dividends received from operating activities	0.2	0.1
32.	Interest paid from operating activities	-83.8	-104.7
33.	(Income taxes paid)	0.0	0.0
34.	**Net cash flow from operating activities (from 1. to 25.)**	**1,610.7**	**-92.9**
	Investing activities		
35.	Proceeds from sale/(payments for purchase) of tangible and intangible assets	-33.4	-44.0
36.	Proceeds from sale/(payments for purchase) of investments in subsidiaries, joint ventures and associates	0.0	0.0
37.	Proceeds from sale/(payments for purchase) of securities and other financial instruments from investing activities	0.0	0.0
38.	Dividends received from investing activities	0.0	0.0
39.	Other proceeds/(payments) from investing activities	0.0	0.0
40.	**Net cash flow from investing activities (from 27. to 31.)**	**-33.4**	**-44.0**
	Financing activities		
41.	Net increase/(decrease) of borrowings from financial activities	2.2	-12.0
42.	Net increase/(decrease) of borrowings from issued debt securities	0.0	0.0
43.	Net increase/(decrease) of subordinated debt	0.0	0.0
44.	Increase of share capital	0.0	0.0
45.	(Dividend paid)	-224.6	-102.4
46.	Other proceeds/(payments) from financing activities	0.0	0.0
47.	**Net cash flows from financing activities (from 33. to 38.)**	**-222.4**	**-114.3**
48.	**Net increase/(decrease) of cash and cash equivalents (26. + 32. + 39.)**	**1,354.9**	**-251.2**
49.	**Cash and cash equivalents at the beginning of the year**	**2,879.1**	**3,124.2**
50.	Effects of exchange rate changes on cash and cash equivalents	-5.6	6.1
51.	**Cash and cash equivalents at the end of the year (40. + 41. + 42.)**	**4,228.4**	**2,879.1**

Statement of Changes in Equity

in HRK million

Position	Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
1.	**Opening balance [before restatement] for the year 2020**	**2,558.9**	**0.0**	**0.0**	**0.0**	**102.1**	**62.9**	**0.0**	**138.2**	**0.0**	**156.7**	**0.0**	**0.0**	**0.0**	**3,018.7**
2.	Effects of corrections of errors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.	Effects of changes in accounting policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.	**Opening balance [current period] for the year 2020**	**2,558.9**	**0.0**	**0.0**	**0.0**	**102.1**	**62.9**	**0.0**	**138.2**	**0.0**	**156.7**	**0.0**	**0.0**	**0.0**	**3,018.7**
5.	Issuance of ordinary shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6.	Issuance of preference shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7.	Issuance of other equity instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8.	Exercise or expiration of other equity instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9.	Conversion of debt to equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10.	Capital reduction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11.	Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.0	0.0	-219.6	0.0	0.0	0.0	-224.6
12.	Purchase of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13.	Sale or cancellation of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14.	Reclassification of financial instruments from equity to liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15.	Reclassification of financial instruments from liability to equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16.	Transfers among components of equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17.	Equity increase or (-) decrease resulting from business combinations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18.	Share based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19.	Other increase or (-) decrease in equity	0.0	0.0	0.0	0.0	0.0	-62.9	0.0	0.0	0.0	62.9	0.0	0.0	0.0	0.0
20.	Total comprehensive income for the year	0.0	0.0	0.0	0.0	-26.0	0.0	0.0	0.0	0.0	87.1	0.0	0.0	0.0	61.1
21.	**Closing balance [current period] for the year 2020**	**2,558.9**	**0.0**	**0.0**	**0.0**	**76.1**	**0.0**	**0.0**	**133.1**	**0.0**	**87.1**	**0.0**	**0.0**	**0.0**	**2,855.2**

