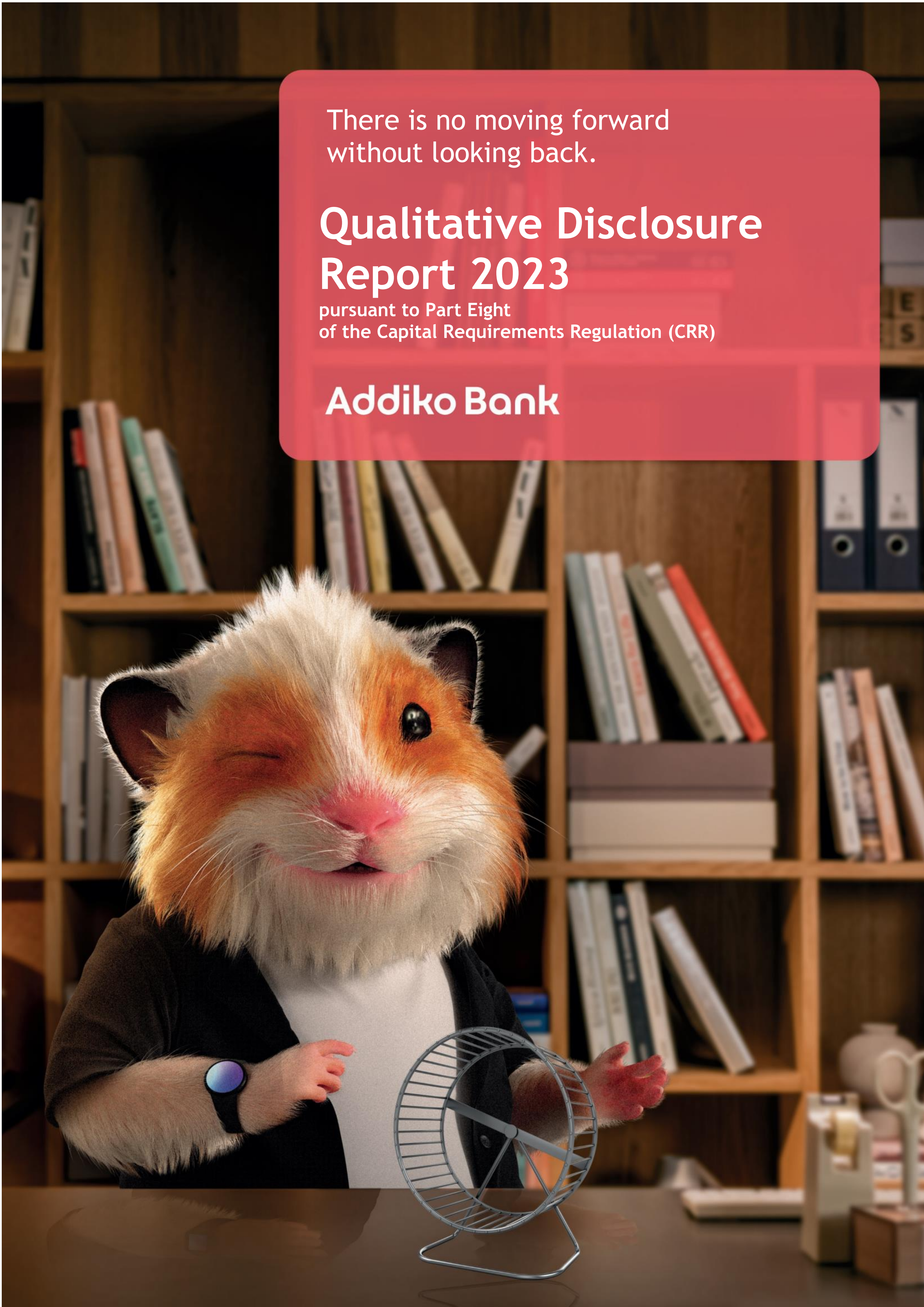
There is no moving forward
without looking back.

Qualitative Disclosure Report 2023

pursuant to Part Eight
of the Capital Requirements Regulation (CRR)

Addiko Bank



Disclosure Report 2023

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1 Introduction

Addiko Group is a specialist banking group focusing on providing banking products and services to Consumer and Small and Medium-sized Enterprises (SME) in Central and South-Eastern Europe (CSEE). The Group consists of Addiko Bank AG, the fully-licensed Austrian parent bank registered in Vienna, Austria, listed on the Vienna Stock Exchange and supervised by the Austrian Financial Market Authority and 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 via two banks), Serbia and Montenegro. Through its six subsidiary banks, Addiko Group services as of 31 December 2023 approximately 0.9 million customers in CSEE using a well-dispersed network of 154 branches and modern digital banking channels.

The purpose of this report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. From a risk perspective, the main bank-wide steering processes are performed by Addiko Bank AG. These processes are disclosed in this report.

1.1 Disclosure Policy and Structure

Art 431, 433 and 434 CRR

The Disclosure Report of Addiko Group meets the disclosure requirements of Part Eight of the CRR, which took effect on 1 January 2014 and amended by the Regulation (EU) 2019/876 published on 20 May 2019. In addition, the report complies with the requirements set in the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards (ITS) with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 and other relevant disclosure related guidelines.

The preparation of the Disclosure Report and the formal review for completeness and compliance with the applicable requirements is carried out by a structured process within the relevant departments of Addiko. Quantitative reports are precisely aligned with the information disclosed in the year-end financial statements or the reports prepared for the regulator (Corep and Finrep). The report is unaudited.

All disclosures are prepared on a consolidated basis and in EUR million, unless stated otherwise. EU banking legislation and EBA guidelines require Addiko Group as “other institution” according to Art. 433c CRR to disclose all the information required under Part Eight on an annual basis and certain information on a semi-annual basis.

Pursuant to Article 434 (1) CRR, Addiko has opted for the internet as the medium of publication of the Disclosure Report. Details are available on the website of Addiko at www.addiko.com/financial-reports/.

Qualitative information are disclosed in this report, quantitative information are presented in a separate document in Excel form, which includes the templates with fixed formats. The mentioned templates in this report refer to the complementary disclosed Excel-file with the quantitative disclosures. Information on the remuneration policy and practices will be disclosed in a separate document, which will be published on Addiko’s website at www.addiko.com/financial-reports/ as well.

The Disclosure Report has been attested by the members of the Management Board of Addiko Bank AG.

1.2 Regulatory Framework for Disclosures

Implementation of Basel 3 in the European Union (EU)

In 2013, the European Parliament adopted the capital and liquidity requirements for the implementation of Basel 3 in the EU. On 26 June 2013, the final Capital Requirements Directive IV (CRD IV) and the final Capital Requirements Regulation (CRR) were published in the Official Journal of the EU. The application of the regulatory requirements for credit institutions and investment firms became effective as of 1 January 2014. On 20 May 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876 - CRR II), as well as an amendment of CRD (Directive (EU) No. 2019/878 – CRD V). On 24 June 2020, another amendment to CRR was published (Regulation (EU) No. 2020/873) as response to the

COVID-19 pandemic. Addiko Group has been calculating regulatory capital and regulatory capital requirements according to the Basel 3 revised framework and also disclosures have been prepared in accordance with this guidelines.

In the context of this document, the 'EU banking legislation' describes the package of CRR, CRD and regulatory/implementing technical standards. It commonly refers as containing the following three Pillars:

- **Pillar 1 – Minimum requirements**

Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk. As such, it details the different methods available for calculating risk weighted assets for the three risk types and provides information on the eligibility criteria for the constituents of the capital base. Basel 3 extended minimum requirements to also cover liquidity in addition to capital. In this regard, Pillar 1 specifies the requirements for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). With CRR II, a leverage exposure requirement was introduced to show the ratio between a bank's equity and its assets, regardless of the riskiness of these assets. The 3.00% leverage ratio requirement became mandatory on 28 June 2021.

- **Pillar 2 – Supervisory review process**

Pillar 2 requires banks to conduct an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate that they have implemented methods and procedures to safeguard capital adequacy with due attention to all material risks. The ICAAP supplements the minimum regulatory requirements of Pillar 1. It considers a broader range of risk types as well as Addiko Group's risk and capital management capabilities. Simultaneously with the introduction of Pillar 1 requirements for liquidity through the Basel 3 framework, the ICAAP was complemented with an Internal Liquidity Adequacy Assessment Process (ILAAP) to ensure that banks have implemented processes and tools to safeguard the adequacy of their funding and liquidity. Furthermore, Pillar 2 requires supervisors to conduct a Supervisory Review and Evaluation Process (SREP) to assess the soundness of banks' ICAAP and ILAAP and take any appropriate actions that may be required.

- **Pillar 3 – Market discipline**

Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

The Group has adopted the EU's regulatory transitional arrangements for International Financial Reporting Standard ('IFRS') 9 Financial instruments and the temporary treatment in accordance with Article 468 of the CRR in accordance with guideline EBA/GL/2020/12. All exposure tables have been prepared on a transitional basis.

1.3 Environmental, Social and Governance (ESG) Risks

ESG risks include all risks arising from potential negative impacts, direct or indirect, on the environment, people and communities and more generally all stakeholders, in addition to those arising from corporate governance. ESG risk could affect profitability, reputation and credit quality and could lead to legal consequences.

As also described in the Consolidated Non-Financial Report, Addiko takes into account the environmental, social and governance (ESG) risks, associated with the activities of customer companies and pays particular attention to in-depth analysis of sustainability issues related to sectors which are considered sensitive. Addiko does not treat the ESG risks as a separate risk type but integrates them in the existing risk classification and into the existing risk management framework, as drivers for other risk types (e.g., credit risk or operational risk).

In line with regulatory expectations, Addiko puts a special focus on climate-related and other environmental risk (C&E risk) management. In this context, Addiko considers both physical and transition risks:

- Physical risk refers to the direct impact from climate-related or environmental changes, which can be "acute" (e.g., extreme weather events such as hurricanes, floods and wildfires) or "chronic" in case of progressive changes, such as sustained higher temperatures, heat waves, droughts and rising sea levels.
- Transition risk refers to the potential losses resulting from the adjustment towards a lower-carbon and more environmentally sustainable economy (e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand).

Addiko Group performed an assessment of climate-related and other environmental risks in two consecutive steps. In a first step Addiko Group assessed the impact of climate and environmental change on its countries of operation, considering various scenarios for the short, medium and long-term. In a second step, Addiko Group analysed how the impact identified in the first step will transmit onto the Group. Based on this analysis, Addiko concluded that in particular its credit risk can be impacted climate-related and other environmental risk drivers. While due to the granularity and diversification of Addiko Group's loan portfolio, there is no immediate material threat to the quality of assets of Addiko Group, the potential impact on the economy in the area of Addiko operation drives the systemic risk Addiko is exposed to. In this context, it is evident that acute and chronic climate and environmental risks already do impact macroeconomic indicators, whereby the severity of this impact over the medium to long term is highly dependent on the measures taken to curb climate change. Consequently, Addiko also considered the impact from climate-related transition risks in the macroeconomic financial forecasts used in the calculation of the Expected Credit Loss, thus, directly impacting the risk provisions of the loan book.

While no immediate danger for Addiko Group was identified in the assessment of climate-related and other environmental risks, the urgency and uncertainty of the matter require continuous monitoring. Addiko focuses in particular on the strict limitation of any idiosyncratic C&E risk. In this context, Addiko has identified industries which are and might in the future be impacted by climate and environmental risk, and set prudent limits on the maximum exposure to these limits, which are diligently tracked. Furthermore, within the operational credit-granting process, Addiko has defined measures to recognise the potential impact of climate and environmental risk on the asset quality of the clients. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.

1.4 Governance Arrangements

Art 435 (2) a CRR

The table below provides information about the number of directorships held by members of the Management Board of Addiko Bank AG per 31 December 2023:

Name of Member of the Management Board	Function in Addiko Bank AG	Number of directorships			
		Internal functions		External functions	
		Management	Supervisory	Management	Supervisory
Herbert Juranek	Chairman of the Management Board	1	1	1	0
Edgar Flaggl	Member of the Management Board	1	2	0	0
Tadej Krasovec	Member of the Management Board	1	2	0	0
Ganesh Krishnamoorthi	Member of the Management Board	1	1	0	0

Table 1: Information about the number of directorships held by the members of the Management Board

The following table shows information about the number of directorships held by members of the Supervisory Board of Addiko Bank AG per 31 December 2023:

Name of Member of the Supervisory Board	Function in Addiko Bank AG	Number of directorships			
		Internal functions		External functions	
		Management	Supervisory	Management	Supervisory
Kurt Pribil	Chairman of the Supervisory Board	0	1	0	2
Sava Ivanov Dalbokov	Member of the Supervisory Board	0	1	0	1
Johannes Proksch	Member of the Supervisory Board	0	1	3	0
Monika Wildner	Member of the Supervisory Board	0	1	0	1
Frank Schwab	Member of the Supervisory Board	0	1	0	3
Christian Lobner	Member of the Supervisory Board	0	1	0	0
Thomas Wieser	Member of the Supervisory Board	0	1	0	0

Table 2: Information about the number of directorships held by the members of the Supervisory Board

Art 435 (2) b CRR

The selection and the process for the evaluation of the suitability of the members of the Management and Supervisory Board as well as the Key Function Holders are defined in the Addiko Fit & Proper Policy.

The assessment criteria for the selection of members of the Management Board (Professional Competences) are:

- Education: Completion of relevant studies or courses (studies at a university or a university of applied sciences in economics, law or sciences) or external or internal training or relevant training and continuing education measures,
- Sufficient work experience, in particular managerial experience as an executive or expert, which can be assumed if it is proved that the management function has been held with an organization of a similar or larger size and line of business for at least three years,
- Knowledge of financial markets, regulatory framework conditions (European Banking Supervision Law, the Austrian Banking Act, FMA Circular Letters and Minimum Standards, etc.), strategic planning and business management, risk management, business organization, governance and control knowing the articles of association, accounting for banking operations, interpretation of banking ratios, basic knowledge of corporate law and the law of business organizations, depending on the business model and the responsibilities, foreign language skills.

In this regard, the Management Board needs to be sufficiently suitable as a whole. Specific members possessing distinct skills may compensate less distinct skills of other members in such areas, in particular in view of the schedule of responsibilities. Skills and expertise of each member of the Management Body of Addiko Bank AG are presented on the website of Addiko.

Art 435 (2) c CRR

All external communications and employer branding activities are organized to attract the most talented potential employees and are free of any discrimination that might detain from business activities with Addiko Group. The selection and recruitment process of candidates is transparent and promotes equal opportunities and equal treatment with all candidates. During the recruitment process, it is crucial not to base selection criteria on any diversity dimensions. Instead, it is important to foster an environment where candidates from diverse backgrounds, experiences, and perspectives can contribute to collective success without constraints. Further information is included in the Consolidated Corporate Governance Report 2023.

Art 435 (2) d CRR

The Credit and Risk Committee is one of the committees set up by the Supervisory Board (SB) of Addiko Group. The committee is responsible for granting loans to customers or to a group of affiliated customers in accordance with the Rules of Procedure of the Supervisory Board and to advice the management body with regard to the current and future risk appetite and the risk strategy of the bank. In order to monitor the implementation of this risk strategy in connection with the management, monitoring and limitation of risks pursuant to section 39 (2b) points 1 to 14 Austrian Banking Act, capital adequacy and liquidity, is a key responsibility.

As the central risk control body the Credit and Risk Committee has frequent meetings. It was held five times in 2023.

Art 435 (2) e CRR

The Management Board is informed on a monthly basis via the Group Risk Report on the current risk situation which includes the ICAAP figures. Additionally, MB members who are also part of the Group Risk Executive Committee Meetings (GREC) are informed in more detail on the risk situation including methodological decisions, changes in parameter values as well as adoption of measures based on stress test results and limit breaches.

The Group Risk Reports, which contain overviews of credit, operational and market risk developments, are also presented in the Supervisory Board meetings along with the quarterly figures. Additionally, the SB members, who are part of the Credit and Risk Committee, receive an overview of the developments in the risk area since the last Credit and Risk Committee meeting and a deep dive in focus topics (e.g., portfolio quality development, migration analysis, rating report).

1.5 Scope of Application

1.5.1 Consolidation for Accounting and Regulatory Purposes

Article 436 a - d CRR

Consolidation for regulatory purposes is carried out in accordance with Article 18 and 19 of Regulation No 575/2013 (CRR), with the financial statements of the individual companies and the consolidated financial statements being prepared in accordance with the principles of the IFRS (International Financial Reporting Standards). The criteria used to determine the scope of consolidation are total assets and off-balance sheet items. The scope of consolidation for regulatory purposes is identical to the scope of consolidation for accounting purposes.

Name of the institution, for which this Disclosure Report is published: **Addiko Bank AG.**

As of 31 December 2023, the scope of consolidation included 7 fully consolidated companies. The template EU LI3 shows an overview of the consolidated companies.

The template EU LI1 provides an overview about the differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories. The template EU LI2 shows the main sources of differences between regulatory exposure amounts and the carrying values. The position "other differences" in template EU LI2 consists EUR 18.2 million difference between the positive market values for derivatives according to the balance sheet and the exposure value according to the Original Exposure Method (OEM).

1.5.2 Impediments to the Transfer of Own Funds

Art 436 f CRR

Addiko Group is subject to regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulation and directive applicable to all credit institutions based in the EU. Addiko Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

1.5.3 Total Shortfall in Own Funds of All Subsidiaries not Included in the Scope of Consolidation

Art 436 g CRR

Art 436 (g) CRR is not applicable as Addiko Group has no subsidiaries with minimum capital standards not included in the scope of consolidation.

1.5.4 Usage of the Provisions Laid Down in Articles 7 and 9

Art 436 h CRR

Articles 7 and 9 CRR are not applicable to Addiko Group.

2 Risk Management Objectives and Policies

For a detailed description of Addiko's risk strategies and processes, the structure and organization of the relevant risk management functions, as well as risk identification and risk management objectives and policies for each separate category of risk, please refer to the Risk Report in the Notes of the Addiko Group's Annual Report 2023.

Art 435 (1) a-f CRR

2.1 Risk Control and Monitoring

The main risk indicators are reported on a monthly basis. The calculation and its components are discussed and reported regularly to the entire Management Board in the Group Risk Executive Meeting.

KPI Risk Metrics	31.12.2023
RBC Utilisation	54.89%
TCR Addiko Group	20.42%
RWA Pillar I - Addiko Group (EURm)	3,653.0
Leverage Ratio	11.62%
LCR	313.40%
NSFR	170.75%
Share of NPE (EBA Definition)	2.76%

Table 3: KPI Risk Metrics

Other important figures and information according to Article 435 (1) f CRR can be found in Note (76) Related party disclosures of the Group Annual Report 2023.

The Management Board of Addiko bank declares that:

- Risk profile of the Addiko can be described as simple and streamlined, focused mainly on taking and managing credit risk stemming from exposure to loans to focus segments, while keeping other risks to the minimum possible needed to effectively operate the business.
- Risk management systems of Addiko are adequate with regard to the institution's profile and strategy.

Addiko Group currently does not apply any form of hedge accounting according to IFRS accounting standards. The hedging of interest rate risk of Addiko entities investment portfolios and balance sheet is currently performed only in Addiko Croatia and Addiko Holding via interest rate swaps at a very small scale, both in terms of overall volume and number of transactions. Notwithstanding the above, the interest rate risk in the banking book is being continuously monitored and presented in the monthly Group Asset and Liability Committee meetings. Furthermore, foreign exchange risk across Addiko Group entities is hedged via standardized instruments such as FX swap, FX outright and FX spot transactions. Addiko concentrates its business model on Consumer and SME lending, where derivatives are in most cases executed as side-business to support clients' needs from the above-mentioned focus business channels. As such, all derivatives conducted with non-financial clients are always closed back-to-back, hence, mitigating or even completely eliminating the trading activity influences. Pricing of derivatives is always completely conducted by respecting the market conditions.

2.2 Risk Strategy & Risk Appetite Statement

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

Addiko Group's 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.

Addiko Group has established a Risk Appetite Statement (RAS) 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, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

2.3 Risk Organisation

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

The Risk Management Function (RMF) at Addiko encompasses the CRO (who is also Head of the Risk Management Function) as well as the following departments reporting to CRO:

- Group Credit Risk Management
- Group Integrated Risk Management
- Group Models and Data

The Risk Management Function (RMF) facilitates the implementation of a sound risk management framework throughout the institution and has the responsibility for identifying, monitoring, measuring and reporting risks and forming a holistic view on all risks on an individual and consolidated basis. In doing so, it represents (together with the Compliance Function) the "second line of defence" in the "three lines of defence" model.

The RMF is actively involved in all strategic decisions, as well as in decisions on material changes and implementation of new products. The RMF oversees the robustness and sustainability of the Risk Strategy and the Risk Appetite as well as their translation into operative risk limits. Subsequently, the RMF is responsible of monitoring breaches of Risk Appetite thresholds, and initiate escalation processes.

The RMF provides the Group Management Board with independent information, analyses and expert judgement on risk exposures, and advice on proposals and the consistency of risk decisions with Addiko Group's risk strategy and risk appetite. This encompasses the requirements of relevant risk-related information that enables the Group Management Board to set Addiko Group's risk appetite level.

The involvement and decision-making power of the RMF is in particular ensured via:

- the role of the Head of the Risk Management Function as member of the Group Management Board,
- the internal decision-making model reflected in the Rules of Procedure of the Management Board and Supervisory Board and its committees,
- the Product implementation process, and
- the Exposure approval rights structure.

The RMF evaluates risks and proposes ways to mitigate them. It modifies and proposes modifications and improvements of processes and tools of risk management.

The RMF may also recommend improvements to the Risk Management Framework and corrective measures to remedy breaches of risk policies, procedures and limits. The RMF gives support to the first line of defence and defines controls for the departments that actively take on risks (e.g., Market, Treasury). The accountability for the decisions taken remain with the business and internal units, and ultimately the management body.

The respective country CROs ensure compliance with the risk principles among all subsidiaries situated in the countries of operation.

2.4 Internal Risk Management Guidelines

Addiko Bank defines Group-wide standard risk management guidelines to ensure that risks are dealt within 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.

Addiko Group has clearly defined responsibilities for all risk guidelines, including preparation, review and update as well as roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by those directly involved in the risk management process. The Group Governance Risk Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Governance Risk Compliance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Governance Risk Compliance Committee.

3 Capital and RWAs

3.1 Own Funds

Art. 437 (1) a, d-f CRR

The table EU CC1 presents the capital structure according to the EU regulation 573/2013 (CRR).

Common Equity Tier 1 according to Art. 26 et seq. and 51 et seq. of CRR consists of subscribed capital, reserves, other comprehensive income and the audited profit for the financial year 2023 net of any foreseeable charge or dividend. Regulatory adjustments of Tier 1 capital are considered according to Art. 36 and 56 of CRR.

The deductible item "intangible assets" consists of banking software solutions and other intangible assets and has been calculated in line with the Draft Regulatory Standards on the prudential treatment on software assets – EBA/CP/2020/11, based on which the intangible assets as disclosed in the audited consolidated financial statements are split into a capital deduction part and another part to be risk weighted by 100.00%.

The simplified approach is applied for additional value adjustments (AVA -prudent valuation). Consequently, the adjustment is directly proportional to the items measured at fair value as disclosed in the audited financial statements.

The calculation of the deductible item "deferred tax assets" is done according to Art. 38 paragraph 5 of CRR and corresponds to deferred tax assets for tax losses carried forward as disclosed in the audited consolidated financial statements.

Apart from the mentioned adjustments, no further material deductions were made. All regulatory adjustments are in accordance with Art. 3, 32-35, 36, 47-48, 56, 66 and 79 CRR.

There are no restrictions applied to the calculation of own funds in accordance with the Regulation (EU) 575/2013.

3.1.1 Impact on Own Funds of the Introduction of IFRS 9 and the Application of the Temporary Treatment in Accordance with Article 468 of the CRR

Art. 473a CRR

On 1 January 2018, IFRS 9, the new accounting standard for financial instruments, took effect and replaced IAS 39, the previous accounting standard for measurements and classification of financial instruments.

Addiko has opted at the level of the Group to take advantage of the transitional capital rules in respect of IFRS 9 published by the EU on 21 December 2017 and amended on 24 June 2020. These permit banks to add back to their capital base a portion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The portion that banks may add back resulting from initial application of IFRS9 amounts to 95.00%, 85.00%, 70.00%, 50.00% and 25.00% each in the first five years of IFRS 9. With the introduction of regulation EU 2020/873 additional loan loss allowances since 1 January 2020 resulting from stages 1 and 2 due to Covid-19 pandemic can be included in own funds with a share of 100.00%, 100.00%, 75.00%, 50.00% and 25.00% each year until 2024.

In March 2022, Addiko decided to make use of the temporary treatment in accordance with Article 468 CRR of the regulation EU 2020/873 in order to limit the potential future impacts of the currently unpredictable developments in the Ukraine-Russia conflict on the markets, which allows to add back to CET1 during 2022 40.00% of the unrealised gains and losses from government instruments measured at fair value through OCI. As of 1 January 2023, this transitional arrangement and the one from the initial application of IFRS 9 expired. For this reason, since 1 January 2023, there is no difference between the transitional and the fully-loaded regulatory capital base.

As at 31 December 2023 the total capital ratio (Basel 3) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 20.42% (YE22: 21.12% by consideration of above mentioned transitional rules, 19.98% on a fully-loaded basis), well above the legal minimum requirement (chapter 3.2). While **in the reporting period**

no transitional rules were applied, in 2022 the total capital ratio calculated without applying IFRS 9 transitional rules would have amounted to 20.89%, the total capital ratio calculated without the temporary treatment of unrealised gains and losses measured at fair value through OCI rules would have amounted to 20.25% and the total capital ratio as if all temporary treatments had not been applied would have amounted to 19.98%.

The table 473a discloses the impact of the adoption of IFRS 9 and the application of the temporary treatment in accordance with Article 468 of the CRR on own funds in accordance with guideline EBA/GL/2020/12.

3.2 Capital Requirements

The following table illustrates the regulatory minimum capital ratios, including the capital requirements determined in the Supervisory Review and Evaluation Process (SREP - chapter 3.2.3) and the regulatory buffers (chapter 3.3) of Addiko Group:

	31.12.2023		
	CET1	T1	TCR
Pillar 1 requirement	4.50%	6.00%	8.00%
Pillar 2 requirement	1.83%	2.44%	3.25%
Total SREP Capital Requirement (TSCR)	**6.33%**	**8.44%**	**11.25%**
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%
Counter-Cyclical Capital Buffer (CCyB)	0.46%	0.46%	0.46%
Systemic Risk Buffer (SyRB)	0.25%	0.25%	0.25%
Combined Buffer Requirements (CBR)	**3.21%**	**3.21%**	**3.21%**
Overall Capital Requirement (OCR)	**9.54%**	**11.65%**	**14.46%**
Pillar 2 guidance (P2G)	3.25%	3.25%	3.25%
OCR + P2G	**12.79%**	**14.90%**	**17.71%**

Table 4: Capital Requirements

3.2.1 Disclosure of Key Metrics

Art. 447 CRR

The template EU KM1 shows the own funds, risk-weighted exposure amounts, buffer and own funds requirements as well as important ratios related to capital, leverage, liquidity coverage and net stable funding during the reporting period.

3.2.2 Summary of the Approach to Assess the Adequacy of Internal Capital and Result of the Institution’s Internal Capital Adequacy Assessment Process

Art. 438 a, c CRR

For the ICAAP, within economic perspective, internal models are applied, wherein the forward looking risk parameters are used.

Capital requirements calculated using the approach above are contrasted with the available risk bearing capital under the economic perspective, to ensure adequacy of capital available to support current and future activities.

EUR m

	31.12.2023
Total economic capital amount	407.2
Total risk coverage capital amount	742.0
Excess capital	334.8

Table 5: Economic capital utilisation

3.2.3 Amount of the Additional Own Funds Requirements Based on the Supervisory Review Process

438 b CRR

As mentioned in the table above (chapter 3.2) Addiko Group needs to fulfil a Pillar 2 Requirement (P2R) of 3.25%, to be held in the form of 56.25% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital, as a minimum. In connection with the Supervisory Review and Evaluation Process (SREP) and in addition to the P2R, the ECB expected Addiko Group to hold a Pillar 2 Guidance (P2G) of 3.25%, which should be comprised entirely of Common Equity Tier 1 (CET1). However, falling below the P2G would not constitute a breach of minimum supervisory standards.

3.2.4 Risk-weighted Exposure Amounts and Minimum Capital Requirements

Art. 438 d CRR

Based on the business activities of Addiko, capital requirements are derived for the Pillar 1 risk types credit risk, market risk and operational risk. The capital requirements were complied with at all times during the reporting period.

For Addiko and its subsidiaries, the capital requirements are calculated for the Pillar 1 risk types credit, market and operational risk. Within the meaning of Article 92 (3) (a) and (f) CRR for the determination of risk-weighted assets and the capital requirement, the Credit Risk Standardised Approach (CRSA) was used.

The template EU OV1 gives an overview of the RWA and capital requirements calculated in accordance with the Article 92 of the CRR. The capital requirements are broken down into different risk categories and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds. The template EU OR1 shows the relevant indicators to the calculated own funds requirements and weighted risk exposure amount to cover credit risk and counterparty credit risk.

