Addiko Bank

Annual Report 2020

Addiko Bank

Key data based on the financial statements drawn up in accordance with IFRS

			(000) BAM
Selected items of the Profit or Loss statement	**YE20**	**YE19**	**(%)**
Net banking income	39,517	40,611	-2.7%
Net interest income	26,831	27,581	-2.7%
Net fee and commission income	12,686	13,030	-2.6%
Net result on financial instruments	2,444	1,081	>100%
Other operating result	-1,127	-2,062	-45.3%
Operating expenses	-31,045	-32,346	-4.0%
Operating result	**9,789**	**7,284**	**34.3%**
Other result	**-2,378**	**378**	**>100%**
Credit loss expenses on financial assets	-25,557	-372	>100%
Tax on income	5,135	0	>100%
Result after tax	**-13,011**	**7,290**	**>100%**
Performance ratios	**YE20**	**YE19**	**(pts)**
annualised			
Net interest income/total average assets	2.7%	2.9%	0.2
Return on average tangible equity	-6.6%	3.6%	-10.2
not annualised			
Cost/income ratio	76.8%	77.0%	0.2
Cost of risk ratio	3.2%	-0.1%	3.1
Selected items of the Statement of financial position	**Dec20**	**Dec19**	**(%)**
Loans and advances to customers	500,972	542,309	-7.6%
o/w gross performing loans	518,780	542,492	-4.4%
Deposits of customers	784,412	728,279	7.7%
Equity	196,837	215,050	-8.5%
Total assets	1,011,637	986,996	2.5%
Risk-weighted assets	677,204	713,429	-5.1%
Balance sheet ratios	**Dec20**	**Dec19**	**(pts)**
Loan to deposit ratio	63.9%	74.5%	-10.6
NPE ratio	8.5%	10.1%	-1.6
NPE coverage ratio	89.3%	86.1%	3.2
Liquidity coverage ratio	290.1%	411.9%	-121.8
Common equity tier 1 ratio	27.4%	26.1%	1.3
Total capital ratio	27.4%	26.1%	1.3

Letter from the CEO

Dear customers, partners and employees,

The year behind us was unprecedented in many ways. We have entered the year 2020 with the enthusiasm and optimism, expecting it was going to be another and more successful year with outstanding results.

Like for the entire financial services industry, in mid-March, we entered a completely different model of working and living, which initially struck us as new unknown, but soon became a “new normal” way of running our business throughout 2020. The global Covid-19 pandemic has caused strong turbulences in the lives of private individuals and companies alike. The whole world was experiencing a similar situation, faced with uncertainty, which severely affected the global economic development.

As a consequence, this situation adversely affected the business of our clients, both private individuals and legal entities. The most affected of them have used the moratorium introduced by the government and other measures prescribed by the FBiH Banking Agency. Addiko Bank has swiftly implemented these measures with the purpose to provide help in overcoming the negative effects of the Covid-19 pandemic. These measures were valid until the end of 2020, while the full impact on both the overall private and business sector will be become visible only in the forthcoming period.

Despite the impact of the global pandemic, our operating result in 2020 met our expectations. As all industries, the banking industry was affected by a drop-in demand for new loan business, as well an unplanned increase of costs due to the changes required to ensure business continuity during the pandemic. Such increased costs include the supplies and measures to provide increased health and safety for customers and employees. We also harvested benefits from the successful implementation of measures in the previous years, to improve income growth, as well as strong cost management which have contributed to our achieved operating result in 2020. This lead to an increase of the 2020 operating result by 34% compared to 2019, which was a strong confirmation of our established strategy and the applied business model.

We have managed to maintain a strong capital base, stable funding and solid liquidity without any external support in financing and were able to adequately address our clients’ needs through the year. Yet, irrespective of these achievements, our strong balance sheet and improved operating income, our final net result for the year 2020 is negative, predominantly driven by our prudent approach to credit risk provisions. The prudent risk approach of Addiko Group, and our cautious local implementation has led us to building up additional provisioning by either immediately recognizing customers who have inability to further repay debts or where our risk model anticipates potential migrations to non-performing loans as a result of negative development of macroeconomic indicators, primarily GDP and employment rate in the coming periods.

Even though this results in a reported loss, this one-off additional provisioning, in line with a prudent application of IFRS provision methodology, provides us with the flexibility to adequate handle Covid-19 related credit risk costs in the coming years.

This approach was chosen as valid by many international banks, to mitigate repetitive outliers in profit and loss statements during an economy recovery period. Despite this, the Bank’s balance sheet is robust, with solid funding and liquidity , and the Bank’s capital adequacy, even after booking additional credit risk provisions resulting in a loss for 2020, remains at a robust 27.4%, and significantly above the regulatory requirement of 14,5%. This means Addiko Bank has full capacity to absorb the new challenges while continuing to provide full support to its customers, both in the Consumer and SME segments.

The trend of recovery has started in the last quarter of 2020, and it is expected that this trend will continue during 2021, with economic recovery measures taken by the relevant authorities, make us confident that the overall market will continue to stabilize in the foreseeable future, and that we will return to more ordinary and above all, profitable business.

One of the biggest operational challenges for the industry during the past year, and we are proud to have succeeded, was in maintaining the full continuity of business while providing all our services seamlessly to our customers, even in the weeks and months of movement restrictions. For this achievement, our primary gratitude goes to our employees, who despite their own private struggles to tackle with the consequences of the Covid-19 pandemic, have shown incredible commitment and effort to keep our business up and running smoothly, both by being on the front line in branches every day, and by coming up with improvised solutions to protect customer health and safety. I also express our gratitude to our suppliers, partners and regulators, for extending maximum support in these difficult times to the sector. During 2021 we enter a new chapter of a different world, still impacted from the effects of the pandemic and changes of the economic and banking landscape. We remain fully committed to our specialist strategy, and continue to offer clear, simple and products and services, and remain dedicated to our customers and in fulfilling their needs.

Respectfully,

Sanela Pašić

Addiko Bank Sarajevo CEO

Addiko Bank

Annual Report 2020

Financial statements are the integral part of annual report

Board of Addiko Bank d.d. Sarajevo

From left to right side: Selma Omić, Board member; Mario Ivanković, Board member; Sanela Pašić, CEO; Belma Sekavić – Bandić, Board member.

Management Report

1. Overview of Addiko Bank

Addiko Bank Sarajevo is a member of Addiko Group, a consumer and small and medium-sized enterprises (SME) specialist banking group in Central and South Eastern Europe (CSEE). Addiko Group consists of Addiko Bank AG, the listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates two banks), Serbia and Montenegro. Addiko Bank Sarajevo, services as of 31 December 2020 approximately 128 thousands customers in Bosnia and Herzegovina, using a well-dispersed network of 32 branches and modern digital banking channels.
From left to right side: Selma Omić, Board member; Mario Ivanković, Board member; Sanela Pašić, CEO; Belma Sekavić – Bandić, Board member.

Based on its focused strategy, Addiko Bank Sarajevo 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 Bank's Mortgage lending, 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.

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 signaled the possibility of a sound recovery ahead, after easing of the measures imposed by governments, the second wave of infections in autumn quickly changed this outlook. Sailing through such heavy storm will prove to be quite a challenge, 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. This atypical cyclical pattern exposed vulnerabilities of tourism-dependent economies and heavily affected prospects of Addiko's countries of operation.

Main channels of impact for these economies can be split into two broad categories: (i) external - including weaker export demand, a reduction in FDI, lower rate of portfolio and remittance inflows, substandard tourists' numbers; and (ii) internal - reflecting the imposition of severe lockdown measures and the negative knock-on effects. These factors brought down the average growth in the target markets by almost 10 p.p., from 3.2% in 2019 to -6.4% in 2020. Croatia exhibited the largest drop (estimated to be -9.4%), followed by Montenegro (-9.0%) and Slovenia (-6.7%). The contraction was somewhat cushioned in Serbia (-2.0%) and Bosnia and Herzegovina (-5.0%).

On the other hand, coordinated fiscal response and ample liquidity provided by central banks across Europe stabilized labor market developments, helped to keep interest rates low and price dynamics dampened. This is true for Addiko's countries of operation as well. The fact that all of them, with the exemption of Serbia, have euro or managed/fixed exchange rates, only contributes to easier mirroring of the ECB policy effects. However, group homogeneity is not fully observable during this crisis, neither in economic weaknesses nor policy actions taken by each country in question.

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

3. Earnings performance in brief

Business in 2020 has been marked by Covid-19, which the Bank's results demonstrated.

Addiko Bank reported an operating result of BAM 9.79 million at the end of year 2020. This is higer than year 2019 (YE19: BAM 7.28 million). The operating result reflects a stable business development despite the Covid-19 crisis, supported by non-recurring income (the sale of debt securities) and a successful cost containment. The result after tax of BAM -13.01 million (YE19: BAM 7.29 million) was impacted by a significant increase in risk provisioning predominantly associated with macroeconomic expectations due to Covid-19.

The Bank has successfully maintained its robust asset quality and has tightened underwriting criteria preferring sustainable portfolio quality over new business and volume growth. The loan book in the focus segments remained stable, whereby Consumer and SME amount to 81.6% of the gross performing loan books (YE19: 80.1%). The Bank has limited exposure to industry sectors considered as Covid-19 sensitive. The NPE ratio (CRB based) of 8.5% (YE19: 10.1%) and the NPE provision coverage at 89.3% (YE19: 86.1%) reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the strong receivables collection.

4. Response to the Covid-19 Pandemic

4.1. Supporting clients

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

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

In addition, 1,616 moratoria on payment obligations were granted in the fiscal year, of which 262 were still active as of December 31, 2020. Further details are provided in Note (58) Credit risk (counterparty default risk), under the sub-item Moratorium due to COVID-19.

4.2. Operational stability

The Bank has implemented all measures to provide safe environment in branches for employees and clients and asure the best appropriate way of service for client even through the most restricted measures, with limited movement. The following measures were taken in the branches: Working hours were decreased in accordance to local regulations. All branches were equipped with physical distancing measures including plexiglass separators and sanitary measures to protect staff and clients. Through these measures, Addiko Bank has ensured the availability of critical services to its stakeholders during the Covid-19 crisis.

5. Corporate Governance

5.1. Management Board

During 2020, the Supervisory Board appointed Mr. Mario Ivanković as new Chief Financial Officer and Chief Risk Officer.

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

6.1. Great customer experience with efficient distribution transformation

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

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

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

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

The Bank is also capitalizing on one of its best capabilities: transforming the classic branch employee role into a more complex one, empowering employees to go outside the branch and serve customers at their workplace. Under the Bank@Work label, a team comprised of Addiko Bank's sellers using mobile technology is continuously delivering the convenience promise to thousands of customers every month, throughout the whole Addiko Bank. 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 (email, phone calls, …).

6.2. Digital transformation

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

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

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 Sarajevo. 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 Bank. Addiko continues to invest in digital solutions as an essential foundation to delivering on the business boosting, convenience and speed-based value proposition. For the Consumer segment the share of consumer loans sold digitally improved to 7% in 2020 (6% for 2019) and the contribution of Bank@Work to 34% (27% for 2019).

6.3. IT Strategy

Whilst continuing the support for the roll out of the mobile initiatives in the group banks 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.

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

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

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

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

6.4. Branches

At year end 2020 Addiko Bank operated a total of 32 branches. This physical distribution is optimally sized to deliver the Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

7. Financial development of the Bank

7.1. Detailed analysis of the reported result

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019	(%)
Net banking income	39,517	40,611	-2.7%
Net interest income	26,831	27,581	-2.7%
Net fee and commission income	12,686	13,030	-2.6%
Net result on financial instruments	2,444	1,081	>100%
Other operating result	-1,127	-2,062	-45.3%
Operating income	**40,834**	**39,630**	**-3.0%**
Operating expenses	**-31,045**	**-32,346**	**4.0%**
Operating result	**9,789**	**7,284**	**34.4%**
Other result	-2,378	378	>100%
Credit loss expenses on financial assets	-25,557	-372	>100%
Result before tax	**-18,146**	**7,290**	**>100%**
Tax on income	5,135	0.0	>100%
Result after tax	**-13,011**	**7,290**	**>100%**

Net interest income decreased from BAM 27,581 thousand at YE19, by BAM -750 thousand, or -2.7%, to BAM 26,831 thousand at YE20. The decrease in interest income, lower by BAM -440 thousand from BAM 31.022 thousand at YE19 to BAM 30.583 million at YE20, is primarely driven by lower yields in the bond portfolio, in connection with the bond sell at the beginning of 2020. On the other hand, Covid-19 impacted on new loans disbursments in the focus segments and the planned run down of non-focus portfolio but still not affected regular interest income from existing customers as the same shows increase by BAM 696 thousand. On the other hand, dynamic in decrease of term deposist portfolio was not followed by expectation leading to sligthly higher interest expense by BAM 69 thousand from customer deposits. Additional negative impact from interest expense was driven by treasury deposits (higher by BAM 87 thousand compared to YE19).
The **net interest margin** shows decrease at 274bp at YE20, compared to 297bp at YE19.

Net fee and commission decreased from BAM 13,030 thousand at YE19, by BAM -356 thousand, or -2.6%, to BAM 12,686 thousand at YE20.

The main reason is lower commission income from Card business and FX/DCC. It's primarelly driven by Covid-19 crises and significantly reduction in customer card consumption. Furthermore, income from domestic payments also show decrease as result of reduced business activities on market.

Net result on financial instruments amounts to BAM 2,444 thousand at YE20, compared to BAM 1,081 thousand at YE19. This significant positive deviation is caused by a sale of bonds from the beginning of the year.

Other operating result as the sum of other operating income and other operating expense increased from BAM -2,062 thousand at YE19, by BAM 935 thousand, to BAM -1,127 thousand at YE20. This is primarely caused by the impairment of repossessed assets in amount of BAM -2,027 thousand due to regulatory decision prescribing that repossessed assets should be carried in amount of BAM 1 if the Bank does not sell repossessed assets in the period of three years and caused by positive outcome of a legal dispute in amount of BAM 3,634 thousand.

Operating expenses decreased from BAM -32,346 thousand at YE19 by BAM 1,301 thousand or 4% to BAM -31,045 thousand at YE20.
This is result of very responsible management in almost all cost categories and positions. Continuous activities on cost monitoring and findings for further savings started in 2019 extended also in 2020. As a result, two main cost categories (Personal and Administrative) show significant decrease in realisation by cca. BAM 1,000 thousand or 3,6% overall. On the other hand depreciation and amortisation slightly increased from BAM -3,286 thousand at YE19, by BAM -292 thousand, to BAM -3,578 thousand at YE20.

Credit loss expenses on financial assets amount to BAM -25,557 thousand of costs. The result YE20 was significantly influenced by the Covid-19 pandemic. The increase of risk provisions is mainly driven by the update of the macroeconomic scenarios used to calculate expected credit loss (ECL), which was performed by taking into account the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies.

Tax on income amounts to BAM 5,135 thousand at YE20 compared to BAM 0 thousand at YE19 and also include the expected impact of the Covid-19 pandemic on the future profitability of the Bank, reflecting the recognition of deferred taxes on temporary differences resulting in an income of BAM 5,135 thousand.

7.2. Detailed analysis of the statement of financial position

(000) BAM

	31.12.2020	31.12.2019	Change (%)
Cash reserves	266,199	210,290	26.6%
Financial assets held for trading	0	6	>100%
Loans and receivables	501,099	542,571	-7.6%
Loans and advances to credit institutions	127	262	-51.5%
Loans and advances to customers	500,972	542,309	-7.6%
Investment securities	204,047	195,553	4.3%
Tangible assets	20,649	22,800	-9.4%
Intangible assets	6,308	5,781	9.1%
Tax assets	6,731	1,783	0.0%
Current tax assets	1,783	1,783	0.0%
Deferred tax assets	4,948	0	>100%
Other assets	2,852	4,318	-34.0%
Non-current assets and disposal groups classified as held for sale	3,752	3,894	-3.6%
Total assets	**1,011,637**	**986,996**	**2.5%**

The statement of financial position of Addiko Bank shows the simple and solid interest-bearing asset structure: around 50% of the assets are represented by customer loans, most of which belong to the focus area. In addition, a substantial part of the residual assets is represented by cash reserves and high rated bonds. With regard to the statement of financial position, Addiko's strategy continued to change the business composition from lower margin Mortgage lending and Public Finance towards higher value-added Consumer and SME lending. This is reflected by the increased share of these two segments of YE20 81.6% of the gross performing loan book (YE19: 80.1%).

As of YE20 the **total assets** of the Bank in the amount of BAM 1,011,637 thousand increased by BAM 24,641 thousand or 2.5% compared with the YE19 level (BAM 986,996 thousand). The total risk, i.e. risk-weighted assets including credit, market and operational risk, decreased to BAM 677,204 thousand (YE19: BAM 713,429 thousand) reflecting the decreases of volumes.

Cash reserve increased by BAM 55,909 thousand to BAM 266,199 thousand as of YE2020 (YE19: BAM 210,290 thousand). This reflects the strong liquidity position of the Bank.

Overall **loans and receivables** decreased to BAM 501,099 thousand from BAM 542,571 thousand at year end 2019:

- Loans and receivables to credit institutions (net) decreased by BAM -135 thousand to BAM 127 thousand (YE19: BAM 262 thousand).
- Loans and receivables to customers (net) decreased by BAM -41,337 thousand to BAM 500,972

The change was mainly in the non-focus segments with Mortgage Business and Large Corporate and Public Finance decreasing from BAM 106,947 thousand at year-end 2019 to BAM 94,639 thousand, which could not be compensated by the new disbursments in the focus segments, Consumer and SME lending, remaining stable at BAM 420,230 thousand.

The **investment securities** are largely invested in high rated government bonds and bonds issued by financial institutions and have maturities of less than seven years. To ensure high levels of liquidity and transparency in the securities portfolios, all investments are "plain vanilla" without any embedded options or other structured features.

Tax assets increased to BAM 6,731 thousand (YE19: BAM 1,783 thousand), as a result of the re-assessment of deferred tax assets on temporary differences, this development is partially offset by the Covid-19 related market turmoil, which was leading to an additional recognition of deferred taxes on credit risk provisions for S1 and S2.

Other assets decreased by BAM 1,466 thousand to 2,852 thousand (YE19: BAM 4,318 thousand). The change is mainly caused by the impairment of repossessed assets due to regulatory decisions. The main amounts included in this position related to repossessed assets, prepaid expenses and accruals, furthermore, receivables for paid-in deposits and receivables from card business.

(000) BAM

	31.12.2020	31.12.2019	Change (%)
Financial liabilities measured at amortised cost	793,441	752,911	5.4%
Deposits of credit institutions	788	12,343	>100%
Deposits of customers	784,412	728,279	7.7%
Other financial liabilities	8,241	12,289	-32.9%
Provisions	17,164	15,272	12.4%
Tax liabilities	0	231	>100%
Deferred tax liabilities	0	231	>100%
Other liabilities	4,195	3,532	18.8%
Equity	196,837	215,050	-8.5%
Total equity and liabilities	**1,011,637**	**986,996**	**2.5%**

On the liabilities' side, **financial liabilities measured at amortised cost** slightly increased at BAM 793,441 thousand compared to BAM 752,911 tousand at year end 2019:

- Deposits of credit institutions show decrease compared to BAM 12,343 thousand at YE19 to BAM 788 thousand as of YE20.
- Deposits of customers increased to BAM 784,412 thousand (YE19: BAM 728,279 thousand).
- Other financial liabilities decreased from BAM 12,289 thousand at YE19 to BAM 8,241 thousand at YE20.

Provisions increased from BAM 15,272 thousand at YE19 to BAM 17,164 thousand at YE20. The development was primarily influenced by the increase in provisions for commitments and guarantees. Furthermore, the provisions for legal cases decreased due to off-court settlement for legal cases.

Other liabilities increased slightly from BAM 3,532 thousand at YE19 to BAM 4,195 thousand in YE20 and mainly include accruals for services received but not yet invoiced YE20: BAM 3,250 thousand, YE19: BAM 2,425 thousand) as well as liabilities for salaries and salary compensations not yet paid.

The development of the **equity** from BAM 215,050 thousand to BAM 196,837 thousand is reflecting the total comprehensive income, which includes the profit and loss for the reporting period in the amount of BAM -13,011 thousand as well as changes in other comprehensive income in the amount of BAM 1,063 thousand. These changes were mainly due to market related movements from debt and equity instruments measured at FVTOCI. The equity is also impacted by the implementation of new regulatory decision in the amount of BAM -6,265 thousand. Differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision which are not required by IFRS 9, resulted in higher allowences for credit losses compered to IFRS 9 methodology.

The **capital base** of the Bank is solely made up of CET1 and stands at 27.4% (YE19: 26.1%), well above the Overall Capital Requirements of 14.5% and is based on the currently valid Banking Agency decision. The increase in the total capital adequacy derives mainly from the RWA reduction, driven by the lower volumes generated in the first half of 2020.

The **liquidity position** of the Bank remains strong, with LTD ratio (net) of 63.9 (YE19: 74.5%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Bank.

8. Analysis of non-financial key performance indicators

Regarding the non-finanical key performance indicators, please refer to the separately published consolidated non-financial report on a Group level.

9. Internal Control System for accounting procedures

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

The aim of the internal control system of Addiko Bank 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 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 Management Board and the leadership team actively and consciously embrace their role of leading by example by promoting high ethical and integrity standards and establishing a risk and control culture within the organisation that emphasizes and demonstrates to all levels the importance of internal controls.

10. Mid-Term Targets and Outlook

10.1. Outlook 2021

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

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

Given Addiko Bank's clear focus on the Federation of Bosnia and Herzegovina, its performance is inextricably linked to the health of the economy in this entity. Hence, concurrently with the modest growth expectations in the countries of operation, Addiko Bank expects that the activity on new loan generation will start to recover in the financial year 2021. However, the lower activity of loan disbursements in the financial year 2020 and the continuously challenging interest environment will put additional pressure on operational income. On the other hand, the Bank's cost discipline will assure that the operating expenses for 2021 will continue on the downwards trend of the past years.

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

From the liquidity perspective the Bank continues to hold a very strong position and the impacts of the pandemic did not cause any material liquidity outflows. Even if a very unfavorable liquidity scenario would materialize going forward, the Bank has sufficient liquidity reserves in the form of placements at the Central Bank and money market placements.

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

Sarajevo, 24 February 2021
Addiko Bank Sarajevo

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

Mario Ivanković | Belma Sekavić | Selma Omić

Financial statements

I. Statement of comprehensive income

Statement of profit or loss

(000) BAM

	Note	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method		29,514	29,878
Other interest income		1,069	1,146
Interest expenses		-3,752	-3,443
Net interest income	**(30)**	**26,831**	**27,581**
Fee and commission income		16,623	16,795
Fee and commission expenses		-3,937	-3,765
Net fee and commission income	(31)	**12,686**	**13,030**
Net result on financial instruments	**(32)**	**2,444**	**1,081**
Other operating income		4,308	1,598
Other operating expenses		-5,435	-3,660
Operating income	(33)	**40,834**	**39,630**
Personnel expenses	(34)	-14,124	-15,116
Other administrative expenses	(35)	-13,343	-13,944
Depreciation and amortisation	(36)	-3,578	-3,286
Operating expenses		**-31,045**	**-32,346**
Operating result		**9,789**	**7,284**
Other result	(37)	-2,378	378
Credit loss expenses on financial assets	(38)	-25,557	-372
Result before tax		**-18,146**	**7,290**
Tax on income	(39)	5,135	0
Result after tax		**-13,011**	**7,290**
thereof attributable to equity holders of parent		-13,011	7,290

	31.12.2020	31.12.2019
Result after tax attributable to ordinary shareholders (in TBAM)	-13,011	7,290
Number of ordinary shares (in units of shares)	532,500	532,500
Earnings/losses per share (in BAM)	-24.43	13.69

Statement of other comprehensive income

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Result after tax	**-13,011**	**7,290**
Other comprehensive income	**1,063**	**3,537**
Items that will not be reclassified to profit or loss	**118**	**53**
Fair value reserve - equity instruments	118	53
Net change in fair value	131	59
Income Tax	-13	-6
Items that may be reclassified to profit or loss	**945**	**3,484**
Fair value reserve - debt instruments	945	3,484
Net change in fair value	3,242	4,946
Net amount transferred to profit or loss	-2,354	-1,073
Income Tax	57	-389
Total comprehensive income for the year	**-11,948**	**10,827**
thereof attributable to equity holders of parent	-11,948	10,827

II. Statement of financial position

(000) BAM

	Note	31.12.2020	31.12.2019
Assets			
Cash reserves	(40)	266,199	210,290
Financial assets held for trading	(41)	0	6
Loans and receivables	(42)	501,099	542,571
Loans and receivables to credit institutions		127	262
Loans and receivables to customers		500,972	542,309
Investment securities	(43)	204,047	195,553
Tangible assets	(44)	20,649	22,800
Property, plant and equipment		20,595	22,800
Investment property		54	0
Intangible assets	(45)	6,308	5,781
Tax assets		6,731	1,783
Current tax assets		1,783	1,783
Deferred tax assets		4,948	0
Other assets	(47)	2,852	4,318
Non-current assets and disposal groups classified as held for sale	(48)	3,752	3,894
Total assets		**1,011,637**	**986,996**
Liabilities			
Financial liabilities measured at amortised cost	(49)	793,441	752,911
Deposits of credit institutions		788	12,343
Deposits of customers		784,412	728,279
Other financial liabilities		8,241	12,289
Provisions	(50)	17,164	15,355
Tax liabilities		0	231
Deferred tax liabilities		0	231
Other liabilities	(51)	4,195	3,449
Total liabilities		**814,800**	**771,946**
Equity			
Share capital		100,403	100,403
Statutory reserves		25,101	25,101
Fair value reserve		3,912	2,502
Retained earnings		67,421	87,044
Total equity	(52)	**196,837**	**215,050**
Total liabilities and equity		**1,011,637**	**986,996**

III. Statement of changes in equity

(000) BAM

31.12.2020	Share capital	Statutory reserves	Regulatory reserves	Fair value reserve	Retained earnings	Total
Equity as at 01.01.2020	**100,403**	**25,101**	**0**	**2,502**	**87,044**	**215,050**
Impact of adopting new regulatory framework[1](Note 1)	0	0	0	347	-6,612	-6,265
Equity as at 01.01.2020	**100,403**	**25,101**	**0**	**2,849**	**80,432**	**208,785**
Result after tax	0	0	0	0	-13,011	-13,011
Other comprehensive income	0	0	0	1,063	0	1,063
Total comprehensive income	0	0	0	1,063	-13,011	-11,948
Equity as at 31.12.2020	**100,403**	**25,101**	**0**	**3,912**	**67,421**	**196,837**

(000) BAM

31.12.2019	Share capital	Statutory reserves	Regulatory reserves	Fair value reserve	Retained earnings	Total
Equity as at 01.01.2019	**100,403**	**25,101**	**0**	**-1,035**	**79,754**	**204,223**
Impact of adopting IFRS 16	0	0	0	0	0	0
Equity as at 01.01.2019	**100,403**	**25,101**	**0**	**-1,035**	**79,754**	**204,223**
Result after tax	0	0	0	0	7,290	7,290
Other comprehensive income	0	0	0	3,537	0	3,537
Total comprehensive income	0	0	0	3,537	7,290	10,827
Equity as at 31.12.2019	**100,403**	**25,101**	**0**	**2,502**	**87,044**	**215,050**

[1] Decision on credit risk management and determination of expected credit losses

IV. Statement of cash flows

(000) BAM

	2020	2019
Cash reserves at the end of previous period (01.01.)	**210,903**	**153,981**
Result after tax	**-13,011**	**7,290**
Deffered tax asset	-5,135	-
Depreciation and amortisation of intangible assets and tangible fixed assets	3,578	3,286
Impairment of intangible assets and tangible fixed assets	1,677	-
Impairment of repossessed assets	2,027	-
Change in risk provisions on financial instruments and modification gain/loss	28,041	372
Change in provision	715	806
Gains (losses) from disposals of intangible assets, tangible fixed assets and financial investments	-2,615	-2,029
Investment securities	-2,354	-1,073
Intangible and tangible assets	-261	-956
Subtotal	**15,277**	**9,725**
Loans and advances to credit institutions and customers	-13,420	-75,499
Investment securities	-6,578	17,054
Financial assets held for trading	6	-6
Other assets	-99	1,801
Financial liabilities measured at amortised cost	44,171	88,161
Financial liabilities held for trading	-	-44
Provisions	-2,292	-2,535
Other liabilities from operating activities	746	-127
Interests received	25,388	27,215
Interests paid	-3,438	-3,266
Cash flows from operating activities	**59,761**	**62,479**
Proceeds from the sale of:	60	409
Tangible assets, investment properties, lease assets and intangible assets	60	409
Payments for purchases of:	-4,011	-5,966
Tangible assets, investment properties, lease assets and intangible assets	-4,011	-5,966
Cash flows from investing activities	**-3,951**	**-5,557**
Cash flows from financing activities	**-**	**-**
Cash reserves at end of period (31.12.)	**266,713**	**210,903**

The cash flows from operating activities include the principle portion of lease payments in the amount of BAM 945 thousand, presented under Financial liabilities measured at amortised cost.

V. Condensed notes

Company

Addiko Bank d.d. Sarajevo (hereinafter the ‘’Bank’’) has received the approval to conduct banking operations from the Banking Agency of Federation of Bosnia and Herzegovina (“FBA”) on 17 January 2000 and the Bank was registered at the Cantonal Court in Mostar on 21 January 2000.

The Bank conducts its operations in Federation of Bosnia and Herzegovina through the headquarters in Sarajevo and 32 branch offices in Federation of Bosnia and Herzegovina.

The Bank is registered in Federation of Bosnia and Herzegovina to perform payment operations, credit and deposit activities in the country and abroad, in accordance with the legislation of FBiH.

The immediate parent of the Bank is Addiko Bank AG Austria based in Vienna at Wipplingerstraße 34. The consolidated financial statements of the parent company can be found on the website at www.addiko.com.

Accounting policies

(1) Accounting principles

These financial statements have been prepared in accordance with the accounting regulations applicable to banks in Federation of Bosnia and Herzegovina (FBiH), which are based on the Law on Accounting and Auditing in FBiH, Law on Banks of FBiH, and bylaws of the Banking Agency of FBiH, passed based on aforementioned laws.

- The Law on Accounting and Auditing in FBiH stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).
- The Law on Banks of FBiH stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in FBiH, this law and bylaws passed based on both laws.
- The Banking Agency of FBiH adopted the Decision on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2020, and which resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision, which are not required by IFRS 9: Financial Instruments (IFRS 9). The Decision also has an effect on valuation of non-financial assets arising from credit operations (repossessed assets whose valuation is within the scope of other relevant IFRSs).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of BAM 10,905 thousand compared to the amount calculated by using the Bank’s internal methodology in line with the requirements of IFRS 9. This difference as at 31 December 2020 arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 1,095 thousand,
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 3,614 thousand,
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of BAM 6,196 thousand, of which the amount of BAM 791 refers to exposures not secured by acceptable collateral, the amount of BAM 5,405 refers to exposures secured by acceptable collateral, and the amount of BAM 421 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets by amount of BAM 1,930 thousand compared to the value of those assets in accordance with IAS 2 (BAM 2,071 thousand); hence value of repossessed assets as at 31 December 2020 was BAM 149 thousand (see note 47). In accordance with the Decision, Bank recorded the acquired tangible assets at net carrying amount of receivables acquired in the process of collection of receivables, so that it does not recognize revenue from acquisition of assets before its actual sale / realisation.

The aforementioned difference arose based on the assets acquired in the period longer than three years.

Previously described differences between the statutory accounting regulations applicable to banks in FBiH and requirements for recognition and measurement under International Financial Reporting Standards have resulted in the following effects*:

	1 January 2020	31 December 2020
Assets	-5,975	-10,377
Liabilities	290	1,662
Equity	-6,265	-12,039

	Year ended 31 December 2020
Financial result before taxation	6,222

** Note: positive amount represents increase of value, negative one represents decrease of value.*

1.1. New regulatory framework

Implementation of the adoption of new regulatory framework took place on 1 January 2020 within the following steps:

- Recognition of additional provisions up to 100% of exposure of non-performing interest receivables in the total amount of BAM 1,213 thousand at account of retained earnings;
- Transfer of non-performing interest receivables from balance sheet into the off-balance record and utilization of its provisions in the same amount of BAM 11,581 thousand. These transactions was done with no impact on account of retained earnings;
- Reversal of provisions calculated in accordance with IFRS 9 Bank's internal model in the total amount of BAM 81,677 thousand at account of retained earnings;
- Booking of provisions calculated considering minimum impairment rates stipulated by the Decision in the total amount of BAM 87,076 thousand at account of retained earnings;
- Accounting write-off of balance sheet receivables that meet the conditions in line with the Decision in the amount of BAM 9,041 thousand. The conditions for accounting write-off are described in note "16.2. Impairment".

Total effect on the Retained earnings position is an additional loss in the amount of BAM 6,612 thousand, of which BAM 347 thousand refers to calculation of expected credit losses on securities, whose effect is recognized within the other comprehensive income item, so the total effect on equity amounts to BAM 6,265 thousand of additional loss.

1.2. Basis of presentation

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in note (67) Analysis of remaining maturities.

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

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

The figures in the financial statements are generally stated in thousands of convertible marks (ths BAM); the convertible mark (BAM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1.95583). The tables shown may contain rounding differences.

On 24. February 2021, the Management Board of the Bank approved the financial statements as at 31 December 2020 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2020.

(2) Changes in the presentation of the financial statements

For the purpose of better presentation and compliance with IFRS and IAS, the Bank reviewed the statement of comprehensive income. The result of the review led to changes in the statement of profit or loss. Starting with the year 2020,

- “release of provisions on legal cases (credit linked)” are shown into new position “Other result”. Until year-end 2019, they were presented under the line “Other operating income";
- “expenses for legal cases not covered by provision” are shown into new position “Other result”. Until year-end 2019, they were presented under the line “Other operating expenses"
- new line “Other result” was added;
- the line “Operating result before change in credit loss expense” was renamed to “Operating result”;
- the line “Operating result before tax” was renamed to “Result before tax”.

(000) BAM

Line item in the Notes	2019 P&L presentation before reclassification	2019 P&L presentation after reclassification	Reclassified amounts
Release of provisions for legal cases	Other operating income	Other result	714
Expenses for legal cases not covered by provision	Other operating expenses	Other result	-336

The changes in presentation were made in order to increase the transparency on the development of the underly-ing operative result of the Bank and to provide more relevant information, enabling at the same time greater comparability.

The changes also made it necessary to adapt the presentation of the comparable period and the comparable reporting date. The following table shows the reconciliation of the 2019 statement of profit or loss to the new format. The corresponding changes are also incorporated in the segment reporting 2019.

	01.01.-31.12.2019	Reclassification		01.01.-31.12.2019
Interest income calculated using the effective interest method	29,878		Interest income calculated using the effective interest method	29,878
Other interest income	1,146		Other interest income	1,146
Interest expenses	-3,443		Interest expenses	-3,443
Net interest income	**27,581**		**Net interest income**	**27,581**
Fee and commission income	16,795		Fee and commission income	16,795
Fee and commission expenses	-3,765		Fee and commission expenses	-3,765
Net fee and commission income	**13,030**		**Net fee and commission income**	**13,030**
Net result on financial instruments	**1,081**		**Net result on financial instruments**	**1,081**
Other operating income	2,312	-714	Other operating income	1,598
Other operating expenses	-3,996	336	Other operating expenses	-3,660
Operating income	**40,008**	**-378**	**Operating income**	**39,630**
Personnel expenses	-15,116		Personnel expenses	-15,116
Other administrative expenses	-13,944		Other administrative expenses	-13,944
Depreciation and amortisation	-3,286		Depreciation and amortisation	-3,286
Operating expenses	**-32,346**		**Operating expenses**	**-32,346**
Operating result before change in credit loss expense	**7,662**	**-378**	**Operating result**	**7,284**
		378	Other result	378
Credit loss expenses on financial assets	-372		Credit loss expenses on financial assets	-372
Operating result before tax	**7,290**		**Result before tax**	**7,290**
Tax on income	0		Tax on income	0
Result after tax	**7,290**		**Result after tax**	**7,290**
thereof attributable to equity holders of parent	7,290		thereof attributable to equity holders of parent	7,290

(3) Application of new standards and amendments

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

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

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

3.1. Conceptual Framework

The amendments to references to the **Conceptual Framework** in IFRS Standards have been issued in March 2018. Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document *Updating References to the Conceptual Framework* which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments are effective for accounting periods beginning on or after 1 January 2020. This amendment does not have any significant impact on the Bank.

3.2. IAS 1 and IAS 8

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

3.3. The amendments to IFRS 9, IAS 39 and IFRS 7

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

3.4. Amendments to IFRS 16 Leases

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

3.5. Amendments to IFRS 3

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

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the Union of Accountants, Auditors and Financial Workers of FB&H were not yet effective:

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

The amendments to **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** deal with replacement issues affecting financial reporting when an existing interest rate benchmark depending on submissions based on expert judgement are actually replaced by risk free rates based on liquid underlying market transactions. Practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis) was introduced. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. The amend-ment introduces new disclosures about the transition.
The amendment applies to annual reporting periods beginning on or after 1 January 2021 and are to be applied retrospectively. Earlier application is permitted, and restatement of prior period is not required.

The following new standards and interpretations issued by the IASB have not yet been adopted by the Union of Accountants, Auditors and Financial Workers of FB&H:

Standard	Name	Description
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	Classification of liabilities as current or non-current
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual Improvements to IFRS Standards 2018-2020 Cycle	IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture
IFRS 3	IFRS 3 Business Combinations	Update of reference to Conceptual Framework
IAS 16	IAS 16 Property, Plant and Equipment	Proceeds before intended use
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts

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

The collection of **annual improvements to IFRSs 2018-2020** includes amendments to the following standards:

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

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

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

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

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

(4) Standards used for comparative periods

For the reporting period ending 31 December 2020, there was no replacement of Standards which were effective in the reporting period ending 31 December 2019.

Implementation of Banking Agency Decision on Credit Risk Management and Determining Expected Credit Losses, which is in force as of 1 January 2020, resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision and valuation of repossessed assets. For further details regarding the new regulatory decision, see note (1) Accounting principles.

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

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

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

For further information on credit risk provisioning methodology, reference is made to financial assets in note (16) Financial instruments as well as to the Risk Report under note (59) Development of provisions.

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

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

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

For further details regarding the measurement of financial instruments, see note (16) Financial instruments. For further detail on the determination of the fair value of financial instruments with significant unobservable inputs, see note (72) Fair value. The carrying amount of the financial instruments is included in note (42) Loans and receivables as well as note (43) Investment securities.

Deferred tax assets
Deferred tax assets on losses carried forward are only recognised when future tax profits that allow utilisation appear highly likely. These estimates are based on the respective 5 years tax plans. For further details regarding tax loss carried forward please refer to note (39) Taxes on income.

Provisions
Setting up provisions is also based on judgments. A decision has to be made on the extent to which the Bank has an obligation resulting from a past event and if an outflow of economically useful resources to fulfill these obligations is likely. Furthermore, estimates are also required with regard to the amount and maturity of future cash flows. In relation to legal risks, the calculation of potential losses takes into account possible scenarios of how the litigation would be resolved and their probability, taking into account the history of former verdicts and assessments by independent lawyers/law firms engaged for legal cases and by the in house lawyers. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details on provisions are presented in note (51).

Lease contracts
The application of IFRS 16 requires the Bank to make judgments that affect the valuation of lease liabilities and the valuation of right of use assets. The lease term determined by Bank comprises the non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option. The Bank reassesses lease terms whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

For lease contracts with indefinite term the Bank estimates the length of the contract using the planning models.

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

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

(6) Accounting topics affected by Covid-19

In the beginning of March, the World Health Organisation declared the Covid-19 outbreak as a global pandemic which is having a massive impact on world trade, leading to sudden supply - and demand shocks and market volatility. Bosnia and Herzegovina have taken a variety of measures, aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, leading to payment holidays between three to twelve months.

Both, public moratoria and voluntarily granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies on contractual modifications of financial assets apply accordingly. The relevant part is presented hereunder.

That means that for financial instrument not measured at FVTPL, that are subject to contractual modifications which do not result in derecognition, the gross carrying amount of the asset is adjusted by recognising a modification gain or loss in the profit or loss statement. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the state-ment of profit or loss, the modification gain or loss is presented in the line "Other result". Contractual modifications would only lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument if the modified terms are substantially different from the original terms.

Based on the set of criteria developed by the Addiko Group to assess whether or not a modification is substantial, described in the Note "16.3. Derecognition and contract modification", an analysis was conducted that the public moratoria and payment holidays applied in the year 2020 in the Bank did not lead to derecognition.

(7) Foreign currency translation

Transactions in currencies other than BAM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date.
Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2020	1 EUR = 1.95583 KM	1 USD = 1.592566 KM
31 December 2019	1 EUR = 1.95583 KM	1 USD = 1.747994 KM

(8) Revenue from contract with customers

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

Consequently, interest income as well as dividend income are not within the scope of the revenue recognition standard. Bank primarily generates revenue from financial instruments which are excluded from the scope of IFRS 15.

Bank derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the business segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

(9) Leases

9.1. Leases in which the Bank is a lessee

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

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment when such indicators exist.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognised pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognised off the statement of financial position and lease ex-penses are accounted on straight-line basis over the remaining lease term.

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

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

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

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

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

9.2. Leases in which the Bank is a lessor

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

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

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

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

9.3. Presentation in the financial statements

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

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

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

(10) Earnings per share

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

(11) Net interest income

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

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

Effective interest rate method is the calculation rate used to exactly discount the estimated future cash inflows and outflows over the expected term of the financial instrument, or a shorter period if applicable, to the gross carrying amount of the financial asset, other than purchased or originated credit-impaired financial assets or to the amortised cost of the financial liability.

The calculation includes transaction costs and fees and points paid or received that are an integral part of effective interest rate (apart from financial instruments measured at fair value through profit or loss) and premiums and discounts. The expected credit losses are disregarded.

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

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

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

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

(12) Net fee and commission income

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

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

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

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

(13) Net result on financial instruments

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

Net result on financial instruments at fair value through other comprehensive income and financial liabilities at amortised cost includes all gains and losses from derecognition. In the comparative period, gains and losses from derecognition as well as impairment from financial instruments available for sale and held to maturity were presented in “net result on financial instruments”.

(14) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property, release and allocation for legal cases and income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levy, the contributions to the deposit guarantee scheme).

(15) Other result

The other result includes impairment losses and reversal of impairment losses for assets classified as held for sale and disposal groups and for non-financial assets. In addition, it shows the result from legal provisions. Furthermore, the modification gains and losses are presented in this position.

(16) Financial instruments

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

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

16.1. Classification and measurement

Business models

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

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

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

Contractual cash flow characteristics

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument and analyzes the existing portfolio based on a checklist for SPPI criteria.

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

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

The SPPI compliance is assessed as follows:

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

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

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

Classification and measurement of financial assets and financial liabilities

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

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

A financial asset is recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognised directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognised on the trade date.
Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspec-tive of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortised cost measure-ment, the asset must be held within a “held to collect” business model.

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

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

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

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

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

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

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

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

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

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

Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognised in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss.

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

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

16.2. Impairment

While applying the forward-looking ECL model, the Bank recognises ECL and updates the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets.

The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

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

Overview ECL calculation

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

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

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

As explained in Note (1) Accounting principles, new regulatory decision prescribes minimum tresholds for allowance for credit losses, i.e., if the bank, in accordance with its internal methodology determines the amount of ECL higher than those arising from the provisions of the Decision, it shall apply the higher ECL amount.

Minimum rates of expected credit losses as stipulated by Decision are as follows.

Stage 1
The Bank determines ECL for exposures in Stage 1 at least in the following amounts:
a) for low-risk exposures referred to in Article 18, paragraph (2) of the Decision - 0.1% of exposures,
b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 3 and 4 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 1% of exposures,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 1, 2 or 3 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 0.1% of exposures
d) for other exposures - 0.5% of exposures.

Stage 2
The Bank determines ECL for exposures in Stage 2 at least in amount equal 5% of exposure.
Stage 3
The Bank determines ECL for exposures in Stage 3 at least in amounts defined in Table 1 or Table 2 below.

Table 1. Minimum expected credit loss rates for exposures secured by eligible collateral:

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	25%
271 - 365 days	40%
366 - 730 days	60%
731 - 1,460 days	80%
Above 1,460 days	100%

Table 2. Minimum expected credit loss rates for exposures not secured by eligible collateral

Days past due	Minimum expected credit loss
Up to 180 days	15%
181 - 270 days	45%
271 - 365 days	75%
366 - 456 days	85%
Above 456 days	100%

The PD (probability of default) parameters reflects the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank internal model development units. Generally, the models are country and segment specific whenever possible and plausible. For certain parts of the portfolio Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodology wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

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

LGD (loss given default) is an estimate of the economic loss under condition of a default. For the LGD parameter a simplified approach is chosen. The Bank incorporates expertly determined overall LGD values within the IFRS 9 ECL calculation. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.

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

Significant increase in credit risk

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

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

When credit quality is deemed to deteriorate significantly assets move into stage 2, referring to Addiko Banks´ staging criteria (as described further below in more detail). At this point, the full lifetime ECL is applied, resulting in a significant increase in the provisions.

Stage 3 occurs when the credit quality of a financial asset deteriorates to the point that credit losses are incurred, or the asset is credit-impaired / defaulted.

Lifetime ECL continuous to be applied for loans in this stage of credit deterioration but interest income is calculated based on the lower net amortized cost carrying amount (i.e. gross carrying amount adjusted for the loss allowance). Regulatory default definition according to local regulation is followed:
- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral (if any is held), or
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

The Bank uses the definition of default according to Banking Agency Decision on credit risk management and determination of expected credit losses, as this is the industry standard and it allows consistency between entities and risk management processes. The determination that a financial asset is credit-impaired is achieved through the tracking of default criteria defined in the Default detection and recovery policy.

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

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

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

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

The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition.
Following quantitative PD thresholds were set:
Retail: 2% absolute increase and 300% relative increase
Corporate: 3% absolute increase and 300% relative increase

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

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments incorporating historical data analysis and estimated relationships between macro-economic variables and credit risk.

These key drivers used for the analyses include in addition to other important factors the following major indicators: unemployment rates, GDP growth rates, real estate prices, industrial production. All variables incorporated are at country and portfolio level whenever possible and plausible.

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

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

Validation

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

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

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

The validation is performed by an independent internal unit which deliver reports to local and Group senior management.

Write-offs

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

An accounting write-off is a transfer of a balance sheet exposure to an off - balance sheet one, whereby the Bank reserves the right to take further measures to collect receivables from debtors.
If, during the debtor's recovery process, the Bank recognizes that financial assets measured at amortized cost will not be repaid, in part or in full, and the conditions for derecognition under IFRS are derecognised, it will reserve 100% of specific risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.
The Bank should write off the balance sheet exposure two years after it has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

After meeting the aforementioned conditions, it is necessary to write off all types of balance sheet receivables (principal, interest, fees) that are written off internally and record them in off-balance sheet records. Accounting written-off receivables should receive special types of balances (asset type) for each of the types of receivables: principal, regular and default interest, fee.

16.3. Derecognition and contract modification

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

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

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

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

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

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

(17) Repurchase agreements

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

(18) Fiduciary transactions

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

(19) Financial guarantees

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

(20) Cash reserves

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

(21) Tangible assets: Property, plant and equipment

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

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

Depreciation rate	in percent	in years
for immovable assets (buildings)	2%	50 yrs
for movable assets (plant and equipment)	10-33.3%	3-10 yrs

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

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

Scheduled depreciation on leased buildings and on property, plant and equipment used by the Bank is reported under other operating expenses in the income statement. Gains and losses on disposal as well as current lease proceeds from investment properties are reported under "other operating income" or "other operating expenses".

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36.

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

(22) Intangible assets

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

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

Depreciation rate or useful life	in percent	in years
for software	14.29%	7 yrs

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

(23) Tax assets and tax liabilities

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

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

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognised for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be available against which losses can be utilised. This assessment is made on tax plans which are based on business plans as agreed by the Management Board.

The recoverability of a deferred tax asset due to tax losses carried forward and taxable temporary differences is reviewed at the end of each reporting period. Recognition and reversal of tax assets and tax liabilities is recorded either in the income statement or in other comprehensive income, shown as a separate position.

(24) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.
Deferred assets are recognised at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

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

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.
Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. No separate recognition is required for the related revenue and expenses in the income statement.
For detailed information, please refer to note (48) Non-current assets and disposal groups classified as held for sale.

(26) Emplyee benefits

26.1. Short-term benefits

The Bank performs payment of liabilities in terms of taxes, contributions, and benefits from employment in accordance with the collective agreements in FBiH, as meal allowances, transport, one-time fee. These costs are recognized in the income statement in the same period as the cost of staff salaries.

26.2. Long-term employee benefits: retirement severance payments

In accordance with applicable laws and regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the type of employment contract termination and for cases in which a payment is determined. In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 6 net individual salaries of employees, and in the case of termination of employment for economic, technical and organizational reasons, the employee is paid 50% of individual net salary, that the employee was realising with the employer for each year of service with the employer, rounded to the first following half. In addition to the above amount, the extra amount of severance pay may be approved by the Management Board and the Supervisory Board, appreciating the circumstances of each case.

Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the end of each year, an assessment of accuracy of the amounts of provisions for retirement benefits and unused holiday accrual is performed.

In accordance with the Amendments to International Accounting Standard ("IAS") 19: Employee Benefits", additional provisions or reversal of such provisions are recognized in the Income statement, under "Personnel expenses", assuming they are not related to actuarial gains and losses, otherwise they shall be immediately recognized in other comprehensive income.

(27) Provisions

27.1. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending drawdowns on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9.
Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item "Credit loss expenses on financial assets".

27.2. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.
For disclosure of restructuring expenses, see note (33) Other operating income and other operating expenses.

27.3. Provisions for passive legal disputes

The Bank analyses passive legal proceedings and makes assessment of success and accordingly makes provisions in accordance with IAS 37.
Accordingly, no legal provision is required to be set up if the Bank is very likely to prevail in the proceedings. If the probability of success is below 50% and potential payment is requested, legal provisions must be recorded, where the entire amount of the estimated loss, requested at the claim, is proposed for provisioning.
In cases in which the Bank considered the out of court settlement of disputes, the criteria for determining provisions was the willingness of the Bank to settle (the amount of possible settlement) if that amount was greater than the amount of estimated possible loss in litigation.
Provisions were not built for closed cases, already paid cases, where estimation of success is greater than 50%, cases that have been restructured in the CHF conversion project and awaiting the court's decision on withdrawal of the claim, (the pre-condition for the realization of the restructuring was the waiver of the claim), and cases which wouldn't result with payment.

27.4. Other provisions

Other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, non-current provisions are discounted. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq.

(28) Other liabilities

This item includes deferred income and non-financial liabilities. They are recognised at their nominal value.

(29) Equity

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

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

Statutory reserves represent reserve fund formed in accordance with the article 108 of the Law on Companies ("Official Gazette of FBiH" no. 81/15).

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

The retained earnings include the cumulated profits generated by the Bank with the exception of the share of profit to which external parties are entitled.

Notes to the profit or loss statement

(30) Net interest income

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Interest income calculated using the effective interest method	**29,514**	**29,878**
Financial assets at fair value through other comprehensive income	1,744	2,141
Financial assets at amortised cost	27,770	27,737
Other interest income	**1,069**	**1,146**
Other assets	1,069	1,146
Total interest income	**30,583**	**31,024**
Financial liabilities measured at amortised cost	-3,500	-3,357
o/w lease liabilites	-62	-91
Negative interest from financial assets	-252	-86
Total interest expense	**-3,752**	**-3,443**
Net interest income	**26,831**	**27,581**

Interest expense of financial liabilities measured at amortised cost in the amount of BAM -3,752 thousand (YE19: BAM -3,443 thousand) includes expenses of BAM -3,438 thousand (YE19: BAM -3,266 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Debt securities	**1,744**	**2,141**
Governments	926	1,313
Credit institutions	631	627
Non-financial corporations	187	201
Loans and advances	**27,770**	**27,737**
Governments	32	52
Credit institutions	146	156
Other financial corporations	250	206
Non-financial corporations	7,785	7,532
Households	19,557	19,791
Other assets	**1,069**	**1,146**
Total	**30,583**	**31,024**

Interest expenses break down by instrument and sector as follows:

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Deposits	**-3,438**	**-3,266**
Governments	-92	-41
Credit institutions	-103	-99
Other financial corporations	-348	-187
Non-financial corporations	-180	-89
Households	-2,715	-2,850
Other financial liabilities	**-62**	**-91**
Negative interest from financial assets	**-252**	**-86**
Central banks	-252	-86
Total	**-3,752**	**-3,443**

(31) Net fee and commission income

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Maintenance	5,447	4,752
Transactions	3,455	3,399
Cards	2,410	2,749
Loans	490	449
Trade finance	1,350	1,000
Bankassurance	764	914
FX & DCC	2,677	3,502
Other	30	30
Fee and commission income	**16,623**	**16,795**
Maintenance	-416	-325
Transactions	-533	-579
Cards	-2,631	-2,397
Securities	-50	-45
Client incentives	-24	-95
FX changes	-12	-10
Loans	-139	-172
Other	-132	-142
Fee and commission expenses	**-3,937**	**-3,765**
Net fee and commission income	**12,686**	**13,030**

(32) Net result on financial instruments

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Exchange difference	90	8
Financial assets at fair value through other comprehensive income	2,354	1,073
Total	**2,444**	**1,081**

The amount of BAM 2,354 thousand (YE19: BAM 1,073 thousand) is related to gain on sale of debt securities.

(33) Other operating income and other operating expenses

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Other operating income	**4,308**	**1,598**
Gain from sale of non-financial assets	408	1,086
Income from operating lease assets	40	0
Other income	3,860	512
Other operating expenses	**-5,435**	**-3,660**
Losses from sale of non-financial assets	-134	-130
Restructuring expenses	0	-363
Deposit guarantee	-1,793	-1,670
Banking levies and other taxes	-811	-793
Impairment of repossessed assets	-2,027	-8
Other expenses	-670	-696
Total	**-1,127**	**-2,062**

In the financial year 2020 a reclassification of certain positions from other operating income and expenses to other result was performed. A detailed description of those reclassifications can be found in note (2) Changes in the presentation of the financial statements.

The other income includes BAM 3,634 thousand, which is due to the positive outcome of a legal dispute.

(34) Personnel expenses

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Wages and salaries	-7,535	-7,764
Social security	-2,170	-2,236
Variable remuneration	-733	-1,486
Other personal tax expenses	-28	-28
Voluntary social expenses	-1,082	-1,187
Expenses for retirement benefits	-2,530	-2,605
Expenses for severance payments	-6	-1
Income from release of other employee accruals	94	244
Other personnel expenses	-134	-53
Total	**-14,124**	**-15,116**

	31.12.2020	31.12.2019
Employees at closing date (Full Time Equivalent - FTE)	347.5	352
Employees average (FTE)	352.04	375.38

(35) Other administrative expenses

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
IT expense	-7,788	-7,587
Premises expenses (rent and other building expenses)	-2,828	-3,035
Legal and advisory costs	-645	-730
Advertising costs	-1,065	-1,507
Other administrative expenses	-1,017	-1,085
Total	**-13,343**	**-13,944**

(36) Depreciation and amortisation

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Property, plant and equipment	-1,833	-1,906
o/w right of use assets	-891	-854
Intangible assets	-1,745	-1,380
Total	**-3,578**	**-3,286**

(37) Other result

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Net result from legal provision and legal income/expense	**-307**	**378**
Release of provisions for legal cases and income from legal cases	24	714
Allocation of provisions for passive legal cases and legal costs	-331	-336
Result from assets classified as held for sale and disposal groups	**-316**	**0**
Reversal of impairment	0	0
Impairment	-316	0
Impairment / reversal of impairment on non-financial assets	**-1,361**	**0**
Reversal of impairment	0	0
Impairment	-1,361	0
Modification gains/losses	**-394**	**0**
Total	**-2,378**	**378**

The line item “Impairment on non-financial assets” in 2020 in amount of BAM 1.4 million includes impairment of intangible assets, which was driven by the decision to upgrade the version of the core banking system from 2018 and 2019, which was triggering the impairment of capitalized change requests on the previous version of the software. In addition, this position includes also the outcome of project to assess future economic benefit of certain IT applications.

The Covid-19 debt payment moratorium imposed by Banking Agency of the Federation of Bosnia and Herzegovina determined the recognition of BAM -394 thousand modification loss (see note (6) Accounting topics affected by Covid-19).

The positions presented in other result in the financial year 2020 were in previous periods included in the position other operating income and expenses as well as net result on financial instruments. A detailed description of those reclassifications can be found in note (2) Changes in the presentation of the financial statements.

(38) Credit loss expenses on financial assets

Credit loss expenses of impairment on financial assets measured at fair value through other comprehensive income, at amortised cost and financial guarantees and commitments breaks down as follows:

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Change in CL on financial instruments at FVTOCI	**-1,457**	**21**
Change in CL on financial instruments at amortised cost	**-20,944**	**-613**
Net allocation to risk provision	-22,566	-1,126
Proceeds from loans and receivables previously impaired	2,090	1,409
Directly recognised impairment losses	-468	-896
Net allocation of provisions for commitments and guarantees given	**-3,156**	**220**
Total	**-25,557**	**-372**

(39) Taxes on income

(000) BAM

	01.01. - 31.12.2020	01.01. - 31.12.2019
Current tax	0	0
Deferred tax	5,135	0
Total	**5,135**	**0**

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

(000) BAM

	31.12.2020	31.12.2019
Operating result before tax	• **-18,146**	• **7,290**
Theoretical income tax expense based on B&H corporate tax rate of 10 %	1,815	-729
Tax effects	•	•
Effects of non-deductible expenses	-2,175	-439
Effects of non-taxable income	1,442	927
Effects of temporary differences from previous years	4,053	0
Used tax losses from previous years	0	241
Tax on income (effective tax rate: 28% (2019: -0%)	**5,135**	**0**

39.1. Deferred tax assets/liabilities

Deferred tax assets related to temporary difference are recognised as it is expected that they will reverse in the future.

The Bank has no deferred tax assets as a result of tax losses carry forward which it plans on using.

In accordance with the Corporate Income Tax Act, the taxable losses may be carried forward for the next five years. Deferred tax assets related to losses incurred in the current year were not recorded in the accompanying financial statements since it is uncertain that the Bank will have sufficient taxable profit against which it can utilize the benefits from unutilized tax losses carry forward and related deferred tax asset.

The Bank has tax losses amounting to BAM 5.543 thousand which expire in 2021, and BAM 10,821 thousand which expire in 2025.

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

(000) BAM

			2020			2019
	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income statement	Other comprehensive income (OCI)
Allowance for financial assets	3,083	3,083	-	-	-	-
Accelerated depreciation for tax purposes /Accelerated capital allowances	-270	-270	-	-	-	-
Impairment on debt instruments at FVTOCI	35	222	44	-231	-	-231
Hedge Accounting	-	-	-	-	-	-
Deferred revenue fee income	-	-	-	-	-	-
Provisions for legal cases	1,054	1,054	-	-	-	-
Impairment	837	837	-	-	-	-
Other	209	209	-	-	-	-
Tax losses carried forward	-	-	-	-	-	-
Total deferred Tax	**4,948**	**5,135**	**44**	**-231**	**-**	**-231**

The total change in deferred taxes in the financial statements is BAM 5,179 thousand. Of this, BAM 5,135 thousand is reflected in the current income statement as deferred tax income and an amount of BAM 44 thousand is shown in other comprehensive income in equity.

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

(000) BAM

	2020	2019
Balance at start of period (01.01.)	**-231**	**164**
Tax income/expense recognised in profit or loss	5,135	0
Tax income/expense recognised in OCI	44	-395
Balance at end of period (31.12.)	**4,948**	**-231**

(000) BAM

	2020	2019
Deferred tax assets	5,135	-
Deferred tax liabilities	-187	-231
Total	**4,948**	**-231**

Utilization of unused tax losses from prior years in next years is presented below:

(000) BAM

Tax losses per country as of 31.12.2019	2020	2019
applicable tax rate - current year	**10%**	**10%**
Total tax losses carried forward	**16,344**	**84,515**
thereof fully/ unlimited utilisable		
thereof restricted utilisable	16,344	84,515
1st following year	5,543	78,972
2nd following year	-	5,543
3rd following year	-	-
4th following year	-	-
5th following year	10,801	-

Notes to the statement of financial position

(40) Cash reserves

(000) BAM

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	30,273	0	30,273
Cash balances at central banks	179,740	-197	179,543
Other demand deposits	56,700	-317	56,383
Total	**266,713**	**-514**	**266,199**

[1)]Cash on hand

(000) BAM

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Cash reserves[1)]	32,156	0	32,156
Cash balances at central banks	85,625	-27	85,598
Other demand deposits	93,122	-586	92,536
Total	**210,903**	**-613**	**210,290**

[1)]Cash on hand

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held and daily due was BAM 77,461 thousand (YE19: BAM 73,389 thousand).

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

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2020	**178,747**
Effects of adopting new regulatory framework	0
Gross carrying amount at 01.01.2020	**178,747**
Changes in the gross carrying amount	57,693
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2020	**236,440**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2019	**126,642**
Changes in the gross carrying amount	52,206
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	-101
Gross carrying amount at 31.12.2019	**178,747**

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

(000) BAM

	Stage 1
ECL allowance as at 01.01.2020	**-613**
Effects of adopting new regulatory framework	-748
ECL allowance as at 01.01.2020	**-1,361**
Changes in the loss allowance	849
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	-2
ECL allowance as at 31.12.2020	**-514**

(000) BAM

	Stage 1
ECL allowance as at 01.01.2019	**-1,007**
Changes in the loss allowance	386
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	8
ECL allowance as at 31.12.2019	**-613**

(41) Financial assets held for trading

(000) BAM

	31.12.2020	31.12.2019
Derivatives	0	6
Total	**0**	**6**

(42) Loans and receivables

The Bank measures all loans and receivables at amortised cost.

42.1. Loans and advances to credit institutions

(000) BAM

31.12.2020	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	127	0	127
Credit institutions	127	0	127
Total	**127**	**0**	**127**

(000) BAM

31.12.2019	Gross carrying amount	ECL allowance	Carrying amount (net)
Loans and advances	262	0	262
Credit institutions	262	0	262
Total	**262**	**0**	**262**

42.2. Loans and advances to customers

(000) BAM

31.12.2020	Gross carrying amount	ECL			Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Governments	636	-20	0	0	616
Other financial corporations	6,186	-14	-324	-9	5,839
Non-financial corporations	256,723	-4,389	-8,411	-13,917	230,006
Households	328,078	-2,651	-9,449	-51,467	264,511
Total	**591,623**	**-7,074**	**-18,184**	**-65,393**	**500,972**

(000) BAM

31.12.2019	Gross carrying amount	ECL			Carrying amount (net)
		Stage 1	Stage 2	Stage 3	
Governments	1,076	-12	0	0	1,064
Other financial corporations	4,380	-47	0	-10	4,323
Non-financial corporations	271,142	-1,209	-506	-9,376	260,051
Households	357,592	-2,785	-7,999	-69,937	276,871
Total	**634,190**	**-4,053**	**-8,505**	**-79,323**	**542,309**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2020	**496,553**	**45,939**	**91,698**	**0**	**634,190**
Effects of adopting new regulatory framework (Note 1)	0	0	-20,622	0	-20,622
Gross carrying amount at 01.01.2020	**496,553**	**45,939**	**71,076**	**0**	**613,568**
Changes in the gross carrying amount	-6,116	-5,297	-3,004	0	-14,417
Transfer between stages	-113,300	99,351	13,949	0	0
Write-offs	-174	-34	-9,097	0	-9,305
Changes due to modifications that did not result in derecognition	-178	-191	-25	0	-394
Foreign exchange and other movements	2,222	5	-56	0	2,171
Gross carrying amount at 31.12.2020	**379,007**	**139,773**	**72,843**	**0**	**591,623**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 01.01.2019	**450,477**	**44,841**	**118,901**	**0**	**614,219**
Changes in the gross carrying amount	73,459	-19,331	13,426	0	67,554
Transfer between stages	-26,846	21,338	5,508	0	0
Write-offs	-474	-891	-43,072	0	-44,437
Foreign exchange and other movements	-63	-18	-3,065	0	-3,146
Gross carrying amount at 31.12.2019	**496,553**	**45,939**	**91,698**	**0**	**634,190**

Overall gross carrying amount slightly decreased during 2020, mostly through repayments being higher than disbursements of new loans mainly due to the Covid-19 crisis. Stage 3 decrease was mainly through accounting write-offs, while biggest impact on stage 1 decrease was transfer of exposure to stage 2 due to worsened macro-economic environment triggered by Covid-19. The same reason triggered also the increase of ECL in stage 2.

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-4,053**	**-8,505**	**-79,323**	**0**	**-91,881**
Effects of adopting new regulatory framework (Note 1)	-685	784	15,295	0	15,394
ECL allowance as at 01.01.2020	**-4,738**	**-7,721**	**-64,028**	**0**	**-76,487**
Changes in the loss allowance	-2,087	-12,211	-9,117	0	-23,415
Transfer between stages	-255	1,744	-1,489	0	0
Write-offs	3	4	9,051	0	9,058
Foreign exchange and other movements	3	0	190	0	193
Unwinding	0	0	245	0	245
ECL allowance as at 31.12.2020	**-7,074**	**-18,184**	**-65,393**	**0**	**-90,651**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-4,999**	**-9,174**	**-105,323**	**0**	**-119,496**
Changes in the loss allowance	10,089	-7,196	-4,405	0	-1,512
Transfer between stages	-9,157	7,847	1,310	0	0
Write-offs	13	16	31,018	0	31,047
Foreign exchange and other movements	1	2	-1,923	0	-1,920
Unwinding	0	0	-1,074	0	-1,074
ECL allowance as at 31.12.2019	**-4,053**	**-8,505**	**-79,323**	**0**	**-91,881**

Weighted average interest rates on loans can be summarized as follow:

	31.12.2020	31.12.2019
Corporate	3.02%	3.03%
Retail	7.11%	7.12%

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

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

(000) BAM

		2020		2019
	Amortised costs before the modification	Modification gains/losses	Amortised costs before the modification	Modification gains/losses
Other financial corporations	2,168	-1	0	0
Non-financial corporations	48,356	-64	0	0
Households	33,918	-329	0	0
Total	**84,442**	**-394**	**0**	**0**

The total gross carrying amount of debt financial assets measured at amortised costs, which were impacted by contractual modifications that did not result in derecognition amounted to BAM 84,442 thousand.

(43) Investment securities

(000) BAM

	31.12.2020	31.12.2019
Fair value through other comprehensive income (FVTOCI)	204,047	195,553
Total	**204,047**	**195,553**

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

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2020	**195,701**
Effects of adopting new regulatory framework (Note 1)	347
Gross carrying amount at 01.01.2020	**196,048**
Changes in the gross carrying amount	10,064
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2020	**206,112**

(000) BAM

	Stage 1
Gross carrying amount at 01.01.2019	**207,769**
Changes in the gross carrying amount	-12,068
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
Gross carrying amount at 31.12.2019	**195,701**

Investment securities - development of ECL allowance

(000) BAM

	Stage 1
ECL allowance as at 01.01.2020	**-416**
Effects of adopting new regulatory framework (Note 1)	-347
ECL allowance as at 01.01.2020	**-763**
Changes in the loss allowance	-1,457
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	2
ECL allowance as at 31.12.2020	**-2,218**

(000) BAM

	Stage 1
ECL allowance as at 01.01.2019	**-437**
Changes in the loss allowance	21
Transfer between stages	0
Write-offs	0
Foreign exchange and other movements	0
ECL allowance as at 31.12.2019	**-416**

43.1. Fair value through other comprehensive income (FVTOCI)

(000) BAM

	31.12.2020	31.12.2019
Debt securities	**203,894**	**195,285**
Governments	83,916	68,779
Credit institutions	110,181	104,006
Non-financial corporations	9,797	22,500
Equity instruments	**153**	**268**
Other financial corporations	64	64
Non-financial corporations	89	204
Total	**204,047**	**195,553**

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

(000) BAM

	31.12.2020	31.12.2019
CROBIH Fund	0	120
S.W.I.F.T SCRL	89	84
Sarajevska berza d.d. Sarajevo	64	64
Total	**153**	**268**

(44) Tangible assets

(000) BAM

	31.12.2020	31.12.2019
Owned property, plant and equipment	19,303	20,415
Land and buildings	17,591	18,353
Plant and equipment	1,712	2,062
Right of use assets	1,292	2,385
Land and buildings	1,086	2,062
Plant and equipment	206	323
Investment property	54	0
Total	**20,649**	**22,800**

(45) Intangible assets

(000) BAM

	31.12.2020	31.12.2019
Goodwill	0	0
Purchased software	6,308	5,781
Other intangible assets	0	0
Total	**6,308**	**5,781**

(46) Development of tangible and intangible assets

46.1. Development of cost and carrying amounts

(000) BAM

31.12.2020	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 1.1.2020	**38,039**	**16,579**	**2,751**	**488**	**0**	**31,938**	**89,795**
Changes due to IFRS 5	-270	0	0	0	0	0	-270
Transfers	-412	0	0	0	412	0	0
Additions	233	145	229	61	0	3,633	4,301
Disposals	-323	-900	-1,070	0	0	0	-2,293
Other changes	0	0	0	0	0	0	0
Acquisition cost 31.12.2020	37,267	15,824	1,910	549	412	35,571	91,533
Cumulative depreciation and amortisation 31.12.2020	-19,676	-14,112	-824	-343	-358	-29,263	-64,576
Carrying amount 31.12.2020	**17,591**	**1,712**	**1,086**	**206**	**54**	**6,308**	**26,957**

(000) BAM

31.12.2019	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Acquisition cost 1.1.2019	**35,736**	**18,543**	**0**	**0**	**0**	**30,147**	**84,426**
Initial IFRS 16	0	0	2,827	488	0	0	3,315
Changes due to IFRS 5	-542	0	0	0	0	0	-542
Additions	2,875	454	0	0	0	2,637	5,966
Disposals	-30	-2,370	0	0	0	-846	-3,246
Other changes	0	-48	-76	0	0	0	-124
Acquisition cost 31.12.2019	38,039	16,579	2,751	488	0	31,938	89,795
Cumulative depreciation and amortisation 31.12.2020	-19,686	-14,517	-689	-165	0	-26,157	-61,214
Carrying amount 31.12.2019	**18,353**	**2,062**	**2,062**	**323**	**0**	**5,781**	**28,581**

46.2. Development of depreciation and amortisation

(000) BAM

31.12.2020	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Cumulative depreciation and amortisation 01.01.2020	**-19,686**	**-14,517**	**-689**	**-165**	**0**	**-26,157**	**-61,214**
Changes due to IFRS 5	11	0	0	0	0	0	11
Transfers	357	0	0	0	-357	0	0
Disposals	164	825	589	0	0	0	1,579
Scheduled depreciation and amortisation	-522	-420	-712	-178	-1	-1,745	-3,578
Impairment	0	0	0	0	0	-1,361	-1,361
Other changes	0	0	-12	0	0	0	-12
Write-up	0	0	0	0	0	0	0
Cumulative depreciation and amortisation 31.12.2020	**-19,676**	**-14,112**	**-824**	**-343**	**-358**	**-29,263**	**-64,576**

(000) BAM

31.12.2019	Owned property, plant and equipment		Right of use assets				
	Land and buildings	Plant and equipment - internally used	Land and buildings	Plant and equipment	Investment properties	Intangible assets	Total
Cumulative depreciation and amortisation 01.01.2019	**-19,296**	**-16,303**	**0**	**0**	**0**	**-25,477**	**-61,076**
Changes due to IFRS 5	200	0	0	0	0	0	200
Disposals	3	2,197	0	0	0	700	2,900
Scheduled depreciation and amortisation	-593	-459	-689	-165	0	-1,380	-3,286
Impairment	0	0	0	0	0	0	0
Other changes	0	48	0	0	0	0	48
Write-up	0	0	0	0	0	0	0
Cumulative depreciation and amortisation 31.12.2019	**-19,686**	**-14,517**	**-689**	**-165**	**0**	**-26,157**	**-61,214**

(47) Other assets

(000) BAM

	31.12.2020	31.12.2019
Prepayments and accrued income	2,653	1,088
Inventories (repossessed assets, emergency acquired assets, leases to go, etc.)	149	2,654
Other remaining assets	50	576
Total	**2,852**	**4,318**

Repossessed assets were impaired in 2020 in accordance with the Decision on credit risk management and determination of expected credit losses where it is prescribed that repossessed assets should be carried in amount of BAM 1 if the Bank does not sell repossessed assets in the period of three years.

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

In the current reporting period, this position mainly includes real estate assets which are part of a project to dispose non-core assets and are already actively marketed.

(000) BAM

	31.12.2020	31.12.2019
Property plant and equipment	3,752	3,894
Total	**3,752**	**3,894**

(49) Financial liabilities measured at amortised cost

(000) BAM

	31.12.2020	31.12.2019
Deposits	785,200	740,622
Deposits of credit institutions	788	12,343
Deposits of customers	784,412	728,279
Other financial liabilities	8,241	12,289
o/w lease liabilities	1,308	2,387
Total	**793,441**	**752,911**

49.1. Deposits of credit institutions

(000) BAM

	31.12.2020	31.12.2019
Current accounts / overnight deposits	787	597
Deposits with agreed terms	1	11,746
Total	**788**	**12,343**

49.2. Deposits of customers

(000) BAM

	31.12.2020	31.12.2019
Current accounts / overnight deposits	**551,390**	**490,107**
Governments	20,696	25,838
Other financial corporations	3,518	2,079
Non-financial corporations	142,593	114,995
Households	384,583	347,195
Deposits with agreed terms	**233,022**	**238,172**
Governments	5,417	3,301
Other financial corporations	25,711	22,777
Non-financial corporations	27,539	24,841
Households	174,355	187,253
Total	**784,412**	**728,279**

Average interest rates on deposits can be summarized as follow:

	31.12.2020	31.12.2019
Corporate	-0.32%	-0.20%
Retail	-0.49%	-0.53%

(50) Provisions

(000) BAM

	31.12.2020	31.12.2019
Pending legal disputes and tax litigation	10,543	11,498
Commitments and guarantees granted	4,531	1,087
Provisions for variable payments	1,943	2,409
Pensions and other post employment defined benefit obligations	94	94
Restructuring measures	53	267
Total	**17,164**	**15,355**

The item “Pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes.

The line item "Provision for variable payments" include long and short-term bonus provision for key management as well as employees.

The calculated amount for provisions for restructuring measures, pending legal disputes as well as for other provisions is based on best possible estimates of expected outflows of economically useful resources as at the reporting date, including also the consideration of risks and uncertainties which are expected with regard to the fulfillment of the obligation. Estimates take into account risks and uncertainties. Outflows of economically useful resources resulting from these measures are to be expected in the course of the next five business years. However, it should be considered that, especially in relation to provisions for legal claims, the outcome of the underlying proceedings is in many cases difficult to predict and for this reason final timing could significantly deviate from original estimate.

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

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2020	**180,741**	**707**	**196**	**0**	**181,644**
Changes in the nominal value	16,292	4,596	-60	0	20,828
Transfer between stages	-27,045	27,045	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	-5	2	0	0	-3
Gross carrying amount at 31.12.2020	**169,983**	**32,350**	**136**	**0**	**202,469**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
Nominal value at 01.01.2019	**144,934**	**1,826**	**397**	**0**	**147,157**
Changes in the nominal value	35,807	-1,119	-200	0	34,488
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	-1	0	-1
Gross carrying amount at 31.12.2019	**180,741**	**707**	**196**	**0**	**181,644**

The overall ECL allowance for loan commitments, financial guarantees and other commitments slightly increased in 2020, due to worsening of macro-economic scenario through Covid-19 crisis and increase of individual PDs for the same reason.

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2020	**-893**	**-58**	**-136**	**0**	**-1,087**
Effects of adopting new regulatory framework (Note 1)	-349	14	46	0	-289
ECL allowance as at 01.01.2020	**-1,242**	**-44**	**-90**	**0**	**-1,376**
Changes in the loss allowance	-1,424	-1,760	28	0	-3,156
Transfer between stages	369	-369	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	1	0	0	0	1
ECL allowance as at 31.12.2020	**-2,296**	**-2,173**	**-62**	**0**	**-4,531**

(000) BAM

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2019	**-793**	**-240**	**-274**	**0**	**-1,307**
Changes in the loss allowance	-100	182	138	0	220
Transfer between stages	0	0	0	0	0
Write-offs	0	0	0	0	0
Foreign exchange and other movements	0	0	0	0	0
ECL allowance as at 31.12.2019	**-893**	**-58**	**-136**	**0**	**-1,087**

50.2. Provisions - development of other provisions

(000) BAM

	Carrying amount 01.01.2020	Foreign-exchange-differences	Allocati-ons	Use	Releases	Other changes	Carrying amount 31.12.2020
Pensions and other post employment defined benefit obligations	94	0	6	-6	0	0	94
Restructuring measures	267	0	0	-214	0	0	53
Pending legal disputes and tax litigation	11,498	0	0	-930	-24	0	10,544
Provision for variable payments	2,409	0	733	-1,198	0	0	1,944
Total	**14,268**	**0**	**739**	**-2,348**	**-24**	**0**	**12,635**

(000) BAM

	Carrying amount 01.01.2019	Foreign-exchange-differences	Allocati-ons	Use	Releases	Other changes	Carrying amount 31.12.2019
Pensions and other post employment defined benefit obligations	101	0	0	-7	0	0	94
Restructuring measures	164	0	363	-260	0	0	267
Pending legal disputes and tax litigation	13,611	0	0	-1,399	-714	0	11,498
Provision for variable payments	2,233	0	1,486	-1,310	0	0	2,409
Total	**16,109**	**0**	**1,849**	**-2,976**	**-714**	**0**	**14,268**

(51) Other liabilities

(000) BAM

	31.12.2020	31.12.2019
Deferred income	143	116
Accruals	3,250	2,425
Other liabilities	802	908
Total	**4,195**	**3,449**

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

(52) Equity

(000) BAM

	31.12.2020	31.12.2019
Equity	**196,837**	**215,050**
Share capital	100,403	100,403
Statutory reserves	25,101	25,101
Fair value reserve	3,912	2,502
Retained earnings	67,421	87,044
Non-controlling interest	0	0

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 100,403 thousand (2019: BAM 100,403 thousand) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 532,500 (2019: 532,500) registered shares. The proportionate amount of the share capital per share amounts BAM 188.55 (2019: BAM 188.55).

The statutory reserves include obligatory reserves 25% of share capital.

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

Retained earnings represent accumulated net profit brought forward.

The effect of implementation of new regulatory decision are recognized in equity as at 1 January 2020, and it presents the one-off effect as decrease of retained earnings in the amount of BAM 6,612 thousand (see note (1) Accounting policies).

Bank recorded a loss in the amount of BAM -13,011 thousand in the financial year 2020. In the next General Assembly, a proposal will be made to cover the loss from accumulated earnings.

(53) Statement of cash flows

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

The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, securities and liabilities to credit institutions and customers.

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

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

Segment Reporting

The Bank’s segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment data is prepared based on internal management reporting. The segments of the Bank are based on a combination between Customer types, which are Retail Customers, Small and Medium Enterprises, Corporate Clients and Public Clients and Business types, which are Consumer loans and Mortgage loans. To evaluate the result of the respective segments, the Management Board uses as main performance measures the statement of profit or loss as set out below as well as performing loan volumes, deposit volumes and belonging KPIs. In the profit or loss statement of the segment report interest income and interest expenses are netted in the position net interest income, which reflects the presentation in the internal reporting and thus is basis for further steering of the Bank by the Management Board.

The accounting policies of the operating segments are the same as those described in the significant accounting policies. The Bank evaluates performance for each segment on the basis of a.) operating result before tax b.) performing loans volumes and c.) deposit volumes as management´s consideration of the most relevant items in evaluating the results of the respective segments.

Net interest income in Corporate Center includes only as small fraction of the positive impact from interest and liquidity gap contribution (IGC). The majority of the IGC is distributed to the market segments according to their respective asset contribution. IGC is the result of partially funding longer term assets with stable but shorter-term liabilities. The extent of this maturity transformation is strictly managed in accordance with regulatory and internal limits. The Bank Funds Transfer Pricing (FTP) methodology assigns internal funding costs to assets and internal funding benefits to liabilities on a matched maturity basis. This means, if maturities of loans and deposits of a certain segment were the same, IGC (after deduction of deposit insurance and minimal reserve costs) would be approximately zero. In addition, the net result on financial instruments and the other operating result, consisting out of other operating income and other operating expense are included in the Corporate Center.

In reality, a certain percentage of longer-term assets is funded by shorter term liabilities. Within the FTP methodology market segments are therefore charged more for their assets than compensated for their liabilities. By compensating those market segments delivering longer term assets against shorter term liabilities, the respective part of IGC is redistributed from the segment "Corporate Center" to the creator of the IGC, i.e. the respective market segment.

Business Segmentation

The segment reporting comprises the five following business segments:

Retail: Addiko Bank’s Retail Segment serves more than a hundred thousand customers, which includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than BAM 978 thousand, through a network of 32 branches and digital channels.

For Private Individuals (PI) the focus is on daily banking services and consumer lending. In the Micro customer segment, the priority is offering transactional services.

SME Business: Addiko Bank offers the full product suite to circa 2.7 thousand SME clients (companies with annual turnover between BAM 978 thousand and BAM 97,791 thousand). SME business is a main strategic segment of the Bank, in which the Bank is targeting the real economy with working capital, investment loans and a strong focus on trade finance products.

Public Finance: Public Finance business is oriented on participation in public tenders for the financing requirements of the key public institutions in countriy as ministries of finance, state enterprises and local governments.

Large Corporates: This segment includes legal entities and entrepreneurs with annual gross revenues of more than BAM 97,791 thousand. Addiko Bank services local and international companies by centralised and specialized local teams.
Corporate Center: This segment consists of Treasury business in the Bank as well as central functions items like overhead, project-related operating expenses, contributions to the single resolution fund, bank levy and the intercompany reconciliation.

(000) BAM

31.12.2020	Focus segments			Non-focus segments			
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	25,524	8,148	1,789	2,468	164	1,424	39,517
Net interest income	15,692	5,972	1,789	1,860	42	1,474	26,830
o/w regular interest income	18,418	5,948	1,683	1,902	135	1,890	29,976
Net fee and commission income	9,831	2,175	0	607	122	-50	12,686
Net result from financial instruments	0	0	0	0	0	2,443	2,443
Other operating result	0	0	0	0	0	-1,126	-1,126
Operating income	**25,524**	**8,148**	**1,789**	**2,468**	**164**	**2,741**	**40,834**
Operating expenses	**-20,416**	**-3,704**	**-45**	**-485**	**-338**	**-6,057**	**-31,045**
Operating result	**5,108**	**4,444**	**1,744**	**1,983**	**-174**	**-3,316**	**9,789**
Other result	-238	-54	-91	-12	0	-1,983	-2,378
Credit loss expenses on financial assets	-7,712	-14,574	321	-2,630	-862	-100	-25,557
Operating result before tax	**-2,842**	**-10,184**	**1,974**	**-659**	**-1,036**	**-5,399**	**-18,146**
Business volume							
Net loans and receivables	237,525	166,845	23,396	62,607	5,865	4,862	501,099
o/w gross performing loans customers	245,235	174,995	23,684	64,949	6,007	0	514,870
Financial liabilities at AC	585,218	101,131	0	60,260	37,804	9,028	793,441

(000) BAM

31.12.2019	Focus segments			Non-focus segments			
	Consumer	SME Business	Mortgage	Large Corporates	Public Finance	Corporate Center	Total
Net banking income	25,531	7,707	2,634	2,442	276	2,021	40,610
Net interest income	15,028	5,734	2,634	2,021	142	2,021	27,580
o/w regular interest income	17,901	5,428	2,083	2,004	184	2,297	29,898
Net fee and commission income	10,503	1,973	0	421	134	0	13,031
Net result from financial instruments	0	0	0	0	0	1,081	1,081
Other operating result	0	0	0	0	0	-2,062	-2,062
Operating income	**25,531**	**7,707**	**2,634**	**2,442**	**276**	**1,040**	**39,629**
Operating expenses	**-20,999**	**-3,445**	**-46**	**-441**	**-378**	**-7,038**	**-32,347**
Operating result	**4,533**	**4,262**	**2,587**	**2,001**	**-103**	**-5,998**	**7,282**
Other result	0	0	0	0	0	378	378
Credit loss expenses on financial assets	-3,215	292	1,751	292	142	366	-372
Operating result before tax	**1,318**	**4,554**	**4,338**	**2,293**	**39**	**-5,254**	**7,289**
Business volume							
Net loans and receivables	237,649	190,973	34,245	73,519	2,474	3,712	542,571
o/w gross performing loans customers	244,066	187,617	30,533	73,929	2,486	0	538,630
Financial liabilities at AC	558,709	84,331	0	45,360	39,880	24,632	752,911

The relation between net commission income and reportable segments can be seen in the tables below:

(000) BAM

31.12.2020	Focus segments Consumer	SME Business	Non-focus segments Large Corporates	Public Finance	Corporate Center	Total
Transactions	2,177	949	234	95	0	3,455
Accounts and Packages	5,196	203	28	22	0	5,447
Cards	2,399	10	1	0	0	2,410
FX & DCC	2,422	234	4	17	0	2,677
Securities	0	0	0	0	0	0
Bancassurance	764	0	0	0	0	764
Loans	458	32	1	0	0	490
Trade finance	4	963	378	4	0	1,350
Other	18	10	0	0	0	29
Fee and commission income	**13,438**	**2,401**	**646**	**138**	**0**	**16,623**
Cards	-2,619	-11	-1	0	0	-2,631
Transactions	-337	-146	-35	-15	0	-533
Client incentives	-24	0	0	0	0	-24
Securities	0	0	0	0	-50	-50
Accounts and Packages	-416	0	0	0	0	-416
Bancassurance	0	0	0	0	0	0
Other	-211	-69	-2	-1	0	-283
Fee and commission expenses	**-3,607**	**-226**	**-38**	**-16**	**-50**	**-3,937**
Net fee and commission income	**9,831**	**2,175**	**607**	**122**	**-50**	**12,686**

[1)]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

(000) BAM

31.12.2019	Focus segments Consumer	SME Business	Non-focus segments Large Corporates	Public Finance	Corporate Center	Total
Transactions	2,021	1,097	161	119	0	3,399
Accounts and Packages	4,521	190	21	20	0	4,752
Cards	2,646	85	17	1	0	2,749
FX & DCC	3,202	278	6	16	0	3,502
Securities	0	0	0	0	0	0
Bancassurance	914	0	0	0	0	914
Loans	411	24	14	0	0	449
Trade finance	5	709	281	4	0	1,000
Other	17	12	0	0	0	30
Fee and commission income	**13,737**	**2,395**	**501**	**162**	**0**	**16,795**
Cards	-2,061	-265	-54	-17	0	-2,397
Transactions	-436	-113	-20	-9	0	-579
Client incentives	-95	0	0	0	0	-95
Securities	-40	-4	-1	0	0	-45
Accounts and Packages	-325	0	0	0	0	-325
Bancassurance	0	0	0	0	0	0
Other	-277	-40	-4	-1	0	-323
Fee and commission expenses	**-3,234**	**-422**	**-80**	**-28**	**0**	**-3,765**
Net fee and commission income	**10,503**	**1,973**	**421**	**134**	**0**	**13,031**

[1)]Segment Consumer contributed fully (100%) to the net fee and commission income of the segment Retail

Risk Report

(54) Risk control and monitoring

The Bank steers and monitors its risks across all business segments, with the aim of optimising the risk/performance profile and guaranteeing risk-bearing capacity at all times and therefore protecting the bank's creditors. In this respect, it influences the business and risk policies of its participations through its involvement in shareholder and supervisory committees. In the case of participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply in the Bank to the bank's overall controlling:
- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
- Bank implements appropriate, mutually compatible procedures for identifying, analysing, measuring, combining, controlling and monitoring the risk types.
- Appropriate limits are set and effectively monitored for material risk types.

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

The Bank'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.

The Bank'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.

The Bank has established a Risk Appetite Framework (RAF) which sets the bank's risk appetite and forms part of the process of development and implementation of the bank's business and risk strategy. Furthermore, it determines the risks undertaken in relation to its risk capacity. The framework of risk appetite measures defines the risk level the bank is willing to accept. The calibration of measures takes into consideration the budget, risk strategy and the Recovery Plan giving an interlinked framework for proper internal steering and surveillance.

(56) Risk organisation

Ensuring adequate risk management structures and processes is in the responsibility of the Chief Risk Officer (CRO). The CRO acts independently of market and trading units.

The core tasks of risk management are the individual risk management of counterparty default risks, the reorganisation of troubled loans, loan settlement, as well as risk control and monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

In 2020, the following organisational units were operative:

Credit Risk Management department – **Credit operations team** has the responsibility for credit risk management for all non-Retail customer segments i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns).That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management.

Credit Risk Management department – **Retail Collection team and Retail Underwriting & Portfolio management team** - its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings ensure that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This ensures that the risk appetite of the lending products is in line with the risk appetite of the Bank.

Risk controlling department - all risk and regulatory topics which are of strategic importance for the Bank.
Credit Risk control function - it provides the risk strategy, economic capital management, stress testing and coordination of national bank examinations and coordinates Banks units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects.
Risk Controlling department includes a **Market & Liquidity Risk control function**, which defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of the Bank within the defined risk appetite, and regulatory limitations. **Risk Controlling department** includes also a **Team for Operational Risk, control management and anti fraud** which provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The respective country CROs ensure compliance with the risk principles.

(57) Internal risk management guidelines

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

The Bank has clearly defined responsibilities for all risk guidelines, including preparation, review and update. Compliance with these guidelines is ensured by those directly involved in the risk management process. Process-independent responsibility control is carried out by Internal Audit.

(58) Credit risk

58.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Bank. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

58.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific instructions.

In line with a instruction on authority levels as defined by the Management and Supervisory Boards, credit decisions are made by the Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Bank and the highest body for making credit decisions, subordinated only to the Management Board.

58.3. Risk measurement

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

58.4. Risk limitation

The steering of total Bank wide commitments with an individual customers or a group of affiliated customers ("group of borrowers") depends on the respective customer segment or business area.

In the Bank, limits within financial institutions segment are set and monitored independently by a responsible unit. If limits are exceeded, the escalation process is initiated and this is communicated immediately to operative risk unit as well as front office and reported to the relevant decision-making level. At portfolio level, there are lot of limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

58.5. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortised cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown inclusive of the portfolio that is classified as held for sale according to IFRS 5, if applicable.
All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2020:

(000) BAM

31.12.2020		Performing		Non Performing			Total	
Financial instruments	Exposure	ECL S1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves	236,440	-514	235,926	0	0	0	236,440	235,926
Loans and receivables	518,907	-25,258	493,649	72,843	-65,393	7,450	591,750	501,099
Investment securities	206,112	-2,218	203,894	0	0	0	206,112	203,894
of which debt securities	206,112	-2,218	203,894	0	0	0	206,112	203,894
On balance total	**961,459**	**-27,990**	**933,469**	**72,843**	**-65,393**	**7,450**	**1,034,302**	**940,919**
Off balance total	**202,333**	**-4,469**	**197,866**	**136**	**-62**	**74**	**202,469**	**197,940**
Total credit risk exposure	**1,163,792**	**-32,457**	**1,131,335**	**72,929**	**-65,455**	**7,524**	**1,236,771**	**1,138,859**

The following table shows the exposure in accordance with IFRS 7.36 as at 31 December 2019:

(000) BAM

31.12.2019			Performing		Non Performing			Total
Financial instruments	Exposure	ECL S1&2	Net	Exposure	ECL S3&POCI	Net	Exposure	Net
Cash reserves	178,747	-613	178,134	0	0	0	178,747	178,134
Loans and receivables	542,754	-12,558	530,196	91,698	-79,323	12,375	634,452	542,571
Investment securities	195,701	-416	195,285	0	0	0	195,701	195,285
of which debt securities	195,701	-416	195,285	0	0	0	195,701	195,285
On balance total	**917,202**	**-13,587**	**903,615**	**137,375**	**-79,323**	**12,375**	**1,008,900**	**915,990**
Off balance total	**181,449**	**-951**	**180,498**	**195**	**-136**	**59**	**181,644**	**180,557**
Total credit risk exposure	**1,098,651**	**-14,538**	**1,084,113**	**137,570**	**-79,459**	**12,434**	**1,190,544**	**1,096,547**

58.6. Credit risk exposure by rating class

At 31 December 2020 roughly 17.35% (YE19: 21.5%) of the exposure is categorised as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2020 is mainly influenced by accounting write-off, repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2020 by BAM 19,634 thousand.

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

(000) BAM

31.12.2020	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	8,138	129,076	81,949	39,351	25,333	3,016	286,863
SME	33,152	134,223	93,602	55,656	12,145	7	328,785
Non-Focus	631	66,213	55,809	18,895	32,701	29	174,278
o/w Large Corporate	530	48,397	52,485	9,465	0	0	110,877
o/w Mortgage	0	13,018	2,009	9,429	32,701	27	57,184
o/w Public Finance	101	4,798	1,315	1	0	2	6,217
Corporate Center[1)]	172,694	40,024	215,284	0	1,978	16,865	446,845
Total	**214,615**	**369,536**	**446,644**	**113,902**	**72,157**	**19,917**	**1,236,771**

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

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

(000) BAM

31.12.2019	1A-1E	2A-2E	3A-3E	Watch	NPE	No rating	Total
Consumer	7,688	122,385	88,863	37,024	29,576	1,912	287,448
SME	43,962	161,540	97,875	6,356	9,954	0	319,687
Non-Focus	8,781	53,678	82,288	7,740	49,343	105	201,935
o/w Large Corporate	8,667	34,709	75,775	0	0	0	119,151
o/w Mortgage	114	18,705	4,031	7,726	49,343	105	80,024
o/w Public Finance	0	264	2,482	14	0	0	2,760
Corporate Center[1)]	196,041	42,536	120,834	110	2,918	19,035	381,474
Total	**256,472**	**380,139**	**389,860**	**51,230**	**91,791**	**21,052**	**1,190,544**

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

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

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

As at the reporting date, exposures with "No rating" can be identified, which are related to newly originated placements which receive the first behavioural rating 6 months after approval or clients that left the "default" status, and which will be assigned a rating in the following monthly rating calculation cycle.

The Bank applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.

Loans and advances to customers at amortised cost:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	18,542	6	0	0	18,548
2A-2E	216,556	8,584	0	0	225,140
3A-3E	116,966	48,286	0	0	165,252
Watch	23,490	81,995	822	0	106,307
NPE	0	0	72,021	0	72,021
No rating	3,454	901	0	0	4,355
Total gross carrying amount	**379,008**	**139,772**	**72,843**	**0**	**591,623**
Loss allowance	-7,074	-18,184	-65,393	0	-90,651
Carrying amount	**371,934**	**121,588**	**7,450**	**0**	**500,972**

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	35,234	1	0	0	35,235
2A-2E	250,175	679	0	0	250,854
3A-3E	199,311	1,800	1	0	201,112
Watch	6,332	43,453	98	0	49,883
NPE	0	0	91,599	0	91,599
No rating	5,501	6	0	0	5,507
Total gross carrying amount	**496,553**	**45,939**	**91,698**	**0**	**634,190**
Loss allowance	-4,053	-8,505	-79,323	0	-91,881
Carrying amount	**492,500**	**37,434**	**12,375**	**0**	**542,309**

Loans and advances to banks at amortised cost:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class	0	0	0	0	0
1A-1E	127	0	0	0	127
2A-2E	0	0	0	0	0
3A-3E	0	0	0	0	0
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	127	0	0	0	127
Total gross carrying amount	**127**	**0**	**0**	**0**	**127**
Loss allowance	0	0	0	0	0
Carrying amount	**127**	**0**	**0**	**0**	**127**

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	0	0	0	0	0
2A-2E	262	0	0	0	262
3A-3E	0	0	0	0	0
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	0	0	0	0	0
Total gross carrying amount	**262**	**0**	**0**	**0**	**262**
Loss allowance	0	0	0	0	0
Carrying amount	**262**	**0**	**0**	**0**	**262**

Debt instruments measured at FVTOCI:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	155,188	0	0	0	155,188
2A-2E	19,151	0	0	0	19,151
3A-3E	16,792	0	0	0	16,792
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	14,981	0	0	0	14,981
Total gross carrying amount	**206,112**	**0**	**0**	**0**	**206,112**
Loss allowance	-2,218	0	0	0	-2,218
Carrying amount	**203,894**	**0**	**0**	**0**	**203,894**

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	162,841	0	0	0	162,841
2A-2E	13,194	0	0	0	13,194
3A-3E	5,871	0	0	0	5,871
Watch	0	0	0	0	0
NPE	0	0	0	0	0
No rating	13,795	0	0	0	13,795
Total gross carrying amount	**195,701**	**0**	**0**	**0**	**195,701**
Loss allowance	-416	0	0	0	-416
Carrying amount	**195,285**	**0**	**0**	**0**	**195,285**

Commitments and financial guarantees given:

(000) BAM

31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	23,371	4	0	0	23,375
2A-2E	97,046	7,627	0	0	104,673
3A-3E	49,121	16,988	0	0	66,109
Watch	367	7,228	0	0	7,595
NPE	0	0	136	0	136
No rating	78	503	0	0	581
Total gross carrying amount	**169,983**	**32,350**	**136**	**0**	**202,469**
Loss allowance	-2,296	-2,173	-62	0	-4,531
Carrying amount	**167,687**	**30,177**	**74**	**0**	**197,938**

(000) BAM

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Rating class					
1A-1E	25,190	0	0	0	25,190
2A-2E	86,955	17	0	0	86,972
3A-3E	67,866	32	0	0	67,898
Watch	684	658	3	0	1,345
NPE	0	0	193	0	193
No rating	46	0	0	0	46
Total gross carrying amount	**180,741**	**707**	**196**	**0**	**181,644**
Loss allowance	-893	-58	-136	0	-1,087
Carrying amount	**179,848**	**649**	**60**	**0**	**180,557**

58.7. Exposure by business sector

The following tables present the exposure of non-financial corporations by industry based on the “NACE Code 2.0”.

31.12.2020	Non-financial corporations (000) BAM Gross carrying amount	ECL
A Agriculture, forestry and fishing	965	-614
B Mining and quarrying	9,010	-163
C Manufacturing	70,078	-6,306
D Electricity, gas, steam and air conditioning supply	1,821	-26
E Water supply	716	-26
F Construction	14,982	-726
G Wholesale and retail trade	101,007	-6,920
H Transport and storage	1,756	-126
I Accommodation and food service activities	4,065	-495
J Information and communication	11,865	-6,236
K Financial and insurance activities	132	-1
L Real estate activities	12,753	-730
M Professional, scientific and technical activities	5,115	-239
N Administrative and support service activities	1,763	-123
O Public administration and defence, compulsory social security	426	-2
P Education	1	0
Q Human health services and social work activities	15,378	-1,394
R Arts, entertainment and recreation	506	-7
S Other services	4,384	-2,583
Loans and advances	**256,723**	**-26,717**

31.12.2019	Non-financial corporations (000) BAM Gross carrying amount	ECL
A Agriculture, forestry and fishing	1,515	-161
B Mining and quarrying	4,687	-15
C Manufacturing	67,187	-929
D Electricity, gas, steam and air conditioning supply	0	0
E Water supply	1,383	-15
F Construction	16,061	-251
G Wholesale and retail trade	116,072	-2,612
H Transport and storage	2,036	-103
I Accommodation and food service activities	4,641	-75
J Information and communication	12,064	-4,882
K Financial and insurance activities	433	-1
L Real estate activities	12,808	-37
M Professional, scientific and technical activities	12,403	-818
N Administrative and support service activities	1,917	-299
O Public administration and defence, compulsory social security	1,143	-9
P Education	0	0
Q Human health services and social work activities	16,059	-428
R Arts, entertainment and recreation	260	-2
S Other services	473	-454
Loans and advances	**271,142**	**-11,091**

58.8. Presentation of financial instruments exposure by overdue days

(000) BAM

31.12.2020	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	250,476	13,166	1,530	1,812	19,879	286,863
SME	306,445	1,792	8,879	0	11,669	328,785
Non-Focus	141,513	1,828	967	340	29,630	174,278
o/w Large Corporate	110,877	0	0	0	0	110,877
o/w Mortgage	24,419	1,828	967	340	29,630	57,184
o/w Public Finance	6,217	0	0	0	0	6,217
Corporate Center	446,845	0	0	0	0	446,845
Total	**1,145,279**	**16,786**	**11,376**	**2,152**	**61,178**	**1,236,771**

(000) BAM

31.12.2019	No Overdue	- overdue to 30 days	- overdue 31 to 60 days	- overdue 61 to 90 days	- overdue more than 90 days	Total
Consumer	244,377	13,614	1,408	957	27,092	287,448
SME	309,733	0	0	0	9,954	319,687
Non-Focus	150,529	2,077	284	179	48,866	201,935
o/w Large Corporate	119,151	0	0	0	0	119,151
o/w Mortgage	28,618	2,077	284	179	48,866	80,024
o/w Public Finance	2,760	0	0	0	0	2,760
Corporate Center	380,501	7	3	0	963	381,474
Total	**1,085,140**	**15,698**	**1,695**	**1,136**	**86,875**	**1,190,544**

58.8.1. FORBEARANCE

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

The following chart provides an overview of the forbearance status at the Bank in the course of the financial year 2020.

(000) BAM

	OPENING balance 1.1.2020	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2020
Non-financial corporations	11,919	0	-247	0	0	0	11,672
Households	2,747	5,412	0	0	0	0	8,159
Loans and advances	**14,666**	**5,412**	**-247**	**0**	**0**	**0**	**19,832**

The following chart provides an overview of the forbearance status at the Bank in the course of the financial year 2019:

(000) BAM

	OPENING balance 1.1.2019	Additions of assets to which forbearance measures have been extended (+)	Assets which are no longer considered to be forborne (-)	Changes due to IFRS 5 (assets held for sale) (+/-)	Loans and FX (+/-)	other changes (+/-)	CLOSING balance 31.12.2019
Non-financial corporations	11,726	517	0	0	0	-375	11,922
Households	2,867	951	-897	0	0	-172	2,748
Loans and advances	**14,593**	**1,468**	**-897**	**0**	**0**	**-547**	**14,671**

The forbearance exposure was as follows in 2020:

(000) BAM

	Closing Balance 31.12.2020	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
Non-financial corporations	11,672	2,365	0	9,558	179
Households	8,159	1,201	261	1,286	107
Loans and advances	**19,832**	**3,566**	**261**	**10,843**	**286**

The forbearance exposure was as follows in 2019:

(000) BAM

	Closing Balance 31.12.2019	Neither past due nor impaired	Past due but not impaired (> 0 days)	Impaired	interest income recognised in respect of forborne assets (+)
Non-financial corporations	11,922	2,365	0	9,558	179
Households	2,748	1,201	261	1,286	107
Loans and advances	**14,671**	**3,566**	**261**	**10,843**	**286**

The following table shows the collateral allocation for the forbearance exposure at the YE 2020:

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof CRE	thereof RRE	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporate	0	0	0	0	0	0
Medium and Small Corporate	7,772	7,638	0	0	0	133
Retail	3,887	1,459	2,428	0	0	0
Total	**11,659**	**9,097**	**2,428**	**0**	**0**	**133**

Following table shows the collateral allocation for the forbearance exposure at the YE 2019:

(000) BAM

	Internal Collateral Value (ICV) in respect of forborne assets	therof Commercial Real Estate (CRE	thereof Residential Real Estate (RRE)	thereof financial collateral	thereof guarantees	thereof other
Public Finance	0	0	0	0	0	0
Financial Institutions	0	0	0	0	0	0
Large Corporates	0	0	0	0	0	0
Medium and Small Corporate	7,772	7,638	0	0	0	134
Retail	2,115	932	1,183	0	0	0
Total	**9,887**	**8,570**	**1,183**	**0**	**0**	**134**

58.8.2. CARRYING AMOUNTS OF INVENTORIES (INCL. REPOSSESSED ASSETS)

In the financial year 2020, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 140 thousand (2019: BAM 2,646 thousand). Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Bank due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate). Please refer to Note (1) for valuation of these assets.

58.8.3. MORATORIA DUE TO COVID-19

Legal entities

At the beginning of the Covid-19 pandemic in March 2020, the Bank has approved temporary measures to all clients who submitted a request for a maximum period of three months and in accordance with the client's request. The measures referred to moratorium on repayment of long-term loans, grace period for repayment of long-term loans, and prolongation of maturities of short-term loans.
In the mentioned period, in accordance with the decision of the Banking Agency, temporary measures were approved to 10% of all non-retail clients, which is 44 out of total of 439 clients. If looking to total credit exposure, it referred to 17% of the total portfolio. In the mentioned period, 14 clients, or 10% of the portfolio, requested a moratorium. 25 clients, or 7% of the portfolio, requested a grace period, and 5 clients requested prolongation of maturity for short term loans, which accounted for less than 1% of the portfolio of non-retail segment.

In the meantime, an analysis on the impact of the the Covid-19 pandemic of the entire portfolio was made, and all clients were classified into three traffic lights / categories.

The green light was given to clients who were not affected by the consequences of the pandemic.
The yellow light was given to clients whose business was partially affected. They had a drop in revenue and profitability of more than 20%.
The red light was given to clients where consequences of the pandemic completely disrupted their business. The analysis was used in order to take further measures in order to adequately treat clients and to maintain proper repayment and save business.

After the expiration of the temporary measures, in accordance with the decision of the Banking Agency, permanent measures were approved, and their form depended on the needs of the client. In the mentioned period, a total of 27 companies applied, which accounted for 12% of the portfolio for non-retail segment. 8 clients, or 5% of the portfolio requested a moratorium, for 10 clients or 6% of the portfolio a grace period was introduced. 7 clients or 1% of the non-retail segment requested extensions of maturity for short-term loans. Restructuring of the existing exposure was requested by 2 clients, whose exposure is less than 1% of the total portfolio of non-retail clients.
Note: some clients that applied for temporary measures used permanent covid measures as well and the above mentioned data can’t therefore be summarized.

Private Individuals

In response to the Covid-19 crisis and with aim of maintaining financial stability, regulator introduced frame by which banks are obliged to grant measures if clients are eligible based on defined criteria.

Moratorium is defined as main measure for clients impacted by crisis, duration of moratorium, treatment of interest in moratorium period, client eligibility criteria, forbearance and default treatment, but also deadlines for implementation and availability of such measure.

The deadline for submission of requests for moratoriums expired according to regulatory provisions on December 31st, 2020.

Notwithstanding the regulatory moratorium, the Bank also offered a regular moratorium on payments (same or similar terms), as well as other restructuring tools aimed at mitigating the effects of the Covid-19 crisis. The basic condition is that they could only be approved to clients who were not in financial difficulties before the Covid-19 crisis.

Guided by this, the Bank offered the following modalities to clients who were financially endangered due to the the Covid-19 pandemic:

- Moratorium - deferral of repayment of a complete loan obligation for a maximum of 6 months. During the moratorium, regular interest is calculated, no default interest is calculated.
- Moratorium is a deferral of payment of credit obligations (deferral of installments payment) for the duration - during the moratorium the client does not pay installments.
- Installments are calculated but not charged to the client.
- Bank will not implement collection measures during the moratorium period.
- With the expiration of the moratorium, intsallments from the moratorium period fall due and the client agrees with the Bank on the method of their payment:
    - extension of the loan repayment period for the duration of the moratorium, and distribution of interest calculated during the moratorium on all installments evenly, in which case the annuities would be increased to a lesser extent.
    - even distribution of liabilities from the moratorium and addition to the remaining installments from the repayment plan and payment within the due dates of the remaining installemnts, in which case there would be no extension of the repayment period, but the remaining installments would be increased.
    - payment of all obligations incurred during the moratorium immediately after the expiration of the moratorium if the client requests such a method of repayment.
- another method agreed between the client and the Bank is grace period - deferral of repayment of principal for a certain period, and a maximum of 12 months, while interest is paid during that period.
- Extension of the repayment deadline - replacement of the existing repayment period with a new, longer term, which period will be determined on the basis of credit risk analysis, and in a way that enables the client to settle credit obligations to the Bank. Interest is calculated and paid in the same way as it was calculated and paid before the maturity extension.
- Extension of the maturity of single-maturity loans, including revolving, loans and overdrafts on transaction accounts for a maximum period of 12 months, whereby clients during that period could also use the part of the exposure that was unused on the day of the modification. Interest is calculated and paid in the same way as it was calculated and paid before the maturity extension.
- Approval of additional amount of exposure for the purpose of overcoming the client's current liquidity difficulties, provided that the Bank does not approve an additional amount of exposure for the purpose of overcoming current liquidity difficulties for non-purpose consumer loans to individuals.
- Adjustment of the repayment plan in proportion to the reduction in income or some other relevant parameter determined by the Bank.

After granting moratorium measures, Bank established customer care calls.

The aim of calls was to stay in contact with customers, understand their financial situation and encourage on-time payment habits after Covid-19 period. By using combination of communication channels (SMS and Calls) in defined periods from the moment of moratorium implementation to the moment of expiration, Bank have established contact with clients during entire period.

The Bank gave all users of Private Individuals who had proven financial vulnerability due to the Covid-19 pandemic the opportunity to use these benefits, and in the period from 1 April to 31 December 2020, 2,163 clients submitted requests for relief with total exposure in amount of BAM 64 milion on 31 December 2020.

Out of the total number of received requests, clients who proved financial endangerment caused by the Covid-19 pandemic were granted relief for 1,455 clients, ie 1,545 credit accounts with a total client exposure of BAM 47.5 milion, which is 67% of the total received requests.

(000) BAM

31.12.2020		Performing		Non Performing		Total
	Exposure	ECL[1]	Exposure	ECL[1]	Exposure	ECL
Consumer	5,670	-652	259	-192	5,929	-844
SME	21,500	-2,798	0	0	21,500	-2,798
Non Focus	13,205	-1,341	206	-165	13,411	-1,506
o/w Large Corporate	9,369	-739	0	0	9,369	-739
o/w Mortgage	3,836	-602	206	-165	4,042	-767
o/w Public Finance	0	0	0	0	0	0
Corporate Center	0	0	0	0	0	0
Total	**40,375**	**-4,791**	**465**	**-357**	**40,840**	**-5,148**

[1]Expected credit losses

(59) Development of risk provisions

59.1. Method of calculating risk provisions

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

As for the non-performing part (Stage 3) two approaches are of relevance, namely collective assessment based on risk parameters for small exposures and individual assessment with expert based cashflow estimation for larger exposures. For the part of the non performing portfolio where the exposure at default (EAD) on group of borrowers level is below a specific materiality threshold the calculation of provisions for impairment losses is performed as a collective assessment (rule-based approach). Collective assessment is done based on estimation/projection of main recovery parameters for groups of portfolios (exposures showing similar characteristics related to credit risk profile and recovery potential).

Individual assessment, or calculation of specific risk provisions based on individual assessment of impairment losses considers that the underlying credit exposure is subject to an individual analysis in accordance with regulations regarding the calculation of provisions for impairment losses. In this calculation, repayments from a company's operating business (primary cash flows) and from the utilisation of collaterals and guarantees (secondary cash flows) are taken into consideration. Depending on the assumed recovery scenario (restructuring, settlement, debt sale, court procedure and/or collaterals repossession), expected repayments are assessed individually in terms of type, amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value and offset against the outstanding current exposure.

In terms of the calculation of recovery cash flows from potential repossession of available collaterals (primarily real estates), the Bank bases its assumptions on the collateral's market value, which is updated annually. Haircuts to be applied on market value are assigned individually on a case-by-case basis, depending on the determined usability and based on a variety of factors such as concrete offers or sales of similar collaterals, market liquidity, location, utilisation period and legal situation in relation to the real estate.

Model timeseries (under the same methodology used in the preparation of the 2019 financial statements) were prolonged taking latest available information into consideration. A qualitative assessment took place to make sure that the applied statistical models are economically reasonable.

In the current 2020 financial year the Bank expects significant uncertainty with regards to the economic developments due to the Covid-19 pandemic. While governmental steps have been taken to cushion the effects of a worsening global economy and its impacts on households and businesses, The Bank expects higher and more volatile risk costs for the duration of the Covid-19 containment measures. Thus, the constantly changing situation requires regular adjustments within the financial year on the basis of updated macroeconomic forecasts. The risk provisions were modeled on transactional level and reflect the most recent macroeconomic forecasts provided by the Vienna Institute for International Economic Studies, which take into account the effect of Covid-19.

The following tables provides the baseline case, upside (optimistic) case and downside (pessimistic) case scenario forecasts for selected forward-looking information variables used to estimate the ECL as at 31 December 2020. The amounts shown represent the average value of the macroeconomic variables for 2021 and the remaining 2-year forecast period (2022-23) for the baseline case, as well as average values of the entire projection horizon (3-year) for the optimistic and pessimistic cases.

31.12.2020	Baseline case		Optimistic case	Pessimistic case
	2021[1)]	Remaining 2-year period[1)]	3-year period[1)]	3-year period[1)]
Real GDP (constant prices)	3.10	3.10	4.38	1.83
Unemployment Rate (ILO, average %)	16.00	16.00	14.96	17.04
CPI Inflation (average % YoY)	1.40	1.60	2.01	0.99

The above scenarios are based on 30 September 2020 data and differentiated by the severity and duration of the associated economic impact of COVID-19, with a greater number of infections coinciding with longer periods of restrictions in activity and greater economic impact. The three scenarios are:

- Baseline: European economies will record unprecedented deep recessions in 2020 due to Covid-19 shock and bank´s portfolio will experience larger hit since global financial crisis and earlier. It is clear that second wave is bringing about new lock-down measures, which will translate into relatively sluggish recovery. What will explain the difference in the patterns of recovery in the BiH market are the structural weaknesses and financial constraints specific to our country. A relatively firm and uniform bounce-back is expected by the second half of 2021, subject to material downside risks. Cumulative growth in the critical first three years is expected to remain positive. However, due to the lag effects on unemployment and second-round wage bargaining, consumer spending could remain sluggish, contributing to dampened business confidence and lower investment expectations, amplifying uncertainty surrounding the recovery phase. Global monetary conditions were already extraordinary loose before the coronavirus crisis, and this is now even more the case so one can expect ultra-low interest rates and large asset purchase program by the major central banks to continue until at least mid-2021.
- Optimistic: This scenario reflects a combination of the factors such as quicker-than-expected rollout of mass testing capacities, creation of a widely available vaccine, more robust upturn in the key Asian economies than currently projected, and consequently higher demand for European exports. Larger commitment of European institutions to the common recovery fund and ameliorating internal tensions between north and south Europe would of course additionally help to boost the recovery. The cyclical pattern can hardly be altered in short-run, but the positive outcomes mentioned could push the level of growth by as much as 1% annually, which implies regaining on average about 2/3 of the loss from 2020 already in the first year, and surpassing the pre-crisis level by the end of simulation horizon by more than 4%.

- Pessimistic: This scenario implies longer-than-expected waiting period for a mass vaccine, potentially with virus mutating into more dangerous one, requiring the reinstatement of severe lockdown measures across Europe with that could last longer period of time. Less effective and not optimally coordinated monetary, fiscal and banking policies and measures will put a pressure on the recovery, thus increasing existing vulnerabilities. It would slash the growth performance by half in comparison two the optimistic scenario, i.e. rather only 1/3 of the loss of output incurred in the 2020 would be regained in the first year of simulation, and barely would reach pre-crisis level by the end of three years from now. However, moving to more restrictive conditions that forecasters have to envisage in designing scenarios this time entails great uncertainty. It is not only difficult to anticipate policy reactions or their effectiveness, but also their feedback on the uncertainty. On top of all that, there is scarcity of similar events that could provide useful empirical guidance.

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

(000) BAM

31.12.2020	Probability weighted	Optimistic case	Base case	Pessimistic case
Consumer	9,916	9,619	9,860	10,127
SME	12,696	12,194	12,979	13,841
Non focus	6,338	5,859	6,238	6,699
Corporate Center	1,731	1,018	1,554	2,324
Total (Stage 1 and 2)	**30,682**	**28,689**	**30,631**	**32,991**

59.2. Development of risk provisions

The negative development of the risk provisions (costs) primarily happened due new NPE inflows during 2020, as well as Covid-19 effect and model changes (modifying/updating of PD parameters and macro models). The NPE portfolio decreased in 2020 within Retail primarily due to accounting write-offs while NPE increased within Corporate segment due to new NPE inflows.

Transfer of responsibility for monitoring on Risk stream, new/adequate rules for monitoring, Early warning system and pre-workout function in Corporate segment, as well as daily monitoring supported by clear performance goals regarding early collections, together with an incentive program in Retail segment, leads to considerable results in the early collections and a reduction of the NPE portfolio.

59.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates are performed regularly to make sure that the latest available information is considered. In 2020 a refinement/recalibration of all segments and subsubsdiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, therefore impacting the average PD value. In addition, macro models were adapted in line with validation findings and new macro economic forecasts were used to reflect the latest available economic outlooks throughout all segments, affecting PD values. As a result of the calibration negative development (allocation) of provisions were observed reflecting current economic developments due to the Covid-19 pandemic, asset quality and macro economic outlook.

(60) Measurement of real estate collateral and other collateral

Pursuant to the Bank Collateral Management Policy and also the Bank Real Estate Valuation Policy, all real estate is regularly monitored and its value regularly re-assessed, annually for all commercial real-estate, and at least once in three years for residential real estate and real estates which are collateral for NPE.

The valuation of all commercial and residential real estate is performed on an individual level if the market value is above 1,956 thousand, pursuant to the Bank Real Estate Valuation Policy. The market value of the ones with smaller value is re-assessed using certain statistical methods and tools.

The internal collateral values (ICV) are shown in the following table for 31 December 2020 as well as 31 December 2019:

(000) BAM

Collateral Distribution	31.12.2020	31.12.2019
Exposure	1,219,349	1,271,856
Internal Collateral Value (ICV)	378,970	455,259
therof CRE	255,210	306,599
thereof RRE	107,845	132,844
thereof financial collateral	7,697	4,223
thereof guarantees	391	391
thereof other	7,827	11,202
ICV coverage rate	**31%**	**36%**

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estates given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail. Collateral coverage did not change.

Dependent on the value of collateral, some stage 3 exposures may not have individual ECLs assigned, if the expected discounted cash flows from realisation of collateral is greater that the outstanding amount, even if the expected discounted cash flows from realisation of collateral is forecasted using multiple economic scenarios. However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realisation of collateral is not individually determined but estimated based on a portfolio approach.

The table below provides an analysis of the current market value of collateral and credit enhancement for assets at Credit Risk Level 3 in accordance with IFRS 7R35K(c).

(000) BAM

	Gross Carrying amount	Fair value of collateral held under the base case scenario							Net exposure	ECL
		Securities	Guarantees	Property	Other	Off-setting	Surplus collateral	Total collateral		
Loans and advances	72,965	0	0	2,294	0	0	0	2,294	70,672	0
Other financial corporations	9	0	0	0	0	0	0	0	9	-9
Non-financial corporations	16,986	0	0	1,666	0	0	0	1,666	15,320	-13,917
Households	55,971	0	0	628	0	0	0	628	55,343	-51,467
Commitments and financial guarantees	136	0	0	0	0	0	0	0	136	-62
Loan commitments given	136	0	0	0	0	0	0	0	136	-62

(61) Market risk

61.1. Definition

Market risks consist of potential losses arising from a change in market prices. The Bank structures market price risks according to the risk factors in interest rate, credit spread, currency and equity price risk. The Bank 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 and results hedging, 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.

61.2. Risk measurement

The Bank calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.9% and 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

Bank's VaR by types of risk in 2020 and 2019 amounts to:

2020	Minimum	Maximum	Average	31 December
Interest rate risk	107	1,371	344	278
Foreign currency risk	1	5	3	2
Price risk	-	2	-	-
Credit spread risk	48	1,126	428	218
Total	**156**	**2,504**	**775**	**498**

2019	Minimum	Maximum	Average	31 December
Interest rate risk	282	424	364	413
Foreign currency risk	1	6	2	2
Price risk	1	3	2	2
Credit spread risk	55	224	122	55
Total	**339**	**657**	**489**	**472**

61.3. Overview – market price risk

61.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31. December 2020 is BAM 278 thousand (comparable VaR figure as at 31 December 2019: BAM 413 thousand).
The interest rate gap profile for the Bank 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 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 following table shows the EVE change per scenarious.

(000) BAM

EVE change per scenarious	31.12.2020	31.12.2019
Parallel up 200bp	-243	3,336
Parallel down 200bp	-3,162	-8,798
Parallel shock up	-221	3,373
Parallel shock down	-3,175	-8,819
Steepener shock	1,076	1,877
Flattener shock	-2,321	-2,573
Short rates shock up	-1,541	-450
Short rates shock down	1,275	43

The trading items of the Bank were relatively stable in 2020. Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20% of Tier 1 capital (Local view - interest risk equity ratio amounted to 8% on average in 2020 as compared to 7% on average in 2019).

The change in present value of the banking book with a change in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2020 amounts to BAM 2 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2019 was BAM 41 thousand.

61.3.2. FOREIGN EXCHANGE RISK

The main foreign exchange risk drivers are the currencies. The total volume of open currency positions as at 31 December 2019 is roughly BAM 2.25 million (volume per 31 December 2019 of approx. BAM 1.3 million), with the majority attributed to the currencies. The value at risk for foreign exchange risk was approximately BAM 2.5 thousand per day as at 31 December 2020 (value at risk as at 31 December 2019: BAM 1 thousand), at a confidence interval of 99%.The limit of BAM 17.6 thousand was adhered to as at 31 December 2020.

Sensitivity analysis

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2020 and 31 December 2019. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

Currency	FX Open position 31 December 2020	10% increase	10% decrease	FX Open position 31 December 2019	10% increase	10% decrease
USD	-270	-27	27	-314	-31	31
CHF	79	8	-8	-594	-59	59

FX open position represents net exposure in foreign currency. The analysis calculates the effect of a reasonably possible movement of the currencies against the BAM and their influence on gain or loss, with all other variables held constant. Negative values in the table reflect a potential net reduction in income, while a positive amount reflects a net potential increase.

61.3.3. EQUITY RISK

Bank was held only insignificant amounts of stock in its portfolio during 2020. The value at risk for the equity risk at the Bank amounted to BAM 0 thousand as at 31 December 2020 (value at risk as at 31 December 2019: BAM 2,1 thousand) with a one-day holding period and a confidence level of 99%.

61.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 218 thousand at 31 December 2020 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2019: BAM 55 thousand). The limit of BAM 499 thousand was adhered to as at 31 December 2020. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

(62) Liquidity risk

62.1. Definition

The Bank defines liquidity risk as the risk of not being able to fully or timely meet payment obligations due, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at market prices if a discount has been included.

62.2. General requirements

At the Bank, liquidity management at Bank level are the responsibility of Balance Sheet Management & Treasury and controlling under Risk controlling.

The Bank has emergency liquidity planning in place which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or to overcome acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain solvency and to prevent damage to the bank’s reputation.

62.3. Risk control

The liquidity reserve ensures the Bank’s solvency at all times, even during crisis situations. These liquidity reserve is subject to different stress scenarios in order to maintain an overview of available liquidity resources even during crisis situations. Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly sold.

In 2020, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 256% in November 2020 and its peak of 232% in January 2020.

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

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	37,187
Securities eligible for Repo	165,358
Credit Claims eligible for Central Bank or Repo	0
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	0
Counterbalancing Measures	**0**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**202,545**

Per December 2019, the counterbalancing capacity at the Bank was structured as follows:

(000) BAM

Liquidity Buffer	Bank countable
Securities eligible for Central Bank	55,932
Securities eligible for Repo	138,388
Credit Claims eligible for Central Bank or Repo	0
Obligatory Reserves (countable)	0
Cash Reserves at Central Bank (locked)	0
Counterbalancing Measures	**0**
Other liquefiable Assets (short-, medium-term)	0
Committed/Required Credit Lines	0
New Issuance and Securitization	0
Total Counterbalancing Capacity	**194,320**

Liquidity Controlling for the Bank is carried out at a local level on the one hand as well as centrally through the Group Holding on the other hand. Cash-flow classifications composed by deterministic, stochastic, forecast data (planned or budgeted forecasts) and non-relevant cash-flows form the basis of the liquidity gap evaluation and reporting.

Any occurring gaps in pre-defined time buckets are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for the proper liquidity management. The liquidity reserves are subjected to a regular review and, as described further above, tested by various stress situations (mild, strong, severe/survival) through simulations.

Beside ongoing structural controlling activities, it is ensured that general regulatory requirements are adhered as well.

62.4. Overview – liquidity situation

The liquidity situation of the Bank in 2020 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

During the financial year, the Bank recorded a stable level of deposits around BAM 784,412 thousand. Based on anticipated inflows and outflows, it is also expected a stable liquidity situation in the year 2021.

The concentration of the liquidity risk is in line with the diversification of funding based on the main products and the most relevant currencies. The biggest positions in the funding, apart from equity, are a-vista and term-deposits. The most important currency in funding is BAM and EUR. Both, products and currencies are tracked through different time buckets and time frames.
In addition, the Bank is monitoring the impact of customers with high volume business: the biggest ten counterparties which are compared with the volume of total financial liabilities.

Below is a breakdown of contractual maturities of undiscounted cash flows for the financial liabilities of the Bank.

(000) BAM

31.12.2020	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	793,441	797,314	566,933	45,536	99,928	76,485	8,432
Deposits of customers	784,412	787,964	559,212	45,359	99,566	75,987	7,840
Deposits of credit institutions	788	788	788	0	0	0	0
Other financial liabilities	8,241	8,562	6,933	177	362	498	592
Derivatives	0	0	0	0	0	0	0
Loan commitments	0	105,376	105,376	0	0	0	0
Financial guarantees	0	21,686	21,686	0	0	0	0
Other commitments	0	75,406	75,406	0	0	0	0
Total	**793,441**	**999,782**	**769,401**	**45,536**	**99,928**	**76,485**	**8,432**

(000) BAM

31.12.2019	Carrying amount	Contractual cash flows	daily due or without maturity	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years
Financial liabilities measured at amortised cost	752,911	758,332	512,119	56,278	89,846	86,920	13,169
Deposits of customers	728,279	733,681	502,004	44,301	89,140	85,693	12,543
Deposits of credit institutions	12,343	12,362	597	11,765	0	0	0
Other financial liabilities	12,289	12,289	9,518	212	706	1,227	626
Derivatives	0	0	0	0	0	0	0
Loan commitments	0	102,127	102,127	0	0	0	0
Financial guarantees	0	19,994	19,994	0	0	0	0
Other commitments	0	59,523	59,523	0	0	0	0
Total	**752,911**	**939,976**	**693,763**	**56,278**	**89,846**	**86,920**	**13,169**

(63) Operational risk

63.1. Definition

The Bank defines operational risk (OpRisk) as the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.

63.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture. As a pro-active partner to senior management, ORM's value lies in supporting and challenging senior management to align the business control environment with the bank's strategy by measuring and mitigating risk loss exposure, contributing to optimal return for stakeholders.

A robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk provides a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored risk mitigation actions.

Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

63.3. Risk monitoring

Operational Risk Management reports on a monthly basis to the Group Risk Executive Committee and on a quarterly basis to the Board Audit Committee, Risk Committee and OpRisk Committe in order to provide an overview of the operational risk situation to the management to enable the related risk steering and to integrate the operational risk management into the bank processes.

63.4. Exposure & capital overview

Operational risk, in its cyclical process, shows changes in loss realisation thus impacting operational risk management which is visible through the loss collection and risk and control self-assessment processes, the two most important tools in operational risk management.

The operational risk with regard to the Pillar 1 capital requirement is calculated using the Basic Indicator Approach, the so-called BIA, in accordance with Decision on the calculation of the capital of banks (using relevant indicator). The operational risk measurement model for internal capital adequacy is calculated the same way as for Pillar 1 and includes operational risk sub-types which the Bank considers material under Pillar 2.

(64) Object risk

Object risk at the Bank covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

(65) Other risks

The following risk types are backed up with capital under “Other risks”:
- Reputational risk
- Macro-economic risks
- Systemic risks
- Business risk/Strategic risk

For material “Other risks”, economic capital is considered in the risk bearing capacity calculation.

(66) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 6,523 active legal disputes with a total value of BAM 133,179 thousand led by Credit Risk Management Department.

Loans with CHF foreign currency clause

For the purpose of resolving loan portfolio with the CHF foreign currency clause, the Bank initiated the CHF project on 8 March 2016.

In March 2016, the Bank offered incentives to retail customers with foreign currency clause loans in Swiss franc, which are reflected in the reduction of credit commitments by 30% accompanying the conversion into local currency at current exchange rate and a fixed interest rate of new loans of 5.99%.

The project officially ended in December 2016, but the Bank has continued to consider and realize received offers during 2018. The Bank incurred losses on this basis for 2018 in the amount of BAM 1.5 million.

The Bank identified 2,544 retail loan parties as the scope of the project, which the Bank had as at 29 February 2016. The project officially ended on 5 December 2016, given that the Bank continued with realization of incoming requests, and all subsequent client requests are considered individually as a part of regular activities.

As at 31 December 2017, 1,617 requests were realized (64% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (219 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 708 as at 31 December 2017.

As at 31 December 2018, 1,755 requests were realized (69% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (260 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 529 as at 31 December 2018.

As at 31 December 2019, 1,858 requests were realized (73% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (289 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 397 as at 31 December 2019.

As at 31 December 2020, 1,915 requests were realized (75% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (299 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 330 as at 31 December 2020.

Total amount of write-offs for balance sheet receivables related to CHF project is BAM 49,013 thousand (BAM 15,783 thousand for performing clients and BAM 33,230 thousand for non-performing clients). Total amount of write-offs for off-balance sheet receivables is BAM 32,148 thousand.

Passive legal disputes

As at 31 December 2020, there were 485 open court proceedings against the Bank, with total nominal value of BAM 159.7 million, excluding contingent penalty interest. This amount includes 26 claims with nominal value of BAM 1.9 million according to which the claims have been already paid in previous periods, hence they do not represent an additional risk of losses but are in the state of open court proceedings based on legal remedy. In addition, this amount includes 24 claims with nominal value of BAM 26.2 million, which are, in accordance with contracts on ceding receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk transferred to transferee) are not recorded in accounting records. The overall number of passive legal disputes decreased in 2020.

The largest number of proceedings is related to claims connected to CHF currency clause and increase of interest margin – total of 366 claims with nominal value of BAM 8.05 million, and 4 claims with nominal value of BAM 8.5 million, which combined the claims for damages in addition to CHF currency clause and increase of margin. In 2020 there were no decisions reached against the Bank.

In 2020 the Bank had no significant unplanned costs related to the passive litigations and the impact on the overall P&L effect was positive, which confirms the quality of managing this kind of risk.The Bank assesses the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned BAM 10.5 million for litigations and claims as of 31 December 2020, which the Management believes to be sufficient amount.

During 2020, the Bank continued with intensified activities for resolving claims and litigations, and management of associated legal risk. The strategies for court proceedings are regularly, the adequate legal representation and coordination of Bank's defence is established, as well as the process of out-of-court settlement of disputes, recording and reporting on litigations and claims. This resulted in the aforementioned and other court decisions in favour of the Bank, and completion of certain proceedings.Besides the Legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively being delivered to the Group Legal department.

As a result of described very strong management of the passive legal disputes in last years, the Bank collected BAM 3.7 milion from the passive legal disputes in 2020 which collection had positive P&L effect fully.

Supplementary information

(67) Analysis of remaining maturities

(000) BAM

Analysis of remaining maturity as at 31.12.2020	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	175,738	90,461	0	0	0	266,199	0	266,199
Financial assets held for trading	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	153	20,721	14,614	76,334	92,225	35,488	168,559	204,047
Financial assets at amortised cost	63,869	63,001	82,080	180,031	112,118	208,950	292,149	501,099
Tangible assets	-	-	-	-	-	0	20,649	20,649
Intangible assets	-	-	-	-	-	0	6,308	6,308
Tax assets	-	-	-	-	-	0	6,731	6,731
Current tax assets	-	-	-	-	-	0	1,783	1,783
Deferred tax assets	-	-	-	-	-	0	4,948	4,948
Other assets	-	-	-	-	-	2,852	0	2,852
Non-current assets and disposal groups classified as held for sale, financial instruments	-	-	-	-	-	3,752	0	3,752
Total	**239,760**	**174,183**	**96,694**	**256,365**	**204,343**	**517,241**	**494,396**	**1,011,637**
Financial liabilities measured at amortised cost	566,934	44,783	98,233	75,252	8,239	709,950	83,491	793,441
Provisions	-	-	-	-	-	0	17,164	17,164
Tax liabilities	-	-	-	-	-	0	0	0
Current tax liabilities	-	-	-	-	-	0	0	0
Deferred tax liabilities	-	-	-	-	-	0	0	0
Other liabilities	-	-	-	-	-	4,195	0	4,195
Total	**566,934**	**44,783**	**98,233**	**75,252**	**8,239**	**714,145**	**100,655**	**814,800**

(000) BAM

Analysis of remaining maturity as at 31.12.2019	daily due	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	> 5 years	up to 1 year	over 1 year	Total
Cash reserves	124,989	85,301	0	0	0	210,290	0	210,290
Financial assets held for trading	0	6	0	0	0	6	0	6
Financial assets at fair value through other comprehensive income	268	21,609	22,557	151,119	0	44,434	151,119	195,553
Financial assets at amortised cost	5,740	92,511	107,557	205,314	131,449	205,808	336,763	542,571
Tangible assets	-	-	-	-	-	0	22,800	22,800
Intangible assets	-	-	-	-	-	0	5,781	5,781
Tax assets	-	-	-	-	-	0	1,783	1,783
Current tax assets	-	-	-	-	-	0	1,783	1,783
Deferred tax assets	-	-	-	-	-	0	0	0
Other assets	-	-	-	-	-	4,138	0	4,318
Non-current assets and disposal groups classified as held for sale, financial instruments	-	-	-	-	-	3,894	0	3,894
Total	**130,997**	**199,427**	**130,114**	**356,433**	**131,449**	**468,570**	**518,246**	**986,996**
Financial liabilities held for trading	0	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	512,680	56,177	89,017	83,126	11,911	657,874	95,037	752,911
Provisions	-	-	-	-	-	0	15,272	15,272
Tax liabilities	-	-	-	-	-	0	231	231
Current tax liabilities	-	-	-	-	-	0	0	0
Deferred tax liabilities	-	-	-	-	-	0	231	231
Other liabilities	-	-	-	-	-	3,532	0	3,532
Total	**512,680**	**56,177**	**89,017**	**83,126**	**11,911**	**661,406**	**110,540**	**771,946**

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

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

The Bank leases the majority of its offices and branches under various rental agreements. The Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods. Extension and termination options are included in a number of property and equipment leases. Several lease contracts have indefinite lease term and several contracts contain insignificant residual value guarantees. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate. For further details regarding lease contracts please refer to note (9) Leases and to note (5) Use of estimates and assumptions/material uncertainties in relation to estimates.

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

The Bank had total cash outflows for leases of BAM 945 thousand in 2020.

As at 31 December 2020 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2020
up to 1 year	548
from 1 year to 5 years	498
more than 5 years	592
Total undiscounted lease liabilities	**1,638**

As at 31 December 2020 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2020
Short-term leases	874
Leases of low value assets	13
Total	**887**

As at 31 December 2019 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

Maturity analysis - contractual undiscounted cashflow	31.12.2019
up to 1 year	918
from 1 year to 5 years	1,227
more than 5 years	626
Total undiscounted lease liabilities	**2,771**

As at 31 December 2019 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

	31.12.2019
Short-term leases	354
Leases of low value assets	723
Total	**1,077**

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

As at 31 December 2020 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2020
up to 1 year	40
from 1 year to 5 years	160
more than 5 years	0
Total	**200**

As at 31 December 2019 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

	31.12.2019
up to 1 year	58
from 1 year to 5 years	164
more than 5 years	0
Total	**222**

Lease income in business year 2020 for the Bank amounts to BAM 40 thousand (YE19: BAM 32 thousand).

(70) Assets/liabilities denominated in foreign currencies

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

(000) BAM

	31.12.2020	31.12.2019
Assets	**1,011,637**	**986,996**
of which: EUR	485,387	528,589
of which: USD	24,707	31,328
of which: CHF	4,750	4,941
of which: BAM	492,287	417,262
of which: RSD	37	20
of which: HRK	2,377	2,735
of which: other currencies	2,092	2,121
Liabilities	**814,800**	**771,946**
of which: EUR	296,998	348,196
of which: USD	24,977	27,744
of which: CHF	4,670	4,158
of which: BAM	483,990	386,928
of which: RSD	0	0
of which: HRK	2,053	2,620
of which: other currencies	2,112	2,300

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency. The majority of the differences between the respective sums is hedged through foreign exchange swaps (FX swaps and cross-currency swaps) and forward exchange transactions.

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

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

(000) BAM

	31.12.2020	31.12.2019
Loan commitments, given	105,376	102,127
Financial guarantees, given	21,686	19,994
Other commitments, given	75,407	59,523
Total	**202,469**	**181,644**

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

Contingent liabilities in relation to legal cases

Bank faces a number of passive legal cases, where former customers filed claims against Bank seeking compensation for damages, mainly related to FX and unilateral interest change clauses. No further disclosures according to IAS 37.92 are made in order to protect the Bank's position in these legal disputes.

(72) Fair value disclosures

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

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

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

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

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

The end of the reporting period is established as the time of reclassification between the various levels of the fair value hierarchy.

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

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

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

72.1. Fair value of financial instruments carried at fair value

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

(000) BAM

31.12.2020	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	0	0	0
Derivatives	0	0	0	0
Investment securities at FVTOCI	203,894	0	153	204,047
Equity instruments	0	0	153	153
Debt securities	203,894	0	0	203,894
Total	**203,894**	**0**	**153**	**204,047**
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	**0**	**0**	**0**	**0**

(000) BAM

31.12.2019	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions	Total
Assets				
Financial assets held for trading	0	6	0	6
Derivatives	0	6	0	6
Investment securities at FVTOCI	195,285	0	268	195,553
Equity instruments	0	0	268	268
Debt securities	195,285	0	0	195,285
Total	**195,285**	**6**	**268**	**195,559**
Liabilities				
Financial liabilities held for trading	0	0	0	0
Derivatives	0	0	0	0
Total	**0**	**0**	**0**	**0**

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

(000) BAM

31.12.2020	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities at FVTOCI	268	0	131	0	-137	0	0	0	153
Equity instruments	268	0	131	0	-137	0	0	0	153
Total	**268**	**0**	**131**	**0**	**-137**	**0**	**0**	**0**	**153**

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

(000) BAM

31.12.2019	Balance at start of period (+)	Total gains/ losses	Changes in fair value reserve	Additions (+)	Disposals (-)	Transfer into level III	Transfer out of level III	Other (+/-)	Balance at end of period
Assets									
Investment securities at FVTOCI	249	0,0	59	0	-40	0	0	0	268
Equity instruments	249	0,0	59	0	-40	0	0	0	268
Total	**249**	**0,0**	**59**	**0**	**-40**	**0**	**0**	**0**	**268**

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

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

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

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

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

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

Loss given default
The loss given default is a parameter that is never directly observable before an entity default.
Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

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

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

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

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

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

(000) BAM

31.12.2020	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	266,199	266,211	12	0	0	266,211
Financial assets at amortised cost	501,099	547,337	46,238	0	0	547,337
Loans and receivables	501,099	547,337	46,238	0	0	547,337
Total	**767,298**	**813,548**	**46,250**	**0**	**0**	**813,548**
Liabilities						
Financial liabilities measured at amortised cost	793,441	798,439	4,998	0	0	798,439
Deposits	785,200	790,198	4,998	0	0	790,198
Other financial liabilities	8,241	8,241	0	0	0	8,241
Total	**793,441**	**798,439**	**4,998**	**0**	**0**	**798,439**

(000) BAM

31.12.2019	Carrying amount	Fair Value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non market assumptions
Assets						
Cash reserves	210,290	210,321	31	0	0	210,321
Financial assets at amortised cost	542,571	576,565	33,994	0	0	576,565
Loans and receivables	542,571	576,565	33,994	0	0	576,565
Total	**752,861**	**786,886**	**34,025**	**0**	**0**	**786,886**
Liabilities						
Financial liabilities measured at amortised cost	752,911	757,206	4,295	0	0	757,206
Deposits	740,622	744,917	4,295	0	0	744,917
Other financial liabilities	12,289	12,289	0	0	0	12,289
Total	**752,911**	**757,206**	**4,295**	**0**	**0**	**757,206**

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

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

(73) Derivative financial instruments

73.1. Derivatives held for trading

The following transactions had not yet been carried out at the reporting date:

(000) BAM

	Carrying amount	
	31.12.2020	31.12.2019
Foreign exchange and gold		
OTC other	0	6

(74) Related party disclosures

In accordance with the International Accounting Standard ("IAS") 24: "Related Party Disclosures", related parties are parties or entities that represent:

a) enterprises that directly, or indirectly through one or more intermediaries, control the reporting company or are under its control, i.e. which the reporting entity controls together with other entities (including holding companies, subsidiaries and fellow subsidiaries);

b) associated persons - companies in which the Bank has significant influence, and which is neither a subsidiary nor a joint venture of the investor;

c) individuals who directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or be influenced by the relating individual in their dealings with the Bank;

d) executives in key positions, i.e. individuals having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and members of their immediate families; and

e) companies in which any person described in (c) or (d) has a substantial interest in the voting rights or which is directly or indirectly owned by the mentioned individuals, or where the same may have a significant impact. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in both their company and in a same or similar position at the Bank.

In considering each possible related party transaction, attention is directed to the essence of the relationship, not merely the legal form.
Business relations with related parties are as follows at the respective reporting date:

(000) BAM

31.12.2020	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Financial assets	**174**	**1,029**	**1,321**	**1,073**	**0**	**12,915**	**18**
Loan and advances	115	0	2	9	0	3	18
Placements	59	1,029	1,319	1,064	0	12,912	0
Other assets	0	0	1	0	0	95	0
Financial liabilities	**204**	**0**	**616**	**376**	**119**	**170**	**91**
Deposits	9	0	465	23	119	170	91
Other financial liabilities	195	0	151	353	0	0	0
Other liabilities	98	0	32	0	0	0	17

(000) BAM

31.12.2019	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Financial assets	**1,688**	**149**	**2,214**	**1,713**	**13**	**12,059**	**21**
Loan and advances	116	0	1	10	13	123	21
Placements	1,566	149	2,213	1,703	0	11,936	0
Derivatives	6	0	0	0	0	0	0
Other assets	0	0	0	0	0	108	0
Financial liabilities	**12,436**	**0**	**58**	**225**	**40**	**546**	**54**
Deposits	11,755	0	16	6	0	527	54
Other financial liabilities	681	0	38	219	0	19	0
Other liabilities	120	0	51	0	0	0	0
Loan commitments given	**0**	**0**	**0**	**0**	**0**	**0**	**13**
Commitments and guarantees given	**0**	**0**	**4**	**0**	**0**	**0**	**0**

(000) BAM

31.12.2020	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Interest and similar income	2	0	0	0	0	127	1
Interest expenses	-12	0	0	0	0	0	-1
Fee and commission income	0	0	3	0	0	4	1
Fee and commission expenses	0	0	-61	0	0	-16	0
Other administrative expenses	-81	0	-406	-134	0	-18	-4
Gains on sale of non-financial assets	0	0	0	0	0	1	0
Other operating income	0	0	25	0	0	3	0
Credit loss expenses on financial assets	12	-4	10	8	0	-37	1
Total	**-79**	**-4**	**-429**	**-126**	**0**	**64**	**-2**

(000) BAM

31.12.2019	ABH	ABS	ABC	ABSE	ABM	ABBL	Key personnel of the institution
Interest and similar income	0	0	0	0	0	32	1
Interest expenses	-49	0	0	0	0	-4	0
Fee and commission income	0	0	3	0	0	5	2
Fee and commission expenses	0	0	-54	0	0	-19	0
Other administrative expenses	-802	0	-512	-218	0	-17	0
Gains on derecognition of financial assets FVOCI	1,070	0	0	0	0	0	0
Other operating income	166	0	1	0	0	0	0
Credit loss expenses on financial assets	-7	0	-8	-7	0	-8	0
Total	**378**	**0**	**-570**	**-225**	**0**	**-11**	**3**

Remuneration received by Management Board and Supervisory Board members within the Bank are presented as follows:

(000) BAM

	31.12.2020	31.12.2019
Management and Supervisory Board remunerations	944	862
Taxes and contributions on remunerations	728	676
Total	**1,672**	**1,538**

(75) Capital management

75.1. Own funds and capital management

In accordance with the Law on Banks (Official Gazette of Federation of BiH no. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03, 28/03 and 27/17), the minimum amount of a bank's paid-in capital and the lowest level of the capital a bank has to maintain, cannot be lower than BAM 15,000 thousand. The Bank's subscribed capital amounted to BAM 100,403 thousand in line with these provisions.

Regulatory capital represents the sum of core and supplementary capital, after regulatory adjustments.

The Bank's core capital is comprised of the sum of regulatory capital after regulatory adjustments and supplementary capital after regulatory adjustments.

Items of ordinary core capital of the Bank consist of equity instruments, premiums on shares, retained earnings, accumulated other comprehensive income and other reserves. The Bank deducts intangible assets and deferred tax assets etc. The additional core capital of the Bank consists of items of additional capital after regulatory adjustments. The items of additional capital are equity instruments and instrument-related premium accounts.

The Bank's supplementary capital consists of the Bank's supplementary capital items after deductions for regulatory adjustments. Supplementary capital cannot be more than one third of the core capital.

With regard to capital risk management, the Bank aims to:

- provide compliance with the Banking Agency requirements,
- provide compliance with Addiko Group standards,
- provide solid capital basis as a support for further development of Bank's operations,
- provide possibilities of long-term business operation while providing profit for shareholders.

In terms of the calculation of risk weighted assets (RWA) for regulatory reporting, the following approaches are applied:

- Standardised Approach for credit risk and
- Simplified Approach for operational risk

The capital management is fully integrated into the Bank's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon.

In addition to the minimum capital ratios required by the regulator, the Bank defines early warning and recovery levels in the Bank's recovery plan and the corresponding processes. The warning levels refer to liquidity as well as to regulatory and economic capital figures.

Additionally, the Bank tracks all new regulatory changes, e.g. new regulatory decisions about capital management. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and Management Board members. This process should ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

75.2. Implementation of new regulatory decision

In June 2019, the Banking Agency published the final version of new regulatory Decision about credit risk management and determining expected credit losses, which is mandatory for reporting periods beginning on 1 January 2020. The requirements of new regulatory decision represent a significant change from IFRS 9 because minimum tresholds are prescribed. The effects of implementation of new regulatory decision are recognized in equity as at 1 January 2020. The Bank does not present the changed comparative data, and it presents the one-off effect as decrease of retained earnings in the amount of BAM 6,612 thousand (see note (1) Accounting policies).

75.3. Own funds and capital requirements

Own funds according to the Decision on calculation of bank capital consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2020 and 31 December 2019 amount to:

	31.12.2020			31.12.2019		
	CET1	T1	TCR	CET1	T1	TCR
Minimum capital requirement	6.75%	9.00%	12.00%	6.75%	9.00%	12.00%
Capital Buffer	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Overall Capital Requirement (OCR)	**9.25%**	**11.50%**	**14.50%**	**9.25%**	**11.50%**	**14.50%**

The Bank is under obligation to maintain capital adequacy at the minimum of 12%, i.e. to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on calculation of bank capital and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Federation of BiH.

The Bank’s Management monitors adequacy ratios and other business indicators on a regular basis. Reports on indicators are submitted to the Banking Agency quarterly in the prescribed form.

(000) BAM

Ref1		31.12.2020	31.12.2019
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	100,403	100,403
2	Retained earnings	67,420	79,754
3	Statutory reserves	25,101	25,101
4	Accumulated other comprehensive income (and other reserves)	3,912	2,502
5	**CET1 capital before regulatory adjustments**	**196,836**	**207,760**
	CET1 capital: regulatory adjustments		
8	Intangible assets	-6,308	-5,781
9	Other deductions from common equity	-5,135	-16,021
10	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-6,308**	**-21,802**
11	**Common Equity Tier 1 (CET1) capital**	**185,393**	**185,958**
	Tier 2 (T2) capital: instruments and provisions		
12	General credit risk allowances	-	7,980
13	Deductions from supplementary capital	-	-7,980
14	**Tier 2 (T2) capital**	**-**	**-**
15	**Total capital (TC = T1 + T2)**	**185,393**	**185,958**
16	Amount of exposure weighted for credit risk / Total risk-weighted assets	635,130	638,368
17	Total amount of exposure for position, currency and merchandise risk	-	7,838
18	Weighted operating risk	42,074	67,223
19	**Total risk weighted assets**	**677,204**	**713,429**
	Capital ratios and buffers %		
15	CET1 ratio	27.38%	26.07%
16	TC ratio	27.38%	26.07%

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with FBiH regulations.

Total capital remines at similar level like last year. Deviations can be seen in CET 1 capital before regulatory adjustments and in part of regulatory adjustment which can be explained by:

- Loss for 2020 in the amount of BAM 13.01 milion;
- the inclusion of the 2019 audited result of BAM 7.3 million;
- implementation of new regulatory decision impacted decrease in retained earnings in the amount of BAM 6.6 milion;
- with implementation of new regulatory decision, no regulatory adjustments are necessary related to insufficient reserves;
- regulatory adjustment of BAM 5.1 milion is related to the recognition of deferred tax assets.

The capital requirements in force during the year, including a sufficient buffer, were met at all times.

Capital requirements (risk-weighted assets)

Credit risk, operational risk, and market risk are in the scope of regulatory risks for RWA calculation. RWAs decreased by BAM 36 million during the reporting period. The decrease of RWAs for credit risk by BAM 3,238 thousand is due to decreased new volumes.

The Bank does not have fund requirement for market risk because net open foreign – exchange position is below 2% of its total own funds resulting in a decrease of RWAs for market risk by BAM 7,838 thousand. The RWA for operating risks decreased by BAM 25,149 because provision for operational risk calculation decreased from 12.5 to 8.33%.

Leverage ratio

The leverage ratio for the Bank, calculated in accordance with the FBA Decision on Minimum Standards for Bank Capital Management, was 17.1% at 31 December 2019, down from 17.9% at 31 December 2019. The fall was driven by increase in the total leverage exposure.

(000) BAM

Ref1		31.12.2020	31.12.2019
1	Tier 1 capital	185,393	185,958
2	Total leverage ratio exposure	1,085,266	1,037,605
22	**Leverage ratio %**	**17.1%**	**17.9%**

*The amounts of capital and other balance sheet items in the above table are calculated in accordance with FBiH regulations.

(76) Boards and Officers of the Bank

1 January to 31 December 2020

Supervisory Board

Chairman of the Supervisory Board:
Hans-Hermann Lotter from 31.12.2015 till 8.2.2021
Jann Kaufmann from 8.2.2021

Deputy Chairman of the Supervisory Board:
Biljana Rabitsch from 7.3.2017 till 8.2.2021

Members of the Supervisory Board:
Razvan Munteanu from 7.3.2017 till 8.2.2021
Meliha Povlakić from 25.10.2017
Damir Karamehmedović from 25.10.2017
Maida Karalić from 8.2.2021
Berislav Jozić from 8.2.2021

Management Board

Sanela Pašić, Chairman of the Management Board from 18.06.2016
Belma Sekavić-Bandić, Member of the Management Board from 18.06.2016
Selma Omić, Member of the Management Board from 1.10.2016
Mario Ivanković, member of the Management Board from 8.12.2020

Audit Committee

Mark Potočnik, Chairman of the Audit Committee from 29.05.2019 till 5.2.2021
Ana Dorić - Škeva, Chairman of the Audit Committee from 5.2.2021
Jelena Mažuranić, Member of the Audit Committee from 27.09.2018 till 5.2.2021
Mirela Salković, Member of the Audit Committee from 5.2.2021
Siniša Radonjić, Member of the Audit Committee from 29.05.2015

Sarajevo, 24. February 2021
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

ADDIKO BANK DD
1.3.1
SARAJEVO

Mario Ivanković

Belma Sekavić

Selma Omić

Statement of all legal representatives

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently, making judgements and estimates that are reasonable and prudent, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

Sarajevo, 24. February 2021
Addiko Bank d.d.

MANAGEMENT BOARD

Sanela Pašić
(Chairman)

ADDIKO BANK DD
1.3.1
SARAJEVO

Mario Ivanković

Belma Sekavić

Selma Omić

Deloitte d.o.o.
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Bosnia and Herzegovina

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Independent Auditor's Report

to the shareholders of Addiko Bank d.d. Sarajevo:

Opinion

We have audited the accompanying financial statements of Addiko Bank d.d. Sarajevo (the "Bank"), which comprise of the statement of financial position as at 31 December 2020, and the statement profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations applicable to banks in Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

In its financial statements for the year ended 31 December 2020 the Bank presented loans to customers in the amount of BAM 591,750 thousand and total expected credit loss in the amount of BAM 90,651 thousand.

Key Audit matter	How the Matter Was Addressed in Our Audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowance for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Assessment of the forward-looking information, including the impact of the COVID-19 pandemic • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages

Key audit matters (continued)

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.

Management has provided further information in notes 16.1- Financial instruments- Measurement and classification, 16.2- Financial instruments- Impairment, 42- Loans and receivables measured at amortized cost, 38- Credit loss expenses on financial assets and 58- Credit risk.

ii. assumptions used by the Management in the expected credit loss measurement models
iii. criteria used for determination of significant increase in credit risk, including the impact of COVID-19
iv. assumptions applied to calculate lifetime probability of default
v. methods applied to calculate loss given default
vi. methods applied to incorporate forward-looking information, including the impact of COVID-19.
vii. re-performing calculation of expected credit losses on a selected sample.
viii. analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance
ix. assessment of appropriateness of staging transition and allocation of exposures with granted moratoria

- Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:
    i. Assessment of borrower's financial position and performance following latest credit reports and available information
    ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19

Key audit matters (continued)

Key Audit matter	How the Matter Was Addressed in Our Audit
	iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance v. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management Board is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the accounting regulations applicable to banks in Federation of Bosnia and Herzegovina, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our independent auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sabina Softić.

Deloitte d.o.o.

Yuri Sidorovich, procurator

Deloitte d.o.o. Zmaja od Bosne 12c 71000 Sarajevo ID: 4200047380000

Sabina Softić, partner and licensed auditor

Zmaja od Bosne 12c

Sarajevo, Bosnia and Herzegovina

24 February 2021

Glossary

ABC	Addiko Bank d.d., Croatia
ABBL	Addiko Bank a.d., Bosnia & Herzegovina (Banja Luka)
ABH	Addiko Bank AG, Austria (Holding)
ABM	Addiko Bank a.d., Montenegro
ABS	Addiko Bank d.d., Slovenia
ABSA	Addiko Bank d.d., Bosnia & Herzegovina (Sarajevo)
AC	Amortised costs
Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognised in the consolidated accounts using the equity method
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book
Bank@Work	An alternative sales channel, focusing on delivering the convenience promise as a main advantage to the customer. Branch teams are regularly visiting large companies' headquarters with mobile equipment, presenting Addiko's product and service offer, opening products on the spot or helping potential customers applying for a loan
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities
Change CL/GPL (simply Ø)	Change in CL / simply Ø gross performing loans
CL	Credit loss
CMA & CML	Customer Margin Assets (CMA) and Liabilities (CML) is as Gross Margin respectively on the asset and liability side, including the booked regular and interest like income and calculatoric costs and benefits defined within the Fund Transfer Pricing methodology
Cost/income ratio (CIR)	Operating expenses / (Net interest income + Net fee and commission income)
Cost of risk ratio	Credit loss expenses on financial assets/Credit risk bearing exposures
CRB	Credit Risk Bearing
Credit institutions	Any institution undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account
CSF	"Central Steering Functions" and designated services that have the character of shareholder activities and are therefore provided and charged solely to Addiko. CSF are related to strategic direction, coordination, support, monitoring and steering, e.g. human resources, legal, marketing
Customer loans	Exposure of on balance loans including accrued interest, gross amount of provisions of performing and non-performing loans
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
FDI	Foreign Direct Investment
FVTOCI	Fair value through OCI
FVTPL	Fair value through Profit or Loss
FX & DCC	Foreign exchange and Dynamic currency conversions
General governments	Central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that

	have a commercial activity (which shall be reported under "credit institutions", "other financial corporations" or "non-financial corporations" depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements
Gross disbursements	Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions
Gross exposure	Exposure of on and off-balance loans including accrued interest, gross amount of provisions of performing loans and-non performing loans
Gross performing loans	Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans
GSS	Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member
Households	Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households ("NPISH") and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included
Large Corporates	The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million
LCR	Liquidity coverage ratio; the ratio of high-quality liquid assets and net cash flows in the next 30 days
Leverage ratio	The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV
Loans and receivables	Gross carrying amount of loans and receivables less ECL allowance
Loan to deposit ratio	Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank
Net banking income	The sum of net interest income and net fee and commission income
Net interest income (segment level)	Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap
NIM	Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets)

Non-financial corporations	Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation
NPE	Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank
NPE ratio	Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non-performing exposure/credit risk bearing exposure (on and off balance)
NPE coverage ratio	Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure
NPE collateral coverage	Collaterals allocated to non-performing exposure / non-performing exposure
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time
OTC	Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange
Other financial corporations	All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders
PI	Private individuals
POCI	Purchased or originated credit impaired assets
Public Finance	The Segment Public Finance includes all state-owner entities
Regular interest income	Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing
Rescue acquisitions	Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan
Retail (PI/Micro)	The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million
Risk-weighted assets (RWA)	On-balance and off-balance positions, which shall be risk weighted according to (EU) Nbr 575/2013
Return on tangible equity	Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period
SME	Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million.

Stage 1	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss
Stage 2	Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss
Stage 3	Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss
Total capital ratio (TCR)	all the eligible own fund, presented in % of the total risk according to Decision about capital management
Tier 2 capital	Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2).
TLOF	Total liabilities and own funds
Viber	Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet
Yield GPL (simply Ø)	Regular interest income / simply Ø gross performing loans

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We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The Report was produced in-house using the software of firesys GmbH.