in HRK million

Position	Position Name	Capital	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
1.	**Opening balance [before restatement] for the year 2019**	**2,558.9**	**0.0**	**0.0**	**0.0**	**36.6**	**-6.0**	**0.0**	**138.2**	**0.0**	**171.0**	**0.0**	**0.0**	**0.0**	**2,898.7**
2.	Effects of corrections of errors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.	Effects of changes in accounting policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.	**Opening balance [current period] for the year 2019**	**2,558.9**	**0.0**	**0.0**	**0.0**	**36.6**	**-6.0**	**0.0**	**138.2**	**0.0**	**171.0**	**0.0**	**0.0**	**0.0**	**2,898.7**
5.	Issuance of ordinary shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6.	Issuance of preference shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7.	Issuance of other equity instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8.	Exercise or expiration of other equity instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9.	Conversion of debt to equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10.	Capital reduction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11.	Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-102.4	0.0	0.0	0.0	-102.4
12.	Purchase of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13.	Sale or cancellation of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14.	Reclassification of financial instruments from equity to liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15.	Reclassification of financial instruments from liability to equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16.	Transfers among components of equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17.	Equity increase or (-) decrease resulting from business combinations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18.	Share based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19.	Other increase or (-) decrease in equity	0.0	0.0	0.0	0.0	0.0	68.9	0.0	0.0	0.0	-68.6	0.0	0.0	0.0	0.2
20.	Total comprehensive income for the year	0.0	0.0	0.0	0.0	65.5	0.0	0.0	0.0	0.0	156.7	0.0	0.0	0.0	222.2
21.	**Closing balance [current period] for the year 2019**	**2,558.9**	**0.0**	**0.0**	**0.0**	**102.1**	**62.9**	**0.0**	**138.2**	**0.0**	**156.7**	**0.0**	**0.0**	**0.0**	**3,018.7**

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from data in financial statements prepared according to the statutory accounting requirements for banks in Croatia, the following tables present comparatives.

Comparatives for the Statement of financial position - Assets at 31 December 2020:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia											
		Cash reserves	Financial assets held for trading	Loans and advances to credit institu-tions	Loans and advances to customers	Investment securities	Property, plant and equipment	Invest-ment property	Intangible assets	Current tax assets	Deferred tax assets	Other assets	Non-current assets and disposal groups classified as held for sale
Assets													
Cash, cash balances at central banks and other demand deposits	3,464.0	3,464.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets held for trading	133.5	0.0	133.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-trading financial assets mandatorily at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income	3,457.1	0.0	0.0	0.0	0.0	3,457.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at amortised cost	10,182.2	764.4	0.0	404.4	9,013.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	223.5	0.0	0.0	0.0	0.0	0.0	215.7	7.8	0.0	0.0	0.0	0.0	0.0
Intangible assets	96.5	0.0	0.0	0.0	0.0	0.0	17.2	0.0	79.3	0.0	0.0	0.0	0.0
Tax assets	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.4	0.0	0.0
Other assets	64.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	64.3	0.0
Non-current assets and disposal groups classified as held for sale	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1
Total assets	**17,659.6**	**4,228.4**	**133.5**	**404.4**	**9,013.3**	**3,457.1**	**232.9**	**7.8**	**79.3**	**0.0**	**34.4**	**64.3**	**4.1**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2020:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia											
		Financial liabilities held for trading	Deposits of credit institutions	Deposits of customers	Borrowings	Subordinated debt	Other financial liabilities	Provisions	Other liabilities	Share capital	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated profit
Liabilities														
Financial liabilities held for trading	13.0	13.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised cost	14,509.8	0.0	80.6	12,915.5	351.1	1,044.9	117.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	195.6	0.0	0.0	0.0	0.0	0.0	0.0	195.6	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	85.9	0.0	0.0	0.0	0.0	0.0	0.0	0.2	85.8	0.0	0.0	0.0	0.0	0.0
Total liabilities	**14,804.4**	**13.0**	**80.6**	**12,915.5**	**351.1**	**1,044.9**	**117.6**	**195.8**	**85.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share capital	2,558.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,558.9	0.0	0.0	0.0	0.0
Accumulated other comprehensive income	76.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	76.1	0.0
Retained earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves	133.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	133.1	0.0	0.0	0.0
Profit or loss attributable to owners of the parent	87.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	87.1
Total equity	**2,855.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,558.9**	**133.1**	**0.0**	**76.1**	**87.1**
Total equity and total liabilities	**17,659.6**	**13.0**	**80.6**	**12,915.5**	**351.1**	**1,044.9**	**117.6**	**195.8**	**85.8**	**2,558.9**	**133.1**	**0.0**	**76.1**	**87.1**

Comparatives for the Statement of financial position - Assets at 31 December 2019:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia											
		Cash reserves	Financial assets held for trading	Loans and advances to credit institu-tions	Loans and advances to customers	Investment securities	Property, plant and equipment	Invest-ment property	Intangible assets	Current tax assets	Deferred tax assets	Other assets	Non-current assets and disposal groups classified as held for sale
Assets													
Cash, cash balances at central banks and other demand deposits	1,828.4	1,828.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets held for trading	126.7	0.0	126.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-trading financial assets mandatorily at fair value through profit or loss	121.9	0.0	0.0	0.0	0.0	121.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income	4,112.7	0.0	0.0	0.0	0.0	4,112.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at amortised cost	11,287.1	1,050.7	0.0	63.8	10,172.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	280.8	0.0	0.0	0.0	0.0	0.0	264.1	16.7	0.0	0.0	0.0	0.0	0.0
Intangible assets	71.1	0.0	0.0	0.0	0.0	0.0	19.4	0.0	51.7	0.0	0.0	0.0	0.0
Tax assets	84.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	84.4	0.0	0.0
Other assets	51.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51.2	0.0
Non-current assets and disposal groups classified as held for sale	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.1
Total assets	**17,969.3**	**2,879.1**	**126.7**	**63.8**	**10,172.6**	**4,234.6**	**283.5**	**16.7**	**51.7**	**0.0**	**84.4**	**51.2**	**5.1**

Comparatives for the Statement of financial position – Liabilities and Equity at 31 December 2019:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia												
		Financial liabilities held for trading	Deposits of credit institutions	Deposits of customers	Borrowings	Subordinated debt	Other financial liabilities	Provisions	Other liabilities	Share capital	Legal and other reserves	Revaluation reserve	Fair value reserve	Accumulated profit
Liabilities														
Financial liabilities held for trading	8.9	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised cost	14,623.5	0.0	143.9	12,949.2	347.2	1,031.9	151.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	220.9	0.0	0.0	0.0	0.0	0.0	0.0	220.9	0.0	0.0	0.0	0.0	0.0	0.0
Tax liabilities	97.3	0.0	0.0	0.0	0.0	0.0	0.0	16.2	81.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	**14,950.6**	**8.9**	**143.9**	**12,949.2**	**347.2**	**1,031.9**	**151.3**	**237.1**	**81.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	2,558.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,558.9	0.0	0.0	0.0	0.0
Share capital	102.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.2	91.8	0.0
Accumulated other comprehensive income	62.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	62.9
Retained earnings	138.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	138.2	0.0	0.0	0.0
Other reserves	156.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	156.7
Profit or loss attributable to owners of the parent	**3,018.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,558.9**	**138.2**	**10.2**	**91.8**	**219.6**
Total equity	**17,969.3**	**8.9**	**143.9**	**12,949.2**	**347.2**	**1,031.9**	**151.3**	**237.1**	**81.0**	**2,558.9**	**138.2**	**10.2**	**91.8**	**219.6**

Comparatives for the statement of profit or loss ended 31 December 2020:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia													
		Interest income calculated using the effective interest method	Other interest income	Interest expenses	Fee and commission income	Fee and commission expenses	Net result on financial instruments	Other operating income	Other operating expenses	Personnel expenses	Other administrative expenses	Depreciation and amortisation	Other result	Expected credit losses on financial assets	Tax on income
Interest income	517.9	512.9	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Interest expenses)	75.9	0.0	0.0	75.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend income	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fee and commission income	198.9	0.0	0.0	0.0	198.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Fee and commission expenses)	35.9	0.0	0.0	0.0	0.0	35.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	40.3	0.0	0.0	0.0	0.0	0.0	40.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on financial assets and liabilities held for trading, net	51.8	0.0	0.0	0.0	0.0	0.0	51.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-0.4	0.0	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange differences [gain or (-) loss], net	-13.9	0.0	0.0	0.0	0.0	0.0	-13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on derecognition of non-financial assets, net	11.0	0.0	0.0	0.0	0.0	0.0	0.0	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	28.2	0.0	0.0	0.0	0.0	0.0	0.0	27.6	0.0	0.0	0.0	0.0	0.6	0.0	0.0
(Other operating expenses)	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Total operating income, net	**720.7**	**512.8**	**5.1**	**-75.9**	**198.9**	**-35.9**	**77.8**	**38.6**	**-1.3**	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**0.0**
(Administrative expenses)	334.0	0.0	0.0	0.3	0.0	2.0	0.0	0.0	8.3	185.2	136.7	0.0	0.1	1.5	0.0
(Cash contributions to resolution funds and deposit guarantee schemes)	26.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.3	0.0	0.0	0.0	0.0	0.0	0.0
(Depreciation)	53.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	53.4	0.0	0.0	0.0
Modification gains or (-) losses, net	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	0.0	0.0
(Provisions or (-) reversal of provisions)	27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.4	0.0	0.0	0.0	11.1	-0.8	0.0

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia													
		Interest income calculated using the effective interest method	Other interest income	Interest expenses	Fee and commission income	Fee and commission expenses	Net result on financial instruments	Other operating income	Other operating expenses	Personnel expenses	Other administrative expenses	Depreciation and amortisation	Other result	Expected credit losses on financial assets	Tax on income
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	124.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	124.9	0.0
(Impairment or (-) reversal of impairment on non-financial assets)	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.2	0.0	0.0
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	0.0
Profit or (-) loss before tax from continuing operations	**142.8**	**512.8**	**5.1**	**-76.2**	**198.9**	**-37.9**	**77.8**	**38.6**	**-53.8**	**-185.2**	**-136.7**	**-53.4**	**-21.7**	**-125.6**	**0.0**
(Tax Expenses or (-) income related to profit or loss from continuing operations)	55.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	55.7
Profit or (-) loss after tax from continuing operations	**87.1**	**512.8**	**5.1**	**-76.2**	**198.9**	**-37.9**	**77.8**	**38.6**	**-53.8**	**-185.2**	**-136.7**	**-53.4**	**-21.7**	**-125.6**	**-55.7**
Profit or (-) loss for the year	**87.1**	**512.8**	**5.1**	**-76.2**	**198.9**	**-37.9**	**77.8**	**38.6**	**-53.8**	**-185.2**	**-136.7**	**-53.4**	**-21.7**	**-125.6**	**-55.7**

Comparatives for the statement of profit or loss ended 31 December 2019:

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia													
		Interest income calculated using the effective interest method	Other interest income	Interest expenses	Fee and commission income	Fee and commission expenses	Net result on financial instruments	Other operating income	Other operating expenses	Personnel expenses	Other administrative expenses	Depreciation and amortisation	Other result	Expected credit losses on financial assets	Tax on income
Interest income	569.8	560.3	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Interest expenses)	88.5	0.0	0.0	88.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend income	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fee and commission income	229.7	0.0	0.0	0.0	229.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Fee and commission expenses)	37.1	0.0	0.0	0.0	0.0	37.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	41.3	0.0	0.0	0.0	0.0	0.0	41.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on financial assets and liabilities held for trading, net	33.1	0.0	0.0	0.0	0.0	0.0	33.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	33.6	0.0	0.0	0.0	0.0	0.0	33.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange differences [gain or (-) loss], net	5.6	0.0	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains or (-) losses on derecognition of non-financial assets, net	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	29.3	0.0	0.0	0.3	0.0	0.0	0.0	28.4	0.0	0.0	0.0	0.0	0.6	0.0	0.0
(Other operating expenses)	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.9	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Total operating income, net	**811.5**	**560.3**	**9.6**	**-88.2**	**229.7**	**-37.1**	**113.6**	**28.3**	**-5.2**	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**0.0**
(Administrative expenses)	390.7	0.0	0.0	0.4	0.0	2.3	0.0	0.0	7.9	212.9	157.7	0.0	7.4	2.1	0.0
(Cash contributions to resolution funds and deposit guarantee schemes)	27.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.1	0.0	0.0	0.0	0.0	0.0	0.0
(Depreciation)	49.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	49.7	0.0	0.0	0.0
Modification gains or (-) losses, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Provisions or (-) reversal of provisions)	125.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.9	0.0	0.0	0.0	116.2	-3.0	0.0

in HRK million

Croatian National Bank's Decision		Statutory accounting requirements for banks in Croatia													
		Interest income calculated using the effective interest method	Other interest income	Interest expenses	Fee and commission income	Fee and commission expenses	Net result on financial instruments	Other operating income	Other operating expenses	Personnel expenses	Other administrative expenses	Depreciation and amortisation	Other result	Expected credit losses on financial assets	Tax on income
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	26.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.3	0.0
(Impairment or (-) reversal of impairment on non-financial assets)	31.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0	0.0	0.0	30.0	0.0	0.0
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.2	0.0	0.0	0.0	-1.6	0.0	0.0
Profit or (-) loss before tax from continuing operations	**159.6**	**560.3**	**9.6**	**-88.7**	**229.7**	**-39.3**	**113.6**	**29.2**	**-54.4**	**-212.9**	**-157.7**	**-49.7**	**-154.6**	**-25.4**	**0.0**
(Tax Expenses or (-) income related to profit or loss from continuing operations)	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Profit or (-) loss after tax from continuing operations	**156.7**	**560.3**	**9.6**	**-88.7**	**229.7**	**-39.3**	**113.6**	**29.2**	**-54.4**	**-212.9**	**-157.7**	**-49.7**	**-154.6**	**-25.4**	**-2.9**
Profit or (-) loss for the year	**156.7**	**560.3**	**9.6**	**-88.7**	**229.7**	**-39.3**	**113.6**	**29.2**	**-54.4**	**-212.9**	**-157.7**	**-49.7**	**-154.6**	**-25.4**	**-2.9**

Glossary

ABC	Addiko Bank d.d., Croatia
Addiko Group	Group of banks including Holding in Austria, and six banks in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Montenegro
AC	Amortised costs
Additional Tier 1 (AT1)	Own funds as defined by Art 51 et seq. CRR
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits defined within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Expected credit losses on financial assets/Credit risk bearing exposures
CRB	Credit Risk Bearing
Credit institutions	Any institution covered by the definition in Article 4(1)(1) of CRR (“undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account”) and multilateral development banks (MDBs)
CRR	Capital requirements regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
CSEE	Central and South-Eastern Europe
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non-performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
ECL	Expected Credit Loss
ERM 2	European Exchange Rate Mechanism 2
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment

FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
GCCR	Group Corporate Credit Risk
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “credit institutions”, “other financial corporations” or “non-financial corporations” depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions
Gross exposure	Exposure of on and off-balance loans including accrued interest, gross amount of provisions for performing loans and non-performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GRRM	Group Retail Risk Management
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households (“NPISH”) and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk
ICSID	International Center for Settlement of Investment Disputes
Jaws	Measures the difference between the rates of change in net banking income and operating expenses; positive jaws occur when the figures for the percentage change in income is higher than, or less negative than, the corresponding rate for operating expense
Large Corporates	The segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 50 million
LCR	Liquidity coverage ratio; the ratio of high-quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRR
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs

Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible assets, tangible assets, tax assets and other assets)
Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non-performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
Pillar 2 Guidance (P2G)	The level and quality of own funds the institution is expected to hold in excess of its overall capital requirements. The Pillar 2 guidance is a non-legally binding expectation of the regulatory authorities
Pillar 2 Requirement (P2R)	Additional own funds requirements imposed in accordance with Article 104(1)(a) of Directive 2013/36/EU. The Pillar 2 requirement covers risks underestimated or not covered by Pillar 1
POCI	Purchased or originated credit impaired assets
Public Finance	The segment Public Finance includes all state-owner entities

Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Risk-weighted assets (RWA)	On-balance and off-balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 10 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 10 million and EUR 50 million
Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit impaired. The impairment is measured in the amount of the lifetime expected credit loss
Tier 1 capital (T1)	Sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution
Total capital ratio (TCR)	all the eligible own fund according to article 72 CRR, presented in % of the total risk according to article 92 (3) CRR
Tier 2 capital	Own funds consisting of the sum of Tier 1 capital and supplementary capital (Tier 2). According to Regulation (EU) Nbr 575/2013 Art 62 to Art 71, Tier 2 refers to instruments or subordinated loans with an original maturity of at least five years that do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity (and fulfill other requirements)
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

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