3.3 Capital Buffers

Art 440 (1) a-b CRR

Addiko Group calculates countercyclical buffer requirements at consolidated level in accordance with Title VII, Chapter 4 of Directive 2013/36/EU (CRD IV), which was amended by Directive (EU) 2019/878 (CRD V). The **countercyclical capital buffer** (CCyB) amounted to 0.46% due to the fact that the CCyB rates of especially two countries increased: for Croatia it was set to 1.00% (Addiko Group's CCyB requirement increased by 0.32%) and for Slovenia to 0.50% (CCyB requirement increased by 0.13%). In contrast to this, as of 31 December 2022, only a few of the relevant jurisdictions applied countercyclical buffer rates and the capital buffer requirements of Croatia and Slovenia were 0.00%.

In addition, the FMA published on 21 December 2022 that Addiko is subject to a **systemic risk buffer** (SyRB) of 0.50% at the consolidated level on the grounds of systemic concentration risk. The SyRB was raised by 0.25 percentage points starting from 1 January until 31 December 2023 and will reach the full level starting from 1 January 2024. In Addiko's view, the rationale applied to identify systemic concentration risk as well as the procedural steps taken are incorrect.

Therefore, Addiko submitted an appeal against the FMA regulation regarding the SyRB to the Federal Administrative Court. The Federal Administrative Court granted a deadline for the final decision until the beginning of March 2024.

The templates EU CCyb1 and EU CCyB2 set out the geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institution-specific countercyclical buffer rate for the Group as of 31 December 2023. The table detailing the distribution of credit exposures has been simplified by listing individually only those relevant countries which represent material exposures for the Group.

4 Credit Risk and Dilution Risk

4.1 Definition of Past Due, Default and Impaired

Art 442 a CRR

Addiko is applying the default definition according to Art. 178 CRR for regulatory purposes. A loan is considered defaulted if at least one of the following criteria applies:

- A material delay of the debtor in fulfilling the obligation towards the bank, which is overdue for more than 90 days (Internal Ratings Based Counter),
- The bank considers that the obligor is unlikely to pay,
- Distressed restructuring measures of the customer,
- Write-off,
- Risk-driven sale of loan assets,
- Insolvency/bankruptcy,
- Fraud.

Past due performing loans are exposures to borrowers where past-due amounts at the reporting date are between 1 and 90 days overdue. Default event happens when the customer is 90 days past due (DPD) on any material obligation to Addiko Group. All past due amounts are summed up at the obligor level.

For accounting purposes, a financial asset is considered credit-impaired in accordance with IFRS 9 Appendix A and has to be transferred to Stage 3, if one or more events that have a detrimental impact on the estimated future cash flows have occurred. A financial asset may become credit impaired if at least one of the following criteria (examples) applies:

- Significant financial difficulty of the issuer or borrower,
- a breach of contract, such as a default of past due event,
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender would not otherwise consider,
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation,
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of origination of the financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused the financial asset to become credit-impaired.

The definitions of defaulted and credit-impaired financial assets at Addiko Group have been harmonized as far as possible. In general, a financial asset is considered credit-impaired, if the debtor is in default and all exposures of this customer have to be allocated to Stage 3 unless they satisfy the conditions for treatment as “purchased or originated credit impaired” (POCI). A transfer back to stage 2 is only possible after cure of the debtor (under internal definition of cure).

4.2 Credit Risk Adjustments

Art 442 b CRR

Credit risk adjustments are calculated in line with the international financial reporting standard on financial instruments (IFRS 9). According to this standard, credit loss adjustments are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss adjustments are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

For financial instruments, whose credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the 12-months expected credit losses. In case of a significant increase in credit risk, the loss allowance must be increased up to the amount of the expected lifetime losses (Stage 2). For credit-impaired financial assets (Stage 3), the lifetime expected credit losses are recognised as well. Additionally, interest revenue is calculated by applying the effective interest rate to the amortised cost of the financial asset (i.e., the gross carrying amount adjusted for loss allowances).

For credit-impaired financial instruments (Stage 3), two approaches are of relevance, namely assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures.

Assessment based on risk parameters is done for each client whose exposure at default (EAD) on group of borrowers level is below a certain country specific materiality threshold. The provision amount is calculated as product of EAD and loss given default (LGD) discounted to the respective reporting period, where LGD is based on relevant characteristics such as time in default, risk segment and entity.

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. Taking into consideration the assumed default scenario (restructuring or utilisation), expected repayments are assessed individually in terms of amount and timing. The 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, Addiko Group bases its assumptions on the collateral's market value, which is updated annually in commercial real estate business. 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. The underlying assumptions for all individual assessments are documented and justified on a case-by-case basis.

Art 442 c -g CRR

For a detailed overview on impaired exposures, specific and general risk adjustments as wells as charges for specific and general credit risk adjustments, please refer to Addiko Group's Annual Report 2023. In this context, general credit risk adjustments correspond to Stage 1 and 2 and specific risk adjustments to Stage 3. Specific provisions for exposures considered individually immaterial are calculated based on the Specific Risk Provision Collective Impaired method ("SRP Collective Impaired") instead of an individual analysis (i.e., while the provisions are assigned individually to each account, the calculation is based on credit risk parameters). In this regard, the templates EU CR1, EU CR2, EU CQ1, EU CQ3, EU CQ4, EU CQ5, EU CQ7 and EU CR1-A are disclosed.

4.3 Use of ECAIs

4.3.1 Scope of Application and Use of External Ratings

Art 444 a-d CRR

Pursuant to Article 4 (98) CRR, External Credit Assessment Institution (ECAI) means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009. Addiko Group uses the Standardised Approach for determining the minimum capital requirements pursuant to Basel 3.

The calculation of risk weighted exposures is based on ECAI rating (Moody's Investor Service ("Moody's")). Addiko Group has not nominated any Export Credit Agency (ECA). The assignment of the rating grades to credit quality steps is undertaken according to Article 136 CRR and published EBA Implementing technical Standard on the mapping of ECAIs credit assessments. ECAI risk assessments are used for all exposure classes.

The transfer of the issuer credit ratings onto comparable assets in the banking book is pursuant to Article 138 CRR.

4.3.2 Exposure Values Associated With Credit Quality Steps

Art 444 e CRR, Art 453 g-i CRR

Addiko Group generally uses Moody's Investor Service ("Moody's") ratings. The assignment of the rating grades to credit quality steps is undertaken according to Article 136 CRR.

External ratings are used to a limited extent in some exposure classes to calculate the RWA in the Standardised Approach:

- in case of institutions, if an external rating by an ECAI of the counterparty is available, the risk weight (RW) has to be determined pursuant to Article 120 CRR, in case an external rating by an ECAI of the counterparty is not available, the RW has to be determined pursuant to Article 121 CRR,
- in case of central governments and central banks, the RW has to be determined pursuant to Article 114 CRR,
- in case of corporate clients, the RW has to be determined pursuant to Article 122 CRR.

The allocation of the external ratings to credit quality steps and risk weights is as follows:

Moody's Investor Service	Credit Quality Step
Aaa to Aa3	1
A1 to A3	2
Baa1 to Baa3	3
Ba1 to Ba3	4
B1 to B3	5
Caa1 and below	6

Table 6: Credit quality steps

The template EU CR4 illustrates the effect of CRM techniques and template EU CR5 provides a breakdown of exposures by asset class and risk weight.

4.4 Leverage

Art 451 (1) a-c CRR, Art 451 (2) CRR, Art. 451 (3) CRR

4.4.1 Leverage Ratio

The leverage ratio represents the relationship between Tier 1 capital and the leverage exposure pursuant to Article 429 CRR, more specifically the Delegated Regulation (EU) 2015/62 with regard to leverage ratio (Delegated Act) of 10 October 2014, which was published in the Official Journal of the European Union on 17 January 2015. Essentially, the leverage exposure represents the sum of unweighted on-balance sheet and off-balance sheet positions considering valuation and risk adjustments as defined in the Delegated Act.

As of 31 December 2023, the leverage ratio for Addiko Group at consolidated level amounted to 11.62%, comfortably above the 3.00% minimum requirement (according to Art. 92 of the Regulation (EU) 2019/876). The ratio is calculated on period-end values as of 31 December 2023 for both leverage exposure and Tier 1 capital. As of 1 January 2023, the transitional arrangements in accordance with Article 468 CRR of the regulation EU 2020/873 as well as in relation to the static component of the IFRS 9 transitional capital rules published by the EU on 21 December 2017 and amended on the 24 June 2020 expired. For this reason, since 1 January 2023, there is no difference between the transitional and the fully-loaded regulatory capital base.

The IFRS 9 transitional rules are presented in chapter 3.1.1 and template 473a.

4.4.2 Leverage Exposure Breakdown and Reconciliation

The template EU LR1 provides a reconciliation of Addiko Group's published financial statements to the total leverage ratio exposure as of 31 December 2023. The template EU LR2 provides a breakdown of the total leverage exposure measure into its main constituent parts as well as the calculation of the period-end leverage ratio as of 31 December 2023 and the template EU LR3 provides a breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by exposure class as of 31 December 2023.

4.4.3 Management of the Risk of Excessive Leverage

Art 451 (1) d CRR

The leverage ratio is planned during the yearly planning process and is monitored on a monthly basis in the Group Risk Report. It is also part of the Addiko Recovery Indicators list with thresholds regularly monitored and reported to the Management and Supervisory Board. Leverage ratio thresholds are also defined on the level of each individual entity and monitoring is undertaken at local entity level.

4.4.4 Factors Influencing the Development of Leverage Exposure

Art 451 (1) e CRR

The leverage ratio of Addiko changed as follows when comparing year-end and :

a.) IFRS 9 transitional view: 2023 LR 11.62% vs. 2022 LR 11.63%
b.) IFRS 9 fully-loaded view: 2023 LR 11.62% vs. 2022 LR 11.05%

Development of the two leverage ratio drivers (Tier 1 capital & risk position value) between 31 December 2023 and 31 December 2022:

Tier 1 capital (transitional) increase amounting to EUR 9.7 million (Addiko Tier 1 capital consists of pure CET1 capital). The drivers are:

a) The positive **OCI development** of EUR 38.2 million resulted from the following parts: EUR 36.7 million from debt instruments measured at FVTOCI, EUR 1.2 million from equity instruments and EUR 0.3 million from the change of foreign currency reserves.
b) Consideration of the audited result in the amount of EUR 41.1 million, less foreseeable dividends in the amount of EUR 24.6 million according to article 26 CRR.
c) Due to the expiry of the transitional arrangements the following amounts of capital could not be added back to capital: EUR 10.0 million from the IFRS 9 transitional rule and EUR 31.0 million from the temporary treatment of unrealised gains and losses measured at FVT OCI.

d) Other capital items amounting to EUR 4.0 million: the increase of deferred tax assets on existing taxable losses (total capital decreased by EUR 2.5 million), slightly compensated by the AVA (total capital increased by EUR 0.1 million). The negative effect of EUR 1.6 million connected with the share buy-back program deriving from the combined effect of equity-settled share-based payments (total capital increased by EUR 1.4 million) and the ECB approval for the buy-back of additional EUR 3.2 million of Addiko own CET1 instruments translating into an increase of the deduction item by EUR 3.0 million.

The increase of the risk position value (transitional) amounting to EUR 87.8 million. The main drivers are:

a) Increase in focus business (means Consumer and SME)
b) Reduction of non-focus business (means Mortgages, Large Corporates and Public Finance)

4.5 Credit Risk Mitigation Techniques

4.5.1 Core Features of Policies and Processes for, and an Indication of the Extent to Which the Entity Makes Use Of, On- and Off- Balance Sheet Netting

Art 453 a CRR

Netting is not used at Addiko Group.

4.5.2 Core Features of the Policies and Processes for Collateral Valuation and Management

Art 453 b CRR

Collateral valuation of real estate and other types of collateral

Overall collateral management is covered within the Group Collateral Management Policy. The implementation of this policy is obligatory for all subsidiaries. Country-specific adaptations reflecting local regulatory requirements must be defined in local policies. Discrepancies regarding minimum standard and maximum lending values are only allowed with Group approval, whereby the principle applies that collateral security take precedence over debt obligations.

For each guarantee or collateral type, eligibility (if collateral is eligible to be considered as mitigation factor) and valuation criteria (criteria for determining internal value) are defined in Group Collateral Management Policy and Group Valuation and Valuation Monitoring Policy. Legal effectiveness and enforceability are the main eligibility criteria, but there are others precisely defined for each guarantee and collateral type.
Continuous legal monitoring is ensured, and in cases which are based on foreign legal systems, foreign lawyers, respectively the subsidiaries are involved.

The internal collateral value (ICV) is calculated in such a way that a haircut is deducted from the market value, whereby the amount of the haircut depends on the type of collateral.

The haircut is a percentage applied on given appraised value (market value) in order to calculate potential liquidation value. The main reason for application of predefined haircuts is to reflect time and costs associated with selling the underlying collateral, fluctuations present due to recessions and general market values fluctuations in long term period.

4.5.3 Main Types of Collateral Taken by the Institution

Art 453 c CRR

To hedge credit risk positions, only collaterals of adequate quality are considered.

The main importance is given to the Group-wide management of real estates pledged as collateral, as this type of collateral represents the majority of obtained and internally considered collaterals. These collaterals are divided into Commercial Real Estates (CRE) and Residential Real Estates (RRE). For all commercial real estates with market value higher than EUR 1.0 million, and residential real estates with market value higher than EUR 400 thousand, individual (case by case) regular periodical monitoring is performed, with the aim to review the market value and see if it is valid. If not, a new valuation is procured.

The validity of valuations for real-estates in the portfolio is verified every month. A list of all properties for which the valuations are about to expire in the next four months is provided in a report sent to each of the entities to ensure that monitoring rules are followed. The report also includes information on potential overdue valuations, properties without properly inscribed mortgage and uninsured properties.

For all commercial real estates with market value lower than EUR 1.0 million, and residential real estates with market value lower than EUR 400 thousand, regular monitoring is based on statistical methods, whereby the initial market value is always based on a full valuation report provided by a qualified appraiser.

In addition, the following deductions must be considered:

- Land registry inscription and potential issues (CRE/RRE), primarily prior ranked mortgages
- Deduction for financial collaterals in cases of currency mismatch
- Deduction for guarantees, depending on segment and rating of the guarantor

Other valuable credit risk mitigation types within the Group are different types of guarantees (primarily bank and corporate guarantees), as well as the following collateral types: financial collaterals (deposits, securities), movables and receivables.

4.5.4 Main Types of Guarantor and Credit Derivative Counterparty and Their Creditworthiness

Art 453 d CRR

The most important types of guarantors at Addiko Bank AG are, in addition to sovereigns or central banks, to a small extent also institutions. The majority of these lenders belong to the Credit Quality Step 2. The allocation of the credit quality steps to the external ratings can be seen under chapter 4.3.2.

4.5.5 Risk Concentrations Within Credit Risk Mitigation

Art 453 e CRR

Concentration risk exists when significant portions of the Group-wide collateral values (on portfolio level) are concentrated on a small number of types of collateral, instruments, sectors or specific guarantors.

Addiko has no concentration risk related to collaterals, as the risk is reduced by diversifying the portfolio in terms of size/volume, client segment, countries and different collateral instruments (including different real-estates, movables, guarantees, bonds, receivables, etc.). Furthermore, collateral correlates with the level of exposure. At Addiko, there are no significant concentrations in terms of exposure.

Art 453 f CRR

The information of the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments is disclosed in template EU CR3.

4.6 FX Exposure

Art 431 (3) CRR

In accordance with the FMA Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles (FMA- FXTT-MS), Addiko Group assessed whether additional disclosure regarding foreign currency loans and loans with repayment vehicle is necessary to convey its risk profile comprehensively to market participants.

As of 31 December 2023, the total exposure from bullet loans with repayment vehicles is mainly attributable to loans in Croatia. The total impact of these types of loans on the risk profile of Addiko Group is not significant.

The table below represents an overview of loans and advances in the banking books, which are not denoted in EUR or the respective local currency (the exposures are translated to EUR):

	CHF	USD
Addiko Group: loans and advances (EUR m)	2.1	0.0
In % of total Bank book portfolio	0.06%	0.00%

Table 7: Overview of loans and advances in the banking books not denoted in EUR or the respective local currency

While the impact from outstanding foreign currency loans on the risk profile of Addiko Group is not decisive, the Group is subject to legal risk stemming from the invalidity of agreed foreign currency, interest and interest rate adjustment clauses following judicial decisions or changes to statutory provisions. Information on these legal risks are shown in detail in Note 67 of Addiko Group’s Annual Report 2023.

5 Counterparty Credit Risk

Art 439 a-d CRR

Master Agreements and individual Credit Support Annexes, which stipulate the conditions for the charging of mutual risks (Close-out-Netting) and in turn reduce the counterparty risk, are used in the trading business with derivatives.

Therefore, the individual agreement between the counterpart and Addiko, comprising a valid Master Agreement for derivatives business (ISDA Master Agreement, German/ Austrian Master Agreement) and an amending valid Credit Support Annex (CSA) with the counterparts, is the basis for the Collateral Management. The content of the CSA regulates the operative handling of the Collateral Management. Furthermore, it includes frameworks such as threshold amount, independent amount, minimum transfer amount, rounding rules for the transfer amount, type of collateral, valuation agent and period of collateral valuations.

The actual collateral value is calculated based on daily netted market valuation of the underlying derivatives with the external counterparts and with one subsidiary. For the other subsidiaries, the collateral is calculated based on a weekly netted market valuation of the underlying derivatives. Basis for the market valuation is the close of business market data. Only EUR cash is accepted within Addiko as collateral.

The actual economic risk is reduced to a not reached Minimum Transfer Amount. The Minimum Transfer Amount specifies the amount which triggers the exchange of collateral. All received or paid collaterals are also documented in the respective systems. The evaluated collateral amount is also included in the daily steering.

As of year-end 2023, Addiko Group does not have any single name CDS on the portfolio.

Addiko is using various daily standardized reports to identify wrong-way risk. Based on these reports, control mechanisms are set in order to avoid general and specific wrong-way risk (e.g., limitations for acceptable collateral for OTC and repurchase agreements, limitations on trades where specific wrong-way risk could occur). Besides that, Addiko only accepts cash collaterals in EUR for collateral management purposes, which also reduces the wrong way risk to a minimum.

The steering of the risk mitigation techniques is situated in the department Group Market & Liquidity Risk Management.

The counterparty credit risk is assessed as part of the RWA calculation in Pillar 1 and quantified in Pillar 2 with the IRB approach and treated in both pillars as a component of credit risk. Counterparty credit risk is incorporated into the Risk Bearing Capacity calculation and is limited within the limits for the single name credit risk. The Group Risk Report which contains the counterparty credit risk is reported monthly to the management board. Furthermore, a credit limit for counterparties at individual customer level is requested and approved according to the foreseen credit processing channels.

Netting is not used for regulatory purposes within Addiko Group. No further collateral is considered to mitigate counterparty credit risk for regulatory purposes under Pillar 1.

Contractual clauses concerning dependencies between collateral management and the credit rating of Addiko exist in the context of collateral agreements. The points affected by this in some of the collateral agreements are the exposure-independent amount of collateral (independent amount), the amount of exposure the counterparty is willing to accept before Addiko is required to post collateral (the threshold amount), and the minimum amount of additional collateral that may be requested (the minimum transfer amount).

Based on existing agreements in place with counterparties, a rating downgrade of Addiko would not have any material effect on the additional amount to be provided connected to collateral management.

Art 439 e CRR

The template EU CCR5 shows the segregated and unsegregated collateral received and posted per type of collateral.

Art 439 f-g, k CRR
The template EU CCR1 provides information about derivative and securities financing transactions.

Art 439 h CRR
The template EU CCR2 gives an overview of the exposures subject to CVA capital charges in accordance with Part three, Title VI, Article 382 in the CRR. Addiko Group applies the standardized method to compute CVA capital charges exclusively.

Art 439 i CRR
As of 31 December 2023, Addiko Group does not have any exposure value to central counterparties (qualifying and non-qualifying central counterparties) and the associated risk exposures.

Art 439 j CRR
As of year-end 2023, Addiko Group does not have any single name CDS on the portfolio.

Art 439 l referring to Art. 444 e CRR
The template EU CCR3 includes the CCR exposures by regulatory exposure classes and risk weights.

5.1 Size of On- and Off-Balance-Sheet Derivative Business

Art 439 m CRR

Addiko Group applies the Original Exposure Method (OEM) calculated in accordance with Article 282 CRR (Chapter 6 of Title II Part Three, Section 5) as alternative approach to the Standardised Approach for counterparty credit risk (SA-CCR). The precondition to apply this approach is that according to Article 273a (2) CRR, the sum of the absolute market values of on- and off-balance-sheet derivatives must not exceed EUR 100.0 million on a monthly basis. In addition, these must as well not exceed 5.00% of the total assets. The following table shows the development of the absolute market values during the reporting period:

EUR m

	Absolute market value	Total assets	Percentage
31.01.2023	7.1	5,974.1	0.12%
28.02.2023	8.5	5,915.4	0.14%
31.03.2023	8.6	5,940.5	0.15%
30.04.2023	7.9	5,899.6	0.13%
31.05.2023	9.5	5,848.7	0.16%
30.06.2023	8.3	5,875.5	0.14%
31.07.2023	8.0	5,990.8	0.13%
31.08.2023	8.6	6,094.2	0.14%
30.09.2023	12.7	6,192.9	0.21%
31.10.2023	14.6	6,198.4	0.24%
30.11.2023	8.4	6,096.8	0.14%
31.12.2023	9.1	6,151.5	0.15%

Table 8: Size of monthly on- and off-balance-sheet derivative business

6 Market Risk

Art 435 (1), 445 CRR

Addiko Group structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. Addiko Group places a special emphasis on identifying, measuring, analysing and managing market risk. Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges, assets similar to equity or from the management of assets and equity/liabilities. In addition to market risks, market liquidity risks may also arise if, in the event of low market demand, the bank is unable to sell trading positions during liquidity bottlenecks (or due to risk-based offsetting requirements) in the short-term. For existing positions, these are taken into account as part of the risk limitations for market risks.

6.1 Risk Measurement

Addiko Group calculates market risk as part of daily monitoring with value-at-risk (VaR) methods on the basis of a one-day holding period, with a confidence level of 99.00%. 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 recognising 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 99.00% VaR number used by the bank reflects the 99.00% probability that the daily loss should not exceed the reported VaR. The VaR methodology employed to estimate daily risk numbers is a Monte Carlo simulation with 10,000 runs, or a simulation under Variance-Covariance method. While the latter method is used to estimate interest rate risk for non-trading activities, the Monte Carlo approach is then used to estimate potential losses of other market risk types. The bank uses VaR to capture potential losses arising from changes in the risk free rates, security issuers' credit margins, foreign exchange rates, equity prices and commodity prices. All VaR methods in place rest on the assumption of exponentially weighted moving averages and correlations in the market risk factors collected for the historical series of 250 days.

6.2 Overview Market Risk

Interest Rate Risk

The value at risk of the interest rate risk (including the interest rate risk of the trading book) for Addiko Group per 31 December 2023 is EUR 1.1 million (YE22: EUR 2.3 million). The interest rate gap profile for Addiko Group contains all interest-rate-sensitive items (assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform Group standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures, as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.

The methodology of regulatory interest risk calculation is based on the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02) and the Guidelines on IRRBB and credit spread risk arising from non-trading book activities (CSRBB).

Regulatory requirements state that impact on EVE (Economic Value of Equity) of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20.00%, with the relevant risk estimation at 4.07% on 31 December 2023 versus 1.08% on 31 December 2022. Under the EVE of scenarios 1 to 6 as set out in Annex III of EBA/GL/2018/02 and the final draft RTS (Regulatory Technical Standards) on IRRBB supervisory outlier tests (SOT – Supervisory Outlier Tests), the impact may not exceed 15.00% of Tier 1 capital, with the relevant risk estimation at 4.83% on 31 December 2023 versus 3.42% on 31 December 2022.

The change in the present value of the banking book with a parallel rise in the interest rate curves by 1 base point in all maturity bands and currencies as of 31 December 2023 amounting to EUR -0.2 million (entire aggregated effect of this interest rate simulation), which is almost the same level as of 31 December 2022 (EUR -0.3 million).

Sensitivity of the reported equity to interest rate movements:

EUR m

Year 2023	Parallel up 200bp	Parallel down 200bp	Parallel shock up BSBS	Parallel shock down BSBS
At 31 December	-29.0	14.6	-34.4	17.8
Average of period	-20.5	10.6	-25.7	13.4
Maximum for the period	-10.3	19.8	-15.1	23.3
Minimum for the period	-34.3	2.7	-40.9	5.4

Table 9: Sensitivity of the reported equity to interest rate movements 2023

EUR m

Year 2022	Parallel up 200bp	Parallel down 200bp	Parallel shock up BSBS	Parallel shock down BSBS
At 31 December	-5.3	2.5	-10.0	5.3
Average of period	-20.8	5.4	-28.1	8.1
Maximum for the period	-5.3	20.0	-10.0	23.9
Minimum for the period	-47.5	0.3	-57.2	2.8

Table 10: Sensitivity of the reported equity to interest rate movements 2022

Sensitivity of projected net interest income:

EUR m

Year 2023	Parallel up 200bp	Parallel down 200bp	Parallel shock up BSBS	Parallel shock down BSBS
At 31 December	1.5	-1.1	1.4	-1.0
Average of period	2.1	-1.7	2.1	-1.6
Maximum for the period	5.3	3.8	5.4	3.6
Minimum for the period	-3.5	-4.7	-3.2	-4.9

Table 11: Sensitivity of projected net interest income 2023

EUR m

Year 2022	Parallel up 200bp	Parallel down 200bp	Parallel shock up BSBS	Parallel shock down BSBS
At 31 December	6.8	-6.2	7.7	-6.2
Average of period	3.5	-6.6	4.1	-7.3
Maximum for the period	7.6	-3.6	8.8	-4.0
Minimum for the period	-1.0	-10.4	-0.1	-12.3

Table 12: Sensitivity of projected net interest income 2022

Differences in the sensitivity estimates arise from the implementation of the Draft Regulatory Technical Standards specifying supervisory shock scenarios, common modelling and parametric assumptions and what constitutes a large decline for the calculation of the economic value of equity and of the net interest income in accordance with Article 98(5a) of Directive 2013/36/EU (EBA/RTS/2022/10).

Foreign Currency Risk

The database for determining the value at risk for foreign exchange risks at the Group level of the Addiko is based on the figures in the regulatory report as well as positions arising from participations, and contains operational business activities. Foreign exchange risk thereby covers the entire FX risk of Addiko Group. The main foreign exchange risk drivers are the RSD and USD currencies. The total volume of open currency positions is at EUR 351.8 million as of 31 December 2023, which was lower than the volume of EUR 576.1 million per 31 December 2022. The value at risk for foreign exchange risk was EUR 0.2 million per day as of 31 December 2023 versus EUR 0.4 million value at risk as of 31 December 2022, with both figures at a confidence interval of 99.00%. The limit of EUR 0.3 million was adhered to as of 31 December 2023.

Aside from foreign exchange risk from operating activities, the majority of Addiko Group's exposure to foreign exchange risk implicitly arises from the parent company's participations in the Addiko Bank a.d. Beograd entity, where the share capital is booked in the local currency and secondly invested in the same currency in the local asset-side business. In addition to monitoring VaR in respect of foreign currency, Addiko Group also monitors any concentration of relevant single foreign exchange positions on single currency level – this is reported on a monthly basis within the Group Asset Liability Committee.

Equity Price Risk

The share capital held in the Group is susceptible to market price risks, which arise from the uncertainty surrounding the future value of these shares. Exposure to equity risk under the standard VaR methods implemented within Addiko Group is estimated at EUR 0.1 million as of 31 December 2023 against the estimation of EUR 0.1 million as of 31 December 2022. Size of risk exposure to movements in equity market prices is seen as low given that Addiko Group's strategy is, in general, not to invest into such asset classes. If the comparison is done on each separate risk type, equity risk exposure thus displays that no major concentration risk arises from therein.

Credit Spread Risk

The credit spread risk within Addiko Group stood at EUR 0.7 million on 31 December 2023 with a one-day value at risk and a confidence level of 99.00%, versus value at risk of EUR 1.3 million as of 31 December 2022. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities in the Addiko entities in Bosnia and Serbia. In addition to monitoring VaR in respect to the credit spread risk, Addiko Group also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on single bank level of the bond portfolio over the whole Addiko Group are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

7 Operational Risk

7.1 Principles of Operational Risk Management

Art 446 a-c CRR

Addiko uses on a consolidated level The Standardised Approach (TSA) for the calculation of operational risk capital requirements. More information is stated in the chapter “Capital requirements” of this disclosure referring to Art. 438 CRR.

In accordance with Article 4 (52) of 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, Addiko Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

7.1.1 Organisation

The comprehensive system of operational risk monitoring and management of Addiko Group has the aim to enable active management of operational risk. As the operational risk, in accordance to its definition, is not centralised in one organisational or hierarchical level, the system for its management encompasses in general all activities in the Group.

Appropriate responsibility for the management of operational risk is essential, therefore clear accountability and ownership for operational risk management is implemented on different levels of the organisation, which encompasses day-to-day management of operational risk, oversight and analysis of results of operational risk management and strategic risk management.

Group Operational Risk Management is responsible for setting the strategic direction for managing all operational risk related activities, proposing policies and tools for managing, measuring and controlling operational risks according to defined Group standards. Additionally, Group Operational Risk Management ensures and monitors a harmonized approach to all operational risk activities based on common standards and regularly reports on operational risk and issues to relevant stakeholders.

7.1.2 Risk Measurement and Reporting

Apart from capital calculation based on gross income as a quantitative measure of operational risk, quantification of internal loss data, collected throughout the Group using a standardised methodology, is performed. Internal operational risk loss data supplemented by relevant mitigation measures is collected and entered into a central database. Additionally, measurement of operational risk also relies on qualitative approaches such as Risk and Control Self Assessment.

Appropriate reporting mechanisms are set up at the Board (Supervisory and Management) and senior management levels with the results and proposal for risk control derived from both quantitative and qualitative processes that support proactive management of operational risk.

7.1.3 Calculation of Own Fund Requirements

The operational risk measurement model is set to meet the Standardised Approach (TSA) requirements as defined in Regulation (EU) 575/2013 articles 315, 316, 317, 318 and 320. Addiko Group on a consolidated level is using the Standardised Approach (TSA) measurement model for calculating own fund requirements for operational risk, while banks in the Group may use the TSA or Basic Indicator Approach (BIA).

The source for the gross income data used in the calculation of the relevant indicator is accounting data.

8 Interest Rate Risk

8.1 Qualitative Information on Interest Rate Risk of Non-Trading Book Activities

Art 448 (1) c-g CRR

Interest rate risk of non-trading book activities (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the bank's assets, liabilities and off-balance-sheet items and hence, its economic value of equity (EVE). Changes in interest rates also affect the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). Economic value measures reflect changes in value over the remaining life of the bank's assets, liabilities and off-balance-sheet items, until all positions have run off, while earnings-based measure covers only the rolling 12-month period. The sub-types of interest rate risk of non-trading book activities to which Addiko Bank is exposed are:

- **Gap risk**: Risk resulting from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). Non-parallel gap risk refers to the risk associated with a change in the relative interest rates of instruments at different tenors. In other words, it represents the risk arising from changes in the slope and the shape of the yield curve as opposed to a parallel shift.

- **Basis risk**: Risk arising from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate sensitive instruments with otherwise similar rate change characteristics.

- **Option risk**: Risk arising from options (embedded and explicit), where the institution or its customer can alter the level and timing of their cash flows, namely the risk arising from interest rate sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client (embedded behavioural option risk).

The following measures are being used to monitor interest rate risk of non-trading book activities in Addiko Bank:

- **EVE** - economic value of equity measures the theoretical change in the net present value of the balance sheet excluding equity. The measure therefore depicts the change in equity value resulting from an interest rate shock. All cash flows from on-balance-sheet and off-balance-sheet interest rate sensitive items in the banking book may be included in the computation. The market value of equity is computed as the present value of asset cash flows, less the present value of liability cash flows, without including assumptions on the interest rate sensitivity of equity.

- **VaR** – value at risk measures maximum potential loss in value of an (off)balance-sheet item or portfolio over a defined period (1 day) at a given confidence interval (99.00%). It arises from the portfolio sensitivity vector i.e., change in the portfolio value due to a change of the risk factor value (shifted by 1 bp). Sensitivity vector is then multiplied by the variance-covariance matrix.

- **NII** - Change in Net Interest Income (NII) looks at the expected increase or reduction in NII over a shorter time horizon (one year) resulting from interest rate shock. The change in NII is the difference in the expected NII between a base scenario and an alternative, more stressful scenario. It reflects a full going-concern perspective and depending on the design of the alternative scenarios, this method is able to capture all different types of interest rate risk sensitivity.

- **PV01** - present value of a single basis point change in interest rates based on gap analysis. This analysis is used to derive the duration profile of the banking book or, equivalently, the profile of the present value of a single basis point change in interest rates. Gap analysis allocates all relevant interest rate-sensitive as-sets and liabilities to a certain number of predefined time buckets according to their next contractual re-set date. This method gives a visual impression of the risk exposure dispersion relative to the repricing pro-file, reflecting exposures to parallel as well as non-parallel gap risk.

All listed measures are calculated and reported to the Group Asset Liability Committee (GALCO) on a monthly basis. Additionally, Addiko Bank conducts regular stress testing in order to measure the vulnerability of the Legal Entities or of the Group under stressful market conditions.

The Group Asset Liability Committee acts to establish an integrated and consistent interest rate risk management framework within the Group, taking into account the overall operations of the Group and the interest rate risks to which it is exposed.

The main responsibilities are as follows:

- Approve IRRBB framework indicators and limits,
- Approve behavioural models / assumptions,
- Decide the actions to be taken in case of limits breaches,
- Review the IRRBB exposures,
- Approve hedging strategy,
- Approve Internal Capital against IRRBB.

Addiko Bank applies the following stress scenarios to estimate IRRBB risks:

- Parallel shifts up and down for 200 basis points,
- SOT (supervisory outlier test) scenarios in line with Annex III EBA/GL/2018/02 (Parallel up, Parallel down, Steepener, Flattener, Short rates up, Short rates down),
- Customized scenarios that reflect changes to current market/macro conditions and possible development of the economic environment (baseline, pessimistic and adverse view).

The prescribed regulatory limits in amount of 20.00% of the own funds (4.07% per 31 December 2023 versus 1.08% per 31 December 2022) and 15.00% of Tier I capital (4.83% at 31 December 2023 versus 3.42% at 31 December 2022) are fully respected on the Group and single entity level. Year to Year change in the ratios is driven by the business developments toward the more interest sensitive instruments in average.

Addiko Group currently does not apply any form of hedge accounting according to IFRS accounting standards. Hedging interest rate risk of Addiko entities investment portfolios and balance sheet is currently performed only in Addiko Croatia and Addiko Holding via interest rate swaps at a very small scale, both in terms of overall volume and number of transactions. Notwithstanding the above, the interest rate risk in the banking book is being continuously monitored and presented in the monthly GALCO meetings.

Furthermore, foreign exchange risk across Addiko Group entities is hedged via standardized instruments such as FX swap, FX outright and FX spot transactions. Addiko Bank concentrates its business on Consumer and SME lending, where derivatives are in most cases executed as side-business to support clients' needs from the above-mentioned focus business channels. As such, all derivatives conducted with non-financial clients are always closed back-to-back, hence mitigating or even completely eliminating the trading activity influences. Pricing of derivatives is always completely conducted by respecting the market conditions.

The models for products with embedded behavioural optionality are included in the IRRBB framework and consistent with historical experience. Addiko Bank calculates the regularly economic value and NII measures with and without the demand deposit behavioural model in order to isolate the effect of modelling. The none-maturing deposit model is based on the observed historical behaviour on the entity, currency and business segment level. Average repricing maturity of the retail none-maturing deposits amounted 3.40 years (4.98 only core part) while the longest repricing maturity is assigned to a 10Y time bucket. In terms of non-financial wholesale counterparties, the average repricing maturity was equal to 0.83 years (2.50 core part) with the longest repricing maturity of 5Y. Similar to the demand deposits, loans and term deposits are clustered combining products with similar characteristics (entity, segment, type, currency, interest rate behaviour, maturity bucket) and the ratio is estimated from historical observations. The modelled cash flows from off-balance exposures (loan commitments, credit card/overdraft limits) are incorporated as well in the IRRBB measurement.

In order to ensure appropriate model validation, the IRRBB validation framework includes:

- Evaluation of conceptual/methodological soundness, including developmental evidence,
- Ongoing model monitoring, including process verification and benchmarking,
- Outcomes analysis, including backtesting of key internal parameters.

Art 448 (1) a-b CRR

The template EU IRRBB1 provides quantitative information on interest rate risk of non-trading book activities.

9 Other Risks

9.1 Encumbered and Unencumbered Assets

Art 443 CRR

Addiko is obliged to report encumbered and unencumbered assets at Group level based on the CRR scope of consolidation in the manner set out in the EBA guidelines on disclosure of encumbered and unencumbered assets (template EU AE1, EU AE2 and EU AE3).

On 31 December 2023, EUR 124.5 million of assets have been identified as encumbered within Addiko Group. The major part of encumbered assets were loans.

The actual Group level of asset encumbrance is reviewed quarterly, where material changes are discussed in the respective committees and potential steering measures are approved.

The funding strategy of Addiko Group is based on its stable unsecured customer deposit base consisting predominantly of retail and corporate deposits. Due to its business model, the share of encumbered assets and used collaterals in the total assets and collaterals is very low. Addiko Group does not have outstanding covered bonds. Encumbered assets were mainly used for operational steering of liquidity and consist of customer loans, receivables and debt securities. To a small extend, cash collateral for derivatives is provided under standard CSAs.

Asset encumbrance is managed by the Group’s ALM function. The main sources and types of encumbrance include:

- Collateral for loan businesses,
- Cash collateral for derivatives,
- Other collateral.

Addiko Group follows the principle of self-funding for each entity within the Group. For this reason, there is no material intragroup encumbrance within Addiko Group.

9.2 Liquidity Risk

Art 451a CRR

Addiko Group defines liquidity risk as the risk of not being able to fully or timely meet obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risks also includes the risk, in the event of a liquidity crisis, to only being able to procure refinancing at increased market rates, or only being able to sell assets if a discount has been included to the market prices. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group’s operations and investments.

The controlling and management of liquidity at Group level is under the responsibility of Group Treasury & ALM. It is here that the steering of situational and structural liquidity and the coordination of funding potential at Group level takes place. The local treasury units are responsible for operational liquidity steering and liquidity offset. The liquidity risk control at Group level is under the responsibility of Group Market & Liquidity Risk Management. At a local level, the respective risk control units are in charge. Risk measurement and mitigation as well as timely and consistent reporting are carried out there.

The Group's approach for managing liquidity aims to guarantee that it consistently maintains enough liquidity to fulfil its obligations on time, even during challenging conditions, without experiencing unacceptable losses or jeopardizing its reputation. Addiko Group has liquidity contingent plans in place, which set out the instruments and the measures required to avert imminent crises or to overcome acute crises. A bundle of different liquidity reserves, including also ECB-eligible securities, ensures the Group's solvency at all times, even during crisis situations.

Regular liquidity stress testing is conducted under a variety of scenarios, developed taking into account market-related events (e.g., prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes) and Group-specific events (e.g., a reputation deterioration).

The liquidity position of the Group remained strong, with the Loan to deposit ratio (LDR) (net) of 69.33% (YE22: 66.39%).

The Group primarily manages its liquidity position via the liquidity coverage ratio (LCR), 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 2023, the LCR has been moving between its lowest level of 301.05% in November 2023 and its peak of 360.97% in March 2023 (during 2022, the LCR was moving between 244.60% in May and 307.35% in December) and was significantly above the minimum regulatory requirement of 100.00%.

The following table represents levels of the liquidity coverage ratio reached by the Group in 2023 and 2022 and calculated out of daily values:

	31.12.2023	31.12.2022
End of period	313,40%	307.35%
Average for the period	324,72%	263.71%
Maximum for the period	360.97%	307.35%
Minimum for the period	301.05%	244.60%

Table 13: Levels of liquidity coverage ratio reached by the Group in 2023 and 2022

In addition to the LCR ratio, the Group manages its long-term liquidity through the regulatory Net Stable Funding Ratio (NSFR). The NSFR ratio is a liquidity standard requiring banks to hold sufficient stable funding to cover the duration of their long-term assets.

In 2023, the NSFR has been moving between its lowest level of 167.05% in October 2023 and its peak of 171.71% in September 2023 (during 2022, the NSFR was moving between 159.42% in June and 170.60% in December).

The following table represents levels of the NSFR ratio obtained by the Group in 2023 and 2022 and calculated out of quarterly values:

	31.12.2023*	31.12.2022
End of period	170.75%	170.60%
Average for the period	169.44%	162.90%
Maximum for the period	171.71%	170.60%
Minimum for the period	167.05%	159.42%

Table 14: Levels of NSFR ratio obtained by the Group in 2023 and 2022
*** NSFR ratios are calculated including year-end audited capital figures.**

The template EU LIQ1 provides quantitative information on LCR, the templates EU LIQ2 on NSFR.

10 Climate-Related and Environmental Risks

10.1 Governance Arrangements on the Management of Climate-Related and Environmental Risks

The overall responsibility for the management of climate-related and other environmental risks (C&E risks) has been taken over by the Head of the Risk Management Function (i.e., the Chief Risk Officer of Addiko Bank AG). Furthermore, in order to foster a structured discussion at the level of the Management Board, the Group Governance, Risk and Compliance Committee was assigned as dedicated committee for C&E risk. In this context, the Group Governance, Risk and Compliance Committee serves as central platform to quarterly inform the Management Board (inter alia) on the development of C&E risks, to monitor respective limits as well as to discuss the implications for Addiko Group's Business and ESG strategy.

Additionally, a dedicated working group was established to align operative efforts in the practice on the management of C&E risks. The working group also includes the Head of the Compliance Function to ensure close alignment within the second line of defence, whereby also the Audit Function is closely involved on the matter and continuously joins with the dedicated working group.

10.2 Addiko Group's Approach on the Assessment of Climate-Related and Environmental Risks

Addiko Group performed its assessment of climate-related and environmental risks in two consecutive steps. In a first step Addiko Group assessed the impact of climate and environmental change on its countries of operation considering various scenarios for the short, medium and long-term. Given the complexity of climate-change and its impact, a multitude of scenarios has been developed which reflect different aspects and drivers of climate change. Addiko Group chose to build its assessment on the following sets of scenarios:

- **"Representative Concentration Pathways" (RCP)** developed by the "Intergovernmental Panel on Climate Change" (IPCC),
- **"NGFS Climate Scenarios"** developed by the "Network of Central Banks and Supervisors for Greening the Financial System".

In a second step Addiko Group analysed how the impact identified in the first step will transmit onto the Group. In this context both the influence of physical as well as transition risk drivers on the business model as well as the risk profile has been assessed.

10.3 First Step - Analysis of Climate Change and Environmental Change

10.3.1 Physical Climate-Related Risks

In its Climate Change 2014 Synthesis Report, the IPCC identified as key risks from climate change for the European area

- Increased damages from extreme heat events,
- Increased damages from river and coastal floods,
- Increased water restrictions.

The key risks identified by the IPCC refer in general to **risks impacting the human population, physical and biological systems**. Whether these key risks will impact Addiko Group depends on:

- their classification as risk driver, and
- how they will affect the economy and the financial system (transmission channels).

Temperature rise
Global average temperatures have increased by around 1.2°C since pre-industrial times. Temperature changes lead to chronic changes in living conditions affecting health, labour productivity, agriculture, ecosystems and sea-level rise. It is also changing the frequency and severity of weather events such as heatwaves, droughts, wildfires, tropical cyclones and flooding, thus, resulting in both acute and chronic climate-related risks.

In scenarios where climate goals are met, deep reductions in emissions are needed to limit the rise in global average temperatures to below 1.5°C or 2°C by the end of the century. In case these reductions are not achieved, a temperature rise exceeding 3°C and severe and irreversible impacts are to be expected. Hence, coinciding with the increase in physical risks, the pressure on policy makers, the incentive for the development of new technologies and the trend in changes of sentiments increases (resulting in additional transition risks for affected industries). While temperatures are increasing unevenly across the world, the impact on Addiko Group's countries of operation is expected to be homogenous due to their close geographical proximity.

Over the short- to medium-term, an expected average increase of 1.5°C in line with the global average is evident for the SEE region. In line with the analysis from the IPCC a medium risk is to be expected over the short- to medium term for the human population, physical and biological systems. However, significant uncertainties in the expected temperature rise are evident over the long-term in Addiko Group's countries of operation. Worst case scenarios without any stringent climate policies and innovation would result in a devastating impact for the human population, physical and biological systems in the SEE region.

Sea Level Rise
The analysis of the sea level rise was based on a 1 meter increase in the global sea level, which corresponds to the upper-bound of the RCP 8.5 scenario for the long-term view. While the risk of coastal flooding will increase with a rise in the sea-level, the overall impact from a sea level rise is limited to few individual regions in Addiko Group's countries of operation (as opposed to the risk of large-scale flooding in e.g., the Veneto region or the Netherlands).

Flooding risk
Annual river floods increased in north-western and parts of central Europe but decreased in southern and north-eastern Europe over the period 1960-2010 due to climate change. This trend is likely to continue in the short to medium-term, with a decrease in the expected land fraction exposed to river floods evident both under the "NGFS current policies" and the "NGFS 2°C delayed" scenario in Addiko Group's countries of operation. Furthermore, under a long-term view, even if only currently implemented policies are preserved, the land fraction exposed to river floods is expected to remain stable or decrease in Addiko Group's countries of operation.

Precipitation and drought risk
Following past trends, future scenarios predict a significant increase in annual precipitation in large parts of central and northern Europe and a decrease in southern Europe, posing potential risks of drought for Addiko Group's countries of operation. While precipitation levels are expected to remain relatively stable in the short to medium term, they are anticipated to significantly decrease over the long term in Addiko Group's countries of operation unless stringent measures to counter climate change are introduced.

10.3.2 Physical Environmental Risks

Biodiversity loss
Ecosystem services are the benefits that nature provides to society and the economy, whereby biodiversity loss threatens the availability of these ecosystem services. Companies that depend on ecosystem services are exposed to physical risks via their production processes. On a European level, biodiversity in Addiko Group's countries of operation are comparatively intact. However, biodiversity in certain regions of Croatia and Serbia is more heavily impacted, potentially affecting the agricultural industry in those areas

Air pollution
The burden of ambient air pollution both impacts the life and health of the population and results in significant costs for the economy. The European Air Quality Index indicates that Addiko Group's countries of operation are exposed to higher levels of air pollution compared to western parts of Europe.

Soil Contamination
Soil contamination refers to reduced soil quality due to the presence of harmful substances resulting from human activity. Soil is essentially a non-renewable resource, which performs many functions and delivers services vital to human activities and to ecosystem survival. Hence, soil contamination can harm health of living beings and result in significant costs for the economy, whereby the analysis performed indicates that Addiko Group's countries of operation show a low level of registered contaminated sites on an European level.

10.3.3 Transition Risks

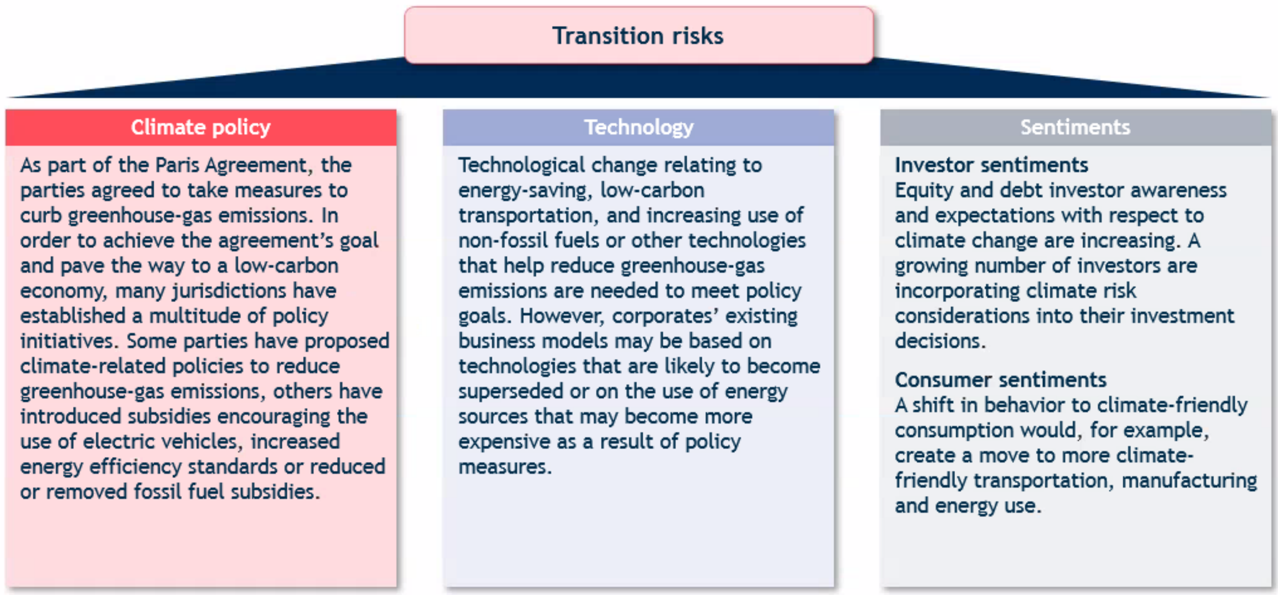

Figure 1: Transition risks

Given the increased awareness on climate change and environmental challenges, Addiko Group assumes that transition risk will increase to manifest over the short-term for highly affected industries. The effect on the whole economy will further develop over the medium to long-term.

10.3.4 Macroeconomic Impact

While the negative impact on the macroeconomic environment can be mitigated by strict regulations over the medium to long-term, a continuous deterioration of macroeconomic indicators in Addiko Group's countries of operation is to be expected if no countermeasures are taken.

10.3.5 Impact on Highly Affected Industries

Affected Industries

Based on the analysis of physical and transition risks as well as publicly available studies and benchmark analyses, Addiko Group identified six industries which are specifically prone to the effects of climate change:

Agriculture

Climate-related risks

Agricultural production, both in terms of crop yields and the location where different types of crops can be grown, will be significantly impacted by climate and environmental change as well as variability. The growing season has lengthened and is projected to increase further due to earlier onset of growth in spring and longer growing season in autumn. While this would allow a northward expansion of warm-season crops to areas that were not previously suitable, southern regions will be hit, expecting an overall negative impact on agriculture. In the long term, high temperatures, water shortage and extreme weather events may cause lower yields, higher yield variability and a reduction in suitable areas for cultivation. The impacts will depend on precipitation patterns and the crops considered.

Other environmental risks

Specifically, various physical environmental risks will adversely affect the agriculture industry, with biodiversity loss, water stress, pollution, and soil contamination particularly posing threats to agricultural yield. Agricultural practices, such as the use of fertilizers and pesticides, can also lead to transition risks due to new regulations and reputational risks.

Mining / Quarrying

Climate-related risks

The mining and quarrying sector has a large climate and environmental impact both regarding their energy consumption in mining processing operations as well as in refining and smelting operations. Efforts to decarbonize are focused on improved energy efficiency, fuel substitutions, deployment of carbon capture storage, electrification and renewable energy use, hence, it is to be expected that the industry will be increasingly affected by additional regulatory requirements and policies.

Other environmental risks

Besides a potential detrimental impact on local ecosystems (and thus biodiversity), mining and quarrying operations can lead to a significant risk of pollution (in particular in case not all necessary precautions are taken) which might result in soil contamination and water stress. Consequently, mining and quarrying operations can be subject to significant transition risks in the context of new regulations but also reputational risks.

Automotive

Climate-related risks

Automotive carbon emissions are a combination of tail-pipe and vehicle manufacturing emissions, whereby the sector significantly contributes to global emissions. Electric vehicles and alternative fuel sources, as well as recycling of construction materials or the use of low-carbon materials are options to reduce the climate and environmental impact of the industry. Additionally, a shift in vehicle use towards car sharing or self-drive vehicles, and a reduction in the number of vehicles, could play an important role. Debtors in the automotive sector will be impacted by policy and regulatory changes targeting cleaner fuel standards and technological advancement as well as a change in consumer preferences.

Other environmental risks

Tail-pipe emissions are a significant factor for air pollution, resulting in additional transition risks for the automotive industry

Extraction of crude petroleum and natural gas

Climate-related risks

The oil and gas sector ranks among the largest contributors to greenhouse gas emissions, stemming from its operations and the consumption of its products by end users. Implementing new regulations, policies, and technologies can significantly decrease emissions from this sector. Consequently, it is anticipated that the industry will face growing impacts from transition risks. Additionally, the shift of other sectors and end users to alternative energy sources will also have a material impact on this industry.

Other environmental risks
Oil and gas operations can lead to a significant risk of pollution (in particular, in case not all necessary precautions are taken) which might result in soil contamination and water stress. Consequently, the oil and gas sector is subject to significant additional transition risks in the context of new regulations but also reputational risks

Energy
Climate-related risks
Climate change is expected to reduce demand for heating in northern and north-western Europe and to strongly increase the energy demand for cooling in southern Europe, which may further exacerbate peaks in electricity supply during the summer months. More intense and frequent heat waves will shift energy supply and demand patterns, often in opposite directions. Moreover, greater magnitude and frequency of extreme weather events will cause threats for physical energy infrastructure.

Other environmental risks
Climate change additionally introduces heightened uncertainty in weather patterns throughout Europe. This has a direct negative impact on the production of renewable energy in the long term. Besides physical risks, the industry will be affected by transition risks from additional regulatory requirements/policies and new technologies already in the short-term.

Chemical industry
Climate-related risks
The chemical industry accounts for approximately one fourth of the total primary demand for oil and gas, and significantly contributes to carbon dioxide emissions through its energy intensive manufacturing processes. While the sector faces a challenge to reduce emissions, it also provides chemical products that will enable decarbonization in the energy sector. It can be assumed that the sector will be affected by transition risks from additional regulatory requirements/policies and new technologies in the short-term.

Other environmental risks
The chemical industry can give rise to a significant risk of pollution (specifically in case not all necessary precautions are taken) which might result e.g., in soil contamination and water stress; which further results in additional transition risks for companies in these industries in the context of new regulations but also reputational risks.

Manufacture of rubber and plastic products
Climate-related risks
Plastics are derived from fossil fuels and manufactured through energy-intensive processes, which release greenhouse gases into the environment. Plastic recycling also consumes large amounts of energy and when incinerated, the carbon that was stored in the plastic is released as emissions. Hence, it is to be expected that the industry will be increasingly affected by additional regulatory requirements and policies.

Other environmental risks
The significant impact of plastic pollution on biodiversity and the health of people led to an increased awareness of the general public resulting in changes of customer demand and the regulatory environment (thus, giving rise to transition risks for companies in the industry).

10.4 Second Step - Risk Drivers and Transmission Channels

10.4.1 Business Model

While all acute and chronic physical risks can impact the business model of a bank, particularly if they render it less profitable, the specific impact on a particular business model largely depends on the transmission channels of the physical risks. However, compared to physical risks, transition risk will result in a more directed impact on specialized business models in case they are in conflict with developments in policies, technologies and sentiment trends (e.g., business models focused on automotive financing).

Expected impact of C/E risks on the business model

Non-Focus Segments

Mortgage

Market/Income side
While developments in regulations, technologies and sentiments (i.e. transitions risk) will impact the type of financed residential real estate (i.e. green building), it is to be expected that this will not impact the demand for RRE financing overall. Additionally, mortgage loans are part of Addiko Group's Non-Focus portfolio. Consequently, Addiko Group primarily targets the retention of existing, profitable customers. Given this gradual run-down strategy, mortgage lending products are not actively marketed and only a negligible impact of C/E risk on the market/income side for Addiko Group is to be expected.

Cost side
Cost-of-risk could be negatively impacted both from a deterioration of macroeconomic indicators (e.g. drop in GDP) as well as a negative impact on collateral valuation.

Large Corporate

Market/Income side
C/E risk might negatively impact the origination to large corporate clients (in particular in highly affected industries) in the short to medium-term. Large Corporates are part of Addiko Group's Non-Focus portfolio, hence new loans are only originated on an opportunistic basis and only a negligible impact of C/E risks on the market/income side for Addiko Group is to be expected.

Cost side
In particular debtors active in highly affected industries are susceptible to the impact from C/E risks, which potentially impacts cost-of-risk.

Public Finance

Market/Income side
Public Finance is part of Addiko Group's Non-Focus portfolio. Given the gradual run-down strategy, lending products in the Public Finance segment are not actively marketed and only a negligible impact of C/E risk on the market/income side for Addiko Group is to be expected.

Cost side
Depending on the susceptible of the debtor to the impact from C/E risks, also in Public Finance a negative impact on cost-of-risk is possible.

Figure 2: Expected impact of C/E risks on the business model (non-focus segments)

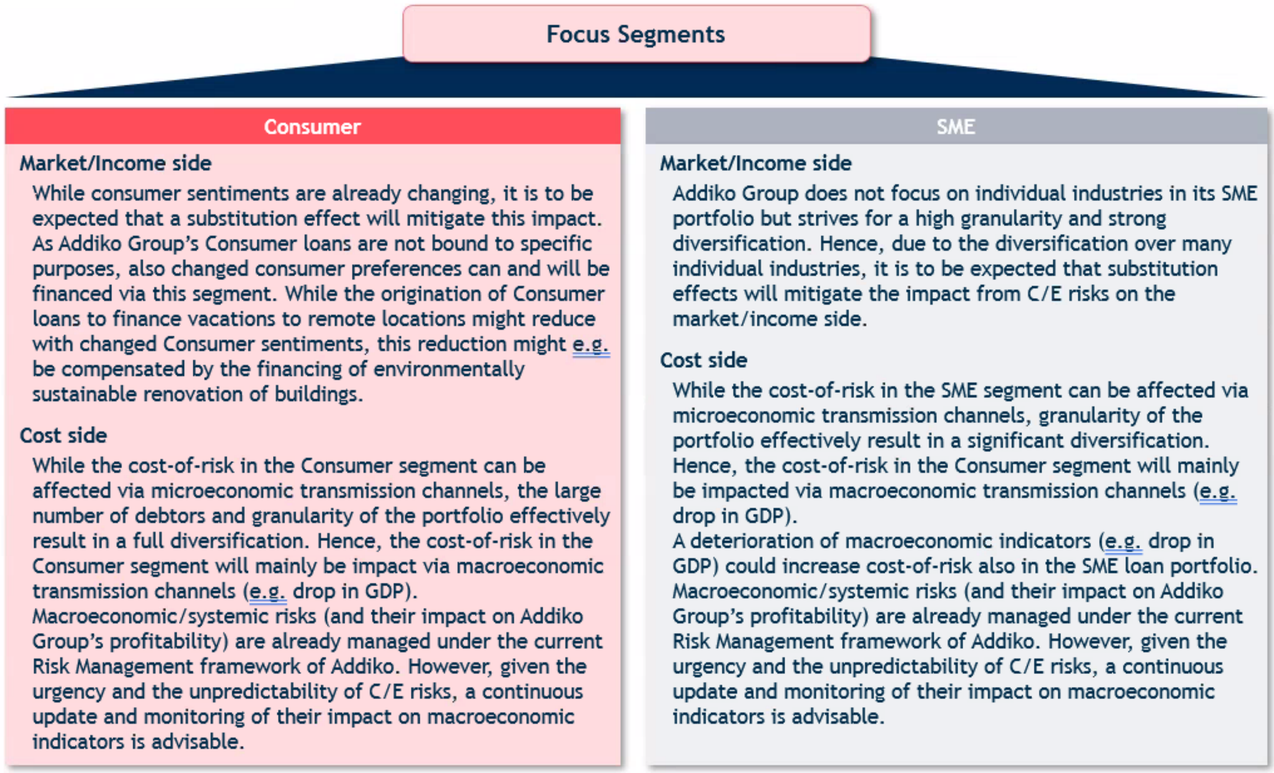

Figure 3: Expected impact of C/E risks on the business model (focus segments)

On the one hand, Addiko Group's Focus segments will be able to benefit from substitution effects under the market/income view (e.g., as Addiko Groups Consumer loans are not bound to a specific purpose, the financing of less climate friendly goods can be easily substituted by the financing of more climate-friendly consumer goods in case consumer sentiment moves towards this direction). On the other hand, the focus on granular Consumer and SME loans allows to reduce the idiosyncratic risk driven by climate-related and environmental risks via diversification. While the non-focus segments will not be able to benefit to the same extent from the substitution effect under the market/income effect, the idiosyncratic risk will also be reduced to a lesser extent than in the focus segment (due to a lower level of granularity), rendering the non-focus segments more susceptible to climate-related and environmental risks (both physical and transition risks).

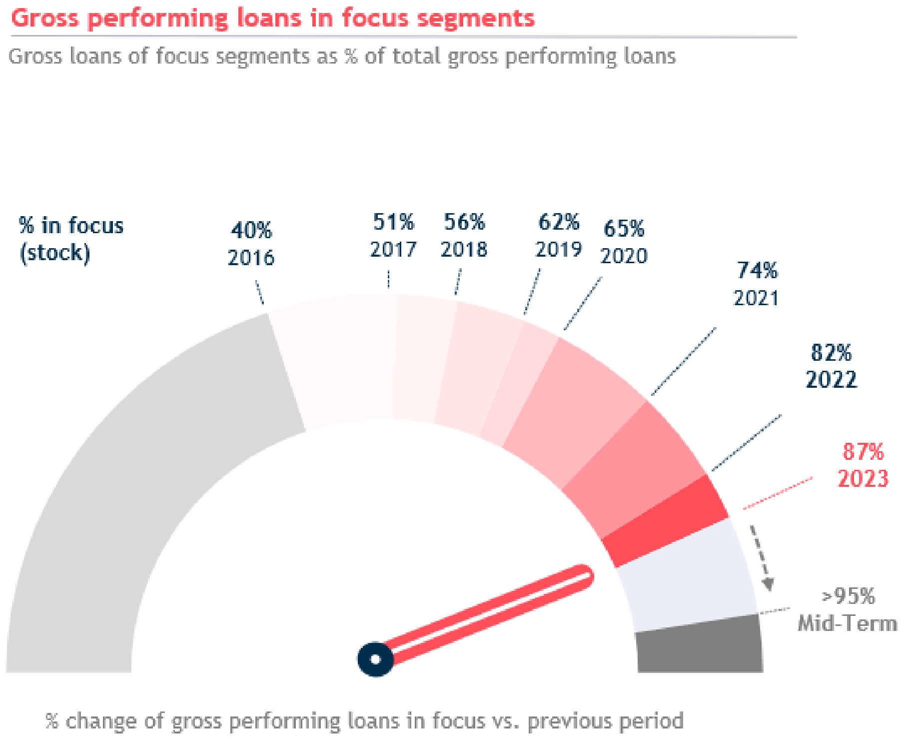

Figure 4: Gross performing loans in Focus Segments

Thus, while climate-related and environmental risks do not result in an immediate danger for Addiko Group's current business model (due to missing concentration in highly affected industries), the analysis highlights the materiality of climate-related and environmental risks and underscores once more the necessity to further accelerate Addiko Group's transformation and to further increase its focus on granular Consumer and SME loans.

Hence, the share of Addiko Group's focus portfolio represents the most relevant performance indicator for the management of climate-related and environmental risks from a strategic and business model perspective.

In particular, the credit exposure towards highly-affected industries as well as the financed greenhouse gas emissions (as presented in subsequent chapters) constitute further essential performance indicators both in the context of Addiko Group's business strategy. Dedicated limits have been set for both indicators, which are tracked within the Group Governance Risk Compliance Committee.

Taking into consideration the interdependence of the inside-out perspective (impact of the bank on the environment) and the outside-in perspective (impact of the environment on the bank), Addiko has prepared a dedicated ESG strategy in order to have an organized, integrated, and holistic approach to ESG and sustainability. The ESG strategy comprises concrete sustainable development goals to contribute to the orderly transition to a carbon-neutral economy.

10.4.2 Credit Risk

Corporate and SME Exposure

Corporate and SME debtors will be subject to both physical acute and chronic climate-related and environmental risks, whereby it is to be assumed that the effect will occur first and will be strongest for debtors in highly affected industries (e.g., automotive). Similar to physical risks, also transition risks will in particular impact debtors in highly affected industries (e.g., automotive). However, the impact of climate-related and environmental risks on the macroeconomic environment (e.g., lower GDP or increased unemployment) will indirectly impact all Non-Retail debtors and, thus, the resulting credit risk.

EUR m	Agriculture	Mining / Quarrying	Petroluem / gas / coke	Chemical industry	Rubber and plastic products	Automotive	Energy
ABC	30.7	1.7	0.0	2.0	7.9	1.0	0.4
ABS	2.2	5.7	0.0	1.5	7.1	6.0	3.9
ABSE	15.4	1.1	0.0	0.9	5.7	3.1	0.0
ABBL	2.9	1.3	0.0	3.8	2.7	0.2	13.0
ABSA	2.3	1.2	0.0	0.0	1.3	0.0	2.1
ABM	2.0	2.3	0.0	0.1	0.2	0.0	4.3
Total	**55.5**	**13.2**	**0.0**	**8.3**	**24.9**	**10.2**	**23.7**

Table 15: Share of Addiko Group's gross exposure to highly affected industries as of 31 December 2023

As Addiko Group's Non-Retail portfolios do not show any concentration of exposure in highly affected industries, it is to be expected that physical and transition risks will not substantially impact Addiko Group through microeconomic transmission channels over the short- to medium term.

However, the debt service capacity of the individual debtors can be negatively affected via macroeconomic transmission channels. The severity of this impact over the medium- to long term is highly dependent on the measures taken to curb climate change.

Consumer loans
While consumer debtors can be affected by changes in their income, the large number of debtors and job mobility effectively result in a full diversification of the income effect through microeconomic transmission channels. Hence, the income effect for consumer debtors will impact Addiko Group solely via macroeconomic transmission channels. The severity of this impact over the medium- to long term is highly dependent on the measures taken to curb climate change.

Mortgage portfolio
The impact of climate-related and environmental risks is most prominent through the wealth effect (i.e., the potential impact on the collateral value). Hence, Addiko Group analysed its mortgage portfolio in the Non-Focus segment on potential risks for the pledged collateral considering the climate-related and environmental risks identified in step 1 of the analysis.

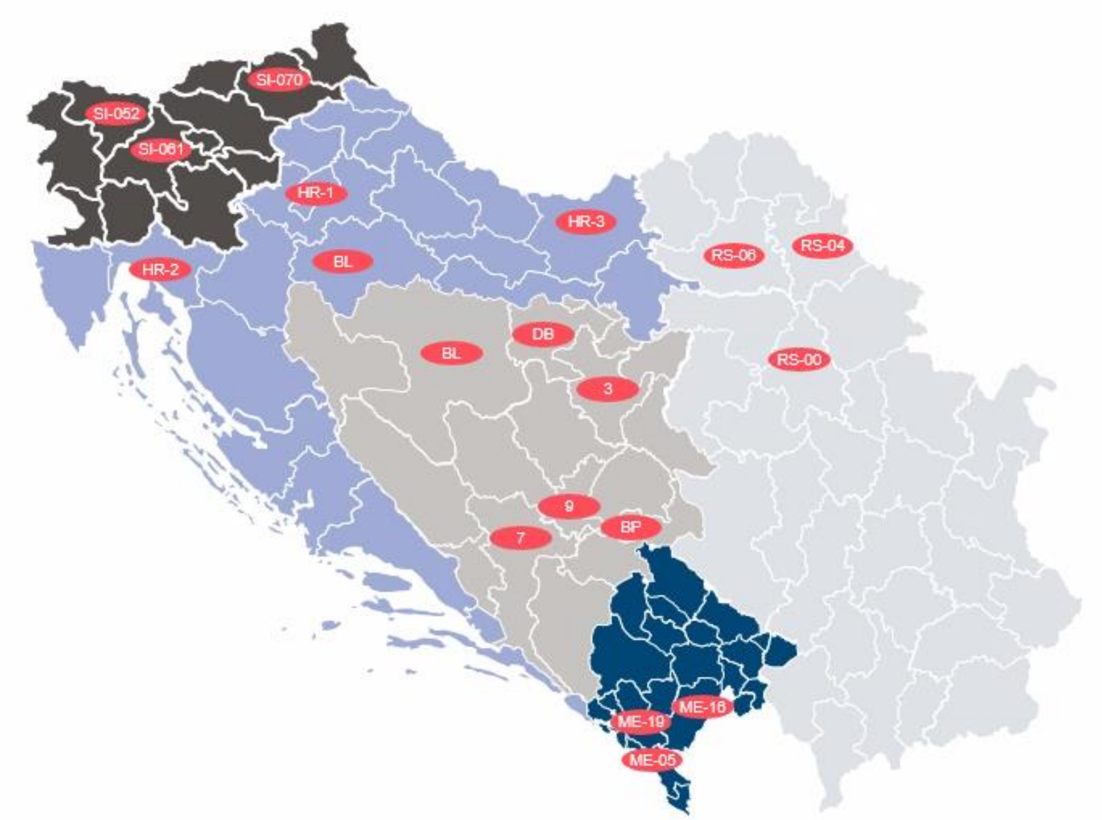

Figure 5: Regions with highest value of pledged real estate in Addiko Group’s mortgage portfolio

Due to the missing concentration of pledged real estate in areas highly endangered from physical risks, it was concluded that a negative impact on Addiko Group's Mortgage portfolio via the wealth effect is not to be expected over the short to medium-term. While mortgage debtors can also be affected by changes in their income, the large number of debtors and job mobility effectively results in a full diversification of the income effect through microeconomic transmission channels. Hence, the income effect for mortgage debtors will impact Addiko Group via macroeconomic transmission channels.

Expected impact of climate-related and environmental risks on credit risk

While no immediate danger for Addiko Group’s portfolio was identified in the analysis, it highlights the materiality of climate-related and environmental risks. Due to the urgency and uncertainty of climate-related and environmental risks the continuous monitoring of the concentration in highly affected industries as well as the expected impact of C/E risks on the macroeconomy is required. In this context it is worth noting that based on the analysis performed the impact from physical risk on Addiko Group's countries of operation is expected to be mostly homogenous due to their close geographical proximity.

Hence, in order to avoid concentrations in highly-affected industries, the share of exposure in highly-affected industries is the most relevant performance indicator for the management of climate-related and environmental risks from a credit risk perspective. Consequently, Addiko Group established a dedicated limit on the share of exposure in highly-affected industries in line with its risk appetite.

10.4.3 Market Risk

Climate-related and environmental risks will mainly transmit to market risks via their impact on the market value of the individual assets. As Addiko Group's financial assets measured at fair value mainly consist of government bonds, the main transmissions channels are the impact of C/E risks on the tax income and the expenses of the respective governments and consequently the credit risk associated with the respective sovereign. As no extraordinary vulnerability of the debt service capacity of issuers due to C/E risks have been identified, no material impact of climate-related and environmental risks on Addiko Group's market risk is expected in the short- to medium term.

10.4.4 Operational Risk

In particular, acute physical climate risks can potentially drive OP-risk via damage of properties but also by forced facility/office closure, which might even raise "Business Continuity" issues. However, no increased vulnerability of Addiko Group's branches and headquarters from potential sea level rising or flood risks in general has been identified. While a limited number of branches is close to the coast and could be affected, relocation would be possible in time, as well as (partial) redistribution of services to online channels. Also, the outlook on average temperatures does not indicate a significant increase in the region, that could not be handled with existing or slight upgrading of existing cooling systems. Hence, based on the analysis performed, it is estimated that physical risks will only have a minor impact on Addiko's main buildings. Furthermore, the increasing possibilities of Addiko Group's employees to work from home helps to mitigate the operational risk from damaged property. While the financing of stigmatized industries (and other actions of the bank) might also result in additional legal or reputational risks, given Addiko Group's negligible exposure in stigmatized industries, it is to be expected that this risk driver will not materially impact Addiko Group.

10.4.5 Liquidity Risk

Flooding and other acute risk drivers are assumed to be of low influence for liquidity risk as Addiko Group's funding is not concentrated in individual geographical areas. Furthermore, changes in the eligibility-criteria of bonds pledged used for refinancing at central banks could drive liquidity risk of a bank depending on the composition of its liquidity portfolio. However, since Addiko Group's liquidity portfolio mainly consists of government bonds from EU-countries, the impact on Addiko Group from this transition risk is expected to be marginal. Based on the current assessment, Addiko Group concluded that climate-related and environmental risks will likely not materially impact liquidity risk.

10.5 Financed Scope 3 Greenhouse Gas Emissions

The financed greenhouse gases (GHG) emissions of an institution corresponds to the greenhouse gas emissions of the underlying debtors attributable to the capital provided by the institution. The amount of financed greenhouse gas emissions can give indications on the susceptibility of an institution to transition risks (in particular, in the context of legal and reputational risks).

The following table illustrates the estimated Scope 3 GHG emissions of Non-Financial Corporations financed by Addiko Group. The financing provided to households and private individuals was excluded from the estimation.

Industry	Scope 1 (tCO2e)	Scope 2 (tCO2e)	Scope 3 (tCO2e)
A - Agriculture, forestry and fishing	30.779	373	7.067
B - Mining and quarrying	4.503	14	2.264
C - Manufacturing	44.147	2.408	169.230
D - Electricity	15.907	48	5.858
E - Water supply; sewerage	22.747	158	6.378
F - Construction	11.913	724	64.533
G - Wholesale and retail trade	13.281	157	37.948
H - Transporting and storage	9.187	600	36.434
I - Accommodation and food service	2.465	1.532	15.827
J - Information and communication	2.645	343	9.890
K - Financial and insurance activities	446	42	1.412
L - Real estate activities	494	25	719
M - Professional, scientific and technical activities	7.759	1.067	25.999
N - Administrative and support service	4.434	416	10.730
O - Public administration	186	398	2.022
P - Education	177	140	932
Q - Human health and social work	355	321	2.966
R - Arts, entertainment and recreation	57	59	652
S - Other services activities	259	75	686
Other	56	16	89
Grand Total	**171.797**	**8.913**	**401.639**

Table 16: Table on Scope 3 GHG emissions of non-financial corporations financed by Addiko Group

The estimations of Addiko Group's financed Scope 3 greenhouse gases emissions builds on the estimation of the average GHG emissions by € financed.

10.6 The Addiko ESG Strategy

As part of its sustainability efforts, Addiko has developed an ESG Strategy based on a comprehensive assessment of material impacts. This strategy aims to address both the external factors affecting Addiko and its own impact on the environment and society. It closely aligns with Addiko's Business and Risk Strategies, forming an integrated sustainability approach.

One of the major parts of the Addiko ESG Strategy is also proactively addressing the Outside-In and Inside-Out initiatives. To achieve this, Addiko has set specific and measurable ESG goals tied to impacts, risks, and opportunities. These goals are regularly monitored and updated annually to enhance the ESG management.

Addiko´s Outside-In initiatives, defined to further advance the management of C&E risks

Addiko has taken significant steps to enhance the management of C&E risks. Such efforts include reinforcing the alignment between materiality assessment outcomes and their disposition to the overall business strategy. Addiko is actively engaged in initiatives that are reviewed on a yearly basis with the scope to advance the management of C&E risks, such as:

1. **Materiality Threshold Evaluation ->** identifying materiality thresholds and understanding when C&E risks may impact existing risk categories. This evaluation spans short, medium and long-term perspectives, ensuring a comprehensive approach.

2. **Data Collection for Better Quantification ->** a data-driven approach is focused on better quantifying physical risks, providing a robust foundation for risk assessment and mitigation.

These initiatives collectively demonstrate Addiko's commitment to proactively managing C&E risks. By aligning these efforts with its business and risk strategy and by leveraging data-driven approaches, Addiko aims to enhance risk quantification and mitigation capabilities in regular increments.

Addiko´s Inside-Out defines 15 initiatives aligned to the UN principles

The Addiko ESG Strategy outlines specific sustainable development goals congruent with the "Agenda 2030" defined by the United Nations. In 2022, Addiko systemically analysed the 17 international sustainable development goals in order to identify those that are most relevant to Addiko’s business strategy.

The steps for selection included measuring the following criteria:

- the global importance of contributing to a goal,
- the potential impact Addiko can have in its journey to achieve each goal, and
- the attractiveness or relevance of each goal to Addiko.

Through this methodical approach, Addiko strategically has selected and prioritized goals that are fully in line with its core values and business objectives.

According to these criteria, the following four sustainable development goals were identified as being crucial to Addiko's business operations, namely: “Good Health and Well-Being” (3), “Gender Equality” (5), “Decent Work and Economic Growth” (8) and “Climate Action” (13).

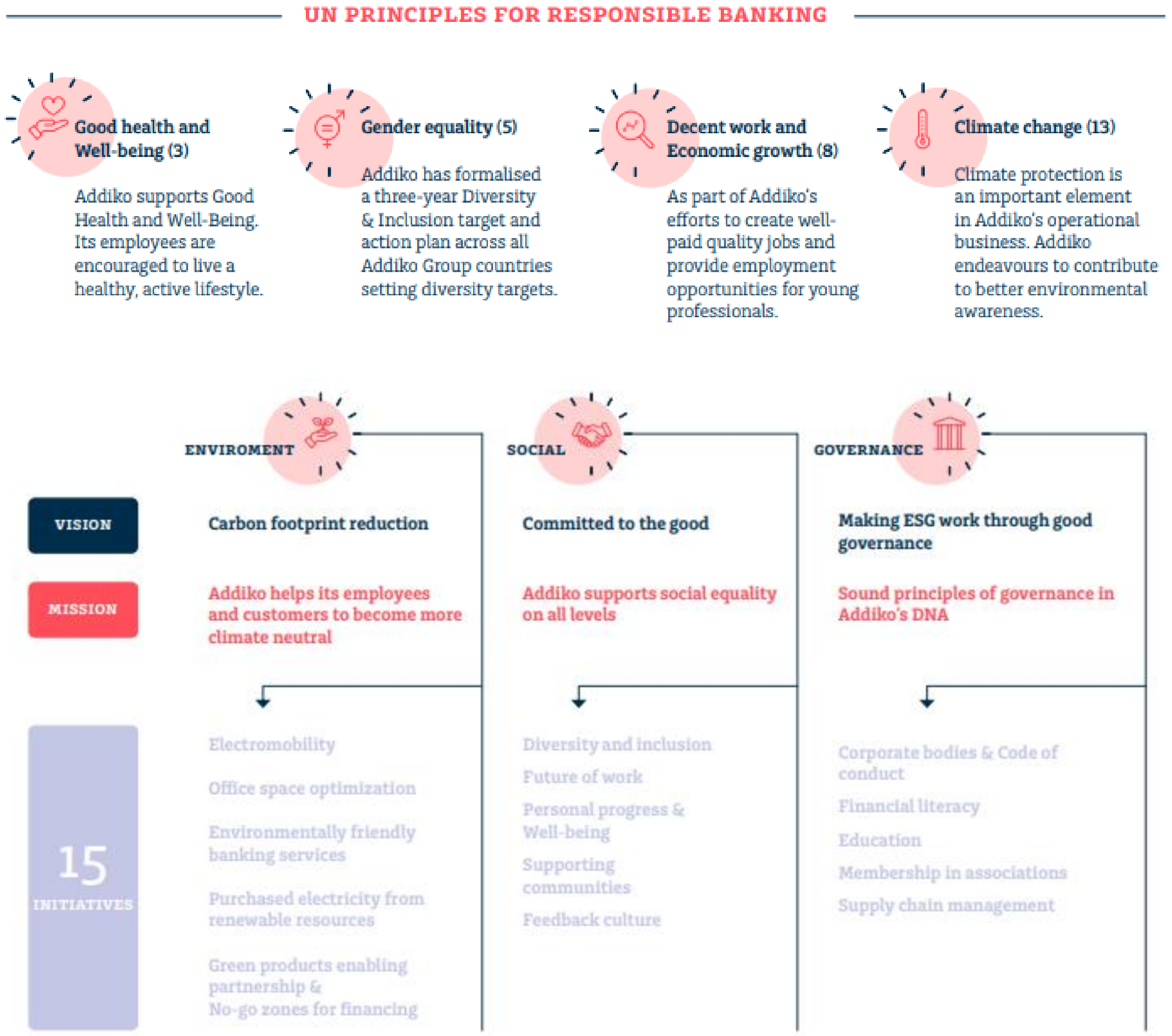

Figure 6: Sustainable development goals

Addiko acknowledges the importance of contributing to these sustainable development goals. For this reason, the ESG working group together with the Management Board and the Supervisory Board identified 15 initiatives that which strive to contribute to the achievement of these goals.

11 Overview of Non-Applicable Disclosures or Covered in Other Published Reports

The following table provides an overview of disclosure requirements not covered by the Disclosure Report or other group reports, including the reasons for non-disclosure.

CRR article	Disclosures requested in the CRR article	Reasons for inapplicability
Art 436 e CRR Exposures from the trading and the non-trading book	For exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book position.	Addiko Group does not apply the core approach, but the simplified approach for the determination of the additional valuation adjustment.
Art 437 (1) f CRR Own funds	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Addiko Group does not disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR.
Art 437a CRR Disclosure of own funds and eligible liabilities	Institutions that are subject to Article 92a or 92b shall disclose information regarding their own funds and eligible liabilities.	The Article 437a CRR is not applicable as Addiko Group is not a G-SIIs or a subsidiary of a non-EU G-SII.
Art 438 c CRR Capital requirements	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104-1 of Directive 2013/36/EU.	There is no demand from the relevant competent authority.
Art 438 e CRR Capital requirements	Disclosure of on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for certain category of specialised lending.	Addiko Group does not use the simple risk-weighted approach.
Art 438 f CRR Insurance participations	Disclosure of own fund instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds	Addiko Group does not held any insurance or re-insurance undertakings or insurance holding company.
Art 438 g CRR Financial conglomerates information on own funds and capital adequacy ratio	Disclosure of financial conglomerates information on own funds and capital adequacy ratio	The Article 438 g CRR is not applicable as Addiko Group is not part of a financial conglomerate.
Art 438 h CRR Capital requirements	The variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models.	Addiko Group does not apply the IRB approach, IMM or IMA.

CRR article	Disclosures requested in the CRR article	Reasons for inapplicability
Art 439 i CRR Exposure value to central counterparties	The exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three.	As of 31 December, Addiko Group does not have any exposure value to central counterparties (QCCPs and non-QCCPs).
Art 439 j CRR Notional amounts and fair value of credit derivative transactions	Credit derivative transactions shall be broken down by product type.	As of year-end 2023, Addiko Group does not have any single name CDS on the portfolio.
Art 439 k CRR Exposure to counterparty credit risk	Estimate of α (alpha) if the institution has received the permission of the competent authorities to estimate α.	Addiko Group does not apply any own estimates of the scaling factor.
Art 441 CRR Indicators of global systemic importance	Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	The Article 441 CRR Is not applicable to Addiko Group, as it does not belong to the institutions of global systemic importance in accordance with Article 131 of 2013/36/EU.
Art 447 h CRR Own funds and eligible liabilities ratios and their components, numerator and denominator	Institutions shall disclose their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group.	Addiko Group is not a G-SIIs or a subsidiary of a non-EU G-SII.
Art 449 CRR Exposure to securitisation positions	Institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Article 337 or 338 shall disclose selected information, where relevant, separately for their trading and non-trading book.	The Article 449 CRR is not applicable to Addiko Group, as no securitisation transactions are currently in place.
Art 449a CRR Disclosure of environmental, social and governance risks (ESG risks)	The article requires large institutions that have issued securities that are admitted to trading on a regulated market of any Member State to disclose information on ESG risks, including physical risks and transition risks.	Addiko Group is not a large institution, hence, this article is not applicable to Addiko Group.
Art 452 CRR, Art. 453 j CRR Use of the IRB Approach to credit risk	Institutions calculating the risk-weighted exposure amounts under the IRB Approach shall disclose selected information.	Only the Standardised Approach is used within Addiko Group.
Art 454 CRR Use of the Advanced Measurement Approaches to operational risk	The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of the use of insurances and other risk transfer mechanisms for the purpose of mitigation of this risk.	Addiko Group does not apply the Advanced Measurement Approach to operational risk.

CRR article	Disclosures requested in the CRR article	Reasons for inapplicability
Art 455 CRR Use of Internal Market Risk Models	Institutions calculating their capital requirements in accordance with Article 363 shall disclose certain information about the characteristics of the models used.	Article 455 CRR is not applicable, as Addiko Group does not use internal models for incremental default and migration risk and does not have a correlation trading portfolio.

12 Glossary

AT1	Additional Tier 1
ALM	Asset Liability Management
BIA	Basic Indicator Approach
BWG	Austrian Banking Act
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CDS	Credit Default Swap
CET1	Common Equity Tier 1
CHF	Swiss Francs
CRD	Capital Requirements Directive
CRE	Commercial Real Estate
CRM	Credit risk mitigation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CRSA	Credit Risk Standard Approach
CSA	Credit Support Annex
CSEE	Central and South-Eastern Europe
CVA	Credit Value Adjustment
C&E	Climate-related and environmental
DPD	Days past due
DTA	Deferred Tax Assets
EAD	Exposure at Default
EBA	European Banking Authority
EC	European Commission
ECA	Export Credit Agency
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ECL	Expected credit loss
EEPE	Effective expected positive exposure
EHQLA	Extremely high quality liquid assets
ESG	Environmental, Social und Governance
EU	European Union
EVE	Economic Value of Equity measures the theoretical change in the net present value of the balance sheet excluding equity
FMA	Financial Market Authority
FMA FXTT-MS	FMA Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles
FTE	Full Time Equivalent
FX	Foreign exchange
GALCO	Group Asset Liability Committee

GHG	Greenhouse gases
GHR	Group Human Resources
GL	Guidelines
GREC	Group Risk Executive Committee
Gross NPL Ratio	Gross Carrying amount of Non-Performing Loans divided by total Gross carrying amount of Loans and advances
G-SII	Global Systemically Important Institution
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICV	Internal collateral value
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal Model Method
IPCC	Intergovernmental Panel on Climate Change
IRB	Internal-Ratings-Based approach
IRRBB	Interest Rate Risk of the Banking Book
KPI	Key Performance Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LR	Leverage Ratio
MB	Management Board
MREL	Minimum Requirement for own funds and Eligible Liabilities
n/a	not applicable
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NII sensitivity	Net interest income (NII) sensitivity
NPE	Non-Performing Exposure
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OeNB	Oesterreichische Nationalbank
o/w	Of which
O-SII	Other Systemically Important Institution
PFE	Potential Future Exposure
PMS	Portfolio Management System
POCI	Purchased or originated credit impaired assets
PSE	Public Sector Entity
RAF	Risk Appetite Framework
RBC	Risk-Based Capital
RC	Replacement cost
RCP	Representative Concentration Pathways

RCSA	Risk and Control Self Assessment
RMF	Risk Management Function
RRE	Residential Real Estate
RWA	Risk Weighted Assets
RWEA	Risk Weighted Exposure Amount
SA	Standardised Approach
SB	Supervisory Board
SFT	Securities financing transactions
SME	Small and medium-sized enterprises according to Commission Recommendation (2003/361/EC)
SREP	Supervisory Review Evaluation Process
SRP CI	Specific Risk Provision Collective Impaired method
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
T1	Tier 1 Capital
T2	Tier 2 Capital
TCR	Total Capital Ratio
VaR	Value at Risk

13 Imprint

Publisher of the Public Disclosure Report and responsible for the content:

Addiko Bank AG
Canettistraße 5/12. OG
1100 Wien
Tel. +43 (0) 50 232-0
Fax +43 (0) 50 232-3000
www.addiko.com

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