

Addiko Bank

Addiko bank a.d. Beograd
Annual Report 2020

Key data

Addiko Bank a.d. Beograd operating results

based on the financial statements prepared in accordance with the IFRS

	2020	2019
Income statement (in RSD '000)	01-Jan to 31-Dec	01-Jan to 31-Dec
Net operating income	4,656,220	4,953,980
Net interest income	3,413,710	3,584,298
Net fee and commission income	1,242,510	1,369,682
Other operating income	528,690	668,586
Operating expenses	-4,176,459	-4,248,008
Operating result before credit risk provisions	1,008,451	1,374,558
Credit risk provisioning costs	-425,157	-226,370
Income tax	-39,954	-40,493
Result for the period after tax	543,340	1,107,695
Balance sheet (in RSD '000)	31.12.2020	31.12.2019
Loans and receivables due from clients	71,669,829	67,586,939
Deposits and financial liabilities due to clients	66,588,521	60,988,985
Equity	22,759,282	22,386,667
Total assets	101,461,847	94,756,170
Key performance ratios	2020	2019
Net interest income/total assets	3.36%	3.78%
Cost to income ratio (CIR)	71.02%	67.18%
Tier 1 capital ratio	26.40%	26.30%
Total capital adequacy ratio	26.40%	27.05%
Headcount as of the reporting date	532	558
Number of branches	36	37

Letter from the Executive Board

Poštovani,

Poslovanje u 2020. godini obeleženo je pandemijom koronavirusa i pre svega izazovima u domenu bezbednosti i zdravlja kako zaposlenih tako i klijenata kao i izazovima vezanim za održivost i kontinuiteta poslovanja. Prioritet nam je bila bezbednost svih i veoma smo ponosni na način na koji smo reagovali i prilagodili način poslovanja.

Uprkos svim nametnutim okolnostima rezultat koji smo ostvarili je pozitivan i veoma smo ponosni na sve ostvareno. I u ovoj situaciji Addiko tim je pokazao da brzo može da odgovori na sve zahteve koji se pred nas postavljaju i da smo napravili agilnu i posvećenu organizaciju. U tim teškim trenucima pokazali smo izuzetnu solidarnost, timski duh i kolegijalnost. Isto tako trudili smo se da potrebe klijenata budu uvek na prvom mestu uprkos svemu. Sve vreme tokom pandemije virusa Covid-19 klijenti su imali na raspolaganju sve proizvode i usluge Addiko banke, kako kad su u pitanju fizička tako i pravna lica. Osim toga olakšice za građane koje su doneli moratorijumi značajno su klijentima pomogle da stabilizuju svoje finansije. Sa druge strane mala i srednja preduzeća su dobila značajan izvor finansiranja kroz garancijske šeme. Takođe, trudili smo se da budemo nesebični i da u teškim okolnostima pokažemo empatiju prema zajednici u kojoj poslujemo tako da smo novac namenjen internim proslavama i novogodišnjim poklonima donirali za potrebe borbe protiv koronavirusa i za podršku rada Nacionalne organizacije za borbu protiv retkih bolesti. Addiko brend je već duži niz godina prepoznat kao lider u domenu digitalne transformacije tako da smo i ove godine nastavili taj trend. I pored svega uspeli smo da naš mobilni eko-sistem nadogradimo još jednim digitalnim proizvodom - mRačunom. Otvaranje računa uz pomoć video identifikacije obavlja se jednostavno i u rekordnom roku. O posvećenosti digitalnoj transformaciji govori i podatak da godinu završavamo sa učešćem digitalnih kanala u rezultatu od preko 30 odsto, a da se preko 90 odsto transakcija obavi digitalnim putem.

U toku 2020. godine napredak je ostvaren u segmentima koji su u fokusu poslovanja Addiko banke, finansiranje građana, i u okviru poslovanja sa malim i srednjim preduzećima. U domenu gotovinskih kredita smo ostvarili rast od 7 odsto, a u SME segmentu smo povećali portfolio za 35 odsto tokom 2020. godine i time potvrdili strateški pravac Addiko banke kao specijalizovane banke u ovim segmentima.

Addiko banka će nastaviti i u narednom periodu da prati svoj strateški pravac banke specijaliste za finansiranje građana i SME segmenta kao i digitalnog lidera na bankarskom tržištu.

Sincerely,
Executive Board of Addiko bank a.d. Beograd



Vojislav Lazarević Mirko Španović Vladimir Stanisavljević

Chairman of the Deputy Chairman of the Member of the
Executive Board Executive Board Executive Board

The Annual Business Report is prepared in accordance with Article 29 of the Law on Accounting (Official Gazette of RS nos. 62/13, 30/2018 and 73/2019 - the other law), containing the following:

Addiko Bank a.d. Beograd Annual Report 2020

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Annual Business Report of Addiko Bank a.d. Beograd

1. Overview of Addiko Bank

Addiko Group is a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Serbia, Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks) and Montenegro. Addiko Group, through its six subsidiary banks, services as of 31 December 2020 approximately 0.8 million customers in CSEE, using a well-dispersed network of 168 branches and modern digital banking channels. Addiko bank in Serbia have 36 branches and one of the best scaled mbanking application in the banking industry.

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

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

Addiko Bank a.d. Beograd is in 100 percent ownership of Addiko Bank AG. Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 51.08% of the bank’s shares are in free float, the rest of the shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Europe and North America.

Addiko Group’s Investor relations website <https://www.addiko.com/investor-relations/> contains further information, including financial and other information for investors.

2. General economic environment

The 2019 economic slowdown in the Eurozone, driven by the manufacturing crisis in the largest European countries, soon morphed into a deep depression after Covid-19 pandemic started to spread in the first quarter of 2020. Lockdown measures brought European economies to a halt. While policy measures alleviated some of the pressures, and the summer rebound sig-

naled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through such heavy storm will prove to be quite a challenge, especially for SEE economies due to a rather distinct feature of the crisis that lies not in its intensity, although it is comparable in amplitude only to the last great depression of the 30’s, but in the fact that contraction is more severe in the service sector due to social distancing measures.

Main channels of impact of Covid-19 related crisis on the economies can be split into two broad categories: (i) external - including weaker export demand, a reduction in FDI, lower rate of portfolio and remittance inflows, substandard tourists numbers; and (ii) internal - reflecting the imposition of severe lockdown measures and the negative knock-on effects.

Having said that, it seems that the negative effect for Serbia was far more contained comparing to most European as well as all neighboring countries - expected GDP move for Serbia for 2020 now stands at -2.0%, while comeback to pre-crisis GDP level is forecasted to already take place in 2021.

Although Serbia is neither in euro zone, nor its currency is in the regime of managed/fixed exchange rates, RSD proved to be quite stable despite initial crises relative depretonary pressures.

Comparatively good Serbian economic results are partly achieved with the help of supportive fiscal policy, including credit guarantee schemes and credit lines to corporates, direct cash support to population as well as a moratorium on loan repayment, which lasted 5 months in total, and was used by around two thirds of the clients. In addition, Serbia broadened economic interactions with outside-EU partners, primarily China. While some progress has been made in the reforms of the tax administration and the privatization of state-owned banks, other structural reforms of public administration and state-owned enterprises advanced slowly. Nevertheless, industrial sector and private consumptions seem to remain quite robust and will certainly prove to be important drivers of future growth.

3. Earnings performance in brief

Although behind us is a year characterized by a pandemic, the closure of countries, limited business of large companies both on a global and local level, Addiko Bank a.d. Beograd immediately recognized the importance of its role in the financial market, the need to adapt to new business conditions and that accessibility to its clients will be one of the key factors for business success and stability. Despite all the challenges that are still around us, Addiko Bank a.d. Beograd achieved a net profit at the end of 2020 in the amount of 543 million dinars.

Drawing on the experience of previous financial crises Addiko Bank a.d. Beograd has proactively and quickly identified the most affected sectors and clients in order to understand how it can provide adequate support. Availability of liquid assets is one of the keys if not the most important factor for the survival of an economy. Based on the achieved growth rates of a healthy portfolio of loans intended for households and the micro segment (excluding the portfolio of housing loans) of 7% (+1.7 billion dinars) and loans intended for small and medium enterprises of 22% (6.1 billion dinars), Addiko Bank a.d. Belgrade has managed to overcome the challenges dictated by the dynamic environment and to remain a reliable business partner to its clients.

The measures taken by the Government and the Central Bank were largely aimed at the banking system (expansionary monetary and fiscal policy, postponement and easing of regulatory requirements, guarantee scheme), in order to provide space for financial institutions to provide liquidity to the economy and households. However, this situation conditioned by Covid-19 has led on the one hand to higher risk costs and to a decrease in interest income due to historically low reference rates.

The total interest income of the bank was 4.23 billion dinars. The Retail and Micro Clients Sector (excluding the housing loan portfolio) realized RSD 2.1 billion, while the SME Segment generated interest income in the amount of RSD 0.7 billion.

Bank orientation on unsecured loans of households and loans for small and medium enterprises is in line with the business strategy of the bank, and it is noticeable that in the last quarter the bank realized a significant growth of the portfolio which gives a strong impulse for further growth of the loan portfolio primary segments of banks.

The total loan portfolio of Addiko Bank a.d. Beograd at the end of 2020 amounts to 71.7 billion dinars. The result of the implementation of the bank's business strategy is an increase in the share of unsecured retail loans and loans intended for small and medium enterprises, two more profitable segments to 70% in total gross bank loans (end of 2019: 62%). At the end of the year, the growth of cash loans was also supported by the Red Friday marketing campaigns, which enabled clients to borrow at more favorable interest rates. Loans intended for small and medium enterprises were placed through the guarantee scheme of the Republic of Serbia and the Appian platform, which optimized the loan approval process, and the dinar portfolio grew by 4.3 billion dinars and makes 24% of the total healthy portfolio of this segment (end of 2019: 11%).

The Covid-19 pandemic has far-reaching consequences in social, economic and trade terms since the financial crisis of 2008, but

at the same time it has accelerated the digital transformation in societies, especially the growth of the use of digital banking products. Addiko Bank a.d. Beograd remained in 2020 a leader in the digitalization of banking services, offering, in addition to mLoan, also mAccount, which enables online account opening without going to one of the bank's branches. The efforts of Addiko Bank a.d. Beograd was also recognized in facilitating the business of its clients at the Innovation Week organized by AFA, where Addiko Bank a.d. Beograd won the award for the most innovative banking product - mLoan and mAccount.

In the position of fee income, the effects of the state of emergency during the second quarter of 2020 were mostly reflected due to the restriction of population movements, temporary interruption of work of a large number of legal entities and their smaller business volume. Therefore, this position recorded a decrease in the amount of 127.2 million dinars compared to the previous year. However, in the second half of the year, with the easing of restrictive measures caused by the Covid-19 pandemic, the recovery of these revenues is noticeable.

Regardless of the year behind us, which was full of uncertainty, the growth of the deposit portfolio in the amount of 5.6 billion dinars shows that clients have great confidence in Addiko Bank a.d. Beograd. The largest growth was achieved in the focus segments: The retail and micro clients sector grew by RSD 2.0 billion, while the SME segment grew by as much as RSD 4.4 billion, or 35%, with the largest growth achieved in the local currency deposit portfolio which increased participation from 56% in 2019 year to 64% in 2020.

Addiko Bank a.d. Belgrade, in co-operation with the European Bank for Reconstruction and Development (EBRD), has provided additional sources of financing targeted at small and medium-sized enterprises, necessary for investment and working capital. Also, successful cooperation with USAID has been established and implementation has started during 2020.

The portfolio of housing loans, loans to large companies and the public sector is not in the focus of the bank, which is in line with the business strategy, and the gradual reduction achieved in these segments during 2020 provided additional access to liquid funds that are further directed to financing "focus" segments of the bank. Housing loans have not been offered by the bank for a long time and the gradual reduction is the result of regular repayments of existing clients. Large companies and the public sector have been identified as less profitable and quite volatile, so exposure to them has gradually decreased. However, despite that, Addiko Bank a.d. Beograd has improved the successful cooperation with individual / profitable clients of these business segments.

The previous year was characterized by successful risk management and responsible credit policy, which is evident through the reduction of the portfolio of problem placements.

Expenditures of the bank, not counting depreciation, amounted to 3.7 billion dinars in 2020, which is a decrease of 137 million dinars compared to the same period last year as a result of the applied operating model and strict cost control. The Bank continued the process of cost optimization with the aim of increasing efficiency, saving time and guaranteeing higher quality of service and at the same time reducing activities that do not add new value.

4. 2020 at a glance

4.1 Response to the Covid-19 Pandemic

4.1 Supporting clients

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

Customers remain the priority for Addiko Bank a.d. Beograd through this crisis and a comprehensive range of measures have been implemented to support retail and business customers.

During the challenging 2020 year, we did not give up on our values and we continued to keep the needs of our clients in our focus. Thus, we have implemented three moratoriums with state bodies and the regulator in order to facilitate repayment for clients and ensure the best possible functioning of the financial system. Also, guarantee schemes were available to clients from the SME segment, which facilitated the path to financial resources and shortened the procedures that clients go through.

4.2 Operational stability

Addiko Bank a.d. Beograd has enabled safe working conditions for its personnel in their workplace and extensive remote working has been implemented already in mid March. The home office has been extended voluntarily throughout the year, with the goal of incorporating this permanently into Addiko's operating framework.

The following measures were taken in the branches: Working hours were decreased in accordance to regulations. All branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients.

Through these measures, Addiko Bank has ensured the availability of critical services to its stakeholders during the Covid-19 crisis.

4.3 Retail

Addiko Bank offers to its clients - private individuals a modern user experience based on the straightforward banking strategy - focus on essentials, aiming at becoming a primary bank for the key products: cash loans, overdrafts, credit cards and current accounts. Retail banking products are standardised and improved. The primary focus in 2020, in addition to the lending business, was the improvement of card business. Clients accepted the MasterCard card very well, along with the successful implementation of the new MasterCard credit card offering repayment in three different ways (as per client's choice). The offer of bancassurance products during previous years was enlarged by products available to the majority of our clients.

The digital potential of the Bank was continually developed with the mission to improve the user experience primarily on the mobile platform. In addition to transaction banking, Addiko Bank's clients can now apply for cash loans and authorised overdrafts through m-banking, with their current accounts being credited

within few minutes, without having to go to the branch. Also, in 2020 Addiko Bank introduced revolutionary digital mAccount, opening via video identification. In order to ensure comparative advantage in the field of digital banking, a new mSaving project was announced and the product was launched in early 2021.

In the micro segment, Addiko Bank focused on client transaction business and further sale of the unique offer of account packages in 2020. Clients recognised the simplicity and speed of the account package opening process (with the only prerequisite being the ID card) and the customer database of users of these products is constantly increasing.

4.4 Corporate

Addiko Bank is one of the leaders in the digital transformation segment, both in Serbia and other markets where operating.

Client needs represent our foremost interest and the main reason for introducing changes and improving existing processes. The SME segment is one of the three focus areas of Addiko Bank. The corporate digital team, in cooperation with the company Appian, developed internal platform for business process management in order to deliver advanced and fast service.

The platform provided significant expedition and simplification of the loan approval process, resulting in increased satisfaction of Addiko Bank clients. The Appian BPM platform provides the following functionalities:

- high-level automation,
 - shorter time of approval procedure,
 - approval process transparency through its real-time monitoring,
 - improved data quality,
- resulting in a faster and more efficient loan approval decision-making for focus segment.

Based on the simple Addiko loan approval procedure, the Bank is able to disburse loan funds to clients within three business banking days. In view of this, the process of loan approval and disbursement is now significantly faster.

Consequently, SME clients of Addiko Bank can now submit an application for a loan or a trade finance product (performance guarantees, binding letters of intent) up to EUR 300,000 in three simple steps.

Undoubtedly, speed, transparency and simplicity are the three things appreciated by clients when doing business with a bank. Digital transformation of processes and products implemented by Addiko Bank ensures these three factors.

4.5 Corporate social responsibility

In 2020, Addiko Bank acted according to the global situation caused by Covid-19, so we donated funds for the fight against Covid-19. Addiko Bank donated a full budget for internal celebration activities - EUR 25.000 to the Institute for Virology, Vaccines and Serums "Torlak" and to the General Hospital in Subotica for buying equipment for diagnostic Covid-19. Budget for our corporate New Years presents was allocated and donated to the National organization for rare diseases.

In addition, Addiko bank also donated fixed assets to institutions in need. This is the programme we have been conducting for more than ten years and the programme that has not been

interrupted during Covid-19 pandemic.

5. Financial statements

of 127 million dinars. The largest decrease was recorded in revenues from the FX changes, revenues from payment trans

5.1 Income statement analysis

	000 RSD		
	2020	2019	Change
Interest income	4,226,467	4,540,370	-6.91%
Interest expenses	-812,757	-956,072	-14.99%
Net interest income	3,413,710	3,584,298	-4.76%
Commission income	1,414,258	1,519,427	-6.92%
Commission expenses	-171,748	-149,745	14.69%
Net commission income	1,242,510	1,369,682	-9.28%
Net gains on changes in the fair value of financial instruments	1,208	121,122	-99.00%
Net gains on reclassification of financial instruments	10,116	32,598	-68.97%
Net gains on derecognition of financial instruments measured at fair value	193,061	49,587	289.34%
Net exchange gains / losses and negative currency clause effects	43,246	-5,483	-888.73%
Net losses on impairment of financial assets not measured at fair value through profit or loss	-425,157	-226,370	87.82%
Net gains on derecognition of financial instruments measured at amortized cost	-	110,691	-100.00%
Other operating income	239,857	255,113	-5.98%
TOTAL NET OPERATING INCOME	4,718,551	5,291,238	-10.82%
Salary expenses, salary compensations and other personal expenses	-1,231,119	-1,420,345	-13.32%
Amortisation/depreciation charge	-503,455	-432,291	16.46%
Other income	41,202	99,475	-58.58%
Other expenses	-2,441,885	-2,389,889	2.18%
PROFIT / (LOSS) BEFORE TAX	583,294	1,148,188	-49.20%
Income tax	-211	-750	-71.86%
Deferred tax losses	-39,743	-39,743	0.00%
PROFIT / (LOSS) AFTER TAX	543,340	1,107,695	-50.95%

The measures of the central bank to prevent the negative consequences of the spread of the coronavirus on economic growth in 2020 were aimed at providing sufficient liquid funds through expansionary monetary and fiscal policies, which resulted in low reference interest rates. The effects of this policy can be seen through the reduction of **interest income** in the amount of 313.9 million dinars, although the bank recorded an increase in the total loan portfolio to the bank's clients.

Due to optimized funding sources, exploiting lower prices, as well as by carefully defining the prices of financing sources, the **interest expenses** decreased by 143 million dinars. This fact is especially important if we take into account the growth of the client's deposit portfolio, especially in the local currency, which carries a higher interest rate.

The most sensitive position of the income statement due to the corona virus pandemic is the Net income from **fees and commissions**, which recorded a decline during 2020 in the amount

of 127 million dinars. The largest decrease was recorded in revenues from the use of payment cards, which is all conditioned by the movement, consumer and business habits of the bank's clients, which were limited to the state of emergency, especially during the second quarter of 2020 year. The corona pandemic has caused customers to reorient themselves to digital channels and bank products. Thus, clients focused on payment operations performed its business through e-banking and m-banking applications, which affected the reduction of revenues from payment transactions, since the Bank generates lower revenues based on these transactions compared to classic paper orders. On the expenses side, we have the highest growth in the position of bankassurance due to higher early loan repayments, which was very current during 2020, because clients themselves avoided additional borrowing due to uncertainty caused by the global crisis and tried to settle their obligations to banks.

Through efficient asset and liability management, as well as monitoring the currency structure, the bank has ensured

5.2 Balance sheet analysis

Total assets of Addiko Bank a.d. Beograd has increased by 6.7 billion dinars which is mainly conditioned by the growth of banks loan portfolio that are in the “Focus” or the portfolio of cash loans intended for individuals and micro segment of 7% (+1.7 billion) and loans aimed at small and medium enterprises of 22% (6.1 billion dinars).

that **other operating income** is in line with the growth of focused business segments.

The **operating result** before the change in impairment was realized in the amount of 1,008 million dinars and recorded a decrease compared to 2019 by 366 million dinars, primarily due to falling interest income and fees, while the optimization of the process and organizational structure that allows activities to be focused towards clients in the shortest possible time, con-

ditioned the reduction of **other expenses** by 137 million dinars.

The **costs of impairment of financial assets** increased during 2020, but the positive effect of managing problematic placements is visible through the reduction of this portfolio, through the recovery of individual large corporate clients and increased collection activities. The effect of the modification conditioned by the implementation of the mandatory moratorium in the amount of 177 million dinars, is one of the reasons for the increase in this position of the income statement

Profit after tax is lower by 564 million dinars.

The second position that records growth in 2020 is Cash and funds with the National Bank, which increased by 3.8 billion dinars, mostly due to surplus liquid funds deposited with the NBS.

In RS'000

	31-Dec-2020	31-Dec-2019	Change
Cash and balances held with the Central Bank	11,732,009	7,884,737	49%
Pledged financial assets		0	
Receivables from derivatives	1,408	1,680	-16%
Securities	12,602,828	13,667,997	-8%
Loans and receivables due from banks and other financial institutions	2,684,211	2,776,939	-3%
Loans and receivables due from customers	71,669,829	67,586,939	6%
Intangible assets	844,940	1,045,046	-19%
Property, plant and equipment	1,067,427	1,016,499	5%
Deferred tax assets	60,388	70,003	-14%
Non-current assets held for sale and discontinued operations	-	15,446	-100%
Other assets	798,807	691,634	15%
TOTAL ASSETS	101,461,847	94,756,920	7%

Investment securities include financial assets “available for sale” and this position decreased compared to the previous year. The sale of securities is accompanied by an increase in net gains on derecognition of financial instruments measured at fair value through profit or loss.

At the end of 2020, provisions for credit risk are at the same

level as at the end of 2019, which is the result of continuous improvement of results in collection of receivables and resolution of problematic placements, which is extremely important in an uncertain year such as 2020.

Other assets recorded an increase of 107 million dinars due to an increase in the deferral of costs over several years.

In RS'000

	31-Dec-2020	31-Dec-2019	Change
Liabilities under derivatives	38,201	9,608	298%
Deposits and other financial liabilities due to banks, other financial institutions and the Central Bank	10,118,745	5,641,891	79%
Deposits and other financial liabilities due to customers	66,588,521	60,988,985	9%
Subordinate liabilities	-	3,934,511	-100%
Provisions	443,991	385,714	15%
Current tax liabilities	211	750	-72%
Deferred tax liabilities	-	-	-
Other liabilities	1,512,896	1,408,794	7%
Share capital	20,545,294	20,545,294	0%
Profit	1,126,924	1,107,695	2%
Loss	-1,126,066	-1,126,066	0%
Reserves	2,213,130	1,859,744	19%
TOTAL LIABILITIES	101,461,847	94,756,920	7%

Total liabilities during 2020 recorded an increase mostly due to the growth of customer deposits. One of the main tasks of Addiko Bank a.d. Beograd was to develop a stable deposit base of clients during 2020, which should support the growth of assets. The growth of the deposit portfolio, mostly in the two segments that are in the focus of the bank's operations, show that the clients have shown by their behavior that they have confidence in the operations of Addiko Bank a.d. Beograd, in a period of uncertainty such as 2020.

Due to the high level of capital adequacy ratios, Addiko Bank a.d. Beograd decided not to extend the subordinated loan agreement it had concluded with the Group and to replace it with a short-term loan in the first period, which led to an increase in the position Deposits and other liabilities to banks, other financial organisations and central bank.

6.0 Corporate Governance

6.1 Addiko Bank a.d. Beograd Board of Directors and Executive Board

The Assembly of the bank at its session held on 30 December 2020 appointed Mr. Dragan Lončar Member of Addiko Bank a.d. Beograd Board of Directors, while Mr. Dragan Djuričin resigned from his function. Mr. Dragan Lončar has also been appointed Member of the Audit Committee of Addiko Bank a.d. Beograd.

In September 2020 Mr. Nebojša Pantelić has been released from the position of Addiko Bank a.d. Beograd Executive Board Member due to expiration of his mandate, thus the Executive Board is comprised of three members, Chairman position being held by Mr. Vojislav Lazarević (CEO & CMO), Deputy Chairman position by Mr. Mirko Španović (COO) and Mr. Vladimir Stanisavljević being Member of the Executive Board (CRO & CFO).

7.0 Transformation towards out-of-branch sales and digital development

7.1 Great customer experience with efficient distribution transformation

Addiko Bank a.d. Beograd approaches its retail customers primarily through branches and for the coming years expects an increased contribution from digital channels and partnerships with third parties.

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

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

The Bank's digital capabilities are being continuously developed with the mission to improve and enrich the user experience on the mobile app and the internet banking platform as well as end-to-end digital solutions for obtaining a loan.

The Group is also capitalizing on one of its best capabilities: transforming the classic branch employee role into a more com-

plex one, empowering employees to go outside the branch and serve customers at their workplace. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to thousands of customers every month. Customers are receiving advice regarding their financial needs, they can open current accounts, order debit cards, apply for loans or credit cards and obtaining credit approval on the spot. Throughout 2020 most Bank@Work activities were performed using alternative channels to safely communicate with customers like email, phone calls and most importantly webinars.

7.2 Digital transformation

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

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

Addiko Bank's retail customers are able to conduct digital banking transactions via Addiko Bank's digital banking offerings and non-customers are able to find out details and apply for Addiko Bank's consumer products via specific Addiko Bank lending pages, which consists of interactive calculators, contact forms and a multichannel acquisition platform / chatbot that performs sales dialogues with a focus on the products provided in each particular market.

Addiko Bank focuses particularly on selling standardised products (unsecured loans and account packages) over digital channels, in line with specific restrictions/limitations of the individual markets. Products are accessible through digital, allowing simulations where appropriate, end-to-end sales where legally possible. A state-of-the-art loan application processing system combined with a credit decision engine has been rolled out in Addiko Bank in Serbia - mLoan. Content delivery through social media, support of regular communication through digital, and implementation of features such as chat pay over Viber, chatbot, branch designs compatible with the digital age - all such features contribute to the strengthening of the digital dimension of Addiko Bank's brand, customers' accessibility and convenience.

Digital transformation by creating new digital capabilities remains one of the strategic focus points of the Addiko Bank. For the Consumer segment the share of consumer loans sold digitally Addiko Bank a.d. Beograd improved to 28% in 2020 (11% for 2019) and in December 2020. it was 51%.

7.3 IT Strategy

Information Technology continue to support digitalization initiatives implementig full online onboarding with video identification and account opening on mobile banking application and providing unique service on the market - mAccount.

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

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

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

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

With the launch of mDeposit in 2021, enabling opening of term deposit online, the bank will complete the product offer on m banking and provide end to end online experience for customers. In 2021, Digital Development will keep the course of further developing the systems that enables offering banking products in digital world, with clear emphasis on cash loans.

7.4 Branches

At the end of the year 2020 Addiko Bank a.d. Beograd operated in total of 36 branches. There are three regions Belgrade, Novi Sad, Central and South Serbia. In order to optimize resources as a part of Branch transformation project, Addiko Bank Serbia introduced concept where one manager leads 2 branches. Total number of those managers is 8 and they are leading 16 branches.

8.0 Human resource management

The human resource strategy is a driver of the cultural transformation of Addiko Bank. HR, processes of Addiko Bank possess quality and imply performance management, selection and recruiting, talent development, education and development of leadership skills aiming at ensuring agility of employee opinions and capabilities. Performance appraisal and talent management were the key processes for the identification, development, valuation and recognition of high-quality employees and talents. In this way, Addiko Bank aims at establishing a good work environment in order to become one of the most desirable employers, attract talents and offer possibilities for further career development of its employees. In line with that in 2020 Addiko Bank a.d. Beograd was granted the “Employer Partner Certificate” second year in a row.

The specific situation and Covid-19 pandemic during 2020 reflected in the development activities intended for employees, so that the activities were focused primarily on successful functioning in the new circumstances as well as on the psychological well-being of employees.

In 2020 Addiko Bank was granted certificate “Excellence in challenges”. The aim of the recognition is to recognize organizations that have developed quality HR management practices in

unpredictable circumstances. In order to obtain this certificate, the Bank had to receive positive evaluation in the following business segments: Agile HR, Strategic planning and work organization, Crisis communication, Physical health and safety of employees, Empowerment and employee well-being, Leadership in times of crisis and Technological and digital readiness.

Given that the Covid-19 virus pandemic brought as a challenge the distance between colleagues and work from home, the goal was to communicate more with employees in order to better adapt to the new situation. Communication with employees was more frequent and with the necessary facts related to safety, advice was given about how to take care of the balance of business and private life, how to organize efficient online meetings, how to reduce stress and better organize vacations. On the intranet are shared positive stories about how colleagues can help each other and Bank even organized and online yoga classes for the employees.

9.0 Internal Control System for accounting procedures

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

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

The internal control system consists of a set of rules, procedures and organisational structures which aim to:

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

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

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

The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of daily activities of Addiko Bank as well as periodic evaluations by the

business lines, internal control functions, risk management, compliance and internal audit.

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

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

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

10.0 Financial risk management

The risk management system of the Bank is aimed at ensuring, by observing and applying risk management principles, policies and procedures, that the risks the Bank is exposed to in its operation are minimised to the largest possible extent, that all aspects of the Bank's business operations are stable and sensitive to negative internal and external factors to the smallest possible extent and that the Bank's risk profile satisfies requirements of prudent banking operation at all times.

The Bank's risk strategy stems from its business strategy and depicts planned business structure, strategic development and growth with considering processes, methodologies and organisational structure relevant for managing risk factors. It defines a framework for monitoring, control and limiting of risks to which the Bank is exposed in its operations, while ensuring adequacy of internal capital, liquidity position, solvency position and total profitability. Policies and procedures for managing individual risks are grounded on requirements of laws and bylaws of the National Bank of Serbia and guidelines, principles and relevant documents of the Addiko Group.

The Bank established a comprehensive risk management system which is integrated in all business activities and ensures the compliance of the Bank's risk profile with the established risk appetite framework - RAF at all times. The risk management framework defines the level of risks acceptable by the Bank. Measures of the RAF definition are calibrated with considering the business plan, risk strategy and recovery plan representing a framework for adequate internal risk management and control.

Furthermore, within its strategic risk management, the Bank implements another key process - Internal Capital Adequacy Assessment Process - ICAAP in order to establish the level of capital sufficient to cover all material risks the Bank is exposed to. The ICAAP serves as a tool for assessment of internal capital adequacy in relation to the Bank's risk profile and implementation of the Bank's strategy applied to preserve adequate inter-

nal capital level.

In the course of 2020, the Bank's risk management (risk identification, measurement/assessment, mitigation and monitoring) was performed by the following:

- Bank bodies and other committees envisaged by the Law on Banks - Board of Directors, Executive Board, Audit Committee, Asset & Liability Management Committee (ALCO) and Credit Committee;
- Working bodies of the Executive Board of the Bank - Risk Control Advisory Body, Corporate Client Monitoring Advisory Body and Operational Risk Management Body;
- Organisational units of the Bank - Risk Control Department, Corporate Risk Management Division, Retail Risk Management and Collection Division, Balance Sheet Management and Treasury Department, Compliance Department and other organisational parts of the Bank when needed.

The key risks the Bank is exposed to are inherent in the Bank's business and market conditions and they are manifested as the credit risk, liquidity risk, interest rate risk, market risks, operational risk and other risks, such as the risk of investments in legal entities and fixed assets and country risk.

10.1 Credit risk

The process of credit risk assessment and monitoring at the level of individual clients and groups of related parties is performed in line with adopted policies and procedures establishing rules and criteria for approving new placements and defining activities to be undertaken and obligations and responsibilities of persons involved in the credit risk monitoring process.

The credit risk identification, assessment, measurement and management is implemented on an ongoing basis and covers the total Bank portfolio prone to credit risk.

The Bank's impairment methodology under the IFRS 9 was additionally improved in 2020 by applying new macroeconomic forecasts and calibrating to longer time series, In the course of 2020, the Bank was fully compliant with the Basel III standards of capital adequacy. As at 31 December 2020, the total capital requirement for credit risk stood at RSD 5.4 billion, the capital adequacy ratio (CAR) stood at 26,40%, with the Common Equity Tier 1 capital ratio (equalling the Tier 1 capital ratio) also at 26.40%.

10.2 Liquidity risk and interest rate risk

The Bank's liquidity risk management system is based on measures and criteria prescribed by the National Bank of Serbia and it is focused on short-term and structural liquidity, with implementing an adequate limit system and early warning policies and procedures compliant with the ICAAP and ILAAP (Internal Liquidity Adequacy Assessment Process) and liquidity risk management principles of the Addiko Group.

The liquidity risk management activities in the course of 2020 were aimed at measurement, monitoring and reporting on forecasts of liquidity inflows and outflows, liquidity reserves in various scenarios of normal business and potential liquidity crises and at monitoring and regular reporting to Bank bodies and ALCO on movements of regulatory liquidity ratios (liquidity

ratio, quick liquidity ratio, liquidity coverage ratio - LCR and other liquidity ratios according to the internal methodology of the Bank or the Basel III standard (Liquidity Value-at-Risk, Net Stable Funding Ratio - NSFR).

In the course of 2020, all liquidity ratios, both regulatory and internally defined, in relation to liquidity risk management were aligned and above the prescribed limits. The liquidity ratios prescribed by regulations of the National Bank of Serbia as at 31 December 2020 were as follows: liquidity ratio: 1.67%, narrow liquidity ratio: 1.36% and LCR: 143%.

The interest rate risk management system of the Bank is based on principles prescribed by the National Bank of Serbia and the Addiko Group, focusing on the analysis, measurement, monitoring and reporting on banking book interest rate risk. In the course of 2020, all interest rate risk ratios of the Bank were aligned and within limits defined by Bank's policies and procedures on interest rate risk management.

10.3 FX risk and other market risks

In accordance with the Decision of the National Bank of Serbia on Capital Adequacy of Banks, the Bank must maintain the foreign exchange risk ratio, being the ratio between the total net open fx position and the capital of the Bank, so that the total net open fx position of the Bank, including the absolute value of the net open position in gold, at the end of each business day, does not exceed 20% of the Bank's capital. In the course of 2020, the fx risk ratio of the Bank was aligned with requirements of the National Bank of Serbia and as at 31 December 2020, it stood at 2.99%.

Market risk management of the Bank is regulated by adequate policies defining the manner of implementing criteria and measures prescribed by the National Bank of Serbia and principles of the Addiko Group for market risk control and management adopted, at a proposal of the Executive Board, by the Board of Directors of the Bank. In the course of 2020, the Bank managed and continually aligned the level of exposure to the price risk stemming from Bank investments in debt securities, and the exposure was predominantly generated from Bank investments in government securities of the Republic of Serbia.

10.4 Exposure risk

The risk of exposure to one person or a group of related persons is controlled and monitored through unified databases of information on related persons, active monitoring and the regulatory reporting process. In the course of 2020, the Bank did not record any exceeding of regulatory limits of exposure to one person/group of related persons, which was regularly reported to the Risk Control Advisory Body and bodies of the Bank.

10.5 Operational risk

Aiming at comprehensive monitoring of Bank's exposure to the operational risk, the operational risk management system is based on standard principles of identification through obtaining and classifying data on operational risk events and related losses, implementing and monitoring measures for the elimination and mitigation and regular reporting to Bank bodies and the Operational Risk Advisory Body, focusing on timely analysis of causes and proposals of measures for minimisation of Bank's

exposure to the operational risk.

In the course of 2020, the Bank continued assessing potential operational risks from new products and outsourcing, as well as the Risk and Control Self-Assessment.

The calculation of the capital requirement for operational risk is based on the standardised approach according to which the capital requirement for operational risk of the Bank as at 31 December 2020 stood at RSD 781 million.

10.6 Adequacy of the risk management system

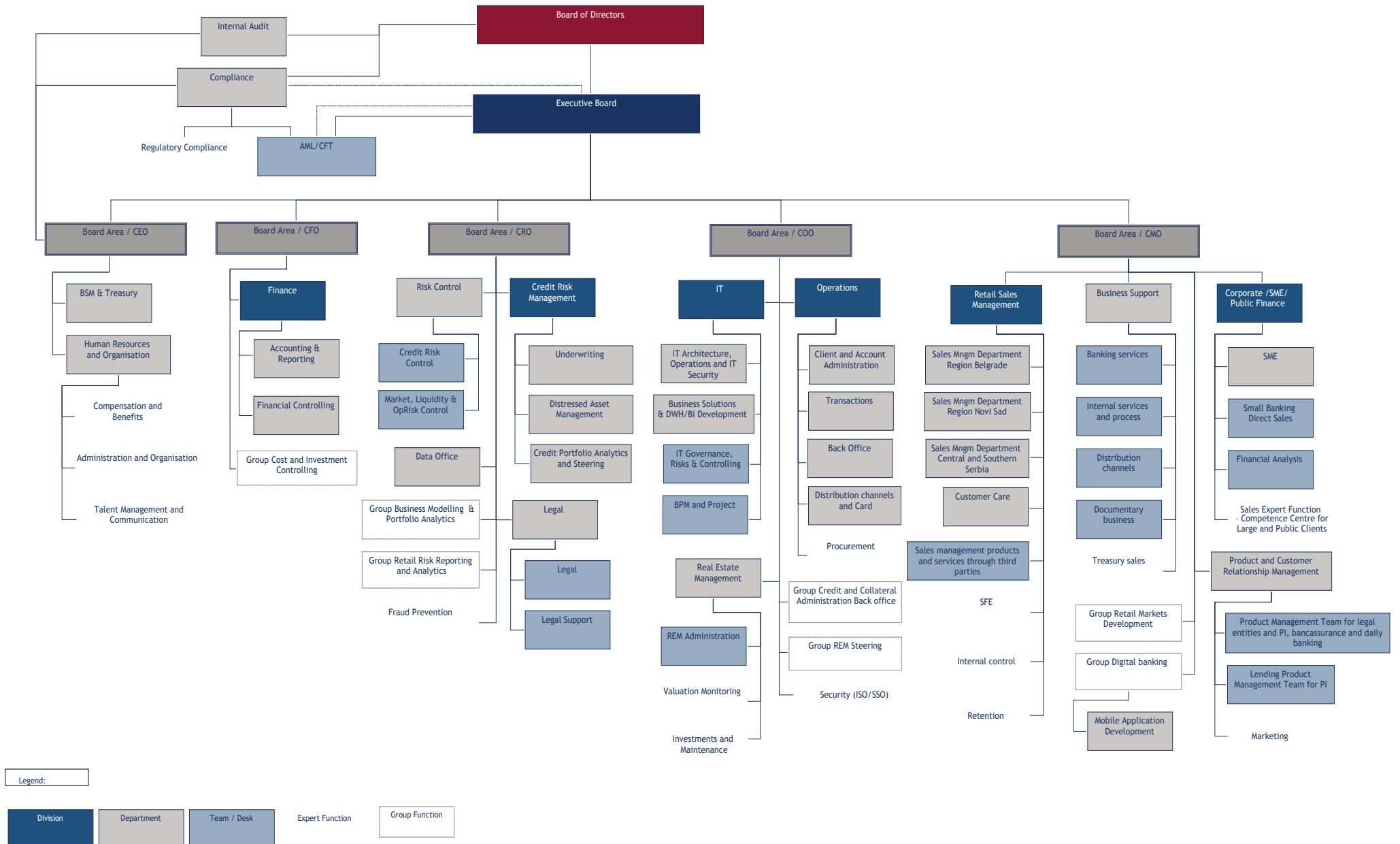
In the course of 2020, the Bank's risk management system was adequate, in view of the following facts for the period:

- In extraordinary year, in which full pandemic challenges were present, Bank manage to have all risks under control;
- Bank has completely complied with all the regulator's requests concerning implementation referring to the Moratorium related extraordinary requirements;
-
- As a result of an adequate approach to approving new placements and improvements in NPL management and resolving, the Bank decreased the share of NPLs in total exposure, being well below the planned level and in line with the market average;
- Within the continued implementation of the IFRS 9 standards for the calculation of impairment of financial assets, the Bank applied new macroeconomic forecasts and updated risk parameters - PD (Probability of Default) and LGD (Loss Given Default) models for calculation of value adjustment of on-balance sheet assets and off-balance sheet items;
- The Bank aligned the concentration from exposure to certain product types by lowering the share of the portfolio with initial maturity above 7 years below the prescribed ratio;
- The Bank maintained regulatory and internal ratios of exposure to significant risks within prescribed limits and regularly monitored and reported to the management bodies and working bodies of the Bank, including the ratios envisaged by the effective recovery plan;
- The Bank regularly monitored exposures to various types of risk in relation to regulatory and internal limits and timely defined measures for limit breaching prevention;
- The Bank implemented the ICAAP regularly and maintained all calculated capital values aligned with internal and regulatory limits;
- Though recommendations from the National Bank of Serbia within the Supervisory Review and Evaluation Process (SREP) remained the same, improvement of Banks system of integrated risk management are made.

11.0 Organisational chart

The organisational chart of the Bank as at 31 December 2019 is presented below:

Addiko Bank a.d. Beograd
Bulevar Mihajla Pupina 6
11000 Beograd, Serbia



Legend